INTERNATIONAL MARKET ENTRY STRATEGY AND PERFORMANCE: AN EMPIRICAL STUDY OF AUSTRALIAN BUSINESS VENTURES IN THE PEOPLE'S REPUBLIC OF CHINA

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VICTORIA UNIVERSITY
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ABSTRACT

This study examines the relationship between a firm's external and internal factors, international market entry strategy, and long-term performance. The purpose of the study is to test if foreign entry strategy into China by Australian companies has an effect on a firm's long-term performance, and to what degree. A conceptual model is developed based on extensive literature review and using modified constructs, to develop new constructs from variables not previously measured.

The external factors consist of market characteristics and industry characteristic variables, and the internal factors include firm and product characteristic variables. The international market entry strategy consists of mode of entry, timing of entry, investment at entry and marketing adaptation. Long-term performance is measured on the basis of business performance and competitive position.

The unit of analysis was the company and each company was represented by a key informant. In-depth interviews assisted in the clarification of the constructs and the measurement scales. Quantitative data was collected through a structured questionnaire, which was administered by mail in Australia, and personally in China.

The majority of Australian companies in this survey are in the food industry, machinery industry, metal production and chemical industry. Most of the Australian companies entered China after 1990. Exporting and joint ventures were the most common entry modes. with 45% of the companies having a small investment at entry. However, in 1997, most of the firms enlarged their investment. Australian company entry modes changed over time. Before 1980, exporting was the only type of entry mode, and companies started to use joint ventures from 1981, and then began to use WODI from 1986.

The conclusions from analysis are that entry modes of exporting-through agency in Australia, direct exporting, branch offices in China and joint ventures are explained by the hypothesised relationships, that state a high commitment mode will have a high return, management control and control of the market, but have high risk and cost. In

contrast, a low commitment mode has low return, management control and control of the market, but low risk and cost. However, it is also found that for wholly owned direct investment, risk is high and return and sales are lower than expected. Exporting-through another country and contracting are also different to what is hypothesised. Exporting-through another country is hypothesised as a low commitment mode, but it is a medium resource mode because cost, return on profit and sales, management control and control of the market are higher than expected. For contracting, cost is lower than expected, but risk is higher than expected.

The findings indicate that timing of entry is significant for the long-term performance of Australian companies in sales, profit and market share. Investment at entry has a significant impact on sales, return on investment, profit and market share.

The results indicate that marketing adaptation (including channel adaptation) has significant effects on business performance and competitive position. External factors (market and industry characteristics) and internal factors (firm and product characteristics), such as cultural difference, competition in the market, industry technology orientation, marketing skills, production skills, time commitment of top management, product exposure and product uniqueness have a strong influence on marketing adaptation.

Overall, this study develops an international marketing entry strategy conceptual model and empirically tests the model on data of Australian companies' business ventures in China. It demonstrates a strong relationship between entry strategy and long-term performance in the market context, and provides implications for business practice in entry strategy decisions regarding international markets. It also provides a framework for further research.

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DECLARATION

This thesis contains no material which has been accepted for the award of any other degree of diploma in any university or other institution, and to the best of my knowledge, contains no material previously published or written by another person, except where due reference is made in the text of this thesis.

Signed: 

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With Love to My Parents,

Shousi Qiu and Xiuru Que

CHAPTER 1 INTRODUCTION

1.1 Research Background

The globalisation and internationalisation of world markets has led to increased attention on both the international market entry issue and cross-country research. Such research has become particularly important in the 1990's, due to the "emerging economies" in China and East and Central Europe, which have received new impetus from the recent wave of investment into these countries (Buckley and Casson 1998).

The international environment is characterised by turbulence, high diversity and large gaps in an organisation's skills and resources (Cravens et al. 1993; Hakansson 1982). Lim, Sharkey and Kim (1996) believe that environmental analysis has become even more critical as the environment has become more turbulent, and as the rate of environmental change has accelerated. Therefore, Stern et al. (1989) indicate that managing business in the international arena is becoming an important facet of global competitive activity, where a company not only faces the national environment but also the relevant international environment.

McDougall (1987) and Lambkin (1988) suggest that entry strategy studies need to focus on new ventures or new start-ups. Kerin, Varadarjan and Peterson (1992) believe that entry strategy studies need to develop a broader conceptual framework. There are various models of entry strategies developed by researchers. However, most of them use single entry strategy components (Green, Barclay and Ryans 1995), or

only use one economic variable (such as profit or sales) to measure performance (Cavusgil and Zou 1994). Green, Barclay and Ryans (1995) suggest that entry strategy should include multiple components, such as timing of entry, magnitude of investment, and area of competitive emphasis in building an entry model. Backley and Casson (1998) suggest that analysis of a new fully integrated entry strategy decision should consider the main entry modes, such as exporting, licensing, joint venture and wholly owned foreign enterprises. Cavusgil and Zou (1994) are concerned that studies should include internal and external factors such as firm, product, industry and market characteristics in the export marketing strategy and performance context.

The relationship between new business strategy and market performance has been previously examined. Green and Ryans (1990) used causal modelling to examine the component parts of implementing an entry strategy and the interrelationship among a number of antecedents to performance. Gatigon, Weitz and Bansal (1990) applied an economic model to study product entry, and integrated several entry constructs to explain later performance. Cavusgil and Zou (1994) were concerned to use both economic and strategic definition to measure export performance.

When a study of international entry strategy is based on a developed country entering into a developing country such as Australia and China, the research is seen to be important and particularly when involves China, because China has had a renaissance of the market economy and consequential changes in macroeconomic policies and macro-organisational (micro-management) strategies by government (Dunning 1998).

However, little attention has been paid so far to academic analysis of the entry strategies of Australian companies into the Chinese market. Hence, this study has a significant contribution to offer by creating opportunities for both countries to increase and strengthen their economic and business relations.

1.2 Objective of the Research

This study aims to develop a conceptual framework of international market entry strategy and performance from which theory can be developed, and empirically tested using a data base collected from Australian companies' business ventures in the Chinese market.

The purpose of this study is to :

1) Identify the external factors of market and industry characteristics that affect entry strategy decisions, including cultural difference, government policy, access to distribution channels, the competitive situation, industry technology orientation and industry growth prospects and their effect on entry strategy options.

2) Identify the impact of internal firm and product characteristics on entry strategy options, including firm production, marketing and management skills, product features, product exposure, product price and quality.

3) Analyse the relationship between entry strategy, (timing of entry, mode of entry, magnitude of investment and marketing adaptation), and long-term performance (business performance and competitive position), for Australian companies.

4) Build an international market entry strategy model for the examination of complex relationships between entry strategy decisions, market context factors and resultant performance.

1.3 Justification for the Research

Market entry strategy is an important area in international marketing studies. Two major aspects need improvement in this research area: (1) developing a broader conceptual framework (Kerin, Varadarajan and Peterson 1992); (2) building a measurement model (Green, Barclay and Rayan 1995; Smith 1985).

To build an entry strategy and performance model with multiple entry strategy components and various performance variables has not been done before, possibly because it needs a large data set, a sophisticated methodology and extensive time.

In the first instance, this study develops an international market entry strategy and performance conceptual framework. This framework refers to previous strategy-environment studies (Okoroafo and Russow 1993; Venkatraman and Prescott 1990; Porter 1985), strategy performance studies (Parnell, Wright and Tu 1996; Cavusgil and Zou 1994; Pam and Howard 1990; Segev 1987), and entry strategy studies

(Green, Barclay and Ryans 1995; Akhter and Choudhry 1993; Kerin, Varadarajan and Peterson 1992; Lambkin 1988; Simon 1986).

Second, the conceptual framework is used to develop the measurement model for entry strategy and performance related to the business ventures of Australian companies in the Chinese market. It includes external factors (market and industry characteristics) and internal factors (firm and product characteristics). In this model, measurement is designed for different entry strategy components and long-term performance (business performance and competitive position). The most common performance dimensions used are profitability and sales. However, in this study business performance in the model involves profitability, sales, return on investment and return on sales, while competitive position includes market share and market relations. The model also facilitates measurement of degrees of success and failure in the market.

Third, from a managerial prospective, choosing a market entry strategy is a key decision for Australian companies intending to join international markets that will affect their long-term performance. Surprisingly, not enough empirical research has been conducted to guide entry decision making, (Green, Barday and Ryans 1995). Moreover, little research has been done which focuses on the entry of Australian companies into the important international markets of Asia, and especially that of the People's Republic of China. This study describes the current situation of Australian companies in the Chinese market compared with other foreign companies (USA, Westen Europe, Japan and others). It analyses the entry strategies and market

performance of Australian companies that have operated, or are currently operating in China. This will lead to a comprehensive assessment of the factors influencing entry strategy selection and implementation. As such, it provides an overview for senior executives of Australian companies.

Finally, the study provides a complete database, which contains primary information about Australian companies' and other foreign companies' business ventures in China. This information is important for company decision making, market research and government policy decisions.

1.4 Australia -China Business Relations*

1.4.1 Introduction

The Chinese market is increasing in significance for Australian companies, because of China's booming economy, huge population, government commitment to opening up the market to foreign companies, and growth in consumption. In recent years, the Chinese market environment has undergone great changes. It has become more open and more attractive to foreign companies, and increasingly Australian business people have endeavoured to introduce new ventures into this market. China was the second largest foreign direct investment (FDI) recipient in the world, just after the United States, and the largest among the developing countries, US$ 41.73 billion in 1996 of foreign direct investment, and approximately 40% of total global FDI (Intertrade,

* All figures are in Australian dollars unless otherwise specified

1997). Australia, as one of the largest investors, has invested more than $2.5 billion in China (Armstrong and Kelly 1999).

China is Australia's fifth largest trading partner, behind Japan, the USA, South Korea, and New Zealand. Since 1991, the two-way trade between Australia and China has broken records almost every year and increased by 26% in 1999 (Armstrong and Kelly 1999, People's Daily 2000). A large percentage of Australian trade in the wool and steel industries is with China. Australia's largest wool sales are to China, accounting for almost 19% of total wool exports in 1994, and growing at 20% per year to US$ 3 billion in 1997. Australia is China's second largest agricultural supplier, after the USA. In 1996, Australian exports of agricultural products to China increased by 90% to US$ 1.37 billion (EAAU 1997).

China is a large country with a fast-developing economy. In the future seven years, China will import equipment, technology and commodities worth $2344 billion. This presents a huge market for many countries, especially Australia (Armstrong and Kelly 1999). From the perspective of the Department of Foreign Affairs and Trade (1997), China's import demand of Australian goods and services will continue to increase due to rapid growth in China, and the natural complementarity of the two countries, as well as their increasing internationalisation.

1.4.2 Country Profiles - Australia

Australia is the sixth largest nation and the world's smallest continent in terms of land mass. The country is divided into six states and two territories, with 85% of the population concentrated in urban centres, particularly in Melbourne and Sydney. Located adjacent to Asia, Australia has traditionally been identified more with Europe and the USA, and has only recently begun to capitalise on its geographic proximity to the Asian economies (Hinkelman 1996). Australia has a diversified economy, with a high level of material prosperity. Even though transport, communication, and manufacturing are developed, agriculture and mining have still remained the mainstays of the economy (The Economist Intelligence Unit 1995).

The Australian economy has come a long way in recent years, changing from being largely inward-looking, heavily protected and dependent on primary products (agriculture and mining), towards being more internationally oriented, particularly in terms of the Asian markets.

Much of the twentieth century saw Australian leaders opting for import substitution rather than export orientation, leading to a protectionist economy, which was uncompetitive and dependent on imports. Moreover, the focus on primary products has seen the Australian economy subject to boom and bust cycles as it has been affected by fluctuating world market prices for commodity products.

There have been big structural shifts in the economy since the 1960's. As in other developed economies, there has been a strong shift towards service industries, with

growth in the services sector in 1992/1993 of 66.3% (Hinkelman 1996). Furthermore, there has also been pronounced growth in the mining sector due to the exploitation of important discoveries of iron ore, petroleum, coal, natural gas, gold and other minerals.

Since the 1970's, Australia has recognised the potential to participate in the growing Asian market, removing some of the barriers that were evident in the economy and society. Foreign trade has grown from 4.5% of GDP in 1965 to 31% in 1998 (Hinkelman 1996, ABS, 1999).

Australia's small domestic market has necessitated that the country relies on foreign trade to achieve economic growth. The key factor in achieving this growth was a move away from the mature developed economies of North America and Europe, to the fast-growing markets of the Asia-Pacific region (Hinkelman 1996).

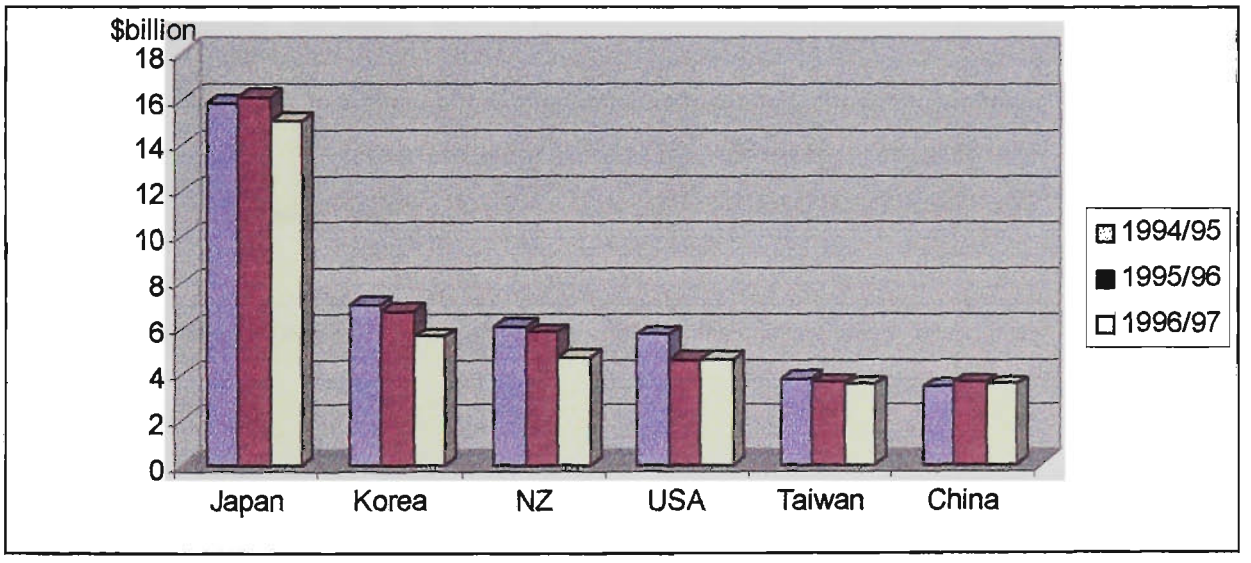
Trade in 1997/1998 increased by 13% to $178.46 billion. Exports accounted for $87.8 billion representing an 11.2% increase, and imports $90.7 billion representing a 14.8% increase (ABS, 1999). Since 1991/1992, exports have increased by 7% per annum and imports by 9%. Nevertheless, Australia only accounted for a small 1.2% share of world merchandise trade in 1996 (Department of Foreign Affairs and Trade 1997).

Exports of primary products increased by 7%, manufactured products by 2%, and other exports decreased by 10% in 1996/1997. Although statistics have shown that the

composition of Australian industry has moved away from the traditional focus on primary produce towards more value-added or service oriented industry, nine out of ten principal export products are still primary produce, accounting for 44% of total merchandise exports (Department of Foreign Affairs and Trade 1997).

Australia's major export markets from 1994-1997 include Japan, South Korea, New Zealand, USA, Taiwan and China (Figure 1.1).

Figure 1.1
Major Export Markets of Australia (1994-1997)



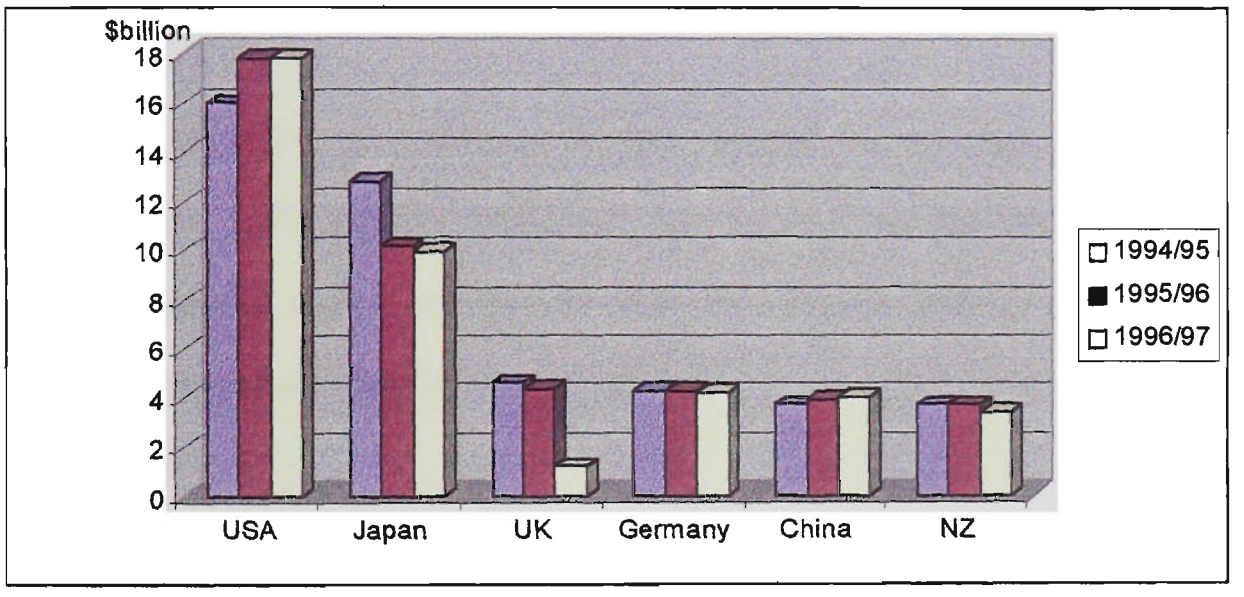
Source: Department of Foreign Affairs and Trade (1997).

Major import markets include the USA, Japan, UK, Germany, China and New Zealand (Figure 1.2).

North Asia, constituting mainly China and Japan is a large source of export merchandise for Australia. China ranks sixth in terms of Australia's export markets, fifth in terms of imports, and is overall Australia's fifth largest trading partner. China

is also one of Australia's major markets for four of the ten principal export products. Australia has traditionally exported resources and agricultural commodities to Asia, but in recent years, an increasing trend towards the export of manufactures has been observed (Department of Foreign Affairs and Trade 1997).

Figure 1.2
Major Import Markets of Australia (1994-1997)



Source: Department of Foreign Affairs and Trade (1997).

Therefore, China is an important market for Australia, and China's continued economic growth will increase its importance to the Australian economy.

1.4.3 Country Profiles – China

China is potentially the biggest market place in the world, with the largest population, and the world's fastest-growing economy at close to double-digit annual growth in two decades (Hinkelman 1994). China's GDP average growth rate has been 9.4% since 1979. From 1979 to 1983, the annual average growth rate of GDP was 8.1%; it

accelerated to 12.1% from 1984 to 1988, and dropped to 5.7% from 1989 to 1991. After 1992, China's reforms were aimed at developing a market economy, and accelerating economic development. The GDP average growth rate went up to 10.8% between 1992 and 1998 (*Statistical Yearbook of China* 1998; Zhu 1999). This high growth rate should be sustained through the next decade. China's total GDP will probably surpass that of the United States in this century, somewhere between 2025 and 2050 (Gelb 1996).

Prospects in China rely greatly on the link between the economic and political environment. In the late 70s, the Chinese government recognised that a thirty-year central planning period with radical shifts in economic policies and political development had adversely affected the economy and caused the country to stagnate (Lyons 1993).

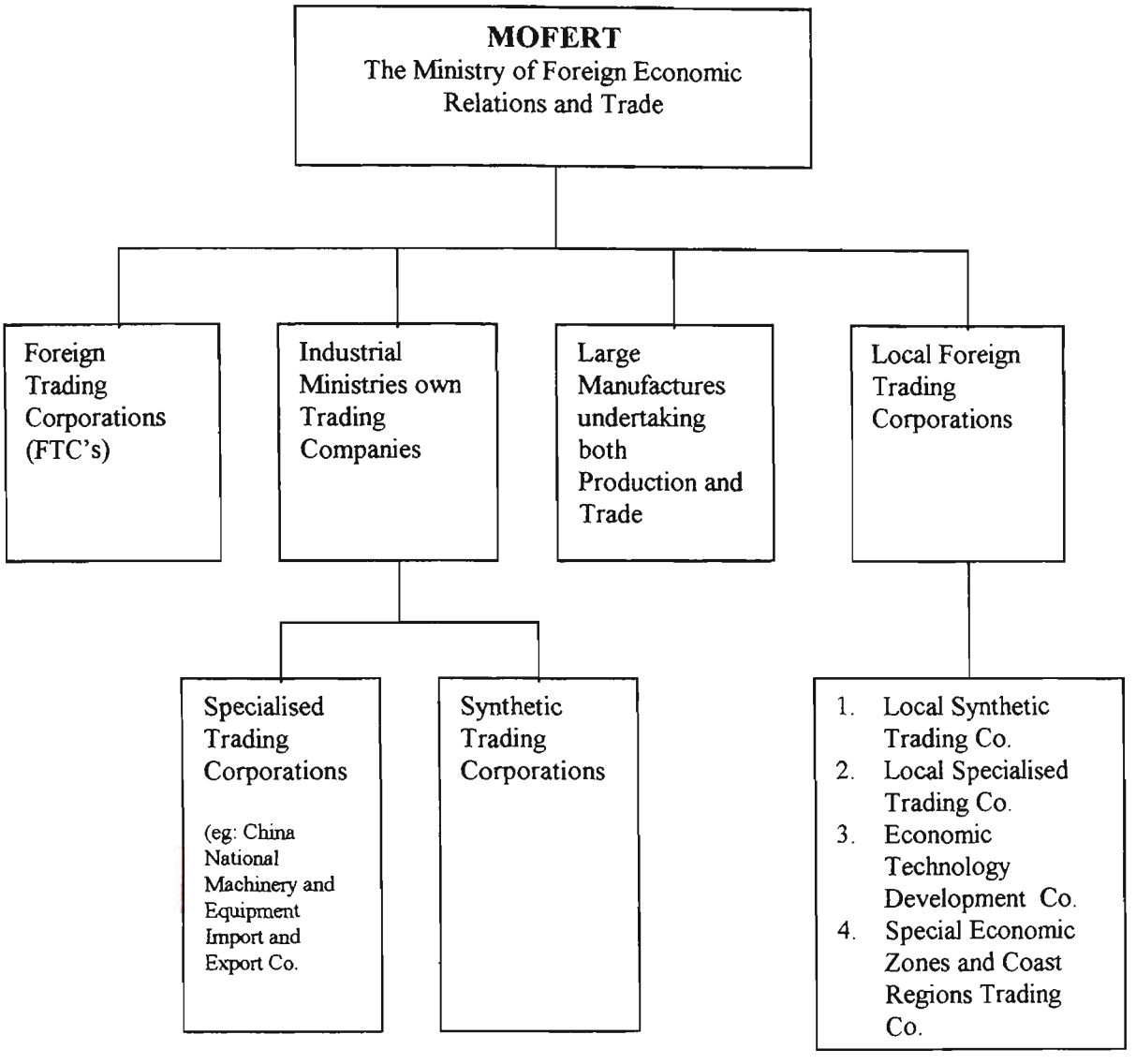
In the 1978 Economic Reform, China began its "open-door" economic polices, and modernisation program, moving from a centrally planned economy to a "socialist market economy" (Newman 1996). Since then, China's economy has liberalised towards a free market economy. The Economic Reform has focused on improving standards of living, and closing the gap between China and other developed nations. Foreign trade reform was also emphasised. The major change has been increased decentralisation. Before the 1978 Economic Reform, foreign trade had been an official monopoly that could only be conducted through state foreign trading corporations. These foreign trade corporations, known as FTCs, had branch offices in major cities and enjoyed sole authority to import and export goods. Decentralisation began in the early 1980s, with some provinces given more authority in foreign trade,

and major producers and other entities being allowed to arrange their own deals directly without reference to FTCs. In 1984, China instituted an economic reform that required a clear division between government entities and commercial companies, and mandated that the latter gradually become self-sufficient.

These reforms motivated industrial ministries to create their own trading companies. Simultaneously, provincial and municipal governments formed their own specialised industrial organisations to conduct foreign trade. This increased the options within the trade system and initiated a newly competitive environment among companies interested in doing business with foreign firms.

In 1988 large manufacturers were allowed to deal directly with foreigners. Additionally, many new companies were given the right to enter the foreign trade system. In an effort to boost exports and corporate development, officials (especially in Guangdong province) have been trying to convert certain large export-producing companies into independent, vertically integrated trading companies that would handle virtually all aspects of operations from importing to producing goods and arranging export deals (Figure 1.3).

Figure 1.3
The Chinese Trade System



Sources: China's Today: Foreign Trade (1992), Almanac of China's Economy (1995).

The process of China's economic reform has been aimed at creating a favourable investment environment that will attract foreign companies. In 1979, foreign direct investment from a capitalist country was permitted for the first time since 1949. Before 1979, the Chinese government restricted foreign capital from western countries (Shi et al. 1989). Beginning in the 1980's, the Chinese government established Special Economic Zones to attract foreign investment. More than 300

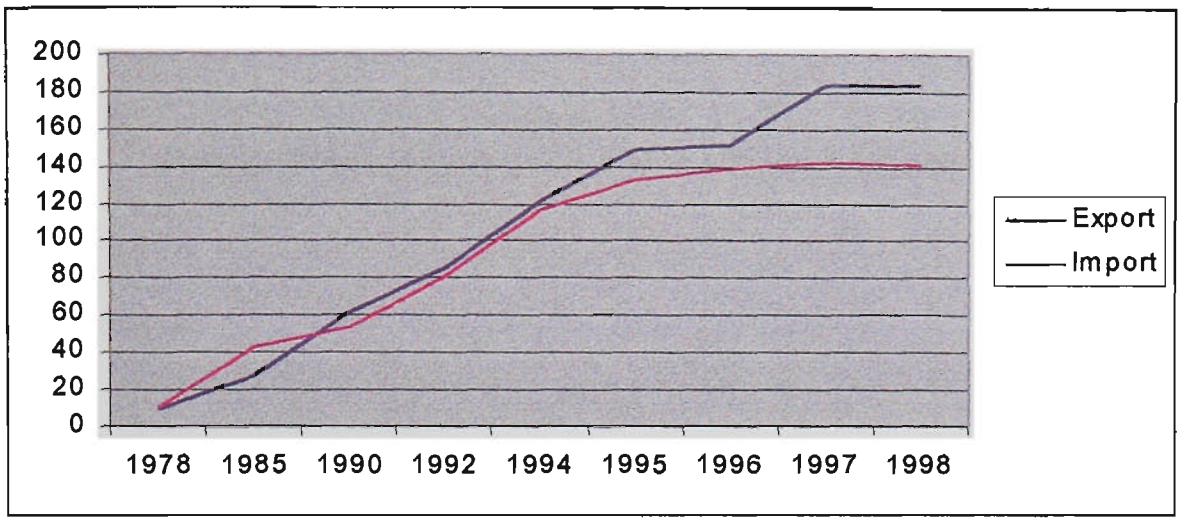
special investment areas were set up in the coastal provinces and large cities (Genzberger et al. 1994), such as Guangdong, Fujian, Shanghai, Liaoning and Shandong. A number of incentives are offered to foreign investors in those areas.

Economic reforms have also relaxed government control over companies. At the beginning of the reform, more than 90% of Chinese enterprises were state-owned. Today, the stated-owned enterprise accounts for about 40% of China's industry. The remaining 60% consists of 40% collectives or individually owed enterprises, and 20% from foreign investment (Newman 1996).

The large percentage of stated-owned enterprises is domestically oriented, and inefficient. In contrast, most of the non-state-owned enterprises are highly efficient, internationally competitive and largely export-oriented. These enterprises account for more than two thirds of the national output of China, dominate light industry, and have generated about 75% of export growth since 1978 (EAAU 1997).

China's success in the last two decades has been its high level of international trade and foreign investment. China's international trade has grown in leaps and bounds, multiplying more than ten times between 1978 and 1998 (Figure 1.4) with an average annual growth rate of more than 10%. In 1996, China was the tenth largest trading economy in the world, up from eleventh in 1992, and seventeenth in 1982. In 1995 total trade was US$ 280.9 billion, representing 43% of China's gross national product (GNP).

Figure 1.4
Exports and Imports in China



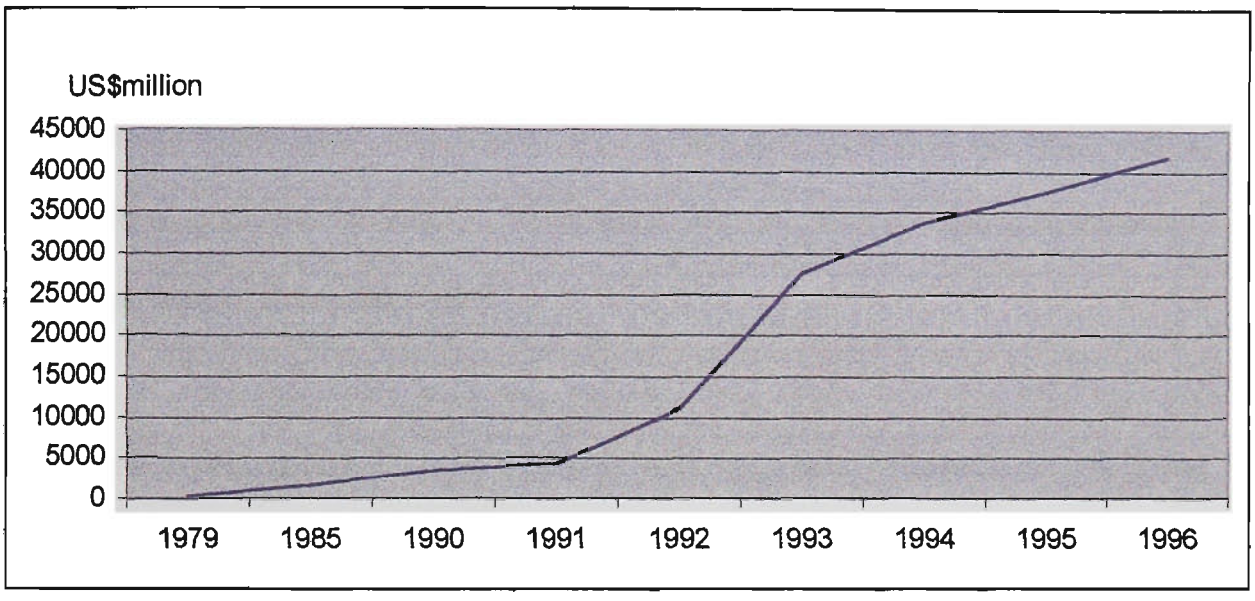
Source: Statistical Year Book of China (1995). Asia monitor: China and North Asia, (2000) Vol. 7, No.4, April.

The export and import structure has changed. China's exports have changed from mainly primary products (44.8% in 1978) to mainly industrial goods (83.7% in 1995) (Wu 1996). China is trying to enlarge its imports of special steel, construction materials, textile machinery, and metal working machinery, aircraft and automobiles. China's export focus is increasingly toward machinery and electronic products.

Foreign direct investment (FDI) in China has been increased significantly due to the fact that the Chinese investment environment has improved. In 1998, China's GDP per capita was US$ 800 (The Economist Intelligence Unit 1999). Chinese consumption has grown both in quantity and variety. Moreover, relatively cheap and abundant labour is available which provides favourable conditions for FDI in China. In 1996, the amount of FDI was US$ 41.73 billion, an increase of 25 times over that of 1985. From 1979 to 1996, FDI contracts have increased 130 times, and investment

capital has increased 115 times (Figure 1.5). In 1996, there were 280,000 foreign companies operating in China, a 44-fold increase compared with 6,286 in 1985 (Intertrade 1997).

Figure 1.5
Foreign Direct Investment in China (Realised Investment)



Source: *Statistical Yearbook of China* (1990-1996). *Intertrade* (1997), The Ministry of Foreign Trade & Economic Cooperation (MOFTEC), P.R.C., No.3.

However, even with China's massive growth in the last two decades and the rapid liberalisation of economic trade, managers still find that the Chinese market lacks transparency, and is bureaucratic and inefficient due to remaining trade controls (EAAU 1997). Firms entering China have encountered new factors such as new government regulations, new legal and financial systems, new types of transportation, currency exchange rates and their vagaries (Czinkota 1996). It is important for a firm to understand the Chinese market environment characteristics if it is to be successful.

1.4.4 Trade and Investment Relations

Economic, personal and political links, aided by the complementarity of the two economies have assisted the development of a close trading relationship between Australia and China (EAAU 1997).

A unique relationship exists between Australia and China. Australia was one of the first Western democracies to recognise the Chinese government in the early 1970's. The Chinese perceive Australia to be different from its Western allies, in particular the United States (Harrowell 1993).

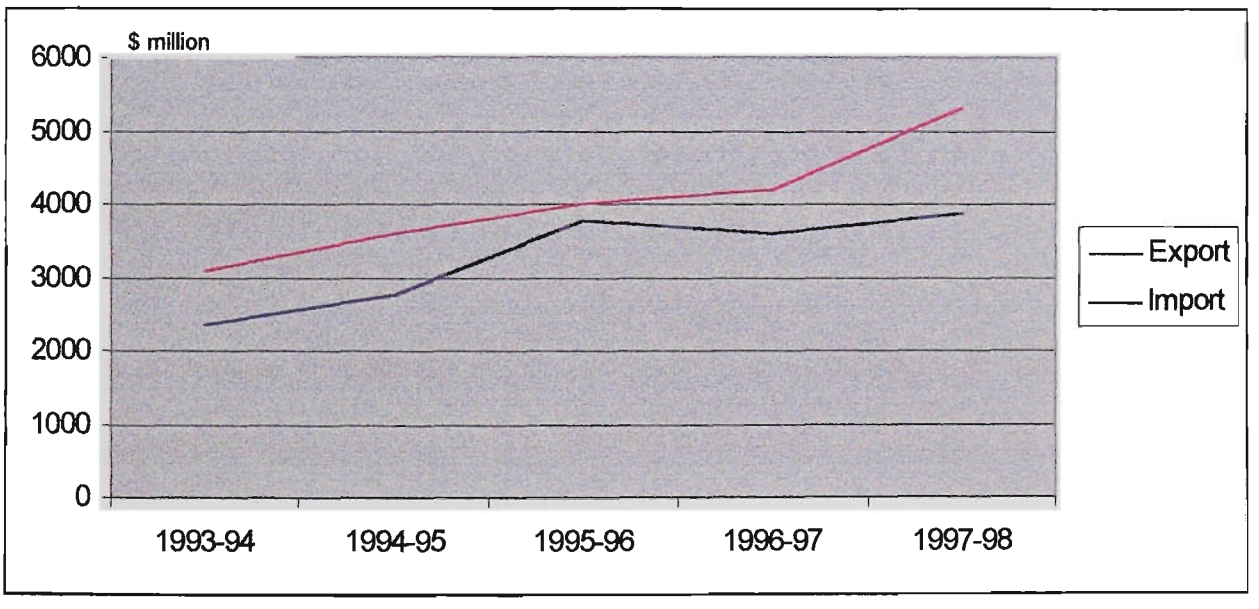
The first Sino-Australian bilateral treaty, the trade agreement between Australia and China, was signed in 1973. The agreement stood to govern trade between the two countries, factoring in differences in economic systems and business practices. The agreement reflected the countries' eagerness to pursue further development of economic and trade relations, and foster understanding and friendship. Since then, more than twenty similar bilateral agreements have been concluded and enforced (Yu, 1994).

