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China's Market Segmentation and the Role of Enterprise Capabilities, Managerial Cognition, and Geographic Diversification

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Abstract: The pace of multinational companies entering the Chinese market has significantly accelerated since the turn of the century, especially after China joined the WTO, and the quantity and caliber of multinational companies entering China have both significantly increased. Specifically, the following two aspects show this: First, multinational corporations now include China as a key component of their overall strategic plans rather than just analyzing the Chinese market from a production or sales perspective. An empirical investigation of the relationship between managers' views and the degree of geographic diversity shows that managers' optimistic descriptions of market segmentation have a significant positive impact on both the depth and breadth of regional diversification. However, managers' determinable interpretations of market segmentation have no impact on the scope and variety of regional diversity. Market segmentation has placed significant restrictions on China's enormous domestic market, forcing Chinese companies to export low-end goods to other countries. MNCs control significant segments of the domestic market.

Keywords: Economic Integration Agreements;Market Knowledge and Local Networks;Cultural Understanding and Adaptability; Innovation and Product Diversification

Text

What are the factors influencing the geographical diversification of firms? Although a wealth of research has been conducted on this issue, most of the research has focused on the factors influencing firms' internationalization, and there is a dearth of research focusing on firms' domestic geographical diversification.

China is a special transition economy, and a prominent manifestation is the existence of obvious regional market segmentation in the country. For Chinese companies to grow nationally across regions, they must overcome this significant barrier to entry. So, we may restate the original question as follows: What elements might aid businesses in overcoming market segmentation and thereby implementing a geographical diversification strategy? The answer to this question draws on both theories of internationalization research(Manyati and Mutsau, 2021, Duan et al., 2021, soung and Soon-Ho, 2021). This is because the existence of market segmentation makes cross-regional expansion within a country have a similar logic to that of cross-border expansion. At the same time, it is important to note that the barriers to cross-regional expansion of firms caused by market segmentation are mainly caused by artificially created (mainly by local governments) administrative barriers rather than by natural geographical factors.

Since entering the 21st century, especially after joining the WTO, with the increasing degree of China's opening up to the outside world, the pace of multinational companies entering the Chinese market has been significantly accelerated, and the number and quality of multinational companies entering China have been greatly improved. This is mainly manifested in the following two aspects: first, multinational companies no longer simply lay out the Chinese market from the production or sales level, but take it as an important part of their global strategic layout(Chiang et al., 2020, Upadhyay and Kundu, 2020, Khan et al., 2019). Their enterprises in China have started to have a series of complete value chain systems in production, sales, R&D and services, and are able to more directly combine their ownership

They can more directly combine their ownership advantages with China's location advantages in terms of factor costs to compensate for their cost disadvantages. Second, multinational companies enter the Chinese market in a more direct way, through direct investment in new construction or acquisition and merger to achieve the occupation of the Chinese market, and constantly squeeze the living space of Chinese enterprises.

These multi-national corporations frequently employ an extrusion M&A strategy in order to fully capitalize on the massive size of the Chinese market. It includes market-extrusion M&A, technology-extrusion M&A and brand-extrusion M&A. The direct consequence is lead to the loss of dominant position of Chinese enterprises in resource allocation, technology development and market control. This has left a great potential problem for the development of Chinese enterprises and industries. However, in the face of the aggressive offensive of MNCs, most Chinese companies are losing the obvious comparative cost advantage that they used to have. Moreover, they have not established effective competitive advantages in terms of innovative differences and multi-point competition, and are at an obvious disadvantage in transnational competition(Sharmistha and Thakurta, 2021, Hwan, 2020, Ayentimi et al., 2022). How to improve the international competitiveness of Chinese enterprises and form a group of world-class enterprises in China is a major practical issue facing enterprises and the government, and is also crucial to ensuring China's economy continues to grow in the long run.

The resource capability of firms is a driver and an important prerequisite for geographic diversification, but most of the studies focusing on firm internationalization have focused on the impact of firms' ability to respond to markets such as R&D and marketing (market capability). Especially because of market segmentation, which results in visible regional institutional disparities, China's still-evolving system is far from ideal. The ability of businesses to successfully cross regional boundaries within the domestic market is directly tied to their preparedness to deal with the aforementioned institutional forces. That's why some researchers at home have zeroed in on the effect that responsive government capacity (non-market capacity) has on the globalization of businesses. In the lack of formal institutions, political interactions continue to play a vital informal role to a great extent (Lu et al., 2020, Herbane, 2020, Apriliyanti and Kristiansen, 2019). However, in the process of geographically diversified expansion of firms in domestic markets, is it the market capabilities or the non-market capabilities that are important? How do the mechanisms of action of the two differ? Existing studies do not combine the effects of both on geographic diversification to give a clear answer.

