Chapter 9

Internationalization of Chinese Pharmaceutical Firms—Strategies and Drivers

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ABSTRACT

Investigating how pharmaceutical firms from emerging economies internationalize themselves to meet the knowledge- and investment-intensive challenges of pharmaceutical industry has become an inviting topic for both academia and industry. This paper explores the internationalization strategies and driving factors of Chinese pharmaceutical firms. Through applying text analytics, four internationalization patterns of Chinese pharmaceutical firms are identified, namely, (1) market seeking by the state-owned; (2) opportunity exploring by the emerging-private; (3) culture penetration by TCM firms; and (4) global integration by CROs. It shows that the internationalization of Chinese pharmaceutical firms is driven by three key factors: firm ownership, business scope and value chain positioning. This study attempts not only to provide empirical evidence of internationalization of Chinese pharmaceutical firms, but also to contribute to the field of study on corporate internationalization in the complex-system sector.

INTRODUCTION

As a complex-system sector, pharmaceutical industry is always regarded as a valuable high-technology industry, which is characterized as research-intensive and investment-heavy (Bogner & Thomas, 1994). Making international strategic decision has become a vital phenomenon for pharmaceutical firms to obtain technology and market (Mascarenhas, 2013) for good reasons. Firstly, the innovation activities of new drugs are considerably time-consuming and risk-taking. It normally takes some 10 to 15 years for drug discovery and development. Therefore, it is imperative for pharmaceutical companies to embark on international expansion because few firms can generate needed knowledge internally to compete ef-
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Effectively (Katila, 2002). Transnational knowledge-seeking is crucial for pharmaceutical firms to innovate faster (Chung & Alcácer, 2002; Rogachev, 2008). Secondly, pharmaceutical companies invest heavily in drug discovery. When such drugs lose patent production, generic drugs enter into the market that make a threat to innovation manufacturers (Grabowski & Kyle, 2007). Consequently, it pushes corporations to go abroad to acquire new market and promote sales revenue.

With the development of global economy, an increasing number of MNEs from developed countries choose internationalization strategies to promote R&D innovation, expand corporate scales and extend value chain (Hemmert, 2004; Paulina, 2006; Tijssen, 2009). Meanwhile, exhibiting the international behaviors to seek market and strategic asset (Yeoh, 2011), a growing number of pharmaceutical firms in emerging economies, such as Indian pharmaceutical firms, Ranbaxy and Wockhardt, go abroad to access innovation resources. However, they also face daunting challenges of various kinds in the process. Take Indian pharmaceutical industry as an example of the difficulties and problems they have to encounter in the overseas ventures. Not only has FDA issued several letters to warn Indian pharmaceutical firms of their unqualified production process (The Lancet, 2014), but they have also involved themselves in patent infringement lawsuits filed by American firms, and have been convicted of drug patent infringement. Besides, pharmaceutical firms in India experience organizational integration risks and market barriers, which further hamper the firms’ performance and profitability.

Chinese pharmaceutical industry as a young, up-and-coming player, shows rapid development momentum (Yu et al., 2014). Currently, Chinese pharmaceutical industry is one of the key industries on the State’s “Twelfth Five-year Plan”. The government encourages large enterprises to build international brands and core competence (Qiu et al., 2014). While outsourcing business keeps growing, inheritance and innovation of traditional Chinese medicine constitute the principal part of the industrial development. Chinese pharmaceutical firms have made good effort in the process of globalization, from internal internationalization to product export, as well as the green field investment and M&A to expand overseas. With regard to the emerging companies’ problems and challenges in the process of internationalization, this study is concerned with how Chinese pharmaceutical firms as a latecomer work on international strategies, and what factors impact pharmaceutical firms’ overseas choices with distinctive business scopes and value chains.

In this context, we regard internationalization as a specific “outward internationalization”, which refers to building an entity (such as R&D organization or factory) outside China by Chinese multinational enterprises (MNEs), mainly through cross-border M&A, cooperations with other firms or greenfields investment (Buckley & Ghauri, 1999; Deng, 2012). By focusing on the Chinese multinational corporations in the pharmaceutical sector, this research purports to investigate systematically the location choice and entry mode in the process of internationalization to provide a clear understanding of the status of Chinese internationalization in pharmaceutical industry and to inform other firms and industries for future reference.

LITERATURE REVIEW

Internationalization of Pharmaceutical Firms from Advanced Economies

Firms from the advanced economies have rich experience in international business that can be deployed by EMNEs to acquire knowledge and capability in global markets. The international evolution of pharma-