In 1997, the Australian Prime Minister visited China, reinforcing Australia's dedication to developing a long-term cooperative and businesslike Sino-Australian relationship. The Australian government has recognised the opportunities in China for Australia in terms of high value-added products and services (Castles 1995). The trip by the Australian Prime Minister to China was soon reciprocated by a visit to Australia by the Chinese vice premier. Both visits signified dedication on the parts of

both governments to develop a government-to-government relationship, and foster two-way trade and investment (Surry 1997).

China was Australia's major trading partner in1997-1998, accounting for trade of $9.2 billion, and 10.1% of total merchandise trade. Exports to China increased by 8% to $3.8 billion in 1997-1998, imports, constituting 4.4% of total merchandise exports, increased by 26%, in the same period to $5.3 billion. Figure 1.6 illustrates the changes in Australia-China merchandise trade over the last five financial years.

Figure 1.6
Australia-China Trade 1993-1998

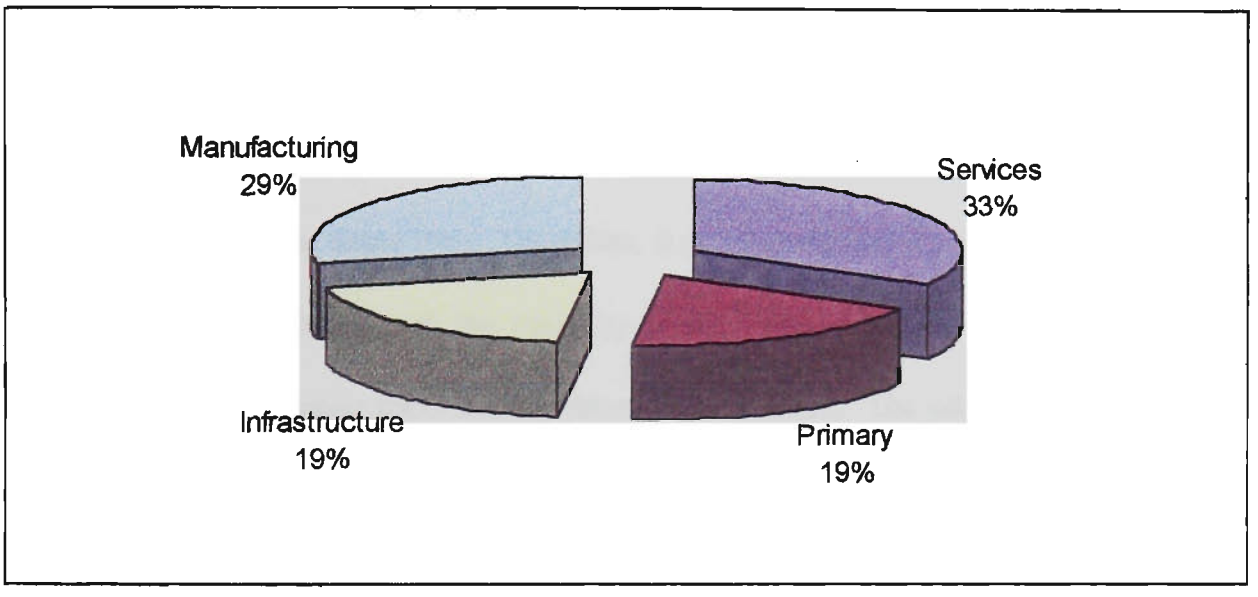


Source: ABS (1999), International Mechanised Trade, Feb. 22.
Department of Foreign Affair and Trade, (1997).

Figure 1.6 demonstrates that both exports and imports are increasing. The Australian export performance in the Chinese market declined only in 1996-1997. Overall, Australia has attained success in the Chinese market, with a share of the total Australian export market doubling in recent years as compared with other overseas

with prospects of strong export growth for Australia. It is projected that exports to China will increase further in line with China's increasing demand for imported goods, and continued trade liberalisation and internationalisation (EAAU 1997).

Figure 1.7
Australian Projects in China by Key Industries



Source: Based on figures from EAAU (1997).

Australia is a large contributor to the Chinese market in terms of foreign direct investment (FDI), with a reported cumulative investment around $1 billion. In 1998, Australia was reported as holding around 3,700 investment projects worth more than $2.5 billion (Armstrong and Kelly 1999), thus becoming China's 13th largest source of FDI. The investment projects are in a variety of industries, but mainly manufacturing, resource development and services (Figure 1.7). Australia is also one of China's main foreign investment destinations, after Hong Kong, the USA, Japan and Thailand (EAAU, 1997).

1.4.5 Opportunities for Australia

The Australia China Chamber of Commerce and Industry surveyed 52 Australian companies currently operating in China, and this survey indicates that the Chinese market is a high priority for Australian companies with 91% of the companies interviewed intending to expand their operations there. A marked increase in company activity in China since 1990 has been observed, and almost 50% of the companies have been operating since 1993 (Blackman 1995). This ties in with Australia's trade policy, which has increased the focus on foreign trade and investment around the same time. Therefore, it is apparent that there is an opportunity for investment in China, with the majority of the companies interviewed indicating that they were increasing their current investment in China. The other opportunity for Australia is China's entry into the World Trade Organisation (WTO). China will realise a gain of 4.6% projected growth in GDP from this entry, and Australia will benefit in turn through a projected 1.8% growth (EAAU 1997).

Since 1990, high investment growth in China has stimulated demand for capital and intermediate goods. Australia has traditionally exported primary goods to China and has a low share of this market. Therefore, there are opportunities for Australian companies to develop this area, as well as others, where the Chinese value Australian input. Chinese companies and the government have expressed interest in obtaining Australia's unique knowledge in the areas of developing remote areas, agricultural and insurance services.

Australian managers are cautioned to understand and appreciate the marketing environment when doing business in China. Lack of understanding the Chinese market has been the cause of many problems for foreign investors in China. This study particularly focuses upon this area of investment decision making and is aimed at improving and understanding some of the factors involved in marketing in China.

In conclusion, China is one of Australia's key trading partners and an ideal destination for investment. Therefore, it is important for Australian managers to understand the Chinese market. China has been a major market for Australia in the past, and will remain so in the future. The strong government and economic ties between the countries can create more opportunities for Australians investing in China and vice versa.

1.5 Summary of Research Methodology

This section provides a brief summary of procedures undertaken in carrying out the study. A detailed description of procedures involved and justification for adopting certain methodologies will be discussed in Chapter 4.

The investigation of Australian entry strategies in China required the following steps:

Conceptual development. A model of international entry strategy was developed through adopting and adapting the current research streams in entry strategy, international marketing strategy, international market entry modelling, strategy co-alignment, international marketing environment, and strategy-performance study

(Green, Barclay and Ryan 1995, Cavusgil and Zou 1994, Kwon and Konopa 1993, Backley and Casson 1998, Venkaraman and Prescott 1990, Jain 1993, Madsen 1989, Cooper and Kleinschmidt 1985).

Operationalisation of the construct. The constructs were operationalised by examining the existing scales from a review of literature. Definitions of constructs were adopted and adapted from the review of literature (Cavusgil and Zou 1994, Goodnow 1985, Root 1987, Kwon and Konopa 1993, Douglas and Craig 1989, Walters 1986, Jain 1993, Madsen 1989, Green, Barclay and Ryan 1995).

Unit of analysis. The unit of analysis is the company doing business in China. Other foreign companies doing business in China were also considered in the sample for comparative purposes. The key informant technique was used where one respondent was selected from each company.

Instrument. The major method of data collection in this study was through a structured questionnaire. Personal interviews with managers were used in the exploratory stage of the study. Data was collected in both Australia and China. The questionnaire was originally written in English, translated into Chinese, and then backtranslated into English to check for equivalence.

Data collection. The procedures used in the actual administration of the questionnaire were slightly different for Australia and China due to the environmental differences in both countries. In Australia, the sampling frame is based on the directory of

Australian Export edited by Austrade 1997. In China, the sampling frame is based on *Foreign Companies in China* edited by the Ministry of Economic Relation and Trade of China 1997, and the *Australian Interests in China* edited by Austrade 1997. Questionnaires were mailed in the Australian sampling frame, and personal interviews were used to administer the questionnaire in China.

Data entry and purification. Upon completion of data collection and entry into the SPSS based software, the scales were purified through reliability and validity tests, including coefficient alphas and exploratory factor analysis.

Data analysis. The relationships among the constructs in the model were examined as structural equation models using the AMOS 3.6 program linked to SPSS. Other techniques ranged from basic to more sophisticated statistical techniques, such as T-tests, cross-tabulation, regression, and factor analysis.

1.6 Outline of the Thesis

This thesis contains ten chapters starting with the introduction, which presents the research background, research objectives, and justification for the research and a summary of the research methodology. Moreover, an overview of Australia–China business relationships is provided.

Chapter two reviews the relevant literature from which the development of the conceptual model is based. Firstly, the background theories of the thesis include internationalisation theory; transaction cost theory, and relationship marketing.

Secondly, the components of international market entry strategy were discussed. Mode of entry, timing of entry, investment at entry and marketing adaptation are covered in existing literature as international market entry strategies. Thirdly, a literature review of performance studies was conducted. Finally, the external factors' (market characteristics and industry characteristics) and internal factors' (firm characteristics and product characteristics) constructs, which form the international market entry model, were detailed.

Chapter three discusses the development of the proposed conceptual model. The constructs and relational effects in the final conceptual model are explained. It also presents the hypothesised relationships between the constructs.

Chapter four describes the research methodology adapted to empirically test the international market entry strategy concept model. It reviews issues of research design, such as sampling, instrument development, data collection procedures and data coding and editing.

Chapter five presents the results of analysis of Australian companies' business ventures in China, and compares them with other foreign companies (USA, Western Europe, Japan, Southern Eastern Asia and others). It contains a profile of the respondents and the business ventures entering into the Chinese market. Furthermore, analyses of the relationship between variables of timing of entry and mode of entry, timing of entry and market share are provided at the end of the chapter.

Chapter six presents the evaluation of the entry strategy component – mode of entry. Cross tabulation analysis is used because of the nature of the data. The major results are provided with analysis, and discussions of the hypotheses.

Chapter seven provides the measurement of reliability and validity. The results of factor analysis are exhibited to identify dimensions within the key constructs. The meanings of the identified dimensions are also discussed.

Chapter eight is the examination of entry strategy components – timing of entry and investment at entry. Correlation and regression analyses are used, and the relevant hypotheses are discussed.

Chapter nine involves a testing of entry strategy components – marketing adaptation and channel adaptation. Structural equation modelling is used to test the relationships between external factors and internal factors with marketing adaptation and channel adaptation.

Chapter ten addresses the key findings of the data analysis. The contributions of the study to theory and methodology are discussed, followed by the implications for management. Finally, the limitations and recommendations for future study are offered.

1.7 Chapter Summary

This chapter covers several issues related to the foundations of the study. It introduces

the background to and objective of the research. Theoretical as well as practical justifications for the study are also discussed. In addition, a brief overview of the research methodology adopted for the collection of data is provided, along with an outline of the chapters of the thesis.

CHAPTER 2 LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing literature on international market entry strategy studies. It identifies the major constructs, important variables, and documents. The findings from earlier research provide a foundation on which the conceptual framework can be based and hypotheses developed.

Research in the area of international market entry strategy needs to develop more complete sets of components of entry strategy. International market entry decisions include: how to enter? what time to enter? how much investment? how to adapt to the new market? This thesis will investigate four entry strategy components: entry modes, timing of entry, investment at entry, and marketing adaptation. The literature indicates that models and conceptual propositions in international business studies have been mainly focused on entry model evaluation, and that international marketing studies have been concentrated on timing of entry. Some researchers (Green, Barclay and Ryans 1995) have suggested the construction of a complex entry strategy model to further advance empirical research. Such a model should consider the issues both of international marketing and of international business.

The measurement of market performance is also one of the most challenging issues in international marketing research. This is primarily because there is no uniform

definition of market performance in the literature (Cavusgil and Zou 1994). It has been traditionally measured by a single variable such as total firm sales (Cooper and Kleinschmidt 1985; Lee and Yang 1990) or profitability (Reid 1982). These quantitative indicators have been criticised. While qualitative measures provide more insights, they are undermined by the fact that they indicate perceived rather than actual performance (Das 1994).

Composite measures using a combination of several indicators such as perceived success and profitability have also been used (Cavusgil and Zou 1994). The differing views about external and internal factors with respect to their influence on international market entry strategies are reviewed in this chapter. The literature is used to facilitate the development of a conceptual framework for an international market entry strategy model. It considers the gaps in the literature, such as the neglect of competitive position as long-term strategic performance, and a lack of literature on market entry strategy studies on developing countries.

This chapter is organised into seven sections, beginning with an introduction, followed by background theory. The next sections discuss the literature on international market entry strategies, performance studies, external environment and internal environment of the firm. Lastly, a summary of the chapter is presented.

2.2. Background Theory

The study of international market entry strategy is an important research area of international marketing. Fundamental current theories are internationalisation theory and transaction cost theory, while relationship marketing issues provide a wide view of market entry with different relationships into international markets.

2.2.1 Definition of International Marketing

International marketing is a discipline that has attracted much attention. Many writers have made different suggestions as to what the discipline of international marketing should study. Cateora (1990) defines international marketing as the performance of business activities that direct the flow of a company's goods and services to consumers or users in more than one nation. Terpstra and Sarathy (1994) stress the complexity of international marketing, which consists of finding and satisfying global customer needs and coordinating marketing activities within the constraints of the global environment. For Czinkota and Ronkainen (1990), international marketing is concerned with planning and conducting transactions across national borders to satisfy the objectives of individuals and organisations; it ranges from export-import trade to licensing, joint ventures, wholly owned subsidiaries, and management contracts. This definition focuses on international transactions.

Fayerweather (1982) considered the dominant factor in the international marketing process to be the firm, which must be significantly involved in international business and have permanent operations in two or more countries. Keegan (1984) distinguishes

between domestic and global marketing and states that the differences between the two derive entirely from differences in national environments, company organisation, and strategies in different national markets. Onkvisit and Shaw (1993) distinguish international trade and international marketing. The former focuses on the analysis of commercial and monetary conditions that affect the balance of payments and resource transfers. On the other hand, the latter is more concerned with the micro level of the market, and uses the company as a unit of analysis.

The range of definitions of international marketing in the literature indicates that the discipline is a broad one, encompassing many aspects of management. Cavasgil and Revin (1981) classify international marketing into four broad categories. They are (1) the environment of international marketing, (2) area-oriented studies of the international market place, (3) strategic international marketing management, and (4) decision tools for international marketing. More recently, Dacko and Sudharshan (1996) indicate that among the hundreds of different global marketing research concerns, one of the major categories is entry strategy studies.

2.2.2 Internationalisation Theory

Internationalisation theory is based on certain assumptions. It assumes that the firm has a global horizon, and it recognises that the enterprise needs a competitive advantage or a unique asset to expand (Jain 1996). It also assumes the cost of market transactions between independent firms is higher than the administrative costs associated with exploitation within a wholly owned corporate structure. The theory predicts that the more technology-intensive the firm's specific asset is, the more

possibility there is that the firm will invest abroad rather than through intermediaries (Hibbert 1989).

According to internationalisation theory, the firm establishes an international network linking production to markets. Such a network enables the firm to grow by eliminating external markets in intermediate goods and subsequently by internalising those markets within the firm. The goods and services are transferred internally as international markets are internalised. A firm can use the methods of international market expansion by exporting from a production facility located in the country of the parent company, or it can set up production facilities in the market itself.

Two general axioms are basic in the internationalisation approach: (1) firms choose the least cost location for each activity they perform; (2) firms grow by internalising markets up to the point where the benefits of further internationalisation are outweighed by the cost (Buckley and Pierce 1979). This approach is concerned with the firm's incentive to create its own internal markets whenever transactions can be carried out at a low cost within the firm. Internationalisation involves extending the direct options of the firm and bringing under common ownership and control the activities carried out by intermediate markets which link the firm to customers. A number of aspects are contained within this approach: developing the markets within the firm, locating the production internationally, and moving the resource (Bradley 1991).

The creation of an internal market permits the firm to transform an intangible piece of research or understanding of the market into a valuable property specific to the firm. The firm can exploit its advantage in all available markets, and still keep the use of the information internal to the firm, in order to recoup its initial expenditures on research and knowledge generation (Buckley 1982).

Internationalisation theory provides an economic rationale for the existence of multinational corporations. The sourcing decision depends on the costs and benefits to the firm. Firm-specific factors, industry-specific factors, region-specific factors and nation-specific factors need to be taken into consideration (Jain 1996). Internationalisation theory is based on the view of direct foreign investment as a mode of entry into a foreign market to exploit firm-specific assets and expertise (Hibbert 1989). One popular mode for implementing market expansion strategies is the international franchise system.

Current theory focuses on the decision and motives within the firm, but pays little attention to the potential of public policies and other external factors as they may affect internationalisation cost and benefit.

2.2.3 Transaction Cost Theory

Transaction cost theory is often mentioned in the general marketing literature (Anderson and Weitz 1986; Heide and John 1992; Kerri 1996), especially in entry strategy investigations (Gatignon and Anderson 1988; Houston and Johnson 2000; Klein, Frazier and Roth 1990; Erramilli and Rao 1993). The theory is applied to entry

mode decisions, and is especially effective in explaining vertical integration decisions.

The principal conclusion of transaction cost theory is that "markets will tend to be relatively more efficient than firms in handling transactions between a large number of buyers and sellers. Markets will be at a comparative disadvantage when transactions are subject to a high degree of uncertainty and they consist of long-term exchanges of complex and heterogeneous producers between a relatively small number of traders" (Buckley and Casson 1976).

A major assumption of the transaction cost approach is that the purpose of business is to reduce the costs of doing business over time. It regards firms, markets and mixed modes as alternative control mechanisms. The selection of one or another mode of marketing depends on efficiency properties (Bradley 1991). The most important attribute for assessing whether a transaction requires a special control mechanism, other than unassisted markets is the degree to which the parties to the exchange must invest in assets dedicated to the proposed exchange of products in the market (Williamson 1979).

Transaction cost approaches assume two entry modes: market contracting or low control mode, and integration or full control mode. The market contracting mode, is a given task to be contracted out to external agents, partners or suppliers. The integration mode, is internalised and performed by the company's own employees. The particular governance structure that is actually utilised in a given situation,

depends on the comparative transaction cost (Erramilli and Rao 1993). In choosing entry modes, firms make trade offs between control (benefit of integration) and cost of resource commitments (cost of integration) (Andson and Gatignion 1986). Transaction cost theory predicts that firms will integrate when asset specificity is high, because the higher costs of vertical integration are more than offset by the benefits flowing from such an arrangement. When specificity is low, firms will refrain from integration because the benefits of control fall short of the costs of attaining it (Erramilli and Rao 1993).

2.2.4 Relationship Marketing

Relationship marketing differs from the traditional marketing mix models as the emphasis is on maintaining long-term relationships to customers. Berry and Parasuraman (1991) state that relationship marketing is concerned with attracting, developing and retaining a customer relationship. Kotler (1991) indicates that "we now see a shift of paradigm emerging within marketing theory as focus in the future will be on long-term relationships instead of on short-term exchange transactions." Relationship marketing is part of the developing network paradigm, which recognises that global competition occurs increasingly between networks of firms (Thorelli 1986). These global dynamics have resulted in the somewhat paradoxical nature of relationship marketing. An effective competitor in the global economy is required to be a trusted cooperator (Morgan and Hunt 1994). For multinational companies, it is important to have such collaboration to compete in international business.

Relationship marketing requires distinguishing between the discrete transaction and relational exchange. The discrete transaction has a distinct beginning, short duration, and sharp ending of performance. The relational exchange can be traced back to previous agreements and has a long duration, reflecting an ongoing process (Dwyer, Schurr and Oh 1987). Through long-term relationships, a firm gets access to detailed and useful knowledge about the customer and because of this knowledge is able to develop a core group of satisfied committed customers (Holmlund and Kock 1996).

The relational exchanges in relationship marketing are categorised as a focal firm with supplier partnerships, lateral partnerships, internal partnerships and buyer partnerships (Morgan and Hunt 1994). The buyer partnership and lateral partnership are major relationships which need to be taken into consideration in international business. The relationship exchange of a firm and buyer partnerships is the long-term exchanges between firms and ultimate customers and their intermediate customers. The relationship between a firm and lateral partnerships includes strategic alliances between firms and their competitors, co-marketing alliances and global strategic alliances (Morgan and Hunt 1994).

Many contextual factors contribute to the success or failure of specific relationship marketing. Commitment and trust are "key" factors. The commitment to the relationship is defined as an enduring desire to maintain a valued relationship. Trust is defined as a willingness to rely on an exchange partner in whom one has confidence (Moorman, Zaltman and Deshpande 1992). Commitment and trust are critical because they encourage marketers to work at preserving relationship investment by

cooperating with exchange partners; to resist attractive short-term alternatives in favour of the expected long-term benefit of staying with existing partners; and to view potentially high-risk actions as being prudent because of the belief that their partners will not act opportunistically (Morgan and Hunt 1994). Relationship dimensions include social bonds, legal bonds, economic bonds, power and co-operation.

Chinese relationship marketing - Guanxi is the key to successful business in China. Understanding how to establish a relationship between Australian and Chinese companies, and developing and maintaining this relationship, is important to achieving increased Australia-China trade.

2.3 International Market Entry Strategies

The international market entry strategies are the most significant international marketing decisions for firms. Market entry strategies include the decisions of how to enter, what time, how much to invest and how to exploit opportunities (Phillips, Doole and Lowe 1994). Green, Barclay and Ryans (1995) suggest entry strategy studies focus on multiple strategy components. Entry mode, timing of entry, investment at entry and marketing adaptation are the key components of international market entry strategy.

2.3.1 Entry Mode

Generally speaking, the literature on international market entry modes may be characterised by two opposing perspectives: an internationalisation (gradual

involvement) perspective, and a contingency (strategy/selective choice) perspective (Kwon and Konopa 1993). The internationalisation perspective is based on a firm's desire to minimise risk. International market involvement is inherently risky due to elements such as cultural differences, political instability and foreign currency restrictions. A firm is likely to enter a particular foreign market initially by a low source commitment entry mode (exporting) to minimise the risk of foreign market involvement. When a firm acquires knowledge and experience about that foreign market, it tends to shift to a high resource commitment entry mode (wholly investment) with an expectation of a higher rate of return (Bilkey 1978; Bukley and Mathew 1978; Jull and Walters 1987). The contingency perspective suggests that a company may choose any type of entry mode based on some key variables. This perspective considers that entry mode decisions in the international market are likely to be more selective and strategic (Kwon and Konopa 1993; Anderson and Gatignon 1986).

More recently, the contingency perspective has received increasing attention. Dunning (1988), using an eclectic model of international production, suggests that a company may choose foreign production as an initial entry mode. Rugman and Verbeke (1992), using the transaction cost model, focus on the choice of an optimal entry mode involving four critical variables: risk, return, cost and control. Minor, Wu and Choi (1991), in the conceptual model of contingencies, emphasise the joint considerations of the strategic objectives of a company and the contingency variables of environment attractiveness, industry/competition structure, product/market situations, and the organisational strength of companies.

International entry modes can be categorised as: export entry modes (indirect and direct exporting), contractual entry modes (licensing, franchising, technical agreement and other types of contractual agreement), and investment entry modes (Terpstra and Sarathy 1994; Boyd and Walker 1990).

Some literature concentrates on each entry mode. Osland and Cavusgil (1996) studied *international joint venture* and its performance. Their study investigates the relationship between certain variables and performance. In an empirical study on the integrative model of US-China joint ventures, five major elements are synthesised: government, organisational structure, interpartner strategy, industrial structure, and performance.

Devlin and Bleackley (1988) consider a new breed of alliance distinguished from an old style of cooperative agreement called *Strategic alliances.* These take place in the context of a company's long-term strategic plan and seek to improve or dramatically change a company's competitive position.

Preble (1992) focuses on *franchising.* The issue of this study is that as international opportunities open up at an unprecedented rate, entry modes vary from a subsidiary to joint ventures, and then to franchising. The large fast-food companies have been especially successful in transferring their systems into international markets.

Additionally, *Barter* and *countertrade* have been significant tools for market entry. Huszagh and Huszagh (1990) describe key forms of barter and countertrade, the

products typically traded, the markets served, and the objectives advanced by each firm. The utilities of these transactions are explored via international marketing strategies.

2.3.2 Timing of Entry

The subject of timing of market entry is an important component in the entry strategy decision. Pioneering new markets is expensive and risky, but also potentially very rewarding . If pioneers can get advantages in supplies, information, product quality, product line breadth, distribution, and long-term market share (Robinson and Fornell 1985), firms may choose early entry. Otherwise, if a later entrant can leapfrog pioneers with superior technology, positioning, or brand names, firms could be better off entering late (Liebermand and Montgomery 1988).

In the literature, researchers found that the order of market entry has a significant effect on market share (Bond and Lean 1977; Spital 1983; Urban et al 1986; Robinson and Fornell 1985; Lambkin 1988; Robison 1988; Parry and Bass 1990; Szymanski, Troy and Bharadwaj 1995; Pan, Li and Tse 1999). Generally speaking, pioneers have higher market share than later entrants. First entrants often become market leaders. Golder and Tellis (1993) examine the success of pioneers across fifty product markets. They find 11% of identified pioneers are market leaders, and the pioneers have a market share of 10%. Robinson (1988) studies the industrial goods business and found first movers have a market share of 29%, versus 21% for early followers and 15% for late entrants. First-movers have higher quality, better service, and more differentiated products than later entrants (Miller, Gartner and Wilson 1989).

Several studies have shown that pioneering brands and products are preferred to later entrants. Peterson (1982) suggests that the first entrant will find less resistance among potential customers because a first entrant may be able to 'skim off' early adopters, while later entrants are left with only potential customers less predisposed to purchasing new brands. The pioneer can define a product category as a whole and thus become the prototype against which later entrants are judged (Alpert 1987; Howard 1989). Because consumption is a learning experience, follow-on brands may be compared with the pioneer brand to their disadvantages. In addition, consumers are novel and attention-drawing for the pioneering brands, they are redundant and uninteresting for later entrants (Kardes and Kalyanaram 1992).

Srinivasan (1988) analyses order of entry effects on marketing and R&D expenses, product quality, return on investment and market share. He finds early followers have lower marketing and R&D expenses than first-movers. Early followers in the initial phase of a product-market life cycle are more profitable than first movers because of higher market share and lower marketing and R&D expenses.

However, Carpenter and Nakamoto (1990) provide a game-theoretic model showing that if a first mover does not have an asymmetric competitive advantage, later entrants may effectively challenge the dominant brand with heavy advertising and a high price. Moreover, Urban et al. (1986) noted that although entry order is a determinant of market share, followers have strategic options in the form of product positioning and

heavy promotion that are even stronger determinants of market share. Olleros (1986) examining product markets within entire industries, found that later entrants do better. Additionally, some researchers suggest that order of entry effects should be modelled on market strategic factors and market place variables (Szymanski, Troy and Bharadwaj 1995). Other researchers propose that studies need to go beyond timing to explain performance (Golder and Tellis 1993). Spital (1983) found using examples in the semiconductor industry, that the first entrant had the largest market share. However, after examining additional information, he concludes "that it is more important to innovate the 'right part' than to innovate the first design." The quality and positioning of products are essential to success.

2.3.3 Investment at Entry

A firm's entry decisions with respect to magnitude and area of investment affect the success of firm entry by either creating or failing to get competitive position. McDougall (1987) suggested that scale of entry is one of the key decisions a firm must make when undertaking new ventures. The investment is in areas that potentially create competitive advantage that may vary by market (Green, Barclay and Ryans 1995).

MacMillan and Day (1987) examine many investment options: plant size, relative sales promotion, sales force advertising, price, quality and service quality. For most options they find that higher investments result in higher returns on investments and market shares. Chandler (1990) argues that industrial success is due to investments in management, scale and scope, distribution and marketing. He emphasises the

importance of magnitude and focus of early investment. Sharma and Kesner (1996) note entrants often need to have expenditure in advertising and R&D above the levels needed to develop competitive capabilities for product and process innovations.

2.3.4 Marketing Adaptation

The international marketing literature shows that marketing adaptation is necessary for international business expansion (Buatsi 1986; Douglas and Wind 1987; Fraser and Hite 1990; Grune 1989). In order to grasp international market opportunities in a new market, a firm needs to consider how to perform marketing activities effectively. The strategic management literature has suggested that firms change their overall strategies in coping with business environments in order to achieve better performance (Chang 1995). Additionally, marketing adaptation is necessary for international companies in most industries, to enhance their competitive positions. Marketing adaptation involves all aspects of the conventional marketing plan, including product, promotion, channel and price adaptation.

Product adaptation is frequently studied by researchers. Some studies find that it is an important determinant of foreign market sales, profits and growth. This could be explained by the fact that an adapted product can satisfy the foreign consumer's needs and preference better, and that a strong product allows a firm to transfer it more easily to the foreign markets, but some other studies find insignificant effects of product adaptation (Zou and Stan 1998). Product adaptation in market entry is noted by several writers (Bain 1956; Hofer and Schedel 1978; Schmalensee 1982; Karakeya and Stahl 1989; Naumanm and Lincoln 1991). A product's quality and standards are

not uniform from country to country. Product testing performed in one country may be of little or no value in another country. Consequently, product testing for many products must be done in foreign countries. In addition, product adaptation may be necessary to meet unique technical requirements (Naumann and Lincoln 1991).

In the literature, the effects of *promotion adaptation* on measures of foreign market performance appear mixed. A possible explanation for the mixed effects of promotion adaptation is that researchers measure the extent of promotion adaptation as opposed to the extent to which the adapted promotion meet foreign consumers' preferences.

The effects of *channel adaptation* in foreign market performance are also mixed. Channel relationship, generally expressed as distributor or dealer support, motivation, and involvement, emerges as a key determinant of export sales, profits and growth, which is consistent with Madsen's (1987) finding.

Price adaptation positively influences foreign market sales, profits and growth in some studies, but is insignificant in others. The effect of price competitiveness is mostly insignificant. However, a few studies report positive effects. The weak and uncertain findings on pricing are in contrast with the medium positive effect concluded upon by Chetty and Hamilton (1993). It is suggested that more research needs to be done on the effect of price related factors (Zou and Stan 1998).

2.4 Performance Studies

Some studies focus on entry strategy effects on performance (Green, Barclay and Ryans 1995; Lambkin 1988), and posit that the nature of the firm, product and the market affect performance. Other studies attribute performance to strategy (Cavusgil and Zou 1994; Pam and Howard 1990; Segev 1987). The choice and ability to implement the chosen strategy is influenced by market characteristics (Okoroafo and Russow 1993; Kwon and Konopa 1993; Cooper and Kleinschmidt 1985), by firm characteristics (Cavusgil and Zou 1994; Madsen 1989), and by product characteristics (Cavusgil, Zou, and Naidu 1993; Cook 1983).

In addition, the empirical literature suggests that the vast majority of the research effort has surveyed firms connected with marketing performance from highly industrialised countries, particularly the US, Canada and European countries. An implication of this is that it may be both dangerous and potentially misleading to infer generalisations from such findings to entry strategy performance contexts in other countries (Katsikeas, Piercy and Ioannidis 1995), especially those in a developing country such as China. Despite the increased frequency and strategic importance of foreign companies' entry into the Chinese market, little is known about the performance of these ventures, nor of the factors that affect the outcomes (Osland and Cavusgil 1996).

2.4.1 Measurement of Performance

The measurement of performance is an elusive and intriguing issue in the area of international marketing. Matthysens and Pauwels (1996) claim there is an absence of systematic research on the performance measures, while Cavusgil and Zou (1994) indicate a lack of uniform approach.

The multidimensionality of performance has been recognised by an earlier study that suggested that organisational performance or effectiveness is a "multifaceted phenomenon" (Snow and Hrebiniak 1980, p318). They note that the difficulty in understanding and measuring the concept lies in the fact that the perspective regarding effective performance depends on whose point of view is considered, the criteria employed and the time period covered.

Ford and Schellenberg (1982, p.50) argue performance as "the constituent's [s'] evaluation, using efficiency, effectiveness, or social relevant criteria as to how well the organisation is meeting the constituent's [s'] aspiration level". This constituency approach recognises the multidimensionality of performance and endorses multiple evaluations.

The most common quantitative measures of performance dimensions are economic in nature: sales (Bilkey 1985; Cooper and Kleinschmidt 1985; Madsan 1985; Sood and Adam 1984), profits (Bilkey 1985; Denis and Depelteau 1985; Cavusgil 1984; Reid 1986; Rosso and Ford 1982) and sales/export growth (Cooper and Kleinschmidt 1985;

Kirpalani and MacIntosh 1980; Masen 1989). Green, Barclay and Ryans (1995) suggest examining entry strategy effects on long-term performance in the market place. Cavusgil and Zou (1994) define performance as the extent to which a firm's objectives, both economic and strategic, include not only the economic objective on sales, profitability and sales growth, but also strategic objectives on market share, special market relationships and product advantages.

2.4.2 Competitive Position

The concept of competitive position has been used in the marketing literature (Jain 1993; Wilson, Gilligan and Pearson 1992; Green and Ryans 1990; Szymanski, Bharadwaj and Varadarajan 1993). The term competitive position indicates distinctive competence (according to Selzncick, 1957 what the organisation does particularly better than competitors). On the other hand, it is also superior position based on providing and delivering superior value to the customers. The competitive position reflects the degree of fulfilment of organisational objectives (performance outcomes) (Mavondo 1993), and can be defined as the strategic performance of a firm.

Competitive position is linked to organisational strategy and actions. Present position may be determined by previous managerial actions in investment and developing organisational competence. Day and Wensley (1988) indicate that strategic choices influence implementation, which implicitly is the positional advantage. Thus competitive position is the translation of strategy into actual actions in the marketplace. The competitive position should depend not only on market share but

also on capacity utilisation, profitability, and the degree of integration, distinctive product advantages and management strength.

There is no clear definition as to what factors determine competitive position and how it is to be measured (Mavondo 1993). Previous researchers (Day and Wensley 1988, p.1) indicate "little is known about how managers decide what advantages distinguish their business and how those were gained."

The actual dimensions of competitive position vary in the literature. Determining strategic competitive position is one of the most complex elements of business analysis and one of the least researched (Jain 1993). Market share is the single criterion to fall back on, but the experience of companies makes it clear that determining competitive position is a multifaceted problem. Hax and Majluf (1983) note that the position that business achieves in these factors (market share, sales force, marketing, distribution and managerial competence), compared to competitors is a measure of strength. Jain (1993) suggests that competitive position might include market share, special marketing relationships, technology and product advantages, and such factor changes in relative importance as market development changes.

2.4.3 Entry Strategy Performance Relationship

The studies on entry strategy have been conducted in a number of dimensions. Biggadike (1976) did the early work on new ventures. In his study, the relationship between industry structure and other factors (e.g. oligopoly structure, magnitude of investment, sources of advantage, positioning timing) and performance were

hypothesised, but not extensively tested. This research suggests that entry strategy relationships require more exploration.

The relationship between new business strategy and performance is examined by Sandberg (1986), Smith (1985), and Simon (1986). Smith (1985) empirically derives three marketing strategies and three classifications of environmental variables, and the research provides support for the need to examine the interrelationships between strategy and environment. Simon's (1986) research included aspects of entry strategy and marketing mix (product, distribution, advertising and price).

Green and Ryans (1990) were the first to look at an integrative entry strategy of a product into a market, and examine the component parts of implementing an entry strategy. Moreover, causal modelling was applied to examine the interrelationships among a number of antecedents to performance. Gatignon, Weitz and Bansal's (1990) study of product entry integrates several entry constructs to explain later performance. Their economic model shows two entry strategy components: competitive positioning (represented by product quality) and magnitude of investment in marketing (that is, time spent detailing a product). More recently, Green, Barday and Ryans's (1995) study of product entry supports the inclusion of three entry dimensions (timing of entry, magnitude of investment, area of competitive emphasis) and performance. The performance dimensions are more specific than previous studies. Their export strategy performance model is empirically tested, and found to explain substantial variance in long-term performance.

2.5 External Environment to the Firm

A number of studies have been conducted in international marketing and a variety of factors have been identified that affect strategy and performance. Environment factors can be considered such as the external environment and internal organisational characteristics, and these elements are constrained, quasi-deterministic, and multi-dimensional (Veliyath and Srinivasan 1995). Firms face superficial and national differences in international markets, primarily because of the strong differences between the environments of international marketing countries. The key to successful international marketing is adaptation to the environmental differences that exist from one market to another, and the international arena offers a rich opportunity to develop strategy options (Boyd and Walker 1990).

Researchers have been cited as identifying the environment as an important influence on marketing strategy and performance (Veliyath and Srinivasan 1995; Venkatraman and Perscott 1990; Porter 1980). Dess and Rasheed (1991) say that the relationship between organisations and their environments is a central theme in disciplines, such as strategic management, marketing and organisational theory. A further early view of the role of the external environment is put forward by Lawrance and Lorsch (1967). They consider that organisations must achieve a fit between the environment and strategy. Venkatraman and Perscott (1990) suggest the perspective of strategy-environment co-alignment to analyse the strategy and performance of export marketing. Therefore, environmental analysis has become even more critical as the environment has become more turbulent, and as the rate of environmental change has accelerated (Lim, Sharkey and Kim 1996).

2.5.1 Environment Studies

A significant amount of theoretical and empirical effort has been devoted to understanding the nature and effects of environmental uncertainty on organisations (Buchko 1994; Jauch and Kraft 1986; Milliken 1987). Milliken (1987) developed a general definition of environment uncertainty, calling it "an individual's perceived inability to predict an organisation's environment accurately" because of "a lack of information" or "an inability to discriminate between relevant and irrelevant data". He hypothesised that high levels of environmental uncertainty are related to strategies that increase diversification within an organisation to diminish its vulnerability to a set of environmental conditions. Venkatraman and Perscott (1990) focused on environment-strategy co-alignment, which states that the fit between strategy and its context (whether it is the external environment (Aderson and Zeihaml 1984; Hambrick 1988; Hofer 1975) or organisational characteristics (Chandler 1962; Gupta and Govindarajan 1984) has significant positive implications for firm performance. This perspective is concerned with the performance impacts of environment-strategy co-alignment.

Theoreticians have postulated environment-strategy relationships using phrases such as 'matched with,' 'contingent upon,' 'and 'congruent with,' or more simply, 'aligned', 'fit' and 'congruence', without necessarily providing precise guidelines. The general requirement of co-alignment and strategy is understood implicitly (Andrews 1980; Porter 1980; Mile and Snow 1978), rather than in explicit functional forms.

Previous research on environment-strategy co-alignment can be divided into two dominant approaches: the *reductionistic* perspective and the *holistic* perspective. The reductionistic perspective typically views environment and strategy in terms of one or few dimensions, with co-alignment conceptualised in terms of a set of their bivariate alignments. In other words, the dominant research practice has been to disaggregate environment and strategy into their constituent dimensions in order to examine the performance impact of pairwise interactions or alignments. In contrast, the holistic perspective retains the holistic nature of co-alignment between environment and strategy in examining its overall effectiveness on performance (Venkatraman and Perscott 1990).

A general lack of correspondence between conceptualisation of co-alignment and its empirical tests is a serious weakness in the research (Venkatraman 1987).

2.5.2 Foreign Market Environment

The literature has identified several environmental sectors: economic, political, cultural, technological, and competitive (Terpstra and Sarathy 1994; Okoroafo and Russow 1993; Cooper 2000; McArthur, Angeline and Nystrom 1991; Bradley 1991).

The *economic environment* of a country largely defines the marketing opportunity for an international business (Jain 1993). Economic growth, population, income, purchasing power and consumption in the foreign country determine market size. The international marketer must understand market size not only for the present market

but also for the potential market (Terpstra and Sarathy 1994). This helps to decide which market to enter and when to enter.

It is important for firms in the international market place to consider the impact of the *political environment*. In the past, government financial, trade and investment policy changes have had the most significant impact on marketing strategy options and market performance (Okorofo and Russow 1993).

The *cultural environment* has an important influence on consumer behaviour. Culture is best understood with regard to these elements: norms and behaviour patterns; ideas, and material culture. Each has a direct effect on the marketing of products and services internationally (Bradley 1991). Firms will have to cope with fragmented worldwide markets, and the numerous segments will differ significantly in preferences and consumption habits because of tremendous ethnic and cultural diversity (Achrol 1991).

There is an increasing interest in the marketing literature with culture as a variable. Attempts are largely made to understand and explain the pattern of cognitive views of cultural phenomena, to help discover why members of various cultures appear to respond to market place phenomena differently (Usunier 1993).

The *technological environment* is composed of the impact of science and technology on new products and opportunities' creation. New technology offers possibilities to purchase better raw materials, to improve product quality and service, and to gain

competitive advantage. Rapidly advancing technologies will continue to have an effect on marketing and operations. The buyer-seller relationship will intensify and become long-term collaborations (Johnston 1994). Consequently, marketing strategy must monitor the effects of technological change.

The *competitive environment* has generated much comment (Brown and McDonald 1994). Continuing global proliferation of technology and managerial know-how, the reorganisation of international economic boundaries, and the ongoing emergence of new players in world markets promise an even more turbulent and complex competitive environment (Achrokl 1991). In terms of entry strategy, the strategist must be concerned with the marketing strategy of local competitors. Local firms may have advantages such as absolute cost, product differentiation, and economies of scale over potential entrants. In different studies, competitive advantages in the international market are indicated by five factors: product quality (Porter 1985), marketing and management skill (Jain 1993), brand name recognition (De Chernatory and McDonald 1992), distribution channels (Andson and Coughlan 1987) and corporate size (Cooper and Kleinschmidt, 1985).

Additionally, in some of the literature, there are attempts to examine the relationships between environment, strategy and performance (Parnell, Wright and Tu 1996; McArthur, Angeline and Nystrom 1991; Prescott 1986). Research examining this threefold relationship has tried to answer the question of whether environments (1) are independently related to performance, (2) are moderators of the relationship between strategy and performance, or (3) are some combinations of the two.

2.5.3 Market Entry Barriers

Market entry barriers are critical factors that influence entry strategy decisions and the firm's performance. In the course of international expansion, the firm encounters new factors such as new government regulations, new legal and financial systems, new cultures, new languages, greater distances, new modes of transportation, and currency exchange rates and their vagaries (Czinkota 1996). Researchers generally focus on the entry barrier studies and try to answer the questions: Which entry barrier is most important in deterring firms from entering markets? What is the influence of market entry barriers on the market entry decision (Karakay and Stahl 1989)?

Shepherd (1979) states that barriers to entry decrease the likelihood, scope or speed with which potential competitors can come into the market. Nineteen different market entry barriers are identified in the literature (Karakaya and Stahl 1989). The five most common barriers for consumer goods in international markets are: (1) cultural barriers, (2) access to distribution channels, (3) government policy, (4) product adaptation and (5) political uncertainty (Karakaya 1993).

Some researchers study cultural barriers (for example, Miller 1996; Barkema, Bell and Pennings 1996; Topol and Sherman 1994). They found that cultural distance is a prominent factor in foreign entry strategy. The importance of cultural distance may be gauged by observing that companies tend to be more knowledgeable and have more information about foreign markets that are culturally near to them, than for more distant markets. Companies new to exporting, or contemplating the internationalisation process may be unfamiliar with the market. They will have

difficulty in the flow of information, knowledge, product and people. Therefore, cultural distance is an impediment and restricting force that predisposes the company to culturally closer markets (Goodnow and Hansz 1972).

Access to distribution channels is explained by Porter (1985), and Karakaya and Stahl (1989). First, or early market entrants, use intensive distribution strategies to limit access to distributors for potential later market entrants. Simon (1986) empirically examines distribution system barriers and suggests that distribution system barriers are the most important difficulty for entry into the Japanese market.

Government policy barriers involve government limits on the number of firms in the market by means of laws, regulations and policies, such as import quotas, import licensing requirements, marketing or advertising restrictions, and safety and health requirements. These barriers directly restrict foreign competition. Nauman and Lincoln (1991) suggest that selection of an entry strategy should be directly related to the level and nature of protectionism likely to be encountered.

Political uncertainty may exist depending on the country in question, the firm and the nature of its business. The firm may face currency fluctuations, breaking of contracts, customs delays or other problems in doing business. Furthermore, the firm may lose control, ownership of assets and marketing access as a result of political change.

Overall, entry barriers may differ in importance in different markets. They need more empirical research and examination (Karakaya and Stahl 1989).

2.5.4 Industry Characteristics

The entry strategy decisions vary considerably across industries. This is largely a result of the varying nature of industries (Porter 1980). Technology intensiveness and intensity of price competition in the industry must be considered as the relevant correlates of adaptation of market strategy (Jain 1993). Technology intensity has been considered a positive influence on export performance (Cavusgil and Zou 1994; Holzmuller and Kasper 1991; Holzmuller and Stottinger 1996). It seems that firms in more complex and technologically oriented industries have better performance, while more research is needed to confirm this issue (Zou and Stan 1998).

Some researchers (Kerin, Mahajan, and Varadarajan 1990, Poter 1980) consider that industry structure is a critical determinant in the domestic market context. In international marketing, analysis of the relationship between industry structure and marketing strategy must incorporate the significant variations in the market systems, government interventions and presence of foreign competitors across markets (Cavusgil and Zou 1994).

2.6 Internal Environment to the Firm

Internal environment are those characteristics within a firm that influence the firm's entry strategy decisions. Firm characteristics and product characteristics are identified as the internal forces on a firm's international marketing (Cavusgil and Zou 1994).

2.6.1 Firm Characteristics

A review of previous studies identified a wide range of variables associated with a firm's success in international marketing (Moini 1995; Bilkey 1978; Aaby and Slater 1989). Firm characteristics and constraints profoundly influence a company's choice of marketing strategy and the ability to execute a chosen strategy. Considered alongside internal organisational characteristics, these characteristics include firm skills of management, production and marketing, firm size, and international business experience.

Firm Skills. Firm management, production and marketing skills enable a firm to identify the idiosyncrasies in international markets, develop an appropriate marketing strategy and execute it effectively. Management's attitudes and perceptions have frequently been seen as important determinants of performance (Zou and Stan 1998). High management commitment allows a firm to aggressively go after international market opportunities and pursue effective marketing strategies (Cavusgil and Zou 1994). Some studies report that the production technology level has a positive effective on export performance, but some state a non-significant effect or even a negative effect (Zou and Stan 1998).

Production technology. The researchers (Sriram, Neelankavil and Moore 1989; Cavusgil and Nevil 1981) have examined the extent to which the level of technological superiority and R&D intensity of a product were related to the export intensity of a firm. Most researchers state that production technological strength is positively related to the propensity to export (Aaby and Slater 1989). Cooper and Kleinschmidt (1985) suggest that both a company's technological advantages and the level of R&D expenditure are associated with export growth. Similarly, McGuinness and Little (1981) reports that product advantages and R&D expenditure are associated with export growth. Moreover, Sriram, Neelankevil and Moore (1989) find a positive relationship between technology and perceived success and a negative relationship between technology and export intensity. In contrast, Reid (1986) concludes that there is little relationship between technology and performance, other than providing a motivation for early entry into international markets. He argues that mere possession of technology does not give the company a competitive advantage. On the other hand, some researchers (for example, Christensen et al. 1987) have revealed no relationship, stating the marketing ability of firms enables them to develop relationships in the international market and affects marketing strategy and performance.

Firm size. Researchers usually regard firm size as a critical variable in explaining performance (Cavusgil and Naor 1987; Lourter, Ouwerkerk and Bakker 1991). Reid (1982) finds that size has a significant effect on the decision to enter new international markets. He reported that larger firms are less constrained in devoting financial and human resources (as defined by sales, assets, number of employees, and managerial personnel) to exporting because of the greater availability of these

resources. By contrast, other studies found no relationship between firm size and its commitment to international business (Bonaccorsi 1992; Holzmuller and Kasper 1991; Czinkota and Johnson 1983). Still others found a negative relationship between firm size and export growth (Gripsrud 1990; Cooper and Kleinschmidt 1985).

To measure size, some researchers have used the number of employees (Bilkey and Tesar 1977), and other researchers have used sales volume (Czubkota and Johnson 1983). In light of the conflicting evidence, it seems that no definitive conclusion can be drawn from past research on the importance of firm size.

International business experience. This is a firm characteristic facilitating performance or success. Madsen (1989) reported that a firm's international business (exporting) experience has a positive effect on performance. Moreover, da Rocha, Christensen and Eduardo (1989) concluded that the greater the number of years of export experience, the more probable it is that the firm would be an aggressive exporter. However, other research evidence is inconsistent with these findings. Denis and Depelteau (1985) indicated that international business experience has more influence on export volume than on the propensity to export. Researchers (Czinkota and Urisic 1991) also found that no-growth firms had significantly more international business experience than did growth firms. Firms that have anticipated growth, particularly those with a lower export ratio, might have problems in increasing their exporting effort.

2.6.2 Product characteristics

Quality control and unique product attributes will impact on a successful performance (Christensen, Da Rocha and Gerther 1987). Firms offering products with unique features are more likely to export (Pavord and Bogart 1975). Cunningham and Spigel (1971) found that the most important factors contributing to the firm's efficient and successful performance are the design and quality of the product. Effective factors in initiating an export program also include possession of patents, and distribution efficiencies (Pavord and Bogart 1975). The literature (Buzzell 1968; Douglas and Wind 1987; Jain 1989) suggests a high degree of product adaptation when the firm is internationally competent; the product is unique, new, or culture specific; the industry is less technology intensive; or the market is competitive. In a competitive market, a high degree of product adaptation is also needed due to intense competitive pressure. Product adaptation can help gain a competitive superiority over rivals (Hill and Still 1984). Cavusgil and Zou (1994) reported that product uniqueness and cultural specificity of product increase the degree of product adaptation.

Competitive price levels have been found to be positively related to performance (Madsen 1989; Kirpalani and MacIntosh 1980), and the stage of export development (Moon and Lee 1990). Domingues and Segueira (1993) suggest that the importance of prices as a competitive tool for LDC exports diminishes as firms progress along the export development path. Nevertheless, Boarands and Halikias (1991) reveal that differential price advantage is not significant in discriminating between systematic and non-systematic exports.

Obviously, the diversity of findings lends some credibility to the view that analyzing internal firm characteristics may lead to a better understanding of those factors which influence long-term marketing performance. This implies that it may be difficult to suggest universally valid prescriptions for performance (Katsikeas, Piercy and Ioannidis 1995).

2.7 Chapter Summary

The following can be summarised from the review of relevant literature.

The relationships among international market entry strategy, performance, firm's external and internal environment are investigated in this chapter. First, international market entry strategy comprises entry modes, timing of entry, investment at entry, and marketing adaptation in the existing literature. Most studies focus on single entry strategy components. Research on multiple entry strategy modelling needs to be developed.

Second, the most common qualitative performance measures are sales and profitability. Measurement should consider entry strategy effects on long-term performance. A multidimensionlity of performance has been recognised that allows for an improvement in measurement approaches. The examination of performance needs both economic and strategic measurements.

Finally, external and internal environment, namely foreign market characteristics, industry characteristics, firm characteristics and product characteristics are identified as external and internal factors which impact upon market entry strategies.

These findings provide the basis for the development of a conceptual framework to explain the relationship between international entry strategies and performance. The conceptual model development is discussed in the next chapter.

CHAPTER 3 CONCEPTUAL FRAMEWORK

3.1 Introduction

This chapter discusses the development of the model and the hypotheses to be tested and analysed in the study. The conceptual framework is developed from the research objectives in Chapter 1, and the research questions discussed here. The first section in this chapter discusses the research questions, and this is followed by two sections discussing the development of the research model. Finally, the study hypotheses are formulated.

3.2 Research Questions

Based on the review of literature presented in Chapter 2, some conclusions can be drawn. First, entry strategy dimensions are important in explaining performance. Most researchers have focused on single strategy components (usually on entry order or entry mode). For example, the entry order has been significantly linked with a firm's market share by Szymanski, Troy and Bharadwaj (1995). However, many other entry strategy components also influence performance. The link between multiple entry strategy components and long-term performance needs further investigation.

Second, there are few studies on the entry strategy and performance *context*, which include internal factors (firm characteristics and product characteristics), external

factors (market environment and industry characteristics), entry strategy decisions, competitive position and performance.

Third, the most widely used measures of performance are sales and profitability. A composite measure or a combination of several measurements (market share, profitability, sales volume, return on investment, return on sales,) may present a better picture of foreign market performance.

Fourth, most of the entry strategy studies focus on developed countries (Europe and North America). Relatively few studies have been conducted in the developing countries, especially in the People's Republic of China.

Based on the above conclusions, the following research questions are asked:

1. What choices of entry strategy have Australian companies made in entering into China compared with other foreign (US, Japan, Western Europe and others) companies?

2. How does entry strategy affect the market performance of Australian companies in China, and to what degree?

3. How do external factors (the Chinese market environment and industry characteristics) and internal factors (firm and product characteristics) affect the choice of entry strategy? To what extent do they affect this choice?

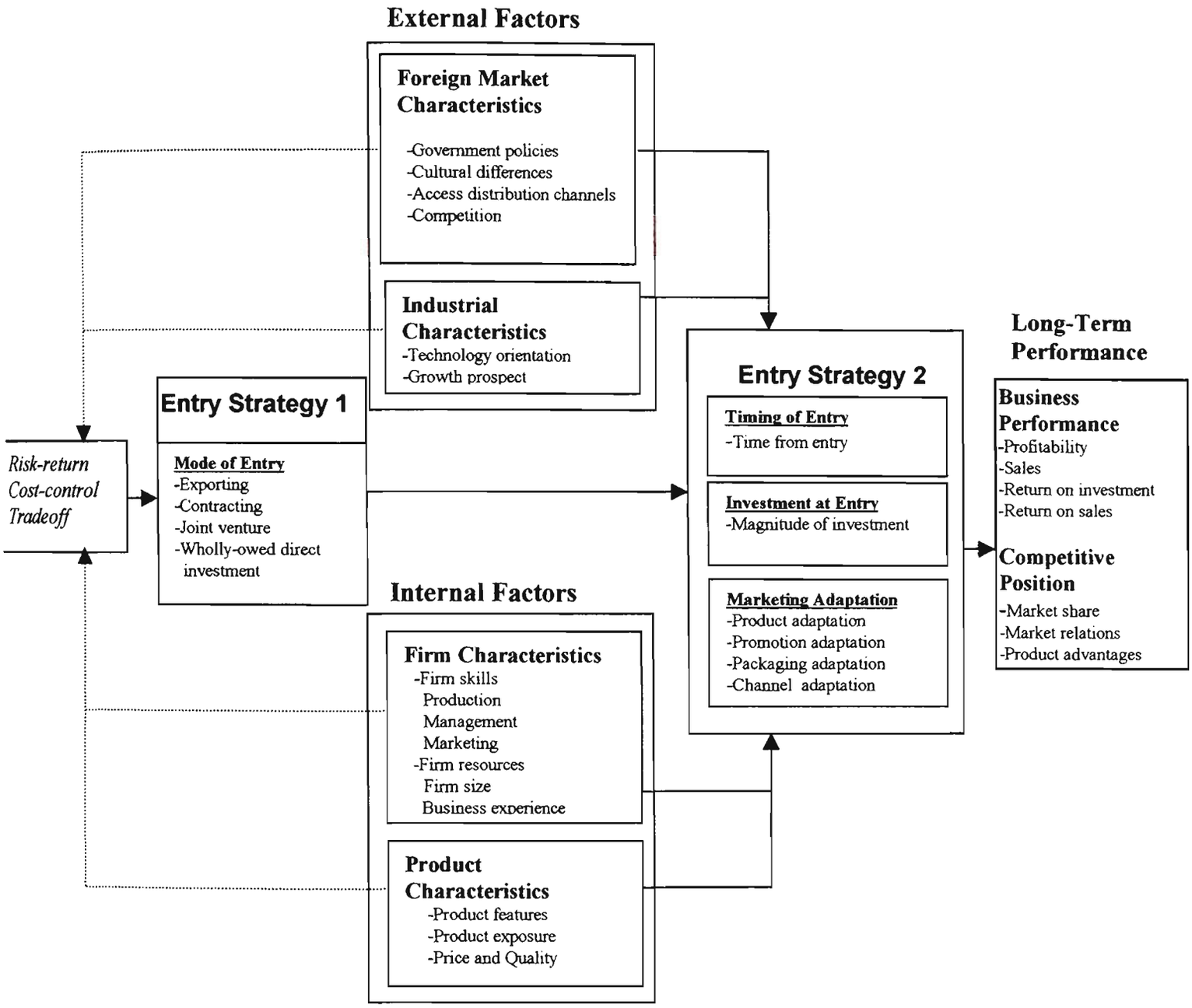
3.3 International Market Entry Strategy Conceptual Model (IMESM)

A conceptual International Market Entry Strategy Model (IMESM) (Figure 3.1) deals with the previously highlighted issues, which focus on entry strategy and the strategic context. Entry strategy is based on the concept developed by Green, Barclay and Ryans (1995). In their research entry strategy includes components of timing of entry and magnitude of investment. The IMESM is a complement of Green, Barclay and Ryans' (1995) concept and draws on a conceptualisation of the international market entry mode by Kwon and Konopa (1993). They suggest that an evaluation of the international market entry mode should compare the alternatives on the basis of a risk-return and cost-control trade-off effect (Goodnow 1985, Anderson and Gatignon 1986, Root 1987). Marketing adaptation is based on Cavusgil and Zou (1994), and Walters (1986). Here the consideration is whether marketing strategy that includes product, promotion, pricing and distribution, should be adapted to the conditions of the foreign market (Douglas and Craig 1989). The degree of marketing adaptation is a function of foreign market, industry, organisation and product characteristics (Walters 1986; Cavusgil and Zou 1994; Jain 1993).

External and internal factors are based on Goodnow (1985), Root (1987), and Cavusgil and Zou's (1994) views. Entry strategy in a foreign market is influenced by external factors: foreign market and industry characteristics; and internal factors: firm and product characteristics.

Long-term performance is measured by examining business performance and competitive position. Business performance includes economic elements of the level of profitability, sales, sales growth, return on investment and return on sales, as supported by the literature of Green, Barclay and Ryans (1995), Cavusgil and Zou (1994), Madsen (1989), Cooper and Kleinschmidt (1985). Competitive position refers to strategic elements of market share, distinctive product advantages, and special market relationships (Jain 1993).

Figure 3.1
International Market Entry Strategy Conceptual Model



The IMESM has three distinctive features. In the first place, it is based on a detailed schematic analysis that encompasses all the market entry strategy components, including mode of entry, timing of entry, investment at entry, and marketing adaptation on entry. It assumes two stages in the entry strategy decision. A firm will firstly choose to enter a foreign market via an entry mode, then, secondly, consider timing of entry, investment of entry and marketing adaptation on entry.

In the second place, it is presented in general terms, with an external foreign market environment and industry characteristics, and internal firm and product characteristics representing broad categories of variables. The external and internal factors influence a firm's market entry mode choice based on a risk-return, cost-control trade-off, and more directly influence the second stage of the entry decisions that consist of timing of entry, investment at entry and marketing adaptation on entry.

In the third place, the IMESM posits that entry strategy determines long-term performance (business performance and competitive position). In the existing literature, most research only considers business performance, whereas this model includes competitive position as well. The relationship between business performance and competitive position is "chicken and egg" as each affects the other, for example, as performance improves usually so does competitive position and vice versa. For some firms performance will precede competitive position and for other firms the reverse will apply. Both business performance and competitive position include multiple variables in order to obtain better measurement.

The model extends the insights of internationalisation theory. Internationalisation theory assumes that the firm establishes an international network linking production to markets (Bradley 1991). The particular theoretical perspective adopted here is the principle of strategy co-alignment (Aldrich 1979; Porter 1980; Venkaraman and Prescott 1990) and the perspective of entry strategy-performance (McDougall 1987; Lambkin 1988; Green, Barclay and Ryans 1995). The principal strategy-environment co-alignment states that there is a "fit" between strategy and its context - whether it is the external environment (Aderson and Zeihuml 1984; Hofer 1975) or organisational characteristics (Chandler 1962; Gupta and Govindarajan 1984) - both have significant positive implications for firm performance.

Further entry strategy-performance studies need to focus on new ventures (McDougall 1987) or new start-ups (Lambkin 1988) and product entries (Green and Ryans 1990). Recent entry strategy research has shifted from focusing on single entry strategy components to multiple entry strategy components (Green, Barclay and Ryans 1995). The entry strategy context has developed from the inclusion of product market characteristics in the integration of market and industry characteristics, firm and product characteristics, entry strategy, and long-term performance.

The international market entry strategy model (IMESM) in Figure 3.1 postulates that entry strategy in a foreign business venture is determined by internal factors which include firm and product characteristics and external factors which include foreign market and industry characteristics. The long-term performance (business performance and competitive position), in turn, is determined by entry strategy

decisions. The IMESM suggests that entry strategy decisions create long-term performance, and applies to all entrants into the market, as most firms try to establish long-term performance, which in turn, may or may not be successful.

In contrast to previous entry studies that focus on only one entry strategy component (Lambkin 1988; Lieberman and Montgomery 1988; Robinson, Kaynanaram and Urban 1994), the IMESM includes four core managerial decision components (mode of entry, timing of entry, magnitude of investment, and marketing adaptation) as entry strategy. The entry mode is considered a critical component in the entry strategy decision. Previous studies have focused on one major mode of entry, such as the joint venture (Luo 1995; Appell, Jenner and Hebert 1999; Osland and Cavusgil 1996), not on all major entry modes. The IMESM investigates the entry decisions and performance implications of each choice mode. Additionally, the IMESM suggests that entry strategy is influenced by both external factors and internal factors. It develops from previous entry studies, that focused on new product entry in a domestic market, to firm/product entry into a foreign market (new market). Therefore, the IMESM includes key components, such as entry strategies, business performance, competitive position, firm and product characteristics, and foreign market characteristics and as such, develops a complex and dynamic international market entry strategy contextual framework.

3.4 Key Components within the IMESM

Long-term Performance

Long-term performance includes business performance and competitive position. *Business performance* is the degree of market success attained by a firm/product in the export market. There is no uniform definition of performance in the literature. The most common performance dimensions are profitability and sales. Here the performance measures involve multiple dimensions, such as sales, profit, sales growth, return on sales, return on investment and accumulation of assets.

The measurement of *competitive position* has different dimensions in the literature. Researchers have different views in examining particular mixes of variables (Biggadike 1976), specific strategies (Sandberg 1986), general strategies (Smith 1985; McDougall 1987), and product position (Green, Barclay and Ryans 1995). The IMESM uses a general strategic marketing view to examine competitive position. The dimensions include market share, special market relations, product and technology advantages.

Market success and competitive position become intricately related along with changes over time. It is impossible to say that entry strategy causes performance first, as it also simultaneously affects competitive position and it is not clear in what way each influences the other over time.

Entry Strategy

There are four components within entry strategy: modes of entry, timing of entry, magnitude of investment at entry and marketing adaptation.

Modes of entry. Foreign market entry modes are the vehicle for linking a company's products to a foreign market. It involves all major entry modes, including exporting, wholly owned investment/subsidiary, joint venture, licensing and franchising. In international marketing, the entry mode decision is likely to be more selective and strategic (Anderson and Gatignon 1986; Goodnow 1985; Root 1987). The primary concern of this research is to evaluate each entry mode based on a risk-return, cost-control trade off.

Timing of entry. Timing of entry is the decision of when to enter the Chinese market. It is considered to be a continuous concept involving real time, such as the number of months or years entered into the market. It investigates the advantages and disadvantages accruing to pioneers and late entrants.

Magnitude of investment at entry. A firm's entry decision for a market/product with respect to magnitude and area of investment, influences firm entry by creating, or failing to create business performance and competitive position. Most of the previously discussed literature finds that higher investment results in higher returns on investment and market share. However, the proviso is that the investment is in areas that potentially create competitive position that may vary for different markets (Day

and Wensley 1988). The IMESM evaluates what effects the firm's investment at entry has on its long-term performance.

This model does not include interim investment after the time of entry. This offers a robust conceptualisation, because if the investments and actions are taken after entry and that drives performance, then no empirical relationship should be found between entry strategies and long-term performance.

Marketing adaptation. A firm's marketing decision, including product, promotion, price and distribution should be adapted to the particular situation of the foreign market. The degree of product and promotion adaptation is contingent on the characteristics of market, industry, firm and product (Cavusgil, Zou and Naidu 1993; Jain 1989). The degree of product and promotion adaptation is influenced by foreign market competitiveness, product and technology orientation of industry, cultural specificity of product, product uniqueness and a firm's international competence. Price competitiveness and support to distributors are influenced by foreign market competitiveness, technology orientation of industry, and the firm's commitment and nurturing of the product.

Foreign market characteristics

Foreign market characteristics are the external environment that shapes opportunities and poses threats to companies. Entry strategy must be formulated in such a way as to match a firm's strengths with market opportunities and neutralise the firm's strategic weaknesses, or in such a way as to overcome market threats (Aaker 1988).

Subsequently, entry strategy tends to be conditioned by foreign market characteristics (Cavusgil, Zou and Naidu 1993). Cultural difference in the foreign market, government regulation, number of competitors, access to distribution channels and exchange risk are the key characteristics which can affect market entry strategy.

Industry Characteristics

Industry technology orientation/intensity has been found to be a determinant on international market performance (Cavusgil and Zou 1994, Holzmuller and Kasper 1991, Holzmuller and Scottinger 1996, Ito and Pucik 1993). In addition, industry growth prospects, capacity utilisation, bargaining power with customers and suppliers must also be considered as relevant to both entry strategy and performance.

Firm characteristics

The firm's capabilities and constraints profoundly influence their choice of entry strategy and ability to execute the chosen strategies. Firm skills of production, management and marketing, firm size, international business experience, and resources available for international business development enable it to choose opportunities in the foreign market, and develop an appropriate entry strategy. In addition, an analysis of previous research findings (Cavusgil and Zou 1994) suggests that significant differences in perceptions of export marketing performance are likely to exist between different exporters based upon the characteristic of firm size. IMESM will examine whether firm skills, resources and experience promote a firm's early entry, and whether firms will use their resources to advantage at entry.

Resources enhance the opportunity to establish positional advantage. The relevant skills and assets in a firm may also affect its investment and marketing adaptations.

Product characteristics

Entry strategy into an international market is influenced by product characteristics (Green, Barclay and Ryans 1995), and product attributes can affect competitive position. The relevant product characteristics that influence market entry strategy include the product price, uniqueness of the product, cultural specificity, service requirements and brand recognition of the product.

3.5 Research Hypotheses

Based on the conceptual model in Figure 3.1, the main research hypotheses are the relationship between entry strategy, long-term performance (business performance and competitive position), foreign market characteristics, industrial characteristics, firm characteristics and product characteristics. The following research hypotheses are formulated as general statements of the alternative hypotheses (H1). These hypotheses are tested (using several different methods) in the following chapters in order to accept these hypotheses by rejecting their consequent null hypotheses. These hypotheses are divided into five groups.

Hypotheses 1 Relationships of entry strategy and long-term performance

H1.1: The higher the level of resource commitment of an entry mode, the higher the level of return in profits and sales.

H1.2: The higher the level of resource commitment for an entry mode, the higher the level of risk.

H1.3: The higher the level of resource commitment of an entry mode, the higher the level of cost.

H1.4: The higher the level of resource commitment for an entry mode, the higher the level of control of the market.

H1.5: The higher the level of resource commitment of an entry mode, the higher the level of management control.

H1.6: The earlier the entry into the market, the better the performance.

H1.7: The earlier the entry into the market, the higher the sales.

H1.8: The greater the investment at entry time, the higher the sales.

H1.9: The greater the investment at entry time, the higher the profit.

H1.10: The greater the investment at entry time, the greater the return on investment.

H1.11: The earlier the entry into the market, the higher the market share.

H1.12: The greater the investment at entry time, the higher the market share.

H1.13: The higher the degree of the marketing adaptation, the higher the level of business performance achieved.

H1.14: The higher the level of channel adaptation, the higher the level of business performance achieved.

H1.15: A higher level of marketing adaptation will lead to a stronger competitive position.

H1.16: A higher level of channel adaptation will lead to a stronger competitive position.

Hypotheses 2 Relationships of foreign market characteristics and entry strategy

H2.1: The lower the level of competition, the earlier will be market entry.

H2.2: The more a company has experienced managerial staff available in China, the earlier will be market entry.

H2.3: The lower the level of the market barriers in language difference, the more the firm will invest at entry time.

H2.4: The higher the level of tariff, the more the firm will invest at entry time.

H2.5: The more a company has experienced managerial staff available in China, the more the firm will invest at entry time.

H2.6: The lower the level of cultural difference, the higher the level of marketing adaptation (i.e. adaptation of product positioning, adaptation of the promotional approach, and adaptation of packaging).

H2.7: The higher the level of market competition, the higher the level of marketing adaptation.

H2.8: The higher the level of access to distribution channels, the higher the level of marketing adaptation.

H2.9: The lower the level of market barrier of exchange currency, the higher the level of marketing adaptation.

H2.10: The lower the level of cultural difference, the higher the level of channel adaptation.

H2.11: The higher the level of market competition, the higher the level of channel adaptation.

H2.12: The higher the level of access to distribution channels, the higher the level of channel adaptation.

H2.13: The higher the level of market barrier of exchange currency, the higher the level of channel adaptation.

Hypotheses 3 Relationships of Industry Structure and Entry Strategy

H3.1: The higher the level of advanced technology developed, the earlier will be market entry.

H3.2: The higher the level of industry growth, the higher the level of marketing adaptation.

H3.3: The higher the level of advanced technology developed, the higher the level of marketing adaptation.

H3.4: The higher the level of industry growth, the higher the level of channel adaptation.

H3.5: The higher the level of advanced technology developed, the higher the level of channel adaptation.

Hypotheses 4 Relationships of firm characteristics and entry strategy

H4.1: The longer the years of international business experience, the earlier will be market entry.

H4.2: The greater the number of employees, the greater the likelihood of a firm taking up an investment at entry time.

H4.3: The higher the production skills of the firm, the higher the level of marketing adaptation.

H4.4: The higher the marketing skills of the firm, the higher the level of marketing adaptation.

H4.5: The more the time commitment of the business, the higher the level of marketing adaptation.

H4.6: The greater the firm resources (employee numbers, business experience and operating countries), the higher the level of marketing adaptation.

H4.7: The higher the production skills of the firm, the higher the level of channel adaptation.

H4.8: The higher the marketing skills of the firm, the higher the level of channel adaptation.

H4.9: The more the time commitment of the business, the higher the level of channel adaptation.

H4.10: The greater the firm resources (employee numbers, business experience and operating countries), the higher the level of channel adaptation.

Hypotheses 5 Relationships of product characteristics and entry strategy.

H5.1: Product characteristics will affect the timing of entry. For instance, increased product exposure in the market will lead to an earlier entry.

H5.2: Product characteristics will affect the investment at entry. For instance, increased cultural specificity will lead to a greater investment at entry.

H5.3: The higher the degree of product uniqueness, the higher the level of marketing adaptation.

H5.4: The higher the degree of product exposure in the Chinese market, the higher the level of marketing adaptation.

3.6 Chapter Summary

In this chapter, research questions are developed from the findings from the review of the literature. Based on the research objectives, research questions and the literature review, an international market entry strategy conceptual model is developed, which has three major parts: (1) internal and external factors (foreign market characteristics, industry characteristics, firm characteristics, and product characteristics), (2) entry strategy (entry mode, timing of entry, investment at entry and marketing adaptation), (3) long-term performance (business performance and competitive position). In the IMESM, specific relationships between the constructs are suggested. Finally, research hypotheses are formulated based on the suggested relationships in the model. The hypotheses are divided into five groups to test specific relationships in the IMESM.

CHAPTER 4 RESEARCH METHODOLOGY

4.1 Introduction

This Chapter discusses the research methodology used in collecting data to test the hypotheses and proposed research model of the study. The chapter begins with an outline of the research design adopted, and a discussion of the exploratory (qualitative) and conclusive (quantitative) steps the research follows, with detailed discussion on the subjects, sampling and procedures used in data collection. Then, important issues relating to the development of the questionnaire (the research instrument) are discussed, including questionnaire design, scaling, structure, translation and back translation and pretesting. The issues of ethics and confidentiality follow, and the chapter ends with a discussion of data coding and editing.

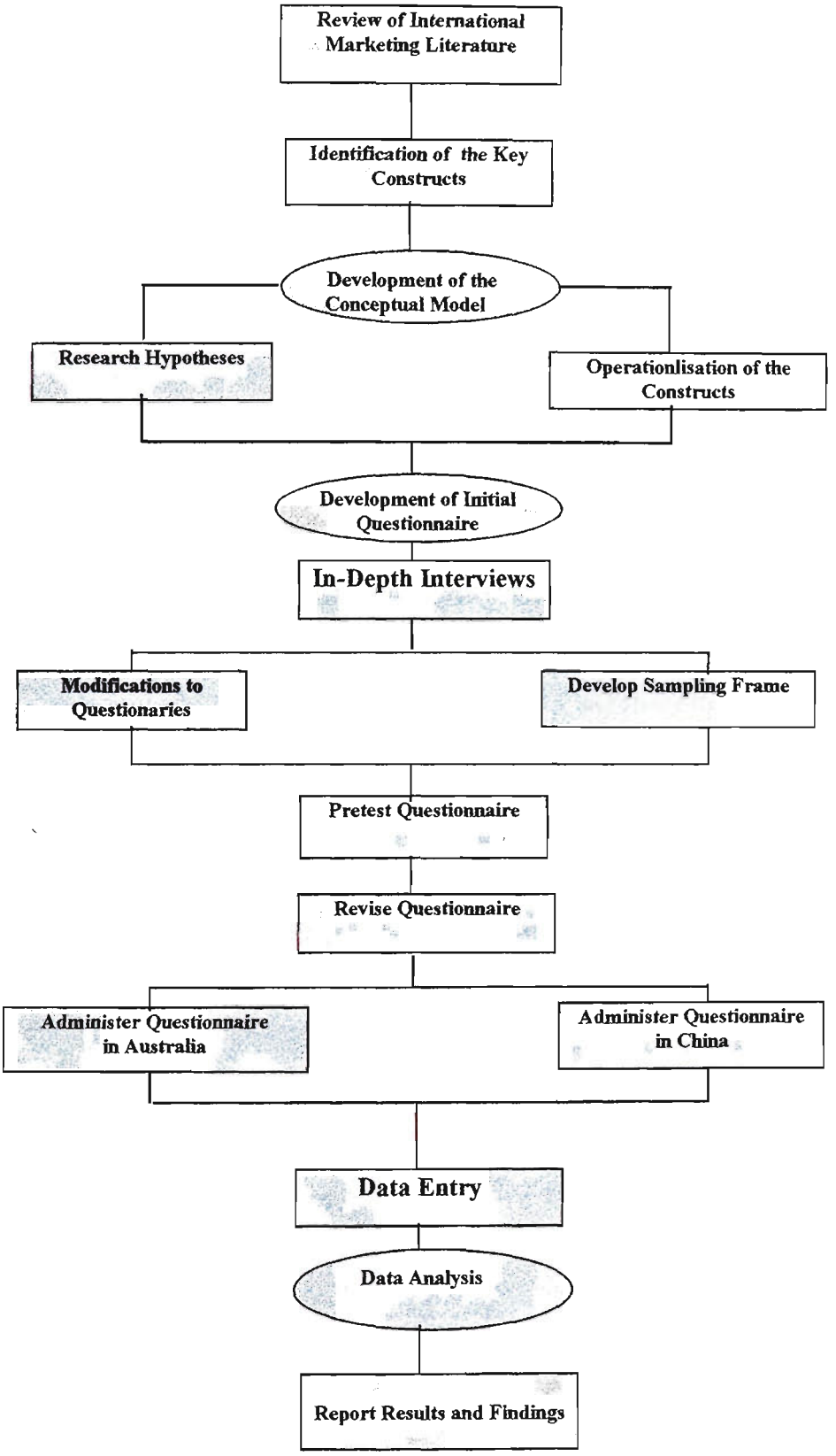
4.2 Research Design

In this study, exploratory research was the initial stage in the research design framework, followed by descriptive conclusive research (Malhotra 1996). Secondary data collection and qualitative research were conducted in the exploratory stage of the research process to provide greater insights into, and a better understanding of, the phenomena being studied.

The application of existing foreign companies entry into a business venture are explored and new measures for constructs which have not been measured previously in the literature are developed. The basic method of survey technique was used to collect data for the purpose of testing the conceptual model, hypotheses and the relationship between variables outlined in Chapter 3. The objective of the research design is to substantiate the empirical link between entry strategy and performance in the context of international business ventures in China.

An outline of the process by which the research has been conducted is illustrated in Figure 4.1. The first stage of the research involves a review of the literature, to identify the key constructs in international market entry. These constructs formed the conceptual framework outlined and discussed in the previous chapter. The second stage involves the development of a questionnaire, in-depth preliminary interviews and modification to the original survey, followed by pre-testing of the survey and further modifications. In the third stage, the questionnaire is administered in both Australia and China, and in the fourth stage, the resultant data is analysed.

Figure 4.1
Research Design



4.3 Cross-Country Equivalence

Conducting international marketing research is much more complex than domestic marketing research (Douglas and Graig 1983). This research study includes analysis of data from companies, which are doing business with China, by both surveying in Australia and also in China. The companies surveyed are involved in a diversity of modes of operation, such as joint venture, contracting, and wholly-owed direct investment, that entail operations in a wide variety of different environmental contexts.

The importance of generating data that are comparable from one country to another suggests that the equivalence of various aspects of the data collection process needs close attention (Douglas and Graig 1983). A primary issue with cross nation research is the authenticity of observed similarities of differences (Mullen 1995). Non-equivalence can lead to the continued use of unreliable or incorrect measures and be a hindrance to the accumulation of research findings (Singh 1995).

Douglas and Graig (1983) find that in one country, a certain method of data collection (for example, mail questionnaires) may be known to have given a particular level of reliability, while in another country personal interviews rather than mail questionnaires may have an equivalent level of reliability. Levels of reliability associated with comparable research techniques thus differ and this suggests the desirability of using techniques with equivalent levels of reliability rather than techniques that are strictly comparable.

Dahringer and Muhlbacher (1991) categorised equivalence into four areas: construct equivalence, measure equivalence, sample equivalence and instrument administration equivalence. Cavusgil and Das (1997) identified four similar areas where the impact of methodology issues should be considered: basic research design, instrumentation and data, collection and data analysis. Singh (1995) classified equivalence issues in cross-nation research as those which need addressing before data collection - functional, conceptual and instrumental, and those after data collection.

This research was concerned with: (1) Factional equivalence, the given concepts serve the same function; (2) Conceptual equivalence, same concepts are expressed similarly; and (3) Category equivalence, the same classical scheme of objects can be used across countries. These were taken into consideration in the development of the conceptual model. Measurement equivalence, sampling equivalence and instrument equivalence will be discussed where relevant in a later section of this Chapter.

4.4 The Sample

A common method used to select potential respondents from a sampling frame is a probability sample, in which each member of the population has a known chance of being drawn into the sample (Dahringer and Muhlbacher 1991). Samiee and Jeong (1994) suggest that researchers should pay close attention to the sampling frame in the countries being studied, and maintenance of sampling equivalence in terms of subject and sample selection has also been considered as significant (Douglas and Graig 1983; Singh 1995).

The selection of the sampling frame is where "frame error" can occur, where "the researcher fails in including all the elements of the population or universe under study" (Cavusgil and Das 1997 p.97). In designing a sampling plan, the most practical method as proposed by the literature would be probability sampling to incorporate some degree of randomness while maintaining some order of sampling equivalence.

Sampling in Australia

The Australian companies doing business with China were the target population of the research. According to the research objective, the companies were to be selected on the criterion of :

-Firms having had business links with China for at least 3 years.

-Firms' main objective being to increase profits, sales and market share.

The sampling frame of companies is listed in: *Australian Exports, Kompass Australia* (1997), produced by Australia Trade. This book consists of 9000 export companies spread Australia-wide. It includes information on the company's name, products, names of the export manager, marketing manager and director, export countries and addresses of overseas branches. Of the 9000 companies, 505 companies met the above criteria. These companies formed a final sampling frame.

Sample in China

For many countries, the available information is limited. This limitation is particularly true in less developed countries (Keegan 1995), including China which is characterised by a lack of published sources of information (Davies et al, 1995). In

order to get information about foreign companies in China, it is important to form an appropriate sampling frame. The researcher went to libraries in Melbourne and contacted the Chinese embassy. They were of little help. The only useful information was the publication *Australian Commercial Interests in China*, produced by the Austrade Beijing office, which was a list of addresses, phone numbers and contact names of Australian companies operating in China. This list numbered 241 in total (116 Beijing, 54 Shanghai, 41 Guangzhou, 30 other cities). Of the 241 companies, 182 met the criterion of firms having business links with China for at least 3 years and the firms' main objective being to increase profits, sales and market share. Therefore, **182** companies formed an Australian companies' sample. For other foreign companies, the researcher decided to get more information in China. However, such information could not be found publicly in China as it is collected by a government department which is published as a book, and produced by the government, for distribution within the government. This book titled *Foreign Companies Business in China* was obtained, edited by the Ministry of Foreign Trade and Economic Cooperation, for 1997. In this publication, 2000 foreign companies are listed, including the company address, contact names, telephone number and owner's country. The book covers Australian, US, Japanese, European and other Asian companies (including Hong Kong and Taiwan). Of these 2000 companies, 32 are Australian companies, 662 are Hong Kong's companies, and 456 are Taiwanese companies, and therefore 1150 were removed from the sample. Of the remaining 850 companies, **280** met the criterion of firms having business links with China for at least 3 years and the firms' main objective being to increase profits, sales and market share, and these companies form the foreign company's sample.

4.5 Exploratory Research

Exploratory research was a preliminary stage in the research process. Secondary data was analysed through a review of existing academic articles in the literature, periodicals, magazines, newspapers, books, government reports, and business databases. This was used in Chapter 3 to identify the key constructs, generating hypotheses to be investigated in the thesis, and has already been covered previously.

The next step, quantitative research was conducted to clarify these constructs and determine if there were other important variables which had not been covered in the conceptual framework. In depth interview has been quite commonly used in the exploratory stages of academic research (Morgan and Hunt 1994). The in depth interview questionnaire was used only as a guide for the interviewer. The questionnaires included three sections: introduction, general information and key research questions.

The introduction included an explanation of the purpose of the survey; the fact that research data would be treated as confidential and that the interviewee's information would not be identified in the thesis or any future publications; along with a conservative estimate of how long the interview would take.

The general information section consisted of questions related to information about the company, its experience in the international market, its products, and its size.

Key research questions were focused upon entry strategy: in particular, time of entry, mode of entry, amount of investment and marketing adaptation; business with China including market potential, infrastructure, entry barriers, initial market contact, and major competitors; and market performance which included sales volume, profit, market share and return on investment.

The interviews were conducted with managers of the Australian companies located in Melbourne, as well as with Australian and Chinese academics who have expertise in the international marketing area. Each interview was held at the respondent's office premises at a time which was suitable to the respondent. The interview generally lasted approximately one hour. The objective of these interviews was to define some preliminary issues so that the variables which needed further investigation, and for which measures are evident in the literature, could be discussed, and if required, expanded.

The results of the in-depth interviews verified the selection of variables identified in the literature. No supplementary important constructs were identified through the in-depth interview, while a few less significant variables were added from suggestions made by the respondents as relevant to the research, including brand equity and product and process patents (see Appendix A: Questionnaire, Section 6.1).

4.6 Conclusive Research

A survey was conducted to collect data from respondents through a formal structured questionnaire process. Survey methods were found to be the most popular method

used in collecting data in international marketing studies, and in particular all quantitative empirical studies reviewed were conducted through the administration of a mail questionnaire (Know and Konopa 1993; Zou, Andrus and Norvell 1997; Wood and Robertson 1997). A mail survey method was used in Australia and a personal interview methodology in China.

4.6.1 Mail Survey in Australia

Data Collection Method

A mail survey in Australia was appropriate, for it is a developed country with a good postal system relatively low cost, and high literacy levels. The researcher acknowledges the problem of low response rates as a possibility in such a mail survey. However, taking into account all factors, including obtaining sensitive information, anonymity of the respondents, respondents located Australia-wide, and cost, the mail survey was the most suitable means of applying the instrument.

Even though survey research is a powerful academic method for gathering accurate and useful information, it is still possible to produce four types of error: coverage, sampling, measurement and non response errors (De Vaus 1995). Actions were taken to minimise these errors. Coverage error was minimised by developing an up to date and accurate sampling list, while sampling error was controlled by conducting a census of the population of eligible respondents (in Chapter 4.3). Moreover, measurement error can occur at any time during data collection (Salant and Dillman 1994). To guard against it, careful wording of questions and pre-testing of the survey was carried out. From the pre-testing, changes were made to increase the respondents'

ability to understand the questions asked. In order to minimize non-response error, mail was directed personally to a marketing manager, an export manager and a general director in each company as listed in the publication *Australian Exports, Kompass Australia* (1997).

The mail survey package comprised outgoing envelope, cover letter, questionnaire, and pre-paid envelope.

Outgoing envelope. An official Victoria University envelope was used. The university logo reassured respondents of the official nature of the study, and the A4 size envelope allowed for professional presentation of the contents to be retained. The envelope labels were printed with each respondent's name, title, and company address.

Cover letter Personalised cover letters were printed on Victoria University of Technology letterhead, and signed by the head of the department and the researcher. The cover letter introduced the research and the supervisor; outlined the aims of the research project; indicated to respondents the approximate time needed to complete the questionnaire; emphasized the confidentiality of the research; and offered a summary of the research results to the respondents.

Questionnaires The eleven-page questionnaire was bound in a coloured cover printed with the university letter head in a professional manner. The return address and researcher's name were included on the cover, in case respondents lost the reply

paid envelope. "All information will be strictly confidential" was also printed on the questionnaire cover. Further issues relating to the development of the questionnaire are discussed later in Section 4.6, Instrument.

Return envelope A reply paid return envelope was attached to the back of each questionnaire with an address, researcher's name and reply-paid number label on each envelope.

Subjects

The subjects were managers from Australian companies doing business with China. The research used the single or key informant method of gathering data from a manager. The key informant method relies on collecting data about a particular situation based on the responses of one particular situation given on the responses of one participant. The informants are not chosen randomly, because they have qualified knowledge about a particular problem. In such a situation, survey respondents acting in the role of key informants are providing information on the organisational unit of analysis based on their own personal opinions and attitudes (Phillips 1981). All relevant companies on the list were surveyed.

Much research in the international marketing literature has been focused on managers as respondents (Osland and Cavusgil 1996, Simon 1981, McGuinness, Campbell, and Leontiades 1991). The key informant method was appropriate in this case and required the respondent to have detailed knowledge on company international trading operations to complete the questionnaire.

Procedure

The questionnaire was sent at the beginning of October, 1997. A second mail out was made three weeks after the first mail out. At this time, the questionnaire package was sent to respondents who had not returned the first questionnaire. Two weeks after the second mailing, telephone contacts with non-respondents were made. The idea was to communicate personally to explain that their participation would be very important to the research, and to ask politely if they still had any concerns about the survey.

In the telephone contact, several situations occurred: eight people agreed that they were going to send back the questionnaire quickly. Six had yet to receive the questionnaire and were sent a new copy. Five people explained that they did not have business with China at that time, and two people said that they could not participate for specific reasons.

Finally, of a total of 505 companies, there were 155 (30.7%) respondents to the survey. Out of these, 25 companies declined participation on the grounds that their companies no longer conducted business with China. This indicated that limitation of *Australian Exports, Kompass Australia* was that it had not been updated in terms of whether the companies were still conducting business with China. Eighteen companies no longer existed and the questionnaires were returned to sender. Therefore, a total of 43 companies were not suitable for the purpose of the study, and they accounted for 27.7% of the total respondents leaving 112 responses. Consequently, this was generalised to the entire sampling frame, given that 27.7% of

the companies which were sent questionnaires were not suitable for the study, approximately 140 of the 505 listed companies were assumed not relevant. Hence the frame was calculated using the other 72.3% of potential respondents, numbering 365. The remaining 112 responses included 10 incomplete questionnaires, and **102** useable questionnaires, giving an effective response rate of 28% (102 useable questionnaires/ 365 potential respondents). These 102 respondents formed a wide ranging and highly representative sample of the 365 potential respondents.

4.6.2 Personal Interview in China

Data Collection Method

The method of collecting data in China was different to that of Australia. A Mail survey is not appropriate in China, because managers in China are hesitant about providing information through the mail, partly from a lack of exposure to questionnaires and partly from a fear of official investigation. Care in terms of ensuring instrument administration equivalence and comparability across countries, should be taken (Doglus and Graig 1983), and Malhotra (1996) suggests that different methods should be used in different countries. He found that researchers should use survey methods which are equivalent in terms of flexibility of data collection, sample control, response rate and potential for interviewer and respondent bias. If a mail survey was used in one country and in another country personal interviews were found to be equivalent in terms of these issues, then the mail survey should be used in the first country and personal interviews in the second.

The primary reason for using a personal interview in China was because of the suspicious nature of respondents in developing countries, who were often unwilling to participate in a study where they received no personal benefit. Huang (1996) found that managers in China did not have a favourable attitude to market research and were unwilling to reveal information on their companies which they felt was *highly* confidential. Moreover, he found that without a personal relationship with the respondents, or influences on respondents (e.g. a supervisor), it was almost impossible to receive any completed questionnaires. The personal interview is a good way to establish the necessary rapport. Therefore, a personal interview is the most appropriate method of administratering a questionnaire in China.

A personal interview also has advantages: higher completion rates, less item non-response, high participation rates, the opportunity for feed back, and probing length (Zikmund 1994). In the interview, the respondent and the interviewer meet face to face, the interviewer can administer the questionnaire, and explain and clarify difficult questions (Melhotra 1996). However, costs and time are extensive in order to conduct personal interviews around a large country.

Language also had to be considered. The letter and the questionnaires were printed in both English and Chinese, as most foreign companies in China employ Chinese staff working as marketing managers, general directors and chief representatives. Cavusgil and Das (1997) suggested that questionnaires in the local language encouraged a response. The questionnaire in Chinese was necessary to reach most respondents, even though some were English speaking managers, and some Chinese

managers had some comprehension of the English language. Of the total questionnaires collected from China, 98 % of them were completed in the Chinese edition.

The questionnaire package included a cover letter and a questionnaire, similar to the mail package, even though the interview was face to face. The questionnaire and cover letter were translated into Chinese and used the University letterhead, which provided a professional and official appearance. Copies of the Chinese letter and questionnaire can be found in Appendix A.

Cover letter This was written by the head of Department and the researcher, and recommended that the research project was representing the University. The Chinese have a great respect for authority and status. This letter conveyed the importance of the research to the University and the Chinese respondents in order to increase the credibility of the researcher.

Questionnaire The eleven-page questionnaire was printed on normal white paper and stapled. The front cover used the Victoria University logo. A translation of the university name and address was made to create a Chinese version of the University letterhead. More issues relating to development of the questionnaire are discussed in Section 4.6.4.

Subjects

Australian companies' managers in China who were involved in joint ventures, contracting, wholly-owned direct investment and branch offices were the subjects in the study. The other foreign companies' managers in China were also included in order to make a comparison. The sampling frame was derived from the population, listed in the publication: *Australian Commercial Interests in China* and *Foreign Companies Business in China.*

Procedure

The personal interviews were conducted in China from December 1997 to February 1998. Some difficulties were encountered which were similar to those of Huang (1998) and McGinness, Campbell, and Leontiades (1991). Firstly, respondents were unwilling to participate in the study. Secondly, respondents filled in the questionnaires incompletely. Additionally, there was a geographical spread of respondents, coupled with an inefficient transportation system.

A personal relations network is very helpful for successful surveying in China. As Chen (1994), and Young and Tung (1996) point out, Chinese cultural values are largely formed and created from interpersonal relationships. Chinese nations tend to rely heavily on personal relationships in business dealings, and this kind of special relation is a key success factor. In the beginning, the researcher conducted the interviews personally, while also searching for people who had relations with the relevant companies. People such as former classmates who were working in the Ministry of Foreign Trade and Economic Cooperation, and some old friends who

were working in foreign companies, hoping through them to contact more relevant people. These links enabled a much wider response and also fully completed surveys. Consequently, this process was used to sample most of the population of relevant companies.

Before each interview, the researcher made telephone contact with the manager, introducing herself personally and mentioning the relationships with any person found to have worked in the company or who had relations with the company. This contact introduced the aim of the survey, and arranged a suitable interview time. Interviews were held at the respondent's office. The researcher presented a personal card, and indicated the importance of respondent participation, and mentioned the research results would be provided later if the respondent wanted.

Given the wide geographic coverage of respondents and the relatively large data size, the researcher decided to enlarge the field worker team, after conducting personal interviews for two weeks. In that time, the researcher had conducted about 15 interviews and was familiar with the types of questions that respondents generally asked, as well as the appropriate methods to deal with personal interviews. The use of locals in field work in a foreign country has been found to be desirable. These local interviewers can create an appropriate atmosphere for the interview, and would be more aware of localised concerns (Malhotra et al 1996).

The appointment of local researchers to interview the companies was justifiable in terms of not only cost and time efficiency, but more importantly, they could act as a

conduit between the researcher and respondents. These field workers could also expand the relationship structure for personal contacts in China. The researcher contacted colleagues who were working in the People's University of China, the Beijing Academy of Social Science and Chinese Institute of Finance. Nine field workers from these institutes participated in the data collecting. Although they all worked or studied in Beijing, some of their family and friends worked in other cities. These relations and connections further widened respondent participation, while also increasing the rate of fully completed questionnaires.

Training field workers is critical to the quality of the data collected. The training applied ensured that all interviewers administered the questionnaires in the same manner, so that the data was uniformly collected (Malhotra 1996). The interviewers were trained in the program about the requirements of questionnaire administration and techniques of dealing with this specific interview. Furthermore, all interviewers were selected because they had previous experience in surveying, along with a set of useful personal contacts.

Supervision involved quality control and sampling control of the study. Quality control of field workers was made to see if the field procedures were being properly implemented. The researcher contacted each field worker at least once a week, and discussed any problems detected. Sampling control involved ensuring that the field workers were strictly following the sampling plan rather than selecting sampling based on convenience or accessibility. The Australian companies and other foreign companies listed in the publication: *Australian Commercial Interests in China* and

Foreign Companies Business in China, were allocated to each field worker according to company location and contacts. The field worker was requested by the researcher to attach a copy of the business card of the respondents to the questionnaires.

Of the 182 Australian companies, 54 no longer existed and 22 were not willing to be surveyed. In total **106** useful questionnaires were collected from the Australian companies. For the 280 other foreign companies, 96 no longer existed or were not available, and 55 companies refused to conduct the survey for various reasons. Finally, **129** other foreign companies were sampled in Beijing, Shanghai, Guangzhou, Tanjin, Yanta, Fuzhou and Hong Kong (another 12 incomplete questionnaires were also collected). Of these, 48 companies were based in the USA, 25 in Japan, 41 in Western Europe, 12 in South East Asia, and 3 from elsewhere.

The researcher also conducted some individual in-depth interviews during the survey period in China. This was done to probe individual attitudes and pinpoint specifics of the topic for the respondent. These questions were tailored to individual company situations, such as "how do you approach company business," and "what are the major problems of your company in China." The time of these interviews ranged between one hour to two and half hours. The interviews provided more information on the Chinese marketing environment and foreign company business ventures in China.

4.7 Instrument

4.7.1 Questionnaire Design

The questionnaire design was organised as a series of steps following Molhotra (1996), Kinnear and Taylor (1996), who suggested the steps in questionnaire design as follows: (1) specify the information needs; (2) specify the type of interview method; (3) decide on question content; (4) decide the question structure; (5) decide on question wording; (6) arrange the question sequence; (7) identify the form and layout; (8) reproduce the questionnaire; and (9) pre-testing to make a final draft (See next section 4.6.2).

Specify the Information

The first step of specifying the information was done through a review of the components of the problem, particularly reviewing the conceptual framework, research questions and hypotheses. Along the way, the target population was made clear, and the specific criteria of the companies defined.

Type of Interview

Questionnaire design hinges on the type of interviewing method to be used: mail interview, personal interview or telephone interview. The questionnaire was designed assuming that a mail interview method would be used, thus the questions had to be simple with detailed instructions provided to the respondent. Even though the questionnaire in China was personally administered, the concepts of equivalence were considered, and the questionnaires for both Australia and China were as similar as

possible (allowing for translation), in terms of structure as well as the actual questions.

Question Content

The content of the questions is influenced by the respondent's ability and willingness to respond (Kinnear and Taylor 1996). A respondent might be hesitant to provide some sensitive information such as specific figures about company profit, sales volume and assets. The questions relevant to these items used response categories rather than asking for specific figures.

Respondents can sometimes answer questions quickly and without thinking, resulting in measurement error, especially when the respondents are asked to recall specific events over a long time period (Melhotra 1996; Kinnear and Taylor 1996). In regard to this problem, ways to encourage the respondents to thoughtful answers were considered. As a result, a series of questions encouraging respondents to recall the particular event were asked and they were provided with cues to the event, to lead to the important focus of the question.

Question Structure

Three types of questions were used in the questionnaire: (1) closed-ended with ordered choices, (2) closed-ended with unordered choices, and (3) partially closed-ended. These types of questions were chosen because they are less demanding for the respondents, tend to be specific and are much easier to code and analyse (De Vaus 1995; Salant and Dillman 1994). Open-ended questions were not used, because they

can be very demanding for respondents, produce many different responses, and require extensive coding and analysis time. Most of the questions were closed-ended with ordered choices. The complete range of possible answers was provided and each choice represented a gradation of a single concept.

Question Wording

Question wording is fundamental. Designing questions which the respondents can easily and accurately answer will reduce non-response and measurement errors (De Vaus 1995). Considerable attention had to be given to developing clear, unambiguous and useful questions. Vaguely worded questions, implicit alternatives, biasing questions and double-barrelled questions were avoided. Moreover, questions did not have abbreviations and jargon, so that respondents did not misinterpret the questions. Careful attention was also given to the response choice, therefore bias from unbalanced response choices, unequal comparison and non-mutually exclusive answers were avoided.

Question Sequencing

The sequencing of questions can influence the nature of the respondents answers and can be a cause of errors in analysis (Kinnear and Taylor 1996).The questions have to be arranged in a logical order, starting with easily answered questions first, allowing a smooth passage from one section to the next. Grouping questions together that come from the same topic was also done to aid transition and flow.

Sequencing the questions can be divided into two approaches (Malhotra 1996; Sarankatos 1993), the funnel and invert funnel sequence. In the funnel, sequence questioning moves from general to specific, from simple to complex, from impersonal to personal. In the inverted-funnel approach questioning starts with specific questions and concludes with general questions. Kinnear and Taylor (1996) suggested that asking general questions preceded by specific questions may reduce the chance of sequence bias. The first section of the questionnaire was an introduction, in which general questions were asked to lead respondents into more specific issues in the next section.

Similar subjects were put together in one section, such as Section Two: Industry Characteristics; Section Three: Product Characteristics; Section Five: Entry Strategy and so on (see Appendix A). The questions were set out so that they related to each other logically, as far as possible, to make the respondents feel at ease and confident when filling out the questionnaire.

Form and Layout

The format, spacing and positioning of questions can have a significant effect on the results (Malhotra 1996). Following the suggestion of Salant and Dillman (1994), the questions in each part were numbered. Numbering of the questions also made the coding of responses easier.

The questionnaire itself was not numbered in the survey, since the respondent might assume that the number identified a particular respondent, and result in loss of

anonymity. They might refuse to participate under these conditions. The research indicated that loss of anonymity can attract a lower response rate (Malhotra 1996).

Questionnaire Production

Malhotra (1996), Salant and Dillman (1994), Kinnear and Taylor (1996) all suggested the questionnaire should have a professional appearance, particularly in the case of mail surveys which depend on their visual impact. The respondent's first reaction is often determined by the quality of the questionnaires appearance. The respondents may think the research project unimportant if the questionnaire has a shabby appearance. Therefore design appearance was an important goal in motivating people to respond.

The questionnaire was printed as a folded booklet, double side, printed on white paper and using a type-size of 10 to minimise the number of pages. The total number of pages was 11, including the front cover and general instructions. An attractive front cover makes for a good first impression, while also stimulating interest and conveys the idea that the researcher has worked hard to develop the questionnaire. The front cover design was both attractive and professional looking. It was printed in light yellow and included three items: the title, the name and address of the university with its symbol, the contact telephone and fax number.

For clarity and simplicity, the title of the questionnaire was made as informative as possible, without using academic jargon, which might not be understood by the

respondent. An informative title motivates respondents to open the questionnaire (Sarantakos 1993).

The questionnaire was well-designed to make it easy for respondents to go from one question to the next, without skipping or being confused as to what to do next. The following approaches were utilised to achieve this goal.

- Each question was arranged on a single page. Splitting a question across pages was avoided because it could mislead the respondent into thinking that the question ended at the end of a page.
- Blank spaces were used to separate sections and sub-sections. The use of space encouraged people to complete questions and avoided cluttering.
- Special instructions appeared before questions, rather than in a separate set of general instructions. Instructions were placed in the most useful locations, for the benefit of the respondents (Sudman and Blair 1998).
- A different type face, such as **boldface,** *italics*, and CAPITALS, was used for either important key words or to distinguish between instruction and questions.
- Vertical answer formats were established so that respondents firstly read the questions, and the answer choices lined up one below the other. Moreover it also made it easy for data entry by locating the answer.
- Numbers were used for response answer-categories in Likert scales. The idea of precoding with a number allowed the respondent simply to circle the right answer, and facilitated direct data entry processing.

- A multiple-column design was used when two or more questions with the same answer categories could be combined into one. This format looked attractive, was tidy, and conserved space.

4.7.2 Scaling

Scaling techniques give researchers a method to collapse answers from a whole series into one indicator on how respondents really think about an issue (Salant and Dillman 1994). The reasons for using scaling, as described by De Vas (1995), are that it helps to get at the complexity of the concept, assists in developing more valid measures, helps increase reliability and enables greater precision.

In this research, five-point Likert scales ranging from (1) not at all to (5) very high, were used for most of the questions, because scales can be used to combine people's responses to a number of questions into one variable.

The key theoretical constructs of the model, including market environmental characteristics, industry characteristics, firm characteristics, product characteristics, and entry strategy, use five-point Likert scaling. For example, market characteristic items were ranged (1) not important at all to (5) very important; industry items were measured (1) unattractive to (5) most attractive. The decision on the number of scale categories to use was a compromise between two conflicting considerations. On one hand, the more scale categories, the finer the discrimination among the stimuli under consideration. On the other hand, most respondents find it difficult to handle more than a few categories. The five-point bipolar scale was employed as suggested by Cox

(1980). Golden (1987) also favoured the use of the five-point scales, and found that for least square regression, five-point scale accounted for a higher percentage of explained variance compared to any of the ten-point scales.

Most items in the key constructs of the study were measured by the interval scale to enable appropriate statistical analysis. The application of many statistical analysis techniques require interval level data (Brockett and Golden 1992). However, some items use ordinal level scales. It is common to treat ordinal data as if it were interval level data and use interval level parametric statistical analysis. Previous studies by Dowing and Midgley (1991) and Morrison and Toy (1982) found no large errors when ordinal categorical data was used as interval data in statistical analysis, and this type of data can be appropriate in marketing strategy research (Cavusgil and Zou 1994; Din 1990; Simon 1986). Consequently, some items in the key constructs of the study were measured by ordinal or categorical level scales, and they were subsequently treated as interval level data in further statistical analysis.

4.7.3 Questionnaire Structure

The primary aim of the questionnaire was to collect data from respondents on their entry strategy decisions and performance based on their business ventures in China. A secondary aim was to collect data on the moderator variables, which could possibly influence a firm's entry strategy and performance, which included both external and internal factors. Therefore, the content of the questionnaire covered four main areas:

- Entry strategy decisions

- Performance
- External moderator factors: Chinese market environment and industry characteristics
- Internal factors: firm characteristic and product characteristic.

The questionnaire included explicit instructions on answering the questionnaire, and the scope of the study printed on the inside of the cover. The instructions offered as much information as possible and were written with simple word use in order to minimize confusion. The instructions emphasized, that respondents should answer all the questions, and that all information is confidential. In addition, a brief instruction was provided on specific questions to make them clearer.

The questionnaire was divided into eight sections. The sequencing of the sections was designed to create a flow of thought that the respondent could follow in answering the questions. The questionnaire was complicated in that it required respondents to provide first year and recent year performance information, so this part was put into the last sections. The questionnaire used the funnel approach (mentioned in 4.6.1). The questions about strategic decisions also needed the respondents to think carefully, and this part was sequenced after section 4, Business in China. Thus, respondents could follow the questions progressively into section 5, Entry Strategy.

Section 1 the Firm Demographics

Questions included firm characteristics such as firm size, business experiences, sales and type of industry. The objective of commencing with these general questions first was to establish respondent confidence (Kinnear and Taylor 1996).

Section 2 Industry Characteristics

Contained questions about the firm's position in an industry, industry structure, and their competitors. The section was designed to require respondents to provide information about a firm's industry characteristics, such as technology orientation, market growth prospect, and bargaining power with customers and suppliers.

Section 3 Product Characteristics

This section required the respondents to answer questions pertaining to their product in the Chinese market. The questions included the product type, product price, and product attributes and product demand in the market.

Section 4 Your Company's Business in China

This section was designed to lead the respondent into discussing the Chinese market environment factors, such as market characteristics, market barriers, initial market contact, demand and infrastructure of the market. Entry modes were included in this section to link entry decisions to the market environmental context.

Section 5 Entry Strategy

This section was designed to have respondents discuss their entry strategy decisions, including initial strategic objectives, investment and marketing adaptation strategy mix. The question of initial objectives required the respondent to indicate the importance of the strategic objective and to evaluate the firm's achievement of those objectives. These questions were complicated and included specific instructions.

Section 6 Competitive Position

This section included competitive advantages, competitive position and competitive strength. Respondents were required to compare their competitors and indicate the company's and the product's competitive situation in the Chinese market.

Section 7 Your Company's Marketing Performance

This section asked respondents to evaluate the firm's performance across a broad range, including success, profitability, sales, market share, return on investment, return on assets, and increase in employees. These items included both first year performance and most recent year's performance. This kind of information was sensitive for the firm, so it was placed in a later part of the questionnaire.

Section 8 Respondent Information

The final section requested individual information from respondents, and was left until the end of the questionnaire, as personal questions such as age or position can be embarrassing or threatening to respondents at the beginning of a survey (Malhotra 1996).

4.7.4 Questionnaire Translation and Backtranslation

In multinational marketing research, each country has to use questionnaires adapted for their local language. After an initial English questionnaire was developed, translation of the questionnaire into Chinese was conducted by a translator who was a native Chinese from mainland China whose second language was English. Translation of the questionnaire was important as it affected conceptual, instrument and measurement equivalence (Cavusgil and Das 1997, Mullen 1995).

Backtranslation of the questionnaire was important to ensure equivalence and to avoid word and phrase errors and was done by a bilingual professional English and Chinese translator. The backtranslation resulted in several minor linguistic changes being made to the Chinese edition. Then the questionnaire was evaluated by some Chinese doctoral students, friends of the researcher and university staff, after which a few further changes were made.

4.7.5 Pre-testing

Pre-testing is the final step in developing a questionnaire. Malhotra (1996), Kinnear and Taylor (1996) suggested that before the questionnaire was ready for application, all aspects of the questionnaire should be tested. Pre-testing should be conducted on similar respondents to those who would be included in the actual survey. Therefore, pre-testing in this research was conducted by sending the questionnaire to 10 managers in Australia and 10 managers in China. Four completed pre-testing questionnaires in Australia were returned. The questionnaires in China did not return

after three weeks. After several telephone conversations, two pre-testing questionnaires were returned. This provided further evidence that mail out questionnaires are not appropriate in China.

The aim of this pre-testing attempt was to find out whether all questions could be easily understood; whether the questions were interpreted in the same way by all respondents; whether the question/answer categories could be applied to each respondent; whether instructions were followed correctly by respondents; how long it took , and what comments and suggestions were made by respondents.

The result of the pre-testing showed that there were some minor changes required, despite the low response rate to the pre-testing. The respondents clearly understood most of the questions and filled out the questionnaires properly.

4.8 Ethics and Information Confidentiality

According to the requirements of Victoria University of Technology, all projects involving human subjects must have approval by the University Human Research Ethics Committee.

The questionnaire and attached letter were submitted to the ethics committee 50 days prior to administration to obtain ethics approval. The following steps are involved:

1. It was indicated in a cover letter, that the respondent's name and contact details had been obtained from a commercial database of Australian companies undertaking business with China.

2. Respondents were assured that all information was totally confidential. Only the researcher and her supervisors would be privy to the information.

3. It was also mentioned that the data sheet was separated from the cover letter on receipt. The database did not include reference to a respondent or a respondent's company.

Ethics approval was granted under the condition of resolving several issues. Firstly the contact name, telephone number and address of the researcher was printed on the cover letter. The committee address and telephone number was printed on the inside cover of the questionnaire, along with a statement that the respondents were encouraged to contact the committee if they had any queries or problems with this research. Secondly, the researcher is responsible for safe storage and retention of the data for five years. Thirdly, participation in the survey was entirely voluntary, and respondents are able to withdraw at any time.

Such conditions did not exist in China, although the cover letter also informed respondents that all information was strictly confidential, that the respondents' name and their companies could not be recognised in any consequent publication.

4.9 Data Coding and Editing

Data analysis was begun by preparing the data for further analysis. Coding is a basic step in assigning a number to each answer to a question (Malhotra 1996). Codes can be allocated either before the questionnaire is answered (pre-coding) or afterwards (post-coding) (De Vaus 1995). The Australian questionnaire was pre-coded with numbers representing the various items. The Chinese questionnaire was post-coded having only a box in each item for respondents to tick.

The reason for post coding the Chinese questionnaire was due to the researcher's previous experience and some other research evidence (Rodrigo 1998). Some Chinese think that the numbers 1 to 5 on a Likert scale represents five separate questions they have to answer. Additionally, some Chinese consider a large number is always better than a small one. From this evidence, questions with boxes and ticks would be more comprehensible for some Chinese. Afterwards, the questionnaire was post-coded using the same coding pattern as the Australian questionnaire, in order to maintain equivalence and comparability.

No response to some questions occurred on some questionnaires. Missing cases were coded separately as a zero and are not included in the measurement scale. Nine out of the 337 questionnaires had consistent missing values. Listwise exclusion was used here as recommended by De Vaus (1995), in that the number of cases with missing values can not be more than 15% of the sample. The sample number of missing cases was less than 15% in these instances.

Finally, summary statistics with frequencies and descriptives were computed for all the variables in the data set to check for outliers or data entry errors.

4.10 Chapter Summary

This chapter focuses on research methodology. Exploratory and conclusive data collection methods are described in detail. Pre-questionnaire administration issues are covered, such as the operationalisation of the constructs of the conceptual model for the purpose of formulating the questionnaire, questionnaire design, purification of the measures through pretesting and questionnaire design. Post-questionnaire administration issues in this chapter are data coding and editing. The next five chapters will cover the results of data analyses.

CHAPTER 5

AUSTRALIAN COMPANIES' BUSINESS IN CHINA: AN OVERVIEW AND COMPARISON WITH OTHER FOREIGN COMPANIES

5.1 Introduction

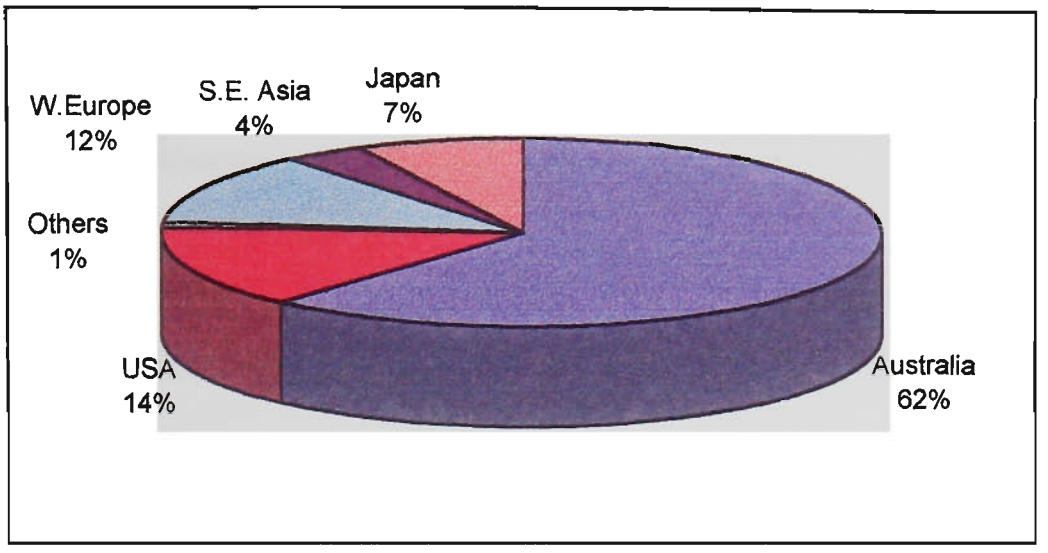
This chapter describes the data collected from both the Australian and the other foreign companies. The chapter begins with a description of the respondent profiles, followed by a description of timing of entry, entry mode, investment, products, market share and Chinese partners, focusing upon a comparison between Australian and other foreign companies. Additionally, an analysis of the relationship between variables based on the Australian sample is provided. Finally, further analysis of each type of entry mode chosen by the Australian companies is discussed.

5.2 Profiles of Respondents

5.2.1 The Firms in the Sample

The entire sample comprised 337 Australian and other foreign countries' companies, 208 from Australia (61.7%), 48 from the USA (14.2%), 25 from Japan (7.4%), 41 from Western European countries (12.2%), 12 from South Eastern Asia (3.6%), and 3 from others (1%), (refer to Figure 5.1).

Figure 5.1
The Countries of the Respondent Companies



5.2.2 Respondents Characteristics

The questionnaires were filled out mainly by CEOs, managing directors, and managers, while managers consisted of marketing managers, export managers, regional managers, and international business managers. From the Australian companies 23.6 % of the respondents were CEOs or managing directors, and 72.6% of the respondents were managers, and 6.7 % of the respondents were supervisors or team leaders. From other foreign companies most of the respondents were managers (refer toTable5.1).

Table 5.1
Characteristics of Respondents

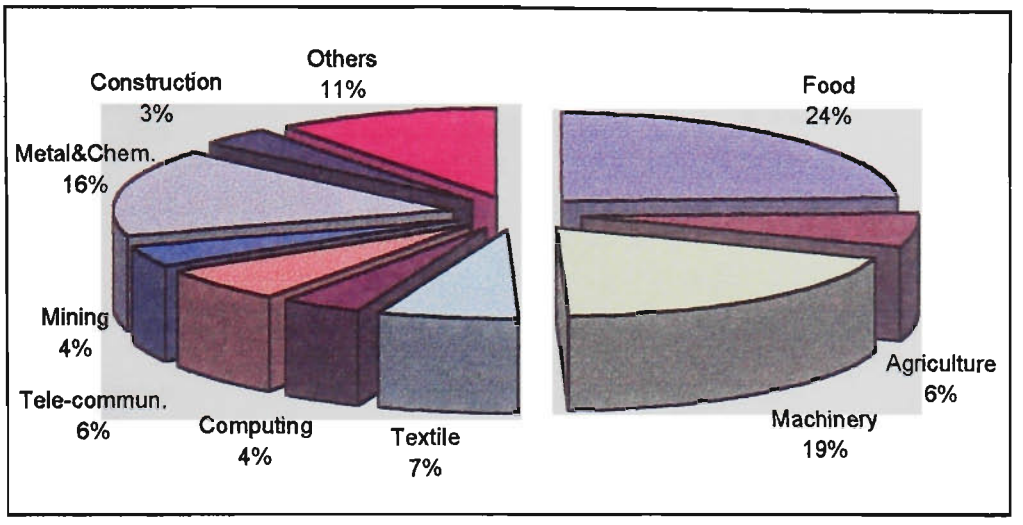
Characteristics	Categories	Australian Companies		Other Foreign Companies	
		Number	Percentage	Number	Percentage
Position	CEO/Managing director	49	23.6	13	10.1
	Managers	151	72.6	105	89.1
	Supervisor/Team leader	8	3.8	1	0.8
Age	21-30	33	15.9	25	19.4
	31-40	60	28.8	57	44.2
	41-50	76	36.5	38	29.4
	51-60	33	15.9	9	7.0
	above 61	6	2.9	0	0
Gender	Male	170	81.7	92	71.3
	Female	38	18.3	37	28.7

In terms of respondents' gender and age, the Australian sample contained more male managers and a higher proportion were older with 55.3% of the respondents over 40. The managers from other foreign countries were younger with 63.6% of these respondents less than 40, and more were female.

5.2.3 Industry Type

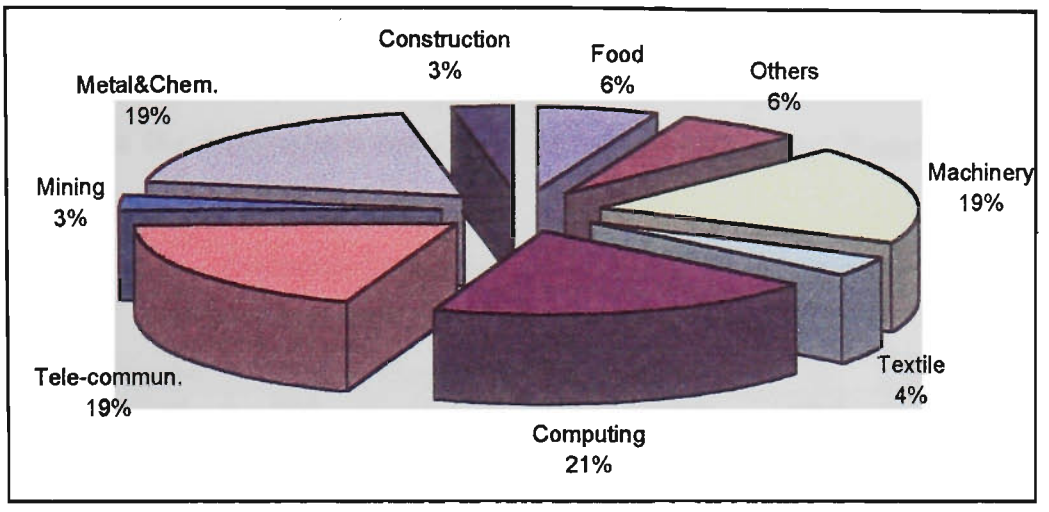
The Australian companies comprised of 24% in the food industry, 19% in the machinery industry, 16% in metal production and the chemical industries, 7% in textile and clothing, 6% in tele-communication, 6% in agriculture, 4% in computing, 4% in mining, 3% in construction and 11% in other industries (refer to Figure 5.2).

Figure 5.2
Industry Type of Australian Companies



The other foreign companies comprised 6% in the food industry, 19% in the machinery industry, 19% in metal production and the chemical industries, 4% in textile and clothing industries, 19% in tele-communication, 21% in computing, 3% in mining, 3% in the construction industry and 6% in other industries (refer to Figure 5.3).

Figure 5.3
Industry Background of Other Foreign Companies



The Australian food and agriculture industries comprise the largest percentage, followed by the machinery industry. This compares favourably with the overall categorization of Australian interests in China (EAAU 1997), and tends to confirm the statements and predictions of the EAAU, that the Australian food industry has increasing opportunities to do business in China, primarily as a result of the rising living standard in Chinses people and the increase in demand for Western processed foodstuffs. The other foreign companies were concentrated in the computing, tele-communication, machinery, metal and chemical industries.

With regard to the Australian companies' position in overall industry, 38.5% of the firms were market leaders, 3.8% were market followers, 19.7% were specialists serving a small market, and 38% were market fighters attempting to increase market share. In contrast, 54.3% of other foreign companies were market leaders, 7% were market followers, 2.3% were specialists serving a small market, and 36.4% were market fighters increasing market share. The Australian companies had an average of

more than 40 competitors, and other foreign companies stated that they had an average of 17 competitors.

Table 5.2
Market Share in the Australian and Other Foreign Companies' Domestic Market

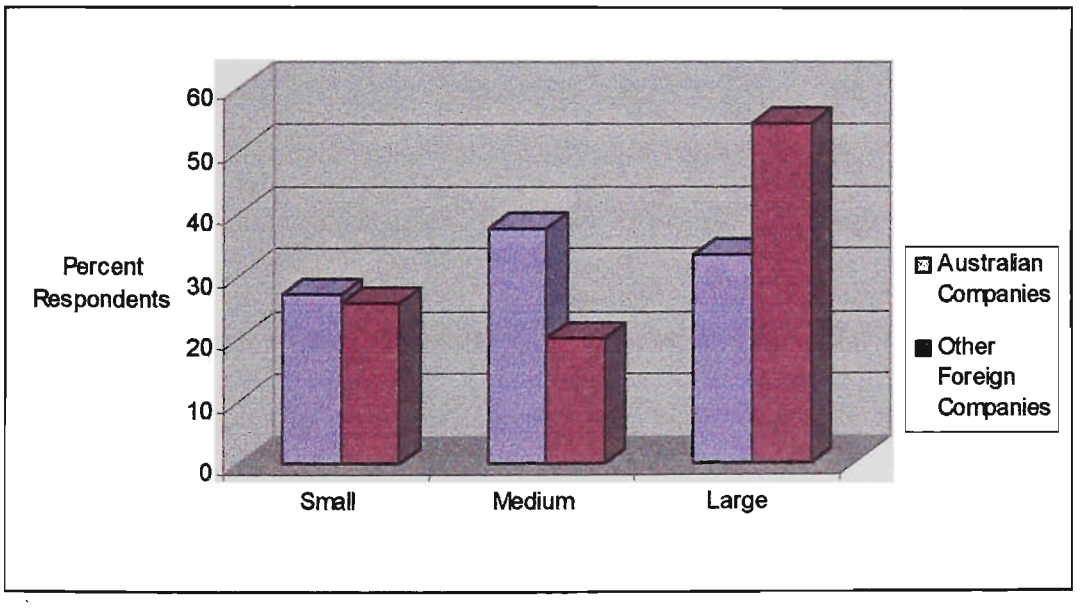
Market Share	Australian Companies				Other Foreign Companies			
	First year in China		1997		First year in China		1997	
	Number	%	Number	%	Number	%	Number	%
less than 10	110	52.9	78	37.5	63	48.8	47	36.4
11-20	32	15.4	47	22.6	16	12.4	17	13.2
21-30	24	11.5	28	13.5	17	13.2	19	14.7
more than 31	42	20.2	55	26.4	33	25.6	46	35.7

In terms of domestic market share, 52.9% of the Australian companies achieved less than 10% in their first year in China, 15.4% of the firms had between an 11% to 20% share, and 31.7% of the firms had more than 20% share; in 1997, 22.6% of the firms had between 11% to 20% share, and 39.9% of the firms had more than a 21% share (refer to Table 5.2). Similarly, the result indicates that 38.8% of other foreign companies had more than 21% market share in the first year in China, while in 1997, up to 50.4% of the firms had this much market share. This reveals that as the firms entered into the international market, they were also developing their businesses in their respective domestic markets.

5.2.4 Size of Companies

The size of companies was measured by their number of employees, and sales volume. For the Australian respondents, 26.9% of the firms had less than 40 employees, 37.5% of the firms had between 41 and 240 employees, and 33.2% of the firms had more than 241 employees. Other foreign companies comprised 25.6% of small firms with less than 40 employees, 20.1% of medium firms with between 41 to 240 employees and 54.3% of larger firms with more than 241 employees (refer to Figure 5.4).

Figure 5.4
Comparison of Employee Size of Australian Companies with Other Foreign Companies



Sales volume was defined as total sales, including domestic and international sales. Total sales were calculated for the first year in China, and also for the years of 1995, 1996 and 1997.

Table 5.3
Total Sales of the Companies

Total Sales A$	First Year In China		1995		1996		1997	
	Australia %	Others %	Australia %	Others %	Australia %	Others %	Australia %	Others %
0-500,000	22.6	12.4	13.9	8.5	12	5.4	11.5	6.2
500,001-5M	27.9	12.4	20.2	7.0	17.3	8.6	15.9	4.6
5,000,001-50M	27.9	24.0	37.1	17.8	38.5	15.5	38.5	16.3
over 50,000,001	21.6	51.2	28.8	66.7	32.2	70.5	34.1	72.9

Based on the sales at entry (first year in China) 22.6 % of the Australian respondents can be categorized as small companies which had total sales of less than A$ 500,000; 55.8% as medium companies, which had total sales of between A$ 500,001 and A$ 50 million; and 21.6 % as large companies, which had total sales of more than A$ 50 million. On the other hand, for the foreign companies, 12.4% were small companies, 36.4% medium companies, and 51.2% large companies. Compared with the Australian companies, other foreign companies had over 30% more classified as large companies.

Table 5.2 indicates that Australian companies increased sales after their first year of entry into China. Especially in recent years (from 1995 to 1997), the percentage of companies with large sales increased, and the percentage of companies with small sales had decreased. In the first year, only 21.6% of the firms had total sales over A$ 50 million. In 1997, large firms increased sales to 34.1%, medium firms increased sales to 54.4%, and small firms decreased sales to 11.5%. It was a similar finding with other foreign companies, the large companies went from 51.2% up to 72.9%, while medium and small companies went from 48.8% down to 27.1%.

5.2.5 Business Experience

As shown from Table 5.2, about 20% of the Australian companies had been in business for less than 10 years, 37.4% of the firms between 11 and 30 years, 20.2% of the firms between 31 and 50 years, and 21.7% of the firms more than 51 years, while 20.2% of the other foreign companies had operated their business for less than 10 years, 20.9% of them between 11 and 30 years, 17% of the firms between 31 and 50 years, and 41.9% of the firms for more than 51 years. This indicates greater business experience by the other foreign companies relative to that of the Australians.

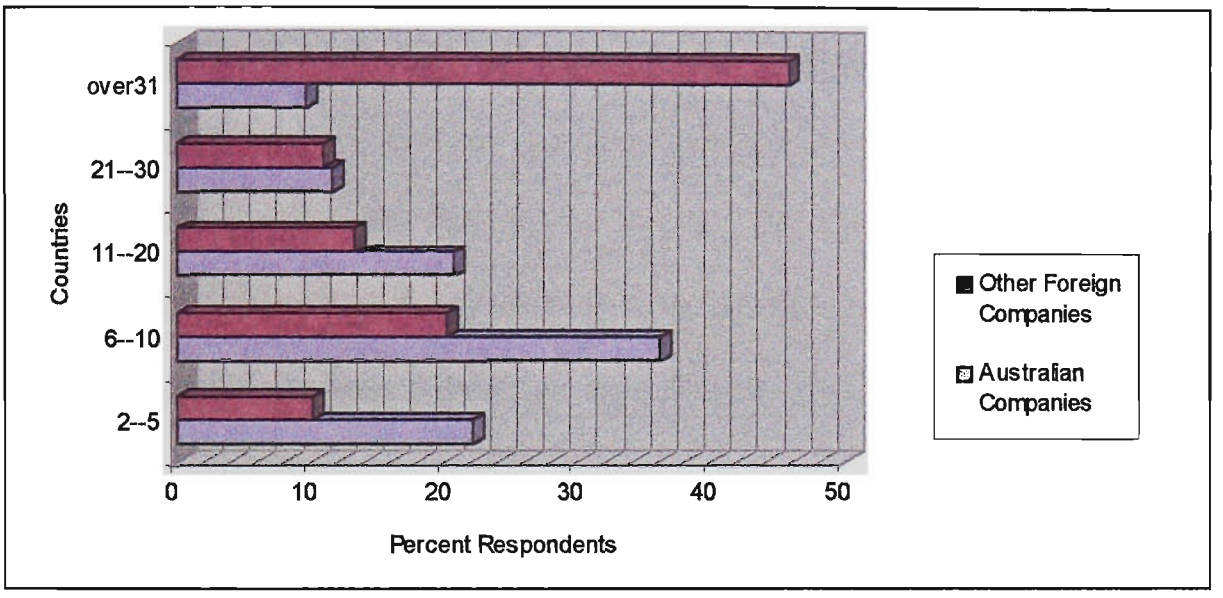
Table 5.4
Business Experience of the Companies

Years	Total Business Experience				International Experience			
	Australian Companies		Other Foreign Companies		Australian Companies		Other Foreign Companies	
	Number	%	Number	%	Number	%	Number	%
3-5	16	7.7	10	7.8	20	9.6	15	11.6
6-10	27	13.0	16	12.4	65	31.3	13	10.1
11-20	39	18.7	15	11.6	54	25.9	25	19.4
21-30	39	18.7	12	9.3	30	14.5	18	13.9
31-40	26	12.5	5	3.9	14	6.7	10	7.8
41-50	16	7.7	17	13.1	8	3.8	18	13.9
over 50	45	21.7	54	41.9	17	8.2	30	23.3

Moreover, the Australian companies appear to have less experience in international business as compared with other foreign companies: 40.9 % of the Australian companies had been in the international market less than 10 years, 40.4% of them between 11 and 30 years, and 18.7% more than 31 years. In contrast, 21.7% of the other foreign companies were new entrants (less than 10 years) in the international market and 45% of them were early entrants with more than 31 years experience. There is evidence that more than half of the world's largest companies had entered

China by 1995 (Pei 1995). Many foreign companies from the USA, Japan and Western Europe had a long business history as well as international business experience.

Figure 5.5
Number of Countries Companies Contacted



Regarding the number of countries companies did business in, 22.1% of the Australian companies had 2 to 5 countries, 36.1% of the firms had 6 to 10 countries, 20.6% of the firms had 11 to 20 countries, 11.6% of the firms had 21 to 30 countries, and 9.6% of the firms had contact with more than 31 countries (refer to Figure 5.5). In contrast, more than 45% of the other foreign companies had contact with more than 31 countries. Thus, it is perhaps not surprising that Australian companies are normally domestically and inwardly focused.

The above results summarize the business experience of Australian competitors in the Chinese market. These competitors had a longer business history, with more

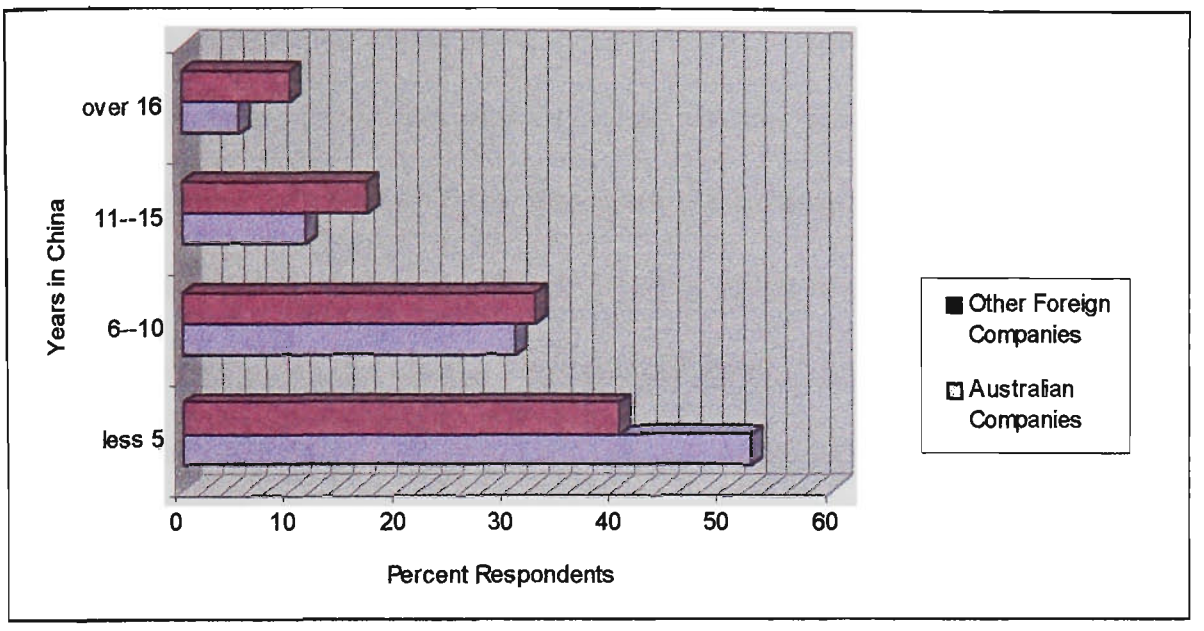
international experience, and with more business contacts with other countries, compared to the Australian companies.

5.3 Entering the Chinese Market

5.3.1 Timing of Entry

As can be seen from Figure 5.6, most of the Australian firms (52.4%) had recently entered China, 30.8% of the firms had been in China between 6 to10 years, 11.5% of the firms had been in China between 11 to15 years, and 5.3% of the firms entered into China 16 years before. This was due to the fact that China's economic reform accelerated after Deng Xiaoping's Southern Tour in 1992 and the subsequent move toward decentralised state control of international trade, which involved the government establishing incentive foreign investment policies. Therefore, international firms were increasingly attracted to entry into the Chinese market (Pei 1995, Qiu at el 1998).

Figure 5.6
Timing of Entry in the Chinese Market



Similarly, more than 40% of the other foreign companies were new entrants (less than 5 years), while there was a higher percentage of early entrants (more than 11 years) compared with the Australian companies.

5.3.2 Entry Modes

The entry modes of the Australian companies are given in Figure 5.7: 77.9% of the firms used exporting as a major entry mode, including 26.4% direct exporting, 5.8% exporting-through agencies in Australia, 25.5% exporting-through other countries, and 20.2% having branch offices in China. Joint ventures were used by 16.8% of the Australian companies, while 4.3% used wholly owned direct investment (WODI) and 1% used contracting. From interviews with managers in China, it can be concluded that exporting to China through other countries was mostly from south-eastern Asian countries, especially from Hong Kong. This was due to better facilities, geographic

advantage, same ethnic group and customers. The findings agree with the statement of Austrade (Austrade 1989) that reported a relatively large proportion of Australian export through Hong Kong. Establishing branch offices in China accounted for 20.2% of the total companies in the first year in China, but this went up to 24.5% in 1997. Establishing branch offices in China increased commitment in terms of financial resources, but there is also a benefit in learning about the Chinese market, and associated advantages of increased managerial influence. In 1997, companies using exporting firms were down to 59.6%, joint ventures up to 26% and WODI also up to 10.6%.

Table 5.5
Entry Modes of the Companies

	First Year in China				1997			
Entry Mode	**Australian Companies**		**Other Foreign Companies**		**Australian Companies**		**Other Foreign Companies**	
	Number	%	Number	%	Number	%	Number	%
Exporting								
Exporting-through agency	12	5.8	1	0.8	9	4.3	-	-
Exporting-through other countries	53	25.5	45	34.9	42	20.2	29	22.5
Direct exporting	55	26.4	20	15.5	22	10.6	2	1.6
Branch offices in China	42	20.2	32	24.8	51	24.5	21	16.2
Contracting	2	1.0	7	5.4	8	3.8	7	5.4
Joint Venture								
Equity joint venture	32	15.4	15	11.6	9	23.6	45	34.9
Contractual joint venture	3	1.4	2	1.6	5	2.4	7	5.4
WODI	9	4.3	7	5.4	22	10.6	18	14.0
Total	208	100.0	129	100.0	208	100.0	129	100

On the other hand, 76% of other foreign companies started with exporting, 13.2% with joint ventures, 5.4% with WODI, and 5.4% with contracting. Other foreign companies followed the same tendency of having a large proportion of exporting with a lot of years in China. In 1997, exporting went down to 40.3%, joint ventures up to

40.3%, and WODI up to 14%. The results are consistent with the internationalization view (Bilkey 1978; Buckly and Mathew 1978; Jull and Walter 1987), which states that a firm is likely to enter a particular foreign market initially by exporting mode to minimize the risk of foreign market involvement, and then, as a firm acquires knowledge and experience about the foreign market, it tends to shift to a higher resource commitment mode (e.g. joint venture or WODI), with an expectation of a higher rate of return.

The results reveal that most of the foreign Companies entered the Chinese market with exporting, then, shifted to higher commitment modes, such as joint venture and WODI. Changes to the entry mode relate to improvement in the Chinese market environment. As China continues to open the economy to foreign trade and investment (EAAU 1997), equity joint venture is favoured by foreign companies. An equity joint venture involves the creation of a limited liability company with equity and management shared in negotiable proportions by the foreign and Chinese partners. Equity joint ventures are the most common entry mode in China. The reasons are: firstly the Chinese government encourages equity joint ventures transferring significant technology and management skills to the Chinese firm. Secondly, foreign investors seem to prefer equity joint ventures, because they provide long-term connections to the Chinese market. The equity joint venture's ability to sell through the local partner's established marketing channels seems to be especially attractive to a manufacturing business looking to penetrate the domestic market. Thirdly, the Chinese partner's vested interest in the long-term success of the venture may make them more willing to use their pull with local government officials to help

the enterprise (Brecher 1995). Equity joint ventures offer the Chinese companies not only a chance to upgrade their plant, equipment, and production line, but also a chance to qualify for a tax break that reduces their tax burden to 33%.

WODI had increased both among the Australian companies and other foreign companies due to specific advantages. WODI contributes its entire equity, receives all the profits, and has complete and independent control of running the enterprise. WODI is a limited liability entity organized solely for the benefit of the foreign company. In recent years, the relative attractiveness of WODI to the government has gradually increased. This is because WODI has advantages such as all capital coming from the foreign investors, use of advanced technology, and selling of products into international markets.

5.3.3 Product Demand in the Chinese Market

In relation to the Australian product demand, (refer to Table 5.6), demand for more than half of the products grew less than 5% in the first year in China; 18.8% of the product growth rate was between 6% and 10%, and 27.4% of product growth rate was more than 11%. While, in 1997, demand for the Australian products in China, 24.5% of the product grew less than 5%, 28.9% of the product grew between 6% and 10%, and 46.6% of the product growth rate was more than 11%. The findings indicate that the Australian product demand significantly increased in recent years. Demand in the Chinese market increased, and this provided an opportunity for Australian products during China's economic growth. Similarly, 36.4% of products from the other foreign

companies grew more than 11% in the first year in China, and in 1997, 52.7% of product growth rate was more than 11%.

Table 5.6
Growth Rate of Product Demand in the Chinese Market

	Australian Products %		Other Foreign Products %	
Growth Rate %	First Year in China	1997	First Year in China	1997
0-5	53.8	24.5	44.2	23.3
6-10	18.8	28.9	19.4	24.0
>11	27.4	46.6	36.4	52.7

Australian products sold to the Chinese market comprised 51% consumer goods (food products accounting for 28.4%), 37.5% industrial goods, and 11.5% telecommunication and computing goods. Other foreign products included 32.6%, consumer goods (food products accounting for 9.3%), 31% industrial goods, and 37.4% telecommunication and computing goods. Other foreign products comprised a large percentage in telecommunication and computer goods compared with Australian products.

5.3.4 Investment in China

Investment in China (refer to Table 5.7) shows that 44.7% of the Australian companies invested less than $50,000 in the first year in China, 39.4% of the companies invested between $50,001 and $5,000,000, and 15.9% of the companies invested over $5,000,001 as large investors. In 1997, investment between $50,001 and $5,000,000 went up to 47.6%, and investment over $5,000,001 up to 18.7%. There

appears to be no big difference in the investment of Australian companies in the years 1995 to 1997.

Table 5.7
Investment in China

Investment A$	First Year In China		1995		1996		1997	
	Australia %	Others %	Australia %	Others %	Australia %	Others %	Australia %	Others %
Less 50,000	44.7	10.1	35.1	8.5	31.7	8.5	32.7	7.8
50,001-500,000	19.7	23.2	25.0	21.0	27.4	17.9	26.9	15.5
500,001-5M	19.7	26.4	20.7	16.2	22.6	17.9	21.7	19.3
Over 5,000,001	15.9	40.3	19.2	54.3	18.3	55.7	18.7	57.4

In contrast, the other foreign companies had larger investments than the Australian companies. Only 10.1% of the companies had less than $50,000 invested in their first year in China, and 40.3% of the firms had more than $5,000,001. In 1997, the companies that had invested more than $5,000,001 were up to 57.4%. Compared with their first year in China, these foreign companies had significantly increased investment in 1997.

These findings confirm previous research (EAAU 1997) and the fact that the process of China's economic reform created a favourable investment environment. Since the recent foreign investment boom of 1992, almost all major Australian companies invested in China. Australian cumulative investment was estimated at around $1 billion from 1979 to 1996, ranking as the tenth largest investor.

5.3.5 Sales in China

Of the Australian companies' sales in China in their first year, one third of the companies had less than $100,000, and only 17.4% of the companies had sales of more than $5,000,000 (Table 5.8). In 1995, many companies increased sales significantly compared with their first year in China. Only 15.9% of the companies had sales of less than $100,000, and 22.2% of the companies had sales of more than $5,000,000. The Australian companies' sales continued to grow from 1995 to 1997. In 1997, companies with sales of more than $5,000,0000 were up to 39.4%. These figures confirm the fact that Australian products achieved strong performance in the Chinese market (EAAU 1997).

Table 5.8
Sales in China

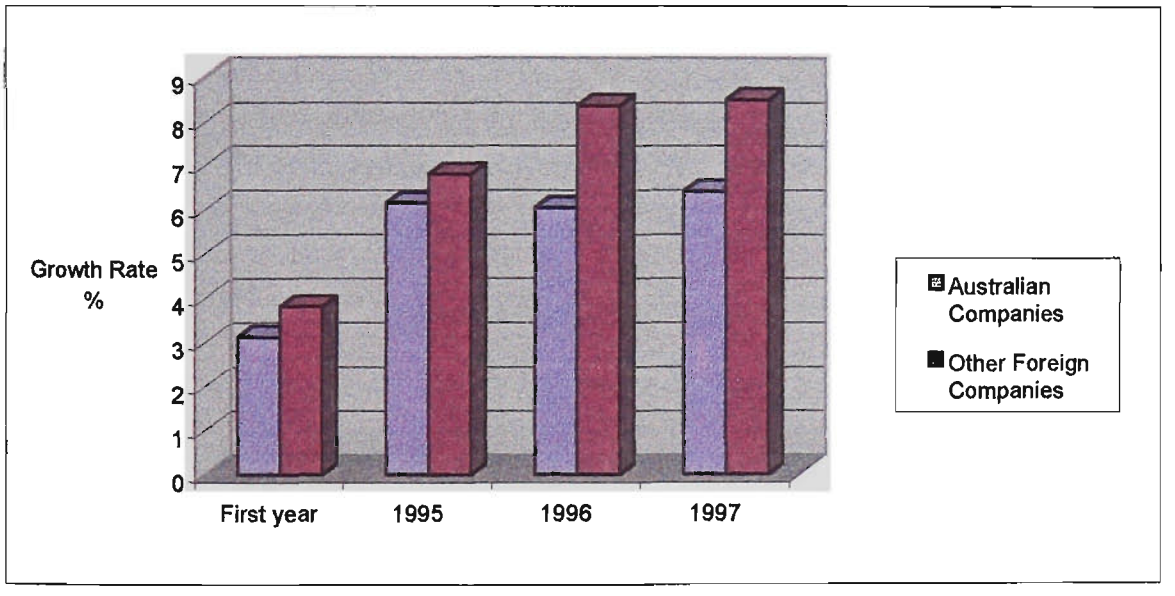
Sales (A$)	First Year In China		1995		1996		1997	
	Number	%	Number	%	Number	%	Number	%
Australian Companies								
Less 100,000	70	33.7	33	15.9	29	13.9	28	13.5
100,001-500,000	40	19.2	43	20.7	37	17.8	37	17.8
500,001-5M	62	29.8	65	31.2	64	30.8	61	29.3
5,000,001-50M	24	11.5	40	19.2	36	22.1	45	21.6
Over 50,000,001	12	5.8	27	13.0	32	15.4	37	17.8
Other Companies								
Less 100,000	18	14.0	12	9.3	6	4.7	5	3.9
100,001-500,000	14	10.8	9	7.0	7	5.4	4	3.1
500,001-5M	22	17.1	14	10.8	15	11.6	17	13.2
5,000,001-50M	38	37.2	33	25.6	31	24.0	29	22.4
Over 50,000,001	27	20.9	61	47.3	70	54.3	74	57.4

Other foreign companies' sales also significantly increased from their entry into China. Consistent with their employee size and total sales volume, they had a lower

percentage of small sales (less than $100,000) and a higher percentage of large sales (more than $5,000,000).

The average sales growth rate of Australian companies was 3.1% in the first year in China, up to 6.4% in 1997 (Figure 5.7). The average sales rates of the other foreign companies were somewhat higher than the Australian companies both in entry time and in recent years.

Figure 5.7
Average Sales Growth Rates of Australian Companies and Other Foreign Companies



With regard to the proportion of sales in China as a proportion of total sales, Australian companies in China in their first year averaged 3.8%, rising to 8.5% in 1997. On the other hand, the sales of other foreign companies in China averaged 4% in their first year and rose up to 8.8% of their total sales in 1997. The figures indicate that for Australian companies, as well as for other foreign companies, the Chinese market was of increasing importance. These figures are reflective of the fact that

Australian exports to China moved from the tenth largest export market in 1988 to the sixth the largest market in 1995 (Austrade 1989; EAAU 1997).

5.3.6 Market Share in China

Market share by the Australian companies in their first year in China (refer to Table 5.9) shows that most of the Australian companies had market share of less than 5 %, and only 7.2 % of the companies had more than 11% of the market share. It seems that the Australian companies' market share had significantly improved after their entry into China. In 1997, the proportion of companies with small market shares (less than 5 %) had declined to 25%, and the proportion of companies with a large market shares (more than 11%) increased 15%, up to 22.2%.

Table 5.9
Market Share in China

	Australian Companies				Other Foreign Companies			
Market Share (percent)	**First year In China**		**1997**		**First year in China**		**1997**	
	Number	%	Number	%	Number	%	Number	%
less than 5	164	78.9	112	53.8	86	66.6	53	41.1
6-10	29	13.9	50	24.0	13	10.1	19	14.7
11-20	10	4.8	33	15.9	13	10.1	32	24.8
more than 21	5	2.4	13	6.3	17	13.2	25	19.4

The proportion of the other foreign companies with large market shares (more than 6 %) in their first year in China was higher than with the Australian companies. Moreover, they had a higher level of market share in 1997. Similarly, the proportion of other foreign companies with small market shares had also declined from 66.6% in

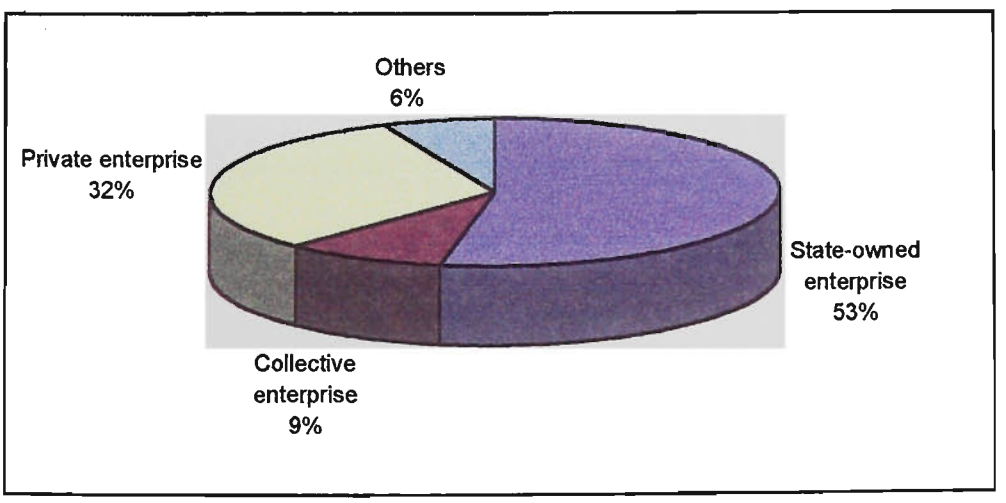
the first year to 41.1% in 1997; and the proportion of companies with large market share increased from 23.3% in the first year up to 44.2% in 1997.

It cannot be ignored that Australian companies have been very successful in the Chinese market, as reported by the Department of Foreign Affairs and Trade (DFAT 1997, p160), "improving modestly since 1988 to a level around twice Australia's average market share overseas." The results support the DFAT report statement that one third of the Australian companies with low market share had largely improved after entry, and companies with medium and large market share improved after entry.

5.3.7 Chinese Partners

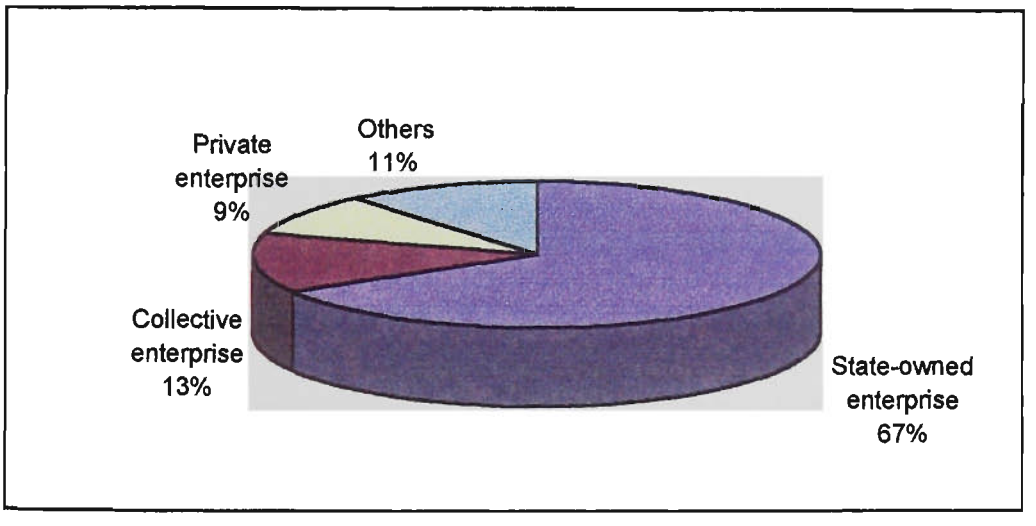
In the sample, 68.8 % of the Australian companies had Chinese partners. The Chinese partners included state owned enterprises, collective enterprises, private enterprises and others, as shown in Figure 5.8.

Figure 5.8
Type of Ownership of Chinese Partners (Australian Companies)



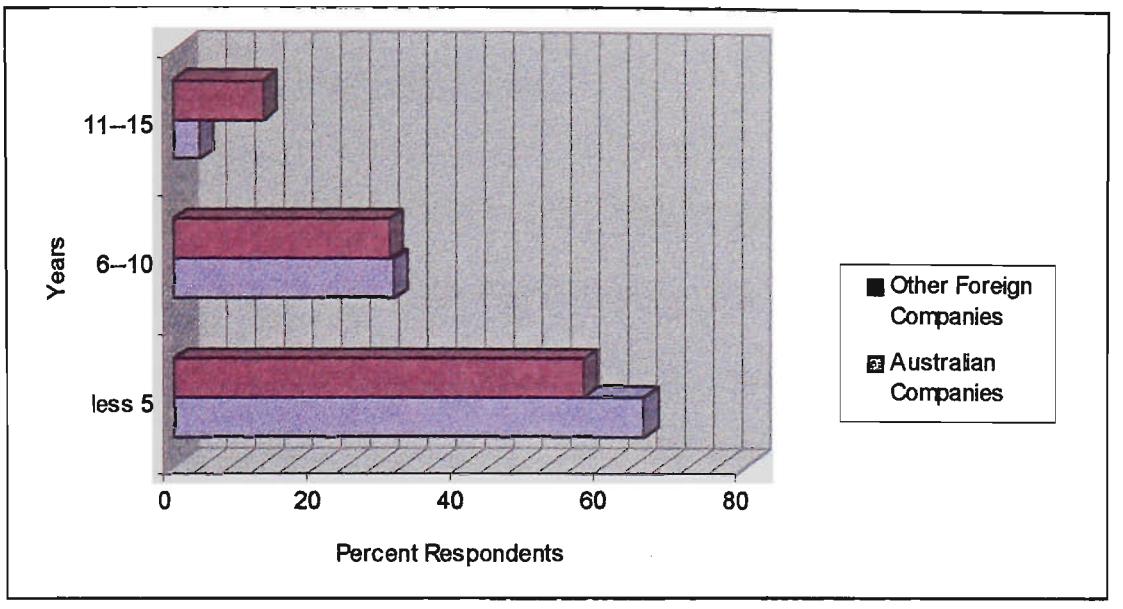
For the other foreign companies, 74.4% had Chinese partners. Figure 5.9 shows ownership of the Chinese partners. Most of the Chinese partners for both the Australian companies and other foreign countries were state-owned enterprises. Generally speaking, the state-owned enterprises had strong financial ability and were large in size, and as such were economically reliable for foreign investors. However, private enterprises and collective enterprises grew during China's economic reforms. They were more flexible in controlling their assets and labor than state-owned enterprises. They also had become partners with Australian and other foreign companies.

Figure 5.9
Type of Ownership of Chinese Partners (Other Foreign Companies)



More than 30% of the Australian companies had long relationships (over 6 years) with their Chinese partners (Figure 5.10). On the other hand, more than 50% of other foreign companies had similar relationships (over 6 years).

Figure 5.10
Years with Chinese Partners



Most of these Chinese partners were located in larger cities and coastal regions, such as Beijing, Guangdong, Shanghai, Jiangsu, Zhejiang and Tianjin because these regions are economic development areas of China, with better investment environments. The large cities with high level transportation, communication facilities and professional labor were favourable for foreign investors. The coastal regions established Special Economic Zones or Open Coastal Economic Areas, where a variety of incentives were offered for foreign investors (Genzberger et al 1994). Therefore, the survey data obtained confirmed that most of the Chinese partners came from these areas.

5.4 The Association Between Variables

Further statistical analysis was conducted on the Australian companies' data to describe the association between variables. A cross tabulation is a useful primary step

to describe the relationships between (1) timing of entry and entry mode, (2) timing of entry and market share associated in any particular way.

5.4.1 Timing of Entry and Entry Mode

The cross tabulation analysis in Table 5.10, describes the association of timing of entry and entry mode for the first year in China. The earlier Australian entrants entered China 16 years ago (before 1980). All of the companies used exports as the entry mode; most of them used direct export (54.5%), and 25.7% of them used exports through other countries. The timing relates to the Chinese Economic Reforms which begun in 1978. Before the Economic Reforms, the Chinese market was isolated from the rest of the world. Foreign trade had been an official monopoly that was only conducted through state foreign trading corporations. Foreign investment from western countries was limited and essentially zero. Therefore, a few Australian companies (refer to Table 5.10, 11 Australian companies) did business with China before 1980, with exporting the only mode chosen by these companies.

Table 5.10
Entry Mode by Timing of Entry (column percentages)

Entry Mode	Less than 5 years (After 1991)	6-10 years (1986-1990)	11-15 years (1981-1985)	Over 16 years (Up to 1980)
Exporting-through agency in Australia	11 10.1%	0 0%	1 4.2%	0 0%
Exporting-through other countries	28 25.7%	19 29.7%	3 12.5%	3 27.3%
Direct exporting	25 23.0%	15 23.4%	9 37.5%	6 54.5%
Branch offices in China	18 16.5%	16 25.0%	6 25.0%	2 18.2%
Contracting	2 1.8%	0 0%	0 0%	0 0%
Joint venture	19 17.4%	11 17.2%	5 20.8%	0 0%
Wholly owned direct investment	6 5.5%	3 4.7%	0 0%	0 0%
Total	109 100%	64 100%	24 100%	11 100%

Direct exports were major entry modes for companies 11 to 15 years ago (period 1981 to 1985), while joint ventures were chosen by 20.8% of the Australian companies. Beginning in the 1980's, China established Special Economic Zones to attract foreign investors. Joint venture implementing regulations were issued in 1983 (Brecher 1995), which gave clear rules to foreign investors and attracted foreign direct investment to China. Consequently, Australian companies started to use joint ventures in this period. This was also the time that Australian companies began developing branch offices in China.

Over time, the entry mode chosen tended to shift from exports to joint ventures, because the Chinese market was more accessible and government policy encouraged joint ventures. The findings support this fact, indicating 17.4% of Australian companies selected joint ventures as entry modes after 1991. WODI also gradually increased because of its attractiveness to the Chinese government. When Chinese

domestic credit was tight, WODI enabled commitment of the entire start-up capital. This fact was also confirmed by the data obtained from the survey, which reported that 4.6% of companies selected WODI as their entry mode in recent years.

5.4.2 Timing of Entry and Market Share

Table 5.11 shows the cross tabulation analysis between timing of entry and market share in 1997 with the majority (45.5%) of the earlier entrants (more than 16 years) having 6% to 10% market share, and 36.4% of the early entrants having market share of less than 5%. However, the percentage of early entrants (9.1%) with high market share (more than 21%) was more than the other groups. For the entrants in China between 11 to 15 years ago, 37.5% of the companies had less than 5% market share, and 33.3% of companies had 6% to 10% market share.

Table 5.11
Market Share by Timing of Entry (column percentages)

Market Share in 1997	Less than 5 years (After 1991)	6-10 years (1986-1990)	11-15 years (1981-1985)	Over 16 years (Up to 1980)
Less than 5 %	66 60.6%	32 50.0%	9 37.5%	4 36.4%
6-10%	21 19.3%	17 26.6%	8 33.3%	5 45.5%
11-15%	7 6.4%	8 12.5%	4 16.7%	1 9.1%
16-20%	8 7.3%	4 6.3%	1 4.2%	0 0%
More than 21%	7 6.4%	3 4.7%	2 8.3%	1 9.1%
Total	109 100%	64 100%	24 100%	11 100%

It appears that early entrants got more market share than later entrants. Of the major share percentages (less than 5% and 6-10%), the higher market share of 6-10% was

achieved from a base of over 16 years, accounting for 45.5%, whereas the lower market share of less than 5% was achieved from a base of over 16 years, accounting for 36.4% and rising rapidly to 60.6% for less than 5 years (compared with only 19.3% for a 6-10% market share).

5.5 Chapter Summary

This chapter can be summarized as follows:

1. Most of the Australian companies in this survey were in the food industry, the machinery industry, and the metal and chemical industry. The Australian companies in these three industries accounted for 60% of the firms. Other foreign companies in the sample were mainly in computing, telecommunication, machinery, metal and the chemical industries, accounting for 78% of the firms.
2. In terms of firm size measured by the number of employees, 33% of Australian companies can be categorized as large firms, and 54% of other foreign companies categorized as a large firm.
3. More than 40% of the Australian companies had operated for more than 30 years, and 60% of other foreign companies had been set up in the same period, while 59% of the Australian companies had international business experience of more than 20 years, and 78% of other foreign companies had the same years of international business experience.
4. Most of the Australian companies entered China after 1990. Exporting and joint ventures were the most common entry modes, while 45% of the companies had small investment at entry. In 1997, most of the firms enlarged their investment.

5. Regarding sales in China, only 27% of the Australian companies had large sales (over 5 million) in their first year. Most of the companies increased sales significantly after entering China, and in 1997, almost 40% of the Australian companies sales were more than 5 million.
6. In regard to market share in China, 78% of the Australian firms had small market share (less than 5%) in their first year, while in 1997, 46% of the companies had market shares of more than 6%.
7. Australian company entry modes are different in each period. Before 1980, exporting was the only type of mode chosen by the firms. From 1981, some companies started to use joint ventures. The firms began to use WODI from 1986, and firms selected contracting after 1991.
8. Australian companies' market share in the Chinese market was different depending on the timing of entry. Early entrants had more market share than later entrants.

CHAPTER 6

EVALUATION OF ENTRY MODES CHOSEN BY AUSTRALIAN COMPANIES

6.1 Introduction

The current entry modes chosen by the Australian Companies are evaluated in regard to five critical variables: risk, return of profit and sales, cost, management control and control of the entered market. Cross tabulation analysis is used to describe the relationship between entry mode and each variable. Meanwhile the hypotheses related to entry mode in Chapter three are discussed.

6.2 Risk for Each Type of Entry Mode

Risk for each type of entry mode is illustrated in Table 6.1. For exporting, most of the Australian companies with indirect exporting, including exporting through an agency in Australia (55.5%) and exporting through other countries (47.6%) considered that the risk was low to very low. A similar finding occurs for the companies with direct exporting (50%) and branch offices in China (49%). However, about 30% of the companies with indirect exporting, and 22.7% of direct exporting companies considered that risks were high to very high. Generally speaking, exporting risk is lower because of the relatively low commitment. However, because some companies, had only recently started business in China, and have lacked experiential knowledge of the Chinese market, some managers perceived the Chinese market risk as higher than for domestic business. In contrast, only a small percentage of the companies with

branch offices in China considered risk to be high risk and 90% of them indicated low to medium risk. These companies established their own sales subsidiary and exported to the market themselves, and in doing so, gained knowledge and confidence from the export experience. Consequently, they perceived the Chinese market risk to be lower than companies with little on ground experience.

Table 6.1
Risk for Each Type of Entry Mode
(row percentages)

Entry Mode	Risk					Total
	Very low	Low	Medium	High	Very high	
Exporting-through agencies in Australia	3 33.3%	2 22.2%	1 11.1%	2 22.2%	1 11.1%	9 100.0%
Exporting-through Other countries	6 14.3%	14 33.3%	7 16.7%	12 28.6%	3 7.1%	42 100.0%
Direct exporting	6 27.3%	5 22.7%	6 27.3%	3 13.6%	2 9.1%	22 100.0%
Branch offices in China	8 15.7%	17 33.3%	22 43.1%	4 7.9%	0 0%	51 100.0%
Contracting	1 12.5%	2 25.0%	1 12.5%	4 50.0%	0 0%	8 100.0%
Joint ventures (EJV and CJV)	2 7.4%	7 13.0%	21 38.9%	17 31.4%	5 9.3%	54 100.0%
Wholly owned direct investment	1 4.5%	3 13.6%	7 36.4%	4 18.2%	6 27.3%	22 100.0%
Goodman and Kryskal Tau = .045 significance = .000*						

* Approximate significance based on chi-square approximation

Of the companies with joint ventures, 40.7% of them indicated that risk was high to very high. Joint ventures in China are seen to have higher risk than general joint ventures. This possibly is a result of the Chinese government control over foreign exchange and limitations on a foreign company's share in the joint venture.

Of the companies using WODI, 45.5% stated that the risks were high to very high. Their ventures are most exposed because of their 100% commitment of resources in the market, and are impacted upon most by China's foreign exchange problems, bureaucratic red tape, cultural differences, poorly developed infrastructure facilities and swings in economic policies over foreign investment (Wei and Perry 1995; Grub, Jian and Mei 1990). WODI recorded the highest overall risk measure of 27.3% in the very high risk category.

6.3 Return on Profits and Sales for Each Type of Entry Mode

Table 6.2 describes the return in terms of profits and sales for different entry modes. In the exporting entry modes, the Australian companies which exported through other countries seem more optimistic with 47.6% of them stating that their return on profit and sales were high. These companies used experienced international trade agents, who were familiar with business in the Chinese market, so their exporting was potentially more profitable. On the other hand, 63.7% of the companies with direct exporting claimed that the return of profits and sales were medium and low, which may reflect less experience with business in the Chinese market. For the Companies with branch offices in China, 58.8% of them considered that return of profits and sales were medium. These companies have the advantage of branch offices close to the Chinese market, but they have higher overheads in China than other countries because of expensive rentals for office and accommodation, expensive telecommunication services and government supporting services (Wei and Perry 1995).

Most of the companies exporting through an Australian agency claimed that return of profits and sales was low. The agency in Australia is often far from the Chinese market, while product transportation and agent expenditures are costly.

Table 6.2
Return on Profits and Sales for Each Type of Entry Mode
(row percentages)

Entry Mode	Return of Profits and Sales					Total
	Very low	Low	Medium	High	Very high	
Exporting through agencies in Australia	3 33.3%	5 55.6%	1 11.1%	0 0%	0 0%	9 100.0%
Exporting through Other countries	0 0%	5 11.9%	13 31.0%	20 47.6%	4 9.5%	42 100.0%
Direct exporting	3 13.6%	6 27.3%	8 36.4%	4 18.2%	1 4.5%	22 100.0%
Branch offices in China	5 9.8%	12 23.5%	30 58.8%	4 21.1%	0 0%	51 100.0%
Contracting	1 12.5%	1 12.5%	3 37.5%	3 37.5%	0 0%	8 100.0%
Joint ventures (EJV and CJV)	2 3.7%	7 14.3%	23 46.9%	21 38.9%	1 1.8%	54 100.0%
Wholly owned direct investment	1 4.6%	3 13.6%	11 50.0%	7 31.8%	0 0%	22 100.0%
Goodman and Kryskal Tau = .047 significance = .000*						

Approximate significance based on chi-square approximation

There were a small number of companies (only 8 firms) in the Australian sample that used contracting as the entry mode, including licensing, franchising, management contracting and joint marketing agreements. Of these Companies, 37.5% stated that return of profits and sales were high. In contrast almost the same percentage (38.9%) of companies with joint ventures claimed that return of profits and sales were high. But only 31.8% of the companies with WODI claimed that return of profits and sales were high, while half of the firms considered that their return on profits and sales were medium. The findings indicate that companies with joint ventures tend to be

more satisfied with return of profits and sales than other investment modes. As the Chinese government encouraged joint ventures to transfer advanced technology into China, the joint venture companies got priority in tax exemption, less government control of foreign exchange and other incentives. Their performance was better than WODI. These advantageous policies were attractive for foreign companies, and the findings relate to the fact that more than one-quarter of companies selected joint ventures.

6.4 Cost for Each Type of Entry Mode

Indirect exporting was normally considered a low cost mode, because the firm's products were carried abroad by others and the distribution was similar to those for domestic sales. It can be seen from Table 6.3, that 55.5% of the companies with exporting through agency in Australia considered that cost was low to very low, while 23.8% of the companies with exporting though other countries claimed that cost was low to very low, and more than half (54.8%) of the companies stated that cost was medium. The cost was not high for companies through agents in a domestic country or in a third country, because these agents provide economies of scale in international marketing.

Table 6.3
Cost for Each Type of Entry Mode
(row percentages)

Entry Mode	Cost					Total
	Very low	Low	Medium	High	Very high	
Exporting-through agencies in Australia	2 22.2%	3 33.3%	2 22.2%	2 22.2%	0 0%	9 100.0%
Exporting-through Other countries	2 4.8%	8 19.0%	23 54.8%	6 14.3%	3 7.1%	42 100.0%
Direct exporting	4 18.2%	6 27.3%	5 22.7%	6 27.3%	1 4.5%	22 100.0%
Branch offices in China	1 2.0%	13 25.5%	20 39.2%	13 25.5%	4 7.8%	51 100.0%
Contracting	2 25.0%	4 50.0%	0 0%	2 25.0%	0 0%	8 100.0%
Joint ventures (EJV and CJV)	0 0%	10 18.5%	27 50.0%	13 24.1%	4 7.4%	54 100.0%
Wholly owned direct investment	0 0%	3 13.6%	10 45.5%	7 31.8%	2 9.1%	22 100.0%
Goodman and Kryskal Tau = .028 significance = .018*						

Approximate significance based on chi-square approximation

Of the companies with direct exporting, 45.5% considered that the cost was low to very low. However, 31.8% of them indicated that cost was high to very high. Direct exporting usually costs more than indirect exporting. In direct exporting, the tasks of market contact, market research, physical distribution, export documentation, all fall on the export department of the firm. Meanwhile, 33.3% of the companies using direct exporting with branch offices in China indicated the cost was high to very high. These firms also incurred the cost of overseas offices, including office rents, and employee wages.

Most of the companies with contracting claimed that the cost was low to very low, because there were only contracting costs and the costs of obtaining market knowledge. This type of entry mode required no capital investment, and is an

agreement wherein the Australian companies gave something such as partner rights, trademark rights, know-how on product and management or copyrights to their Chinese partners for payment. Thus, these Australian companies usually did not have high costs.

Half of the companies with joint ventures stated that the cost was medium, and 31.5% claimed that the cost was high to very high. In joint ventures, the firms contributed to the cost of equipment, buildings, materials and labour. However, the cost of skilled workers and technicians is low in China. Consequently, there were different cost structures between labor-intensive enterprises and capital-intensive enterprises. With labour-intensive enterprises costs were lower than with the capital-intensive enterprises, because they could take advantage of cheap labour. Overall, joint venture costs in China were medium to high.

For WODI, where ownership is 100% and costs potentially high, 40.9% of the companies claimed that costs were high to very high, and only a small percentage (13.6%) of the firms stated that costs were low.

6.5 Management Control for Each Type of Entry Mode

For management control of a firm, more than half (55.6%) of the Australian companies exporting-through an agency in Australian indicated that control was medium (refer to Table 6.4), while for the companies with export through other countries, 61.9% of the firms considered that the management control was high to very high. Most of the export agents were from other countries located in Southeast

Asia. Consequently, their experience, knowledge and close relationships enable them to achieve flexibility in the strategic decision making associated with market entry.

Of the companies with direct exporting, 45.5% stated that the management control was high to very high, while 47% of the companies with branch offices in China stated that the management control was medium.

Table 6.4
Management Control for Each Type of Entry Mode
(row percentages)

Entry Mode	Management Control					Total
	Very low	Low	Medium	High	Very high	
Exporting-through agencies in Australia	1 11.1%	2 22.2%	5 55.6%	1 11.1%	0 0%	9 100.0%
Exporting-through Other countries	2 4.8%	3 7.1%	11 26.2%	19 45.2%	7 16.7%	42 100.0%
Direct exporting	4 18.2%	5 22.7%	3 13.6%	8 36.4%	2 9.1%	22 100.0%
Branch offices in China	2 6.3%	11 21.6%	24 47.0%	14 27.5%	0 0%	51 100.0%
Contracting	3 37.5%	0 0%	2 25%	2 37.5%	0 0%	8 100.0%
Joint ventures (EJV and CJV)	3 5.6%	5 10.2%	16 29.6%	25 46.3%	5 9.3%	54 100.0%
Wholly owned direct investment	0 0%	1 4.5%	8 36.4%	12 54.6%	1 4.5%	22 100.0%
Goodman and Kryskal Tau = .032 significance = .002*						

* Approximate significance based on chi-square approximation

Of the companies with joint ventures, 46.3% stated that management control was high, which is similar to companies exporting through other countries. These companies owned a large company share, and possibly considered this also gave management control. However, 15.8% of the joint venture companies claimed the management control was low to very low. A lack of control occurred in joint ventures

where control was shared by both partners (Brecher 1995). Some Australian companies wanted more control in operating, but they were unable to obtain it.

Most of the companies (60.1%) with WODI stated that management control was high to very high. This type of entry mode allows for unilateral decisions on the make-up and operational features of the venture. They had 100% ownership and did not need to worry about problems with Chinese partners. However, some companies claimed that management control was medium. One reason was that some of the companies' production and pricing procedures were controlled by the Chinese government as part of a national plan. Another reason was that some companies lacked experience as they were at a starting stage.

6.6 Control of the Market for Each Entry Mode

From Table 6.5, it can be seen that the companies using direct exporting through an agency in Australia tended to perceive that their control of the market was low. Their export agents were in Australia, and removed from the ultimate destination market. More than half of the companies (52.4%) exporting-through other countries perceived that control of the market was medium, which was a higher control of the market than the companies exporting through an agency in Australia. Their agents were mostly in Southeastern Asian countries and closer to the Chinese market, having experience, knowledge and relationships with the Chinese importers.

Of the companies with direct exporting, 45.5% perceived that control of the market was low. It was not easy for the companies to obtain Chinese market information in

the domestic country, especially for small firms, whose resources were limited. Of the companies with branch offices in China, 35.3% thought that control of the market was medium, and the same percentage (35.3%) thought that control of the market was low. It is more difficult to understand why companies with branch offices in China perceived less control. The possible reason is that the branch offices were new and relationships with the Chinese were still to be built.

Table 6.5
Control of the Market for Each Entry Mode
(row percentages)

Entry Mode	Control of the Market					Total
	Very low	Low	Medium	High	Very high	
Exporting-through agencies in Australia	2 22.2%	4 44.4%	3 33.3%	0 0%	0 0%	9 100.0%
Exporting-through Other countries	4 9.5%	3 7.1%	22 52.4%	10 23.8%	3 7.1%	42 100.0%
Direct exporting	5 22.7%	10 45.5%	3 13.6%	4 18.2%	0 0%	22 100.0%
Branch offices in China	8 15.7%	18 35.3%	18 35.3%	7 13.7%	0 0%	51 100.0%
Contracting	1 12.5%	2 25.0%	2 25.0%	2 25.0%	1 12.5%	8 100.0%
Joint ventures (EJV and CJV)	0 0%	13 24.1%	12 24.5%	26 48.1%	3 5.6%	54 100.0%
Wholly owned direct investment	0 0%	3 13.6%	11 50.0%	6 27.3%	2 9.1%	22 100.0%
Goodman and Kryskal Tau = .059 significance = .000*						

Approximate significance based on chi-square approximation

The small number of companies using contracting appeared to indicate that control of the market was greatly varied from low to high. On the other hand, 48.1% of companies using joint ventures considered that control of the market was high. The largest percentage was confident in control of the market in all entry modes, due to being able to use the local partner's established market channels and connections to

the Chinese market. In contrast, WODI did not have these kinds of partners, and needed to establish these relationships themselves. Consequently, most (50%) of the WODI firms stated their control of the market was medium.

6.7 Discussion

From the systematic evaluation of each entry mode using all the five critical variables, the following hypotheses created in Chapter 3 can be discussed.

H1.1: The higher the level of resource commitment of an entry mode, the higher the level of return in profits and sales.

H1.2: The higher the level of resource commitment of an entry mode, the higher the level of the risk.

H1.3: The higher the level of resource commitment of an entry mode, the higher the level of cost.

H1.4: The higher the level of resource commitment of an entry mode, the higher the level of control of the market.

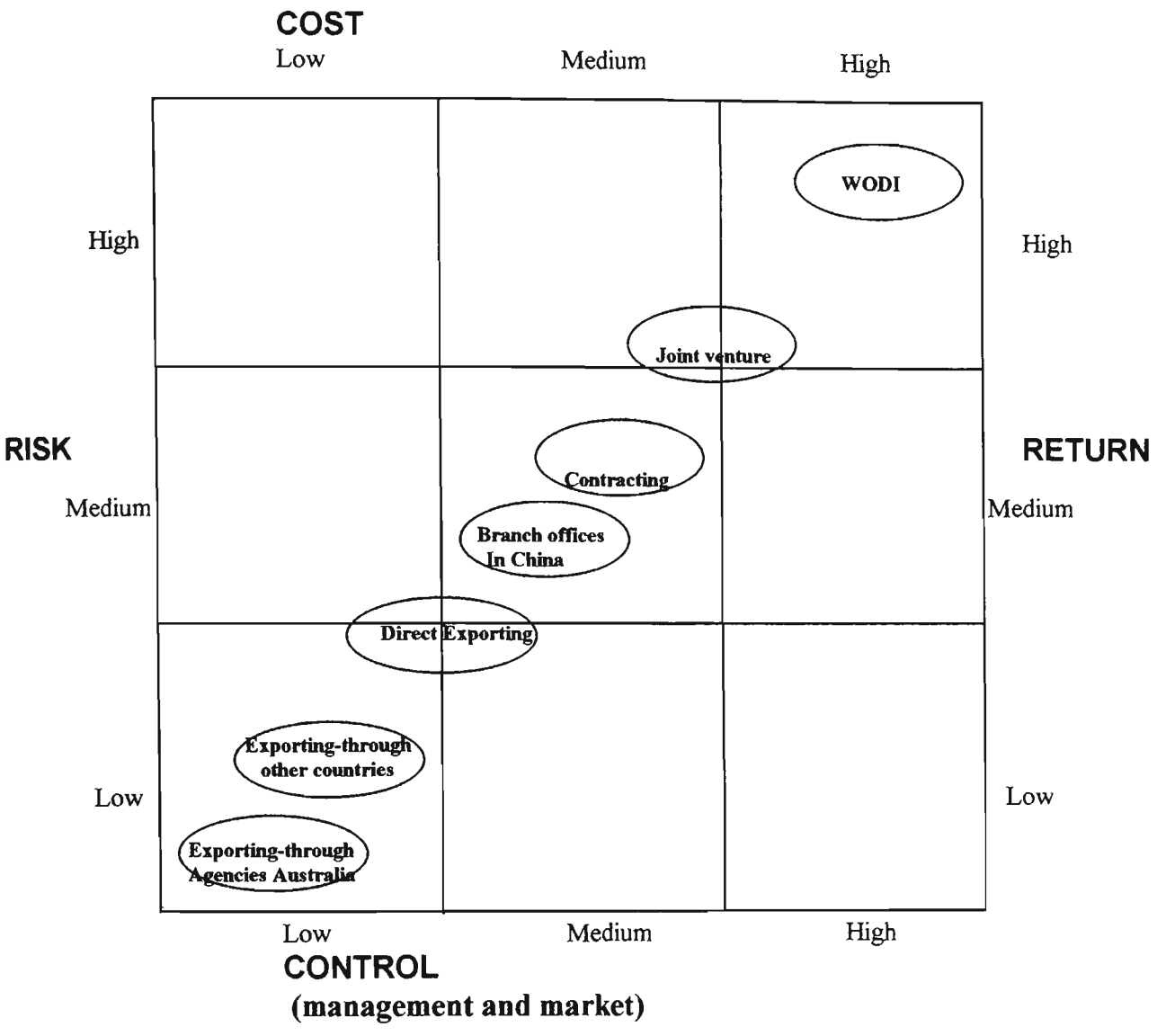
H1.5: The higher the level of resource commitment of an entry mode, the higher the level of management control.

Figure 6.1 tests the above hypotheses, providing a matrix of risk, return, cost and control for each of the entry modes. For the low resource commitment modes, such as exporting through an agency in Australia, exporting through other countries and direct exporting, risk, cost, return on profit and sales, management control and control of the entered market are low. For the medium resource commitment modes of branch

offices in China and contracting, risk, cost, return on profit and sales, management control and control of the entered market are medium. In contrast, for the high resource commitment mode of WODI and joint ventures, risk, cost, return on profit and sales, management control and control of the entered market are high.

The hypothesis testing is done using this approach because of the low level of measurement available with the categorical nominal nature of the variables being assessed. The different levels of entry mode are from a nominal categorical scale and it is difficult to attempt to rank them in any meaningful way to create an ordinal scale. Statistical tests of the nominal scale are not meaningful or not powerful in this situation.

Figure 6.1
The Hypothesized Relationships of Risk, Return, Cost and Control for Each Entry Mode



Evaluation of each entry mode with the five critical variables is given in Table 6.6.

Indirect exporting-though agencies in Australia. It was hypothesised that this type of entry mode could have the lowest level for all critical variables and this is confirmed. Although management control was slightly high, it was lower than with the other

types of entry mode. It appears that all Australian companies, with each different entry mode, increased their level of management control.

Indirect exporting-through other countries. Risk is low to medium, while, return on profits and sales is medium to high. It seems that this type of entry mode was a medium resource commitment mode rather than a low resource commitment mode, because all five critical variables were stated as medium or high. The reasons could be that the Australian companies used experienced international trading companies, which had knowledge and close relationships in China. Additionally, those trading companies were far from Australia, for example in Hong Kong or Singapore.

Direct exporting. Direct exporting is supported in that all of the critical variables are low or medium. Direct exporting involved more resources than indirect exporting. All exporting activities fell upon the export department of the firm. Direct exporting increased not only sales but also control, and was better for information and development of expertise in international marketing. The costs of direct exporting were also higher than indirect exporting because the exporters bore them alone, while risk became higher due to more commitment of resources.

Table 6.6
Evaluating of Risk, Return, Cost, and Control for Each Type of Entry Mode

	Risk	Return profits and sales	Cost	Management control	Control of the market
Exporting-through agencies in Australia	Very low To low	Low	Low	Low to Medium	Low
Exporting-through Other countries	Low to medium	Medium to high	Medium	Medium to high	Medium
Direct exporting	Low to medium	Low to medium	Medium	Medium to high	Low
Branch offices in China	Medium	Medium	Medium	Medium	Low to medium
Contracting	High	Medium to high	Low	Medium to high	Medium
Joint ventures (EJV and CJV)	Medium To high	Medium to high	Medium To high	High	High
Wholly owned direct investment	High to Very high	Medium to high	Medium To high	High	Medium to high

Direct exporting with branch offices in China. The results confirm the hypothesis because all five critical variables are around medium. This type of entry mode had more resource commitment such as rent and telecommunication services. Therefore the risk and costs were higher than for the other exporting modes. Management control increased as the company was able to make more decisions. Control of the market was also higher as the representative offices were close to customers. The advantages of branch offices located in China were that the representative offices established a sales network in the market, and they could tailor the company's export plan according to changes in the market, resulting in higher sales and profit performance.

Contracting. It is hypothesised that each critical variable in this mode should be medium. Contracting involved resources such as patent rights, trademark rights, copy

rights, product and process know how, and management methods. The hypothesis is rejected as the findings indicate that the risks were high. The reason could be that in China, copyrights and trademark rights are not well protected. However, the return on profit and sales was medium to high, so that companies can become profitable by transferring patents, technology, and other intangible assets to Chinese partners. Moreover, the findings indicate that costs were low, which is not surprising because the firms provided intangible assets which were not costly. The small sample size for contracting also needs to be considered and the conclusions can only be tentative.

Joint ventures. All the critical variables were medium to high, confirming the hypotheses. A joint venture involves a large investment, including capital, equipment, and new technology. It is classified as a high resource investment mode. However, the findings indicate that the risk was not high, and return of profits and sales were medium to high. In China, foreign firms with joint ventures received many advantageous Chinese government policy decisions, such as lower tax, less movement control on foreign exchange and low costs for skilled workers and technicians (Wei and Perry 1995). Additionally, joint venture firms enjoyed a tax holiday for their first three profitable years. The tax rates for joint ventures are lower than those paid by state-owned enterprises or WODI enterprises. Management control and control of the market were also considered high. Australian companies were able to implement management control as the Chinese partners recognised the Australian side's superior knowledge and experience in management. Moreover, joint venture companies gained knowledge and information directly from the market, and thus they were better in control of the market.

Wholly owned direct investment. It was hypothesized that all critical variables should be at a high level, because WODI required the greatest commitment of capital and managerial effort, and offered the fullest means of participation in the market. The findings indicate that the risk was high to very high, and return of profits and sales was medium to high. Risk was highest for WODI because of high competition from ambitious local producers and other foreign companies. If a WODI was profitable, the Chinese government sometimes encouraged it to find a Chinese partner to share its profits and pass along technological and management knowledge, or, a Chinese firm sometimes tried to form a joint venture with other foreign companies producing a similar product to compete with the Australian companies. Moreover, WODI were generally held to strict foreign exchange balance requirements. However, WODI with 100% ownership means 100% profit retention, eliminating the possibility of a local partner receiving a " free ride." The results revealed that return on profit and sales was not so high, the reason being that most of the WODI firms were in a developing stage and needed more time to gain experience. The results indicate that the cost was medium to high, management control was high and control of the market was medium to high. Costs were high in terms of the entire commitment in manufacturing, human resources, management and marketing, but the firms had low costs for skilled workers and technicians. The managers believed in high management control and were able to have complete control without potential conflicts with Chinese partners. It is reasonable that they did not have as much control of the market as the companies operating under joint ventures, because of their need to acquire experience in the Chinese market and to establish their business relationship.

Table 6.7
Summary of Results for Hypotheses in Entry Modes

	H1.2 Risk	*H1.1* Return profits and sales	*H1.3* Cost	*H1.4* Management control	*H1.5* Control of the market
Exporting-through agency in Australia	accept	accept	accept	*reject*	accept
Exporting-through Other countries	accept	*reject*	*reject*	*reject*	*reject*
Direct exporting	accept	accept	accept	accept	accept
Branch offices in China	accept	accept	accept	accept	accept
Contracting	*reject*	accept	*reject*	accept	accept
Joint venture (EJV and CJV)	accept	accept	accept	accept	accept
Wholly owned direct investment	accept	*reject*	*reject*	accept	*reject*

The acceptance or rejection of the hypotheses for each entry mode are summarized in Table 6.7. For direct exporting, exporting with branch offices in China and joint venture, all hypotheses are supported. For exporting-through agencies in Australia, most hypotheses are accepted, except for the variable of management control. For exporting-through other countries, most of the hypotheses are rejected because these hypotheses stated a low resource commitment entry mode, whereas findings suggest it should be a medium resource commitment mode for Australian companies. For contracting, the variables of risk and cost were different from those hypothesised. Moreover, for WODI, the variables of return of profits and sales, cost and management control are lower than hypothesised. In other words, the hypotheses for WODI were accepted for risk and management control, but not for the other variables.

6.8 Chapter Summary

Each type of entry mode was evaluated by five key variables (risk, return, cost, management control and control of market). Further, the hypotheses of Chapter three were tested using a descriptive approach and it was found that the findings of exporting-through agencies in Australia, direct exporting, branch office in China, and joint ventures confirmed the hypotheses. But in WODI, risk is high, and return of profits and sales is lower than expected. The entry mode of exporting-through other countries is rejected because the hypothesis stated it is a low resource commitment mode, when it is found to be a medium resource commitment mode. Moreover, contracting is a high risk and low cost entry mode, which is different from the hypothesis. Exporting-through agencies in Australia had a higher level of management control, and this finding did not confirm the hypotheses.

quality of the measure. Unreliable measures lead to decreased correlation between measures. Thus, if no significant relationship is found between constructs, researchers would not know whether the result was true, or due to the unreliability of the measure (Peter 1979).

The multi-item measurement scale, for tapping into a construct is one suggested way of improving reliability and decreasing measurement error. Most single-item measures provide little evidence of reliability or validity (Jacob 1978). Single item measures have uniqueness or specificity that demonstrates a low correlation with a construct and little relation to other constructs as well. Many constructs are too complex to be measured effectively with a single-item scale. The use of multi-item measures can overcome the weakness of single-item measures, so that multi-item scales are required to achieve both reliable and valid scales (Peter 1979).

The use of multi-items can average out the specificity during aggregation of the item score. Moreover, multiple items allow for greater distinctions to be made between groups of people, instead of a single item used to categorize items into a relatively small number of groups. Finally, in comparison with multi-items, single items have high measurement error and lower reliability because the measure is unlikely to be checked in sequential use of the measurement items (Churchill 1979). Furthermore there are common trends in marketing studies which suggest that it is best to use multi-item measures, because they exhibit high reliability and validity resulting in a higher standard of research (Finn and Keyande 1997).

Table 7.1
The Cronbach Alphas for the Construct

Constructs	Variables	Measures	Cronbach Alphas
Market Characteristics	Q4.3.1	Cultural difference	.7084
	Q4.3.2	Language	
	Q4.3.3	Business relationships	
	Q4.3.4	Negotiating	
	Q4.3.5	Bureaucracy	
	Q4.3.6	Reach right officials	
	Q4.3.7	Local policy	
	Q4.3.8	Dispute resolution	
	Q4.3.9	Access distribution channel	
	Q4.3.10	Exchange risk	
	Q4.3.11	Local customs	
	Q4.3.12	Local partner	
	Q4.3.13	Local company's competition	
	Q4.3.14	Other countries' competition	
	Q4.3.15	Lack of clear regulation	
	Q4.3.16	Tariff	
	Q4.3.17	Experienced staff	
Industry Characteristics	Q2.2.1	Technology orientation	.8337
	Q2.2.2	Average industry gross margin	
	Q2.2.3	Pre-tax profit	
	Q2.2.4	Short-term growth	
	Q2.2.5	Long-term growth	
	Q2.2.6	Capacity utilization	
	Q2.2.7	Bargain with customers	
	Q2.2.8	Bargain with suppliers	
Product Characteristics	Q3.4.1	Product uniqueness	.6454
	Q3.4.2	Product exposure	
	Q3.4.3	Cultural specificity	
	Q3.4.4	Product familiarity	
	Q3.4.5	Product innovation	
	Q6.2.1	Product features	
	Q6.2.2	Product price	
	Q6.2.3	Product quality	
	Q6.2.4	Product services requirement	
	Q6.2.5	Product application	
Firm Characteristics	Q4.5.1	Decrease cost	.6514
Firm Skills	Q4.5.2	Adv. Technology	
	Q4.5.3	New products	
	Q4.5.4	Increase product line	
	Q4.5.5	Time on export/investment	
	Q4.5.6	Time on policy	
	Q4.5.7	Meet customer satisfaction	
	Q4.5.8	Information in departments	
	Q4.5.9	React to customers	
	Q4.5.10	Strategy integrating	
	Q4.5.11	Create value for customer	
Firm Resources	Q1.1	Employees	.7118
	Q1.2	Business experience	
	Q1.3	International business experience	
	Q1.5	Countries of operation	

Table 7.1 Continued...

Constructs	Variables	Measures	Cronbach Alphas
Entry Strategy	Q5.4.1	Level of export sales goals	.8395
	Q5.4.2	Price competitiveness	
	Q5.4.3	Product adaptation	
	Q5.4.4	Product subsequent to entry	
	Q5.4.5	Product position	
	Q5.4.6	Promotion approach	
	Q5.4.7	Packaging adaptation	
	Q5.4.8	Label in local language	
	Q5.4.9	Train sales force	
	Q5.4.10	Support foreign distributor	
Business Performance	Q7.1.b	Performance in China	.8556
	Q7.2.b	Profit in China	
	Q7.3.b	Total sales in China	
	Q7.4.b	Sales growth rate China	
	Q7.7.b	Return on sales	
	Q7.8.b	Return on assets	
	Q7.9.b	Employees	
	Q7.10.b	Return on investment	
	Q7.11.b	Assets book value	
	Q7.12.b	Total assets	
Competitive Position	Q7.6.b	Market share	.6303
	Q6.3.1	Contact with Chinese official	
	Q6.3.2	Contact with many business people	
	Q6.3.3	Being an entry pioneer	
	Q6.3.4	Specialize product	
	Q6.3.5	Price	
	Q6.3.6	Quality	
	Q6.3.7	Technology	
	Q6.3.8	Negotiating skill	
	Q6.3.9	Contact with many distributors	
	Q6.3.10	Export to China	

Churchill (1979) devotes a considerable amount of research to assessing and trying to improve reliability. He suggests two methods to assess reliability: factor analysis and coefficient alpha. Factor analysis and coefficient alpha are used to determine the final, most reliable multi-items of a construct. Factor analysis will be discussed in the later section (refer to 7.3). Coefficient alpha is discussed here.

Coefficient alpha or Cronbach alpha (Cronbach 1951) is the most common method accepted by researchers in assessing the reliability of multi-item measures (Anderson and Weitz 1990). It is a measure of the internal consistency of a set of items, and is considered "absolutely the first measure," one should use to assess the reliability of a measurement scale (Churchill 1979; Nunnally 1978).

A low coefficient alpha indicates that the sample of items did not capture the construct and was not shared in the common core of the construct. Such items should be eliminated in order to increase alpha. Nunnally (1967) suggested that an acceptable alpha is between .50 and .60. Bruner and Hensel (1993) suggested alpha values of .76 and .77. Examination of current marketing literature suggests that the majority of studies had alphas ranging from .60 to .80.

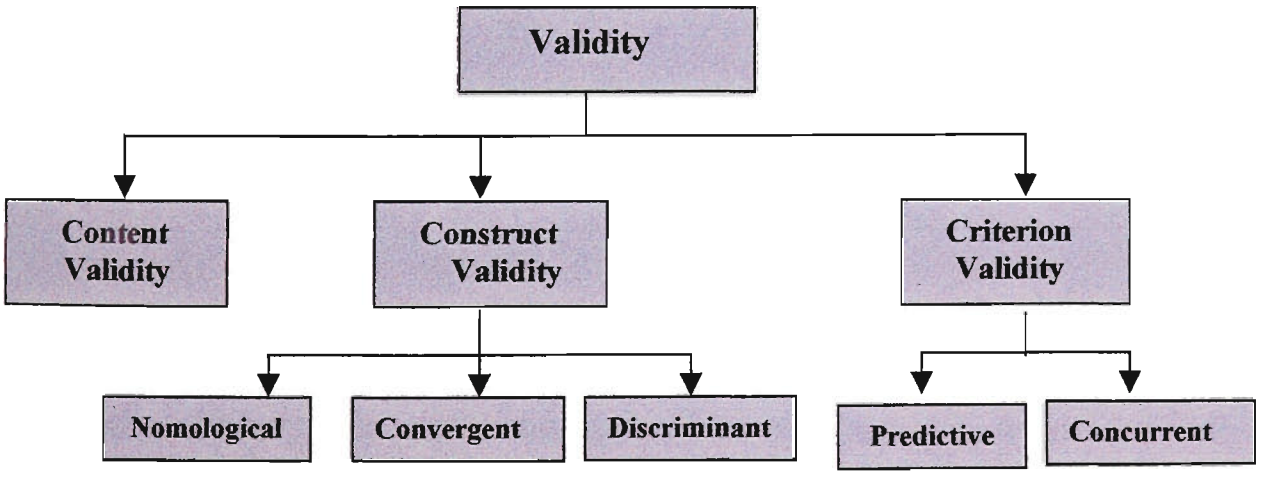
Coefficient alpha is calculated for the major constructs of market characteristics, industry characteristics, product characteristics, firm characteristics (firm resource and firm skills), entry strategy (marketing adaptation), business performance, and competitive position, presented in Table 7.1. All coefficient alphas are at an

acceptable level, and range from the lowest value of .6303 to the highest value at .8556.

7.3 Validity

The validity of a scale is defined as "the extent to which differences in observed scale scores reflect true differences among objects on the characteristic being measured, rather than systematic or random error" (Malhotra 1996, P. 306). There are three main types of validity, content validity, criterion validity and construct validity. Construct validity can be further categorized into nomological validity, convergent and discriminate validity. Criterion validity is classified into predictive and concurrent validity. Each of these types were used in assessing the validity of the items in measuring the constructs. Figure 7.1 displays the variety of validity types.

Figure 7.1 A Classification of Validity



A. Content Validity

Content validity or face validity is a subjective, but systematic assessment of the content to which a scale measures a construct (Malhotra 1996). The scale

development includes, specifying the domain of the construct, generating items from this domain, and resultant purification of the scale should produce a measure which is content valid and reliable (Churchill 1979).

In this study, identifying the existing scales from the literature, conducting in-depth interviews with academics, and inviting industry managers and expert researchers to comment assisted in the scale purification. Finally a pretest in a sample of the companies, established content validity.

Because of its subjective nature, content validity is not a sufficient measure of a scale. It is usually the initial check for validity of a measure and a precursor to construct validity.

B. Construct Validity

Construct validity is most directly concerned with the question of what the instrument is actually measuring (Churchill 1995). It defines the degree to which the measures at the operational level correspond to the construct at the unobservable conceptual level. Construct validity lies at the very heart of construct development. To assess construct validity, it is necessary to consider theoretical questions about why the scale works and what deductions can be made on the basis of theory (Malhotra 1996). While the preceding steps of assessing measurement reliability and content validity establishes an "internally consistent" set of measurement items, this is not sufficient for construct validity (Nunnally1967).

Construct validity is classified into nomological, convergent and discriminant validity. Nomological validity assess as whether the construct correlates in theoretically predicted ways with measures of different but related constructs (Malhotra 1996). In other words, the construct validity assesses whether to confirm or deny the hypotheses predicted from the theory based on the constructs (Churchill 1995). Convergent validity assesses that the measures of the same construct are correlated highly with one another, and discriminant validity assesses that the measures of a construct do not correlate too highly with other constructs.

In marketing research, a variety of methods were observed to test construct validity. Nomological validity was usually established by testing of hypotheses developed from a theoretical framework. Peter (1981) explained that a high internal consistency established through inter-item correlation (i.e. reliability checks) provides support for construct validity. Researchers have suggested several methods for investigation of convergent and discriminant validity such as factor analysis, correlation, and more advanced analysis procedures including confirmatory factor analysis and path analysis. In the literature, some researchers use a LISREL confirmatory factor model to test for convergent and discriminant validity (Kim and Frazier 1997). On the other hand, other researchers used correlation and regression analysis (Heide and John 1988).

In this study, the factor analysis presented Tables 7.2 to 7.9 examines convergent and discriminant validity. From the results, it can be seen that items of a validity scale load high on one factor to demonstrate convergent validity and load lowly on the

other factors to demonstrate discriminant validity. Confirmatory factor analysis (structural equation modelling) in Chapter nine will also provide further assessment of construct validity. Nomological validity will be established through the support of the proposed hypotheses discussed in the following chapters.

The objective of construct validity is to demonstrate the validity of the key constructs of the research. The factor scores for the whole sample (Table 7.2) were considered in the assessment of the convergent and discriminant validity. Apart from a small number of outliers, all the constructs demonstrated strong convergent validity as the final measures (not including deleted items), loaded strongly on one factor, and strong discriminant validity as they loaded lowly on other factors.

C. Criterion Validity

Criterion validity examines whether a measure performs as expected in regard to other constructs selected as meaningful criteria, and can be categorised into concurrent and predictive validity.

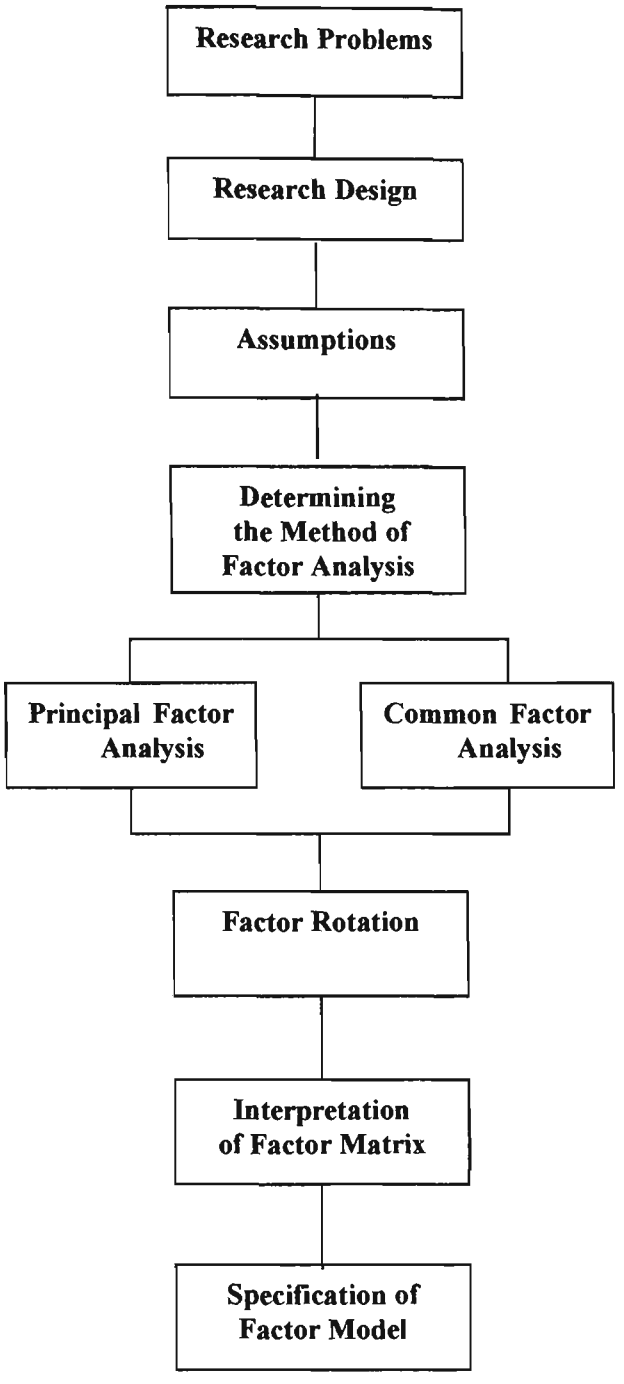
Criterion validity used to be a popular measure of validity in earlier studies (Peter 1981). However, its popularity has vanished with the increasing use of construct validity in current studies. This is probably because criterion validity is synonymous with convergent validity (Zikmund 1994) and assessment for the latter would imply the former was satisfied. Thus, the existence of convergent validity as found in the previous section establishes that criterion validity is also accounted for.

7.5 Procedures of Factor Analysis

Factor analysis is a class of procedures used for summarizing and reducing data. There are two types of factor analysis, exploratory and confirmatory. Exploratory factor analysis is usually applied to determine if a construct consists of more than one underlying dimension (Norusis 1993, Churchill 1979). The use of exploratory factor analysis in the absence of strong theoretical constructs is sometimes at risk of being termed "shotgun empiricism". Confirmatory factor analysis is more useful in testing theories regarding the existence of factors and items explaining those factors (Nunnally 1978). In other words, it assesses the degree to which the data meets the expected structure developed prior to the analysis, on a basis of theoretical support. Confirmatory factor analysis is also conducted with evidence to further support the reliability of the measures, and will be covered in a later chapter (Chapter 9).

The steps of exploratory factor analysis are shown in Figure 7.2.

Figure 7.2
Steps of Conducting Exploratory Factor Analysis



A. Research Problems

The problem found in testing individual relationships between specific variables is that the conceptual framework (Chapter 3) comprises multiple relationships between sets of variables. The complex inter-play between sets of variables requires, as a first step, the identification of the key dimensions of each component of the conceptual framework. Once these dimensions have been identified, it is then possible to analyse the relationships between the dimensional constructs of each component in the conceptual framework.

Before a hypothesis is tested, it needs to define the underlying structure in the data matrix, to identify dimensions in the constructs, and to reduce the number of variables. Factor analysis is needed to resolve these problems.

The objective of exploratory factor analysis in this chapter is:

A). to describe the variable relationships in the constructs,

B). to determine which variables can be estimated,

C). to reduce the analysed variables,

D). to explore the underlying dimensions (factors) in the constructs

E). to identify each factor,

F). to evaluate the model fit,

G). and to formulate the factor model for use in further analysis.

B. Research Design

The first step in the research design focuses on whether R type or Q type factor analysis should be used in calculating the correlation matrix. R type factor analysis derives the input data matrix from the computation of correlations between the variables. In a Q type factor analysis, the result is a factor matrix that can identify similar response patterns (Hair et al. 1995). In this study, R type factor analysis was adopted to analyse relationships among the variables and to identify groups of variables forming latent dimensions.

From the research design, the variables to be included in the factor analysis are determined by the constructs formulated in the conceptual framework. The variables are appropriately measured on an interval scale. In terms of the sample size, Hair et al. (1995) suggest that the sample size should exceed 100, with a minimum ratio of 5 to 1 observations to variables. There is a 15.3 to 1 ratio of observations to variables in the total sample (337), and 9.5 to 1 ratio in the Australian companies' sample (208), which falls within acceptable limits. The correlation matrices of the variables analysed in each construct were computed as a first step in the analysis.

A preliminary search for multicollinearity identified above average correlations ($r>0.50$) between the thirty-six pairs of variables in the sample. In order to reduce the total number of variables, variables with high correlations ($r > .60$) were identified and considered for elimination. Among thirty-six pairs of variables, eleven pairs were correlated at R>. 60, and they are listed below:

Market Characteristics:

Reach right officials – Bureaucracy, r = .651

Industry Characteristics:

Average industry gross margin - Pre-tax profit, r = .667
Bargain with suppliers - Bargain with customers, r = .642

Firm Characteristics:
Firm Skills

Setting objective to meet customer satisfaction
- Customer information sharing in departments, r = .600

Firm Resources

International Business experience - Business experience, r =.633

Product Characteristics:

Product exposure - Product familiarity, r = .620

Entry Strategy (marketing adaptation):

Promotion approach - Product positioning, r = .622
Label in local language - Packaging adaptation, r =. 602

Business Performance:

Return on investment - Return on sales, r = .611
Total sales in China - Return on assets, r = .723
Return on investment - Assets book value, r = .682
Total sales in China - Total Assets, r =. 682

The variables eliminated from analysis are listed below:

Bureaucracy
Pre-tax profit
Bargain with customers
Customer information sharing in departments
Business experience
Product familiarity
Product positioning
Packaging adaptation

Return on sales at recent years
Return on assets recent years
Assets book value recent years
Total Assets at Recent years

The basis for elimination was to remove variables that were most highly and most widely correlated with other variables. It is argued that high correlation renders some variables superfluous, in that they measure the same variation in the data set.

As a result of eliminating twelve variables, the other sixty-nine variables were kept for the purpose of exploratory factor analysis.

C. Assumptions

Some underlying statistical assumptions impact upon the factor analysis. The consideration of normality is not a critical assumption. However, departures from normality, homoscedasticity and linearity apply, to the extent that they diminish the observed correlation. Normality is only necessary if a statistical test is applied to the significance of the factor (Hair et al. 1995). Nevertheless, tests for normality do not show any variables to be significantly skewed.

A basic assumption of factor analysis is that the data matrix has sufficient correlation to justify the application of factor analysis. A visual inspection of seven matrices, namely, market characteristics, industry characteristics, product characteristics, firm characteristics, entry strategy, business performance, and competitive position, revealed a substantial number of correlations greater than .30, providing a potentially adequate basis for factor analysis.

Partial correlations among variables, that is the correlation between variables when accounting for the effects of other variables, were small in each matrix, indicating the data suited factor analysis.

Bartlett's test was used to assess the overall significance of the correlation matrices. Here each matrix was significant at the level .0001. This test suggests the statistical probability that interrelationships exist among the variables.

The Keiser-Meyer-Olkin (KMO) measure of sampling adequacy is used to quantify the degree of intercorrelation among the variables. According to Norusis (1993), Coaked and Steed (1996), KMO is an index for comparing the size of the partial correlation coefficients. Small values for the KMO measure indicate that a factor analysis of the variables may not be useful, due to correlation between pairs of variables. Furthermore, Keiser (1974) and Hair et al. (1995) suggested a measure below .50 is unacceptable.

The Bartlett's test of sphericity was used to test that the correlation matrix is an identity matrix, with all diagonal terms equal to 1 and off-diagonal terms equal to 0. If the Bartlett's test statistic is large and significant, then factorability is assumed (Coakers and Steed 1996; Norusis 1993). The Bartlett measure for all factor analyses are over the significant level .0000. The KMO measure for all of the factor analyses are .60 or above, which is acceptable.

D. Determining the Method of Factor Analysis

Principal components analysis is the most common type of explanatory factor analysis. This method is used to develop factors that account for the total variance in the variables. On the other hand, common factor analysis is used to estimate factors based on variance shared in common by the variables (Sudman and Blair 1998). In this study, principal components analysis is used to explore for latent dimensions.

In order to minimize the number of factors used to account for the maximum percentage of total variance, and to reduce specific error variance, consideration was made about how many factors would be extracted. Several methods are suggested for determining the number of factors to be kept in the analysis. However, eigenvalue measures above 1.0 are the most commonly used method. Eigenvalues represent the percentage of variance explained by a given factor.

E. Factor Rotation

An unrotated factor solution often does not provide a meaningful patterning of variable loadings. Rotation is conducted to simplify the factor structures and enhance more information for factor interpretation. There are two approaches for rotation of factors, orthogonal rotation and oblique rotation. Orthogonal rotation, involves repositioning the factors to achieve right angles between dimensions. In contrast, oblique rotation involves the repositioning of factors without maintaining right angles. Orthogonal rotation was selected, because the purpose of the factor analysis was to reduce the number of variables to a small set of independent factors. The varimax

procedure was used to minimize the number of variables with high loadings on a factor, thereby, improving the interpretability of the factor (Malhotra 1996).

In orthogonal varimax rotation, the total amount of variance extracted is the same for the rotated and unrotated solutions. However, the major difference is that the variance is redistributed more evenly among the factors, so that the factor loading patterns are different, and factors are often more readily interpretable.

F. Interpretation of Factors

A factor loading greater than of .50 is often considered practically significant. The sample size, the number of variables, and the number of factors should be taken into consideration in determining a significant loading (Hair et al. 1995). Only factor loadings greater than .50 were considered significant.

G. Specification of the Factor Models

Variables with higher loadings are considered more important and have a greater influence on the name chosen to represent a factor. If two variables loaded highly on one factor were highly correlated with each other, and relatively uncorrelated with other variables, the factor was assessed as reliable. In the same way, when only one variable was highly correlated with a factor, this factor was also assessed as reliable. However, since the interpretation of single variable factors might be ambiguous and has to be done with caution, these factors were assessed as poorly defined and were

eliminated from the analysis. Variables that loaded lowly (smaller than .50) on factors were also eliminated from the analysis interpretation. Thus, the final analysis focused only on factors which were defined by two or more variables and for which interpretation was clear.

7.4 Factor Analysis of the Whole Sample

Because the aim of this research is to study the relationship between entry strategy and performance, the analysis focused on the external factors (market characteristics and industry characteristics) variables, internal factors (firm skills and product characteristics) variables, entry strategy, long-term performance (competitive position and business performance) variables. Variable selection depended on the construct under study. The external factor analysis matrix contained twenty-two variables; the internal factor analysis matrix also comprised twenty-two variables; the entry strategy matrix included eight variables; and the long-term performance matrix contained seventeen variables.

Table 7.2
Results of Factor Analysis of Whole Sample
(External Factor Variables)

		Factor 1 Industry charact.	Factor 2 Culture differ.	Factor 3 Currency & Custo.	Factor 4 Access distrubt.	Factor 5 Compet.	Factor 6 Local policy	Factor 7 Business Relations
Construct	Eigenvalues	3.389	3.061	1.787	1.412	1.311	1.211	1.061
	% of Variance	15.404	13.915	8.122	6.416	5.960	5.502	4.825
	Items							
Market Barriers	Q4.3.1		.788					
	Q4.3.2		.866					
	Q4.3.3							.684
	Q4.3.4							.561
	Q4.3.6						.701	
	Q4.3.7						.708	
	Q4.3.8						.512	
	Q4.3.9				.651			
	Q4.3.12				.624			
	Q4.3.17				.674			
	Q4.3.10			.767				
	Q4.3.11			.733				
	Q4.3.13					.625		
	Q4.3.14					.673		
	Q4.3.15					.636		
	Q4.3.16					.585		
Industry Character.	Q2.2.1	.624						
	Q2.2.2	.764						
	Q2.2.4	.715						
	Q2.2.5	.678						
	Q2.2.6	.721						
	Q2.2.8	.599						
KMO=0.712 Bartlett=1670.530 Significance = .0000								

For the external environment factor analysis matrix, the unrotated factor solution extracted 7 factors, accounting for 60.1% of total variance, with the first factor explaining 15.4% (refer to Table 7.2).

The orthogonal varimax factor matrix extracted 7 factors that could be retained. The loading pattern, factor structure and factor interpretation are shown in Table 7.2. Norusis (1993) suggests omitting factor loadings less than .50. The dimensions were the composite of variables with significant factor loadings above .50. An inspection of

Table 7.2 and the variables loading significantly on the above 7 factors indicated that these factors (Factor 1 to Factor 7) are well defined by several variables. These factors were kept for further analysis:

Factor 1 Industry characteristics
Factor 2 Culture difference
Factor 3 Currency and custom
Factor 4 Access distribution channels
Factor 5 Competition
Factor 6 Local policy
Factor 7 Business relations

The seven-factor solution identified in Table 7.2 can be explained as follows:

Dimension 1, *Industry characteristics,* consists of technology orientation, average industry gross margin, short-term growth prospects, long-term growth prospects, industry capacity utilization and bargaining power with suppliers.

Dimension 2, *Culture difference,* consists of the variables cultural difference and language.

Dimension 3, *Currency and customs,* includes the variables securing exchange risk and local customs.

Dimension 4, *Access distribution channels,* comprises the variables access distribution channel, local partner and experienced staff.

Dimension 5, *Competition,* comprises the variables competition from local enterprises, competition from other countries, lack of clear regulations and tariff.

Dimension 6, *Local policy,* consists of the variables reaching the right officials, local government policy and local laws, and dispute resolution.

Dimension 7, *Business relations,* consists of the variables business relations with Chinese and negotiating with Chinese.

The factor analysis results for the internal characteristics' variables are given in Table 7.3. The orthogonal varimax rotated factor matrix of 22 variables extracted 7 factors, accounting for 63.5% of the total variance, with the first factor accounting for 20.7% of the total variance. The loadings pattern, factor structure and factor interpretation are shown in Table 7.3. The dimensions were defined by variables with significant factor loadings above .50. Table 7.3 shows that seven factors (Factor 1 to Factor 7) are very well defined by several variables and these factors are kept for further analysis:

Factor 1 Marketing skills
Factor 2 Production skills
Factor 3 Firm resources
Factor 4 Product exposure
Factor 5 Product feature
Factor 6 Product quality
Factor 7 Time commitment

Table 7.3
Results of Factor Analysis of Whole Sample
(Internal Factor Variables)

		Factor 1 Market. skills	Factor 2 Product. skills	Factor 3 Firm resources	Factor 4 Product exposu.	Factor 5 Product feature	Factor 6 Product quality	Factor 7 Time commit.
Construct	**Eigenvalues**	4.550	2.439	1.808	1.473	1.383	1.212	1.102
	% of Variance	20.680	11.085	8.218	6.697	6.286	5.509	5.008
	Items							
Firm Skills	Q4.5.1		.722					
	Q4.5.2		.777					
	Q4.5.3		.724					
	Q4.5.4		.592					
	Q4.5.5							.816
	Q4.5.6							.843
	Q4.5.7	.786						
	Q4.5.9	.744						
	Q4.5.10	.686						
	Q4.5.11	.787						
Firm Resources	Q1.1			.761				
	Q1.3			.776				
	Q1.5			.776				
Product Charact.	Q3.4.1				.609			
	Q3.4.5				.673			
	Q3.4.2				.705			
	Q3.4.3				.557			
	Q6.2.2						.845	
	Q6.2.3						.723	
	Q6.2.1					.617		
	Q6.2.4					.745		
	Q6.2.5					.592		
KMO=0.775 Bartlett=1995.910 Significance = .0000								

Dimension 1, *Marketing skills,* describes the firm's marketing abilities, comprising the variables setting objectives to meet customer satisfaction, reacting quickly to competitor's action, marketing strategy integrating the activities of all departments and all departments aware of their role in creating superior value for the customer.

Dimension 2, *Production skills,* describes the firm's producing capabilities, consisting of decreasing the cost of production, using advanced production technology, developing new products, and increasing the product line.

Dimension 3, *Firm resources,* includes the variables employees, international business experiences, and countries of operation.

Dimension 4, *Product exposure,* consists of the variables uniqueness of the product, product exposure in the Chinese market and cultural specificity of product, and degree of product innovation.

Dimension 5, *Product attribute*, comprises the variables product features, product service requirement and product application.

Dimension 6, *Product quality,* includes the variables product quality and price.

Dimension 7, *Time commitment*, consists of variables time of top management on investment activity and time of top management on investment policy.

Table 7.4
Results of Factor Analysis of Whole Sample
(Entry Strategy)

	Factors Extracted	Factor 1 Marketing adaptation	Factor 2 Channel adaptation
Construct	**Eigenvalues**	**3.220**	**1.304**
	% of Variance	**40.245**	**16.302**
Entry Strategy	**Items**		
	Q5.4.1	.669	
	Q5.4.2	.557	
	Q5.4.3	.802	
	Q5.4.4	.813	
	Q5.4.6	.630	
	Q5.4.8*		
	Q5.4.9		.845
	Q5.4.10		.857
KMO=0.771 Bartlett=729.720 Significance = .0000			

* Factor loading less than .50.

For entry strategy, the orthogonal varimax factor matrix extracted 2 factors. The patterns of loading, factor structure and factor interpretation are shown in Table 7.4. One variable (Q5.4.8) had a factor loading of less than .50. The dimensions were the composite of variables with significant factor loadings above .50. The inspection of Table 7.2 and the variables loading significantly on the above 2 factors indicated that the two factors are well defined by several variables. They were kept for further analysis. These two factors accounted for 56.5% of total variance and are defined as:

Factor 1 Marketing adaptation
Factor 2 Channel adaptation

The two-factor solution identified in Table 7.4 can be explained as follows:

Dimension 1, *Marketing adaptation,* consists of the variables level of sales goal set for the venture, price competitiveness in the Chinese market, initial product adaptation, product adaptation subsequent to entry, and adaptation of promotion approach.

Dimension 2, *Channel adaptation,* comprises the variables amount of training of the sales force of the foreign distributor and overall support to the foreign distributor.

Table 7.5
Results of Factor Analysis of the Whole Sample
(Long-term Performance Variables)

	Factors Extracted	Factor 1 Market perform.	Factor 2 Product competit. position	Factor 3 Profit	Factor 4 Distributor competit.	Factor 5 Contact with Chinese	Factor 6 Price competit.
Construct	**Eigenvalues**	**3.278**	**2.459**	**1.653**	**1.278**	**1.040**	**1.009**
	% of Variance	**19.282**	**14.467**	**9.722**	**7.520**	**6.120**	**5.936**
	Items						
Business Performance	Q7.1.b			.726			
	Q7.2.b			.736			
	Q7.3.b	.596					
	Q7.4.b	.720					
	Q7.9.b	.677					
	Q7.10.b	.740					
	Q7.6.b	.636					
Competitive Position	Q6.3.1					.875	
	Q6.3.2					.742	
	Q6.3.3		.590				
	Q6.3.4		.795				
	Q6.3.6		.641				
	Q6.3.7		.709				
	Q6.3.5						.802
	Q6.3.8						.523
	Q6.3.9				.757		
	Q6.3.10				.773		
KMO=.698 Bartlett=127.449 Significance = .0000							

The factor analysis results for the performance and competitive position variables are given in Table 7.5.

The orthogonal varimax rotated factor matrix of 17 variables indicated that 6 factors were extracted, accounting for 63% of the total variance, with the first factor

accounting for 19.3% of total variance. The pattern of loadings, factor structure and factor interpretation are shown in Table 7.5. The dimensions were defined by variables with significant factor loadings above .50. Table 7.5 shows that two factors are very well defined by several variables. One is performance, another is competitive position. The other four factors (Factor 3 to Factor 6) are only loading with two variables.

These factors are the following:

Factor 1 Market performance
Factor 2 Product competitive position
Factor 3 Profit
Factor 4 Distributor competition
Factor 5 Contact with Chinese
Factor 6 Price competition

Dimension 1, *Market performance,* refers to the economic and strategic performance of the firms, and consists of total sales volume, sales growth rate, employee' growth rate and return on investment, and market share.

Dimension 2, *Product competitive position,* comprises the variables specialised product, price, quality and technology.

Dimension 3, *Profit,* includes the variables of profit and performance.

Dimension 4, *Distributor competition,* consists of the variables of contact with many distributors and export to China.

Dimension 5, *Contact with Chinese,* comprises the variables of contact with Chinese officials and contact with many business people.

Dimension 6, *Price competition,* includes the variables of price and negotiating skill.

7.6 Factor Analysis of The Australian Companies' Sample

The result of the factor analysis for the Australian companies' sample is illustrated in Table 7.6. The external environment analysis matrix comprised twenty-two variables; the internal characteristics factor analysis matrix contained twenty-two variables; the entry strategy matrix included eight variables; and the competitive position and performance matrix contained seventeen variables.

For the external environment factor analysis matrices, the unrotated factor solution extracted 7 factors, which accounted for 60.9% of variance, with the first factor explaining 16.2% (refer to Table 7.6).

The orthogonal varimax factor matrix extracted 7 factors which could be retained. The rotated loading matrix, factor structure and factor interpretation are shown in Table 7.6. One variable (Q4.3.3) had a factor loading less than .50. The dimensions were the composite of variables with significant factor loading above .50. Inspection of Table 7.6 and the variables loading significantly on the above 7 factors indicated that seven factors (Factor 1 to Factor 7) are well defined by several variables, and these factors were kept for further analysis:

Factor 1 Culture difference
Factor 2 Industry growth

Factor 3 Competition
Factor 4 Access distribution channel
Factor 5 Currency
Factor 6 Industry technology
Factor 7 Local policy

Table 7.6
Results of Factor Analysis of the Australian Sample
(External Factor Variables)

		Factor 1 Culture differ.	Factor 2 Industry growth	Factor 3 Compet.	Factor 4 Access distrubt.	Factor 5 Currency	Factor 6 Industry technol.	Factor 7 Local policy
Construct	**Eigenvalues**	**3.559**	**2.703**	**1.876**	**1.670**	**1.371**	**1.188**	**1.028**
	% of Variance	**16.177**	**12.287**	**8.529**	**7.589**	**6.231**	**5.399**	**4.675**
	Items							
Market Barriers	Q4.3.1	.746						
	Q4.3.2	.850						
	Q4.3.3*							
	Q4.3.4	.554						
	Q4.3.6							.663
	Q4.3.7							.719
	Q4.3.8							
	Q4.3.9				.681			
	Q4.3.12				.561			
	Q4.3.13				.575			
	Q4.3.17				.503			
	Q4.3.10					.751		
	Q4.3.11					.691		
	Q4.3.14			.778				
	Q4.3.15			.657				
	Q4.3.16			.590				
Industry Character.	Q2.2.2		.510					
	Q2.2.4		.839					
	Q2.2.5		.795					
	Q2.2.6		.625					
	Q2.2.1						.713	
	Q2.2.8						.710	
KMO=0.654 Bartlett=1125.016 Significance = .0000								

* Factor loading less than .50.

The six-factor solution identified in Table 7.6 can be explained as follows:

Dimension 1, *Culture difference,* consists of the variables cultural difference, language, negotiating with Chinese.

Dimension 2, *Industry growth,* comprises the variables average industry gross margin, short-term market growth prospects, projected market growth rate, and industry capacity utilisation.

Dimension 3, *Competition,* consists of the variables competition from other countries, lack of clear regulations and high tariff levels.

Dimension 4, *Access distribution channel,* consists of the variables access to distribution channels, dispute resolution, finding the right local partner, competition from local enterprises.

Dimension 5, *Currency and customs,* included the variables securing exchange risk and local customs.

Dimension 6, *Industry technology,* included the variables technology orientation and bargaining power vis-a-vis major suppliers.

Dimension 7, *Local policy,* consists of the variables reaching the right officials, and local government policy.

For the internal characteristics factor analysis matrix, the unrotated factor solution extracted 8 factors, which accounted for 68.9% of variance, with the first factor explaining 22.3% (refer to Table 7.7).

The orthogonal varimax factor matrix extracted 8 factors which could be retained. The pattern of loading, factor structure and factor interpretation are shown in Table 7.7. One variable (Q6.2.1) had a factor loading less than .50. The dimensions were the composite of variables with significant factor loadings above .50. Inspection of Table 7.7 and the variables loading significantly on the 8 factors indicated that these factors (Factor 1 to Factor 8) were well defined by several variables. These factors were kept for further analysis:

Factor 1 Marketing skills
Factor 2 Production skills
Factor 3 Product innovation
Factor 4 Time commitment
Factor 5 Product quality
Factor 6 Product exposure
Factor 7 Firm resources
Factor 8 Product application

Table 7.7
Results of Factor Analysis of the Australian Sample
(Internal Factor Variables)

		Factor 1 Market. skills	Factor 2 Product. skills	Factor 3 Product innovation	Factor 4 Time commitment
Construct	**Eigenvalues**	4.902	2.178	1.744	1.614
	% of Variance	22.282	9.898	7.927	7.335
	Items				
Firm Skills	Q4.5.1		.663		
	Q4.5.2		.758		
	Q4.5.3		.691		
	Q4.5.4		.619		
	Q4.5.5				.818
	Q4.5.6				.776
	Q4.5.7	.822			
	Q4.5.9	.773			
	Q4.5.10	.574			
	Q4.5.11	.738			
Firm Resources	Q1.1				
	Q1.3				
	Q1.5				
Product Character.	Q3.4.1			.770	
	Q3.4.5			.796	
	Q3.4.2				
	Q3.4.3				
	Q6.2.2				
	Q6.2.3				
	Q6.2.1*				
	Q6.2.4				
	Q6.2.5				

Table 7.7 continued

		Factor 5 Product quality	Factor 6 Product exposure	Factor 7 Firm resources	Factor 8 Product application
Construct	**Eigenvalues**	1.426	1.147	1.094	1.039
	% of Variance	6.480	5.214	4.973	4.722
	Items				
Firm Skills	Q4.5.1				
	Q4.5.2				
	Q4.5.3				
	Q4.5.4				
	Q4.5.5				
	Q4.5.6				
	Q4.5.7				
	Q4.5.9				
	Q4.5.10				
	Q4.5.11				
Firm Resources	Q1.1			.511	
	Q1.3			.780	
	Q1.5			.781	
Product Character.	Q3.4.1		.793		
	Q3.4.5		.695		
	Q3.4.2				
	Q3.4.3				
	Q6.2.2	.829			
	Q6.2.3	.768			
	Q6.2.1*				
	Q6.2.4				.673
	Q6.2.5				.700
KMO=0.740 Bartlett=1400.940 Significance = .0000					

* Factor loading less than .50.

Dimension 1, *Marketing skills,* describes the firm's marketing abilities, comprising setting objectives to meet customer satisfaction, reacting quickly to competitor's actions, marketing strategy integrating the activities of all departments and all departments aware of their role in creating superior value for the customer.

Dimension 2, *Production skills,* describes the firm's producing capabilities, consisting of decreasing the cost of production, using advanced production technology, developing new products, and increasing the product line.

Dimension 3, *Product innovation*, comprises the variables uniqueness of the product, and product innovation.

Dimension 4, *Time commitment*, consists of variables time of top management on investment activity and time of top management on investment policy.

Dimension 5, *Product quality* included the variables product quality and price.

Dimension 6, *Product exposure*, consists of the variables product exposure in the Chinese market and cultural specificity of product.

Dimension 7, *Firm resources*, includes the variables employees, international business experiences, and countries of operation.

Dimension 8, *Product application*, includes the variables product application and product service requirement.

Table 7.8
Results of Factor Analysis of the Australian Sample
(Entry Strategy)

	Factors Extracted	Factor 1 Marketing adaptation	Factor 2 Channel adaptation
Construct	**Eigenvalues**	**3.271**	**1.275**
	% of Variance	**40.882**	**15.936**
Entry strategy	**Items**		
	Q5.4.1	.613	
	Q5.4.2	.578	
	Q5.4.3	.809	
	Q5.4.4	.824	
	Q5.4.6	.570	
	Q5.4.8*		
	Q5.4.9		.849
	Q5.4.10		.862
KMO=0.771 Bartlett=729.720 Significance = .0000			

* Factor loading less than .50.

The results for entry strategy are similar to the whole sample. The orthogonal varimax factor analysis extracted 2 factors which could be retained. The patterns of loading, factor structure and factor interpretation are shown in Table 7.8. One variable (Q5.4.8) had a factor loading less than .50. The dimensions were the composite of variables with significant factor loadings above .50. Inspection of Table 7.8 and the variables loading significantly on the above 2 factors indicated that two factors are well defined by several variables and were kept for further analysis. These two factors accounted for 56.8% of total variance and are:

Factor 1 Marketing adaptation
Factor 2 Channel adaptation

The two-factor solution identified in Table 7.8 can be explained as follows:

Dimension 1, *Marketing adaptation,* consists of the variables: level of sales goal set for the venture, price competitiveness in the Chinese market, initial product

adaptation, product adaptation subsequent to entry, and adaptation of promotion approach.

Dimension 2, *Channel adaptation,* comprises the variables amount of training of the sales force of the foreign distributor and overall support to foreign distributor.

The factor analysis results for long-term performance are given in Table 7.9.

The orthogonal varimax rotated factor analysis of 17 variables indicated that 6 factors are extracted, accounting for 63.3% of the total variance, with the first factor accounting for 15.3% of the total variance. The loadings matrix, factor structure and factor interpretation are shown in the Table 7.9. The dimensions were defined by variables with significant factor loadings above .50. Table 7.9 shows that two factors (Factor 1 and Factor 2) are very well defined by several variables. One is performance, another is competitive position. The other four factors (Factor 4 to Factor 6) are only loading with two variables.

Table 7.9
Results of Factor Analysis of the Australian Sample
(Long-Term Performance Variables)

	Factors Extracted	Factor 1 Market perform.	Factor 2 Product competit. position	Factor 3 Profit	Factor 4 Distributor competit.	Factor 5 Contact with Chinese	Factor 6 Price competit.
Construct	**Eigenvalues**	**3.278**	**2.459**	**1.653**	**1.278**	**1.040**	**1.009**
	% of Variance	**19.282**	**14.467**	**9.722**	**7.520**	**6.120**	**5.936**
	Items						
Business Perform.	Q7.1.b			.763			
	Q7.2.b			.709			
	Q7.3.b	.610					
	Q7.4.b	.660					
	Q7.9.b	.592					
	Q7.10.b	.732					
Competitive Position	Q7.6.b	.637					
	Q6.3.1					.824	
	Q6.3.2					.751	
	Q6.3.3		.622				
	Q6.3.4		.807				
	Q6.3.6		.573				
	Q6.3.7		.701				
	Q6.3.5						.704
	Q6.3.8						.776
	Q6.3.9				.788		
	Q6.3.10				.769		
KMO=.636 Bartlett=801.180 Significance = .0000							

These six factors are in the following:

Factor 1 Market performance
Factor 2 Product competitive position
Factor 3 Profit
Factor 4 Distributor competition
Factor 5 Contact with Chinese
Factor 6 Price competition

Dimension 1, *Market performance,* refers to the economic and strategic performance of the firms, and includes of variables of total sales volume, sales growth rate, employee' growth rate and return on investment, and market share.

Dimension 2, *Product competitive position,* comprises the variables specialised product, price, quality and technology.

Dimension 3, *Profit,* includes the variables of profit and performance.

Dimension 4, *Distributor competition,* consists of the variables of contact with many distributors and export to China.

Dimension 5, *Contact with Chinese,* comprises the variables of contact with Chinese officials and contact with many business people.

Dimension 6, *Price competition Product,* includes the variables of price and negotiating skill.

7.7 Chapter Summary

Exploratory factor analysis was used to identify a clear number of dimensions in the constructs. The factor analysis results indicate that the dimensions of the Australian sample are in harmony with that of the whole sample. The dimensions derived for each sample are as following:

Whole sample

External factor variables:

1 Industry characteristics
2 Culture difference

3 Currency and custom
4 Access distribution channels
5 Competition
6 Local policy
7 Business relations

Internal factor variables:

1 Marketing skills
2 Production skills
3 Firm resources
4 Product exposure
5 Product feature
6 Product quality
7 Time commitment

Entry strategy variables:

1 Marketing adaptation
2 Channel adaptation

Long-term performance variables:

1 Market performance (Business performance)
2 Product competitive position (Competitive position)
3 Profit
4 Distributor competition
5 Contact with Chinese
6 Price competition

Australian sample

External factor variables:

1 Culture difference
2 Industry growth
3 Competition
4 Access distribution channel
5 Currency
6 Industry technology
7 Local policy

Internal factor variables:

1 Marketing skills
2 Production skills
3 Product innovation

4 Time commitment
5 Product quality
6 Product exposure
7 Firm resources
8 Product application

Entry strategy variables:

1 Marketing adaptation
2 Channel adaptation

Long-term performance variables:

1 Market performance (Business performance)
2 Product competitive position (Competitive position)
3 Profit
4 Distributor competition
5 Contact with Chinese
6 Price competition

CHAPTER 8

EXAMINATION OF TIMING OF ENTRY AND INVESTMENT AT ENTRY

8.1 Introduction

This chapter focuses on the entry strategy components described in Chapter three: timing of entry and investment at entry. The relationships investigated are between the external (market characteristics and industry characteristics) and the internal (firm characteristics and product characteristics) factors, entry strategies (timing of entry and investment at entry), long-term performance (business performance and competitive position) of Australian companies. Regression is conducted because timing of entry and investment at entry are univariate measures.

Firstly, the relationships between market characteristics, industry characteristics, firm characteristics, and product characteristics on entry strategy are investigated. Secondly, the relationships of entry strategies (timing of entry and investment at entry) on business performance and competitive position are discussed.

8.2 Procedures of Correlation and Multiple Regression Analysis

8.2.1 Correlation

The product moment correlation is the most common approach summarising the strength of association between two metric (interval or ratio scaled) variables (Malhotra 1996). It is used to determine if correlations exist between the external and internal factors and entry strategy, and between entry strategy and long-term performance. Bivariate correlation is the most common analysis of a linear relationship between two variables. Pearson's correlation is the default SPSS method, which produces a matrix of correlation coefficients (r) and indicates the strength of the linear relationship, ranging from –1 to +1. Four correlation matrices of market characteristics, industry characteristics, firm characteristics and product characteristics are produced, for entry strategy (timing of entry and investment at entry) respectively. Furthermore, two correlation matrices of entry strategy are produced for business performance and competitive position.

Correlation analysis, while useful in showing the relationship between the variables as a first step in statistical analysis, does not provide information on the power of the independent variables (i.e. market characteristics, industry characteristics, firm characteristics and product characteristics) in predicting the dependent variables (time of entry, investment of entry). In order to do so, multiple regression and stepwise regression are used.

8.2.2 Regression

Research Objective and Research Design

Multiple regression analysis provides a method for the prediction of a single dependent variable (criterion) by several independent variables (predictor) (Coakes and Steed 1996; Hair et al. 1995). Stepwise regression is a common sequential approach to variable selection. Stepwise regression analysis sequentially examines the contribution of each predictor of the external and internal factors (market environment, industry characteristics, firm characteristics and product characteristics) to entry strategy (timing of entry and investment at entry) and develops a multiple stepwise regression model based upon specific constructs.

As suggested by Hair et al. (1995), the minimum ratio of the observation for each independent variable is 5 to 1. The size of the Australian sample is 208, which meets this requirement.

Examination for Violations of Assumptions

It is necessary to examine a multiple regression as a set of assumptions which must be accounted for prior to analysis (Coakes and Steed 1996). The assumptions of correlation analysis are a sub-set of those for multiple regression analysis. The assumptions underlying multiple regression analysis apply both to the individual variables (dependent and independent) and to the relationship as a whole in each matrix. Norusis (1993) advised several tests for violations of assumptions in advance

of conducting a regression analysis. He identified that assumptions are seldom not violated in statistical procedures, but this does not justify ignoring them. The assumptions to be examined are linearity, independence of error, normality, outliers and muticollinearity.

Linearity A scatterplot of the standardised residuals and standardised predicted values was used to examine for linearity and homogeneity of variance. Systematic patterns suggest a possible violation of the assumption of linearity (Norusis 1993; Coakes and Steed 1996). The residuals of thirteen regression analyses as displayed by scatterplots were randomly distributed in a band clustered around a line through zero, indicating that the assumption of linearity is not violated.

Independence of Error In regression, each predicted value is assumed to be independent, which means that the predicted value is not related to any other predicted value; that is, they are not sequenced by any variable. The Durbin-Watson statistic, a test for serial correlation of adjacent error terms, was used to test for independence of error. The statistic ranges from 0 to 4, and a statistic value close to 2 is considered acceptable (Norusis 1993). The Durbin-Watson statistics for the thirteen regression equations are all close to 2 with the lowest 1.531 and the highest 2.196.

Normality Tests for normality use cumulative probability plots. Expected cumulative and observed cumulative distributors are plotted against each other for a series of points, where the diagonal in the middle of the graph represents a "normal"

line (Norusis 1993). All the plots in the sample were around the normal line, indicating that the assumption of normality is not violated.

Outliers Casewise plots for the **thirteen** regressions were produced, which indicated the identification numbers of any outlying case. Lewis-Beck's (1993) method of excluding the outlying observations and rerunning the regression was used for the equation where an outlier was found.

Multicollinearity High intercorrelations among the independent variables can create problems in assessing the relative importance of the independent variables in explaining the dependent variable. It is necessary to test each external and internal factor construct to check for this assumption in detail. Several steps were involved. Firstly, correlation matrices were examined, and highly correlated variables were removed (refer Chapter 7.5), systematically, so that the least number of independent variables were taken out. The resultant correlation matrices shown in Tables 8.1, 8.4, 8.7, 8.10, 8.13, 8.15 indicate that multicollinearity has been removed as a problem.

Additionally, the tolerance value statistic was calculated to test for collinearity. Tolerance is the amount of variability of the independent variable not explained by other independent variables. A small tolerance indicates that collinearity exists. Additionally, variance inflation factors (VIF), which correspond to tolerance were calculated. The tolerance values of the regression equations are much greater than the default tolerance level of 0.0001 (Norusis 1993), and the VIFs are well below the cut of score off 10 (Hair et al. 1995). Therefore, all the tests indicate that this assumption was not violated.

Regression Method

Three major regression models can be run using the SPSS package: standard (simultaneous), hierarchical and stepwise regressions. The aims of the regression analysis are: to test the relationships between the entry strategy variables on the competitive position and business performance variables; and to understand which variables in market characteristics, industry characteristics, firm characteristics and product characteristics significantly contribute to explaining entry strategy variables, and to examine the hypothesised relationships between the external and internal factors, entry strategies and long-term performance.

A stepwise multiple regression model from the SPSS 7.6 package was used for testing the relationship of external and internal factor variables on entry strategy variables, in order to select the significant variables from market characteristics, industry characteristics, firm characteristics and product characteristics on timing of entry and investment at entry. A standard multiple regression model was conducted to test the relationship for entry strategy variables on the business performance and competitive position variables, because entry strategy has only two variables: timing of entry and investment at entry; a factor analysis approach is not possible, and multiple regression is a powerful test for this situation. It is common practice in multiple regression to focus upon the strength of the explained variance (measured by R^2). However, in this analysis the model conceptualised in Chapter 3 defines numerous explanatory variables, so that the contribution of individual variables is met high. Consequently, the focus of the following analyses is placed more upon the

statistical significance of the relationships (significance of β) rather than the strength of the coefficient of determination.

8.3 Market Characteristics with Entry Strategy

8.3.1 Overall Results

Correlations of Market Characteristics and Entry Strategy

The correlation matrix of the market barriers with the dependent variables (timing of entry, investment at entry), is illustrated in Table 8.5. For the entry strategy variables, the correlation coefficients in the line of timing of entry demonstrate significant correlation exists in availability of experienced managerial staff in China (ES=.210**) and other countries competition (OOC=.153*). However, other market barrier factors do not appear to have strong correlation with timing of entry. The line of investment at entry has a significantly positive correlation coefficient for availability of experienced managerial staff (ES=.285***) and dispute resolution (DR=.248***). The negative coefficients are with language (Lan=-.179**) and business relationship (BR= -.143*).

Table 8.1
Correlation Matrix of the Market Characteristics with Entry Strategy

	Cul.	Lan	BR	Neg.	RRO	LO	DR	ADC	ER	LC	LP	LCC	OCC	LCR	Tar.	ES
Cultural difference (Cul)	1.000															
Language (Lan)	.570***	1.000														
Business relation (BR)	.278***	.214**	1.000													
Negotiating(Neg)	.318***	.383***	.330***	1.000												
Reach right officials (RRO)	.350***	.292***	.307***	.214**	1.000											
Local policy (LO)	.228**	.126	.175*	.109	.373**.	1.000										
Dispute resolution (DR)	.237**	.249***	.079	.316***	.285**.	.290***	1.000									
Access distribut. channels (ADC)	.128	.157*	.064	.273	.152*	.188**	.196**	1.000								
Exchange risk (ER)	.031	.068	.088	.145*	.189**.	.086	.123	.117	1.000							
Local customs(LC)	.171*	.279***	.070	.356***	.200**	.229**	.429***	.327***	.422***	1.000						
Local partner (LP)	.134	.160	.149*	.091	-.035	.005	.146*	.286***	.072	.194**	1.000					
Local company' competit. (LCC)	-.031	.100	-.050	.144*	-.046	.133	.087	.290***	.091	.206**	.216**	1.000				
Other countries' competit. (OCC)	-.024	.009	.205**	.190**	.178*	.014	.008	.049	-.009	.046	.005	.219**	1.000			
Lack of clear regulation (LCR)	.097	.221	.157*	.222**	.305***	.125	.154*	.090	.186**	.152*	.132	.267***	.327***	1.000		
Tariff (Tar.)	-.101	-.058	.003	.152*	.026	.051	.034	-.008	.308	.200**	.040	.311***	.247***	.382***	1.000	
Experienced staff (ES)	.129	-.041	-.143	.097	.021	.111	.152*	.229**	-.018	.085	.145	.114	.035	-.068	.047	1.000
Timing of entry	**-.033**	**.047**	**.025**	**.053**	**.078**	**.103**	**.003**	**-.023**	**.087**	**-.008**	**-.025**	**-.081**	**.153***	**.035**	**-.023**	**.210****
Investment at entry	**-.065**	**-.179****	**-.143***	**-.107**	**.005**	**.015**	**.248*****	**.057**	**-.055**	**.064**	**.012**	**.060**	**.002**	**-.069**	**-.123**	**.285*****

*** p<.001; **p<.01; *p<.05

Stepwise regression is used to better understand which determinants contribute to entry strategy (timing of entry, investment at entry). The foreign market characteristics variables are independent variables. The dependent variables are entry strategies comprising timing of entry and investment at entry.

Timing of Entry

Of the 16 variables (Table 8.1), the measure of timing of entry was best explained by availability of experienced managerial staff, competition from other countries' and local company competition. As indicated in Table 8.6. This regression explained 20.1% of the variance in timing of entry.

The regression coefficients indicate that while availability of experienced managerial staff (β=.221, $p<.001$) and competition from other countries (β=.177, $p<.011$) positively relate to timing of entry, local company competition (β=-.145, $p<.037$) negatively influences timing of entry. The results indicate that the higher the level of availability of managerial experienced staff and competition from other countries, the earlier the timing of entry. The reason why availability of experienced managerial staff influences timing of the entry, could be that most Australian companies need management and professional people to develop regional business in China. Also, competition from other countries will be more severe the earlier the market entry. This could be explained by China suddenly opening its door after a long period of isolation, and the Chinese market becoming more competitive. These findings suggest that Australian companies have to enter the market early in order to get market share, while, firms facing a low level of

local company competition might decide to be earlier to enter into the market, and this is consistent with what one might expect to find.

Table 8.2
Step-wise Regression of Market Characteristics and Timing of Entry

Predictors	Beta	t-value	p-value
Experienced staff	.221	3.271	.001
Other countries' competition	.177	2.577	.011
Local company' competition	-.145	-2.095	.037
R^2	.201		
Adjusted R^2	.186		
F-Ratio	12.800		
p-value	000		

Investment at Entry

The stepwise regression results for investment at entry are shown in Table 8.3, and indicate that the measure is best explained by availability of experienced managerial staff, dispute resolution, language and tariffs. As indicated in Table 8.3, this regression explains 36% of the variance in the measure investment at entry.

Table 8.3
Step-wise Regression of Market Characteristics and Investment at Entry

Predictors	Beta	t-value	p-value
Experienced staff	.279	4.244	.000
Dispute resolution	.240	3.770	.000
Language	-.248	-3.802	.000
Tariff	-.158	-2.510	.013
R^2	.3602		
Adjusted R^2	.3329		
F-Ratio	13.1760		
p-value	.000		

The first variable to enter the step-wise regression was availability of experienced staff (β=.279 p<.000), followed by dispute resolution (β=.240 p<.000), language (β=-.248 p<.000) and tariff (β=-.158 p<.013). Experienced staff and dispute resolution have positive coefficients, while language and tariff are negative. A high level of dispute resolution and the availability of experienced staff results in more investment at entry. A high level of language difference and tariffs, results in less investment at entry, and this is consistent with the Australian experience of tariffs barricading Australian exports (O'Donnell, 1999).

8.3.2 Discussion

Based on the stepwise regression results, the hypotheses in Chapter three concerning market barriers and entry strategy are discussed below.

H2.1: The lower the level of competition, the earlier will be market entry.

Two variables explaining competition are competition from local enterprises and competition from other countries' enterprises in the Chinese market. The regression of competition from local enterprises (β=-145, p< .037) indicates that the lower the level of competition in the market, the earlier firms enter the market, which confirms the hypothesis. However, the regression of competition from other countries' enterprises also indicates (β=.177, p<.011) earlier market entry, which rejects the hypothesis. It is possibly not surprising that competition from foreign companies does not affect timing

of market entry as companies have tended to enter together as a result of the opening of the Chinese market, however, hesitation or restraint may have resulted from competition already located in the Chinese marketplace.

H2.2: The more a company has experienced managerial staff available in China, the earlier will be market entry.

The results indicate that availability of experienced managerial staff (β= .221, p<. 001) is positively related to timing of entry (Table 8.2). It indicates that a company with more experienced staff is able to enter the market early. The finding confirms the hypotheses and agrees with the literature (Osland and Cavusgil 1996), which states that manager characteristics make an important contribution to joint ventures in China.

H2.3: The lower the level of the market barriers in language difference, the more the firm will invest at entry time.

Language difference (β=-.248, p>.000) has a negative and significant coefficient, and confirms the hypothesis. The market barriers of language difference negatively impact on an Australian companies' investment at entry, (which agrees with the literature, Karakay 1993, Barkema, Bell and Penning 1996). Firms new to entering the Chinese market might be unfamiliar with Chinese culture, including language differences, and therefore they start with a relatively small