First, how do a company's resources affect its decision to spread its operations around the globe?

Second, how does managerial perception affect the geographical diversification of a company?

Third, how does corporate capability affect managers' perceptions?

Fourth, what part does top-level administration's point of view play in smoothing out the connection between a company's resources and its geographical make-up?

This study uses China's regional market segmentation as its focal point, and its subjects are businesses that have locations in China outside of the province (or city or district) where their headquarters are based.

First, this study belongs to typical scenario-embedded research. Most of the previous studies on firms' geographical diversification have focused on firms' internationalization behavior, and few studies have focused on firms' cross-regional expansion within a country. However, due to the existence of regional market segmentation in China, firms' cross-regional expansion in the country shares the same logic as their cross-country expansion and is equally worth studying. This study is embedded in the special institutional context of market segmentation and investigates the influencing factors and mechanisms of firms' geographic diversification strategies in the domestic market(Freidman et al., 2019, Pereira et al., 2018, Sellami et al., 2019, Yang, 2019, Ishak et al., 2020). It can make some innovative contributions to the theory of geographic diversification strategy based on the Chinese scenario.

Second, previous studies have tended to examine the influencing factors of geographic diversification from one perspective also few studies have focused on the mechanisms of mediating effects that influence firms' geographic diversification. This research begins with an analysis of the effect that a company's capabilities have on its decision to diversify its operations across geographies, and then goes on to compare and contrast the effects of market capabilities and non-market capabilities. The majority of extant empirical research focuses on the effect of a single capability type on regional diversification, and most of the comparative studies that put the two together are theoretical analyses. This study is a supplement and enrichment to the related studies.

The specific research includes the following four aspects.

In the first place, there is a connection between the extent to which a company's skills have an impact and its geographical diversification (depth and breadth).

Second, how market segmentation is understood by management and the influence of the degree of geographic diversification (depth and breadth).

Third, the relationship between the influence of firm capabilities and managers' explanations of market segmentation.

Fourth, the mediating role of managers' explanations of market segmentation between firm capabilities and the degree of geographic diversification.

The content of this chapter belongs to the introductory section, which mainly discusses the practical and theoretical background of this study, and on the basis of which the three issues of concern of this study are presented. Next, the focus and key themes of this investigation are laid forth. Once the research questions have been established, the study's focus can be narrowed down: examination of how different locations affect a company's ability to perform well Examining how high-level executives feel about their companies' regional diversity. Examining the perspectives of senior managers as a moderating factor in the connection between a company's competencies and its degree of regional diversity. Both the suggested research approach and the research importance of this study are highlighted.

Practice shows that the implementation and effective integration of geographic diversification strategies in the domestic market is an effective way to enhance the international competitiveness of Chinese firms. To this end, it is important to theoretically investigate what factors influence firms' choice of geographic diversification strategy, which is the core issue of this study. In order to be able to clarify the current situation at the study, this chapter firstly reviews the theoretical basis of enterprises' geographical diversification. It mainly includes the theoretical foundations of international trade perspective, foreign investment perspective, process perspective and strategic management perspective. Then, it provides a brief overview of the research conducted at home and abroad that has shed light on the factors that determine the extent to which businesses spread their operations throughout different regions. In addition, a review of research related to managers' perceptions is presented, and finally, a review of current research is presented to identify innovative entry points for further research.

Diversification is an important growth strategy for companies. Companies can implement diversification in two directions: industry and geography, and this study focuses on the diversification strategy implemented by companies in geographic markets, i.e., geographic diversification. However, so far, scholars have not formed a unified view about the connotation of geographic diversification. Geographic diversification is also referred to as regional diversification or cross-regional expansion by many scholars. The geographical diversification studied in this paper refers to the expansion of a firm's products or services across the province (municipality directly under the Central Government and autonomous region) where its headquarters is located to other regions of the country, and the expansion is carried out through product sales, joint ventures, mergers and acquisitions, and new construction. Further, this study defines the extent to which a company's operations span across geographic regions cross provincial boundaries into other regions of the country, and it measures the extent to which a firm is involved in markets outside the province(Silva et al., 2021, Araujo et al., 2021, Sax and Andersen, 2019, Hampton, 2019).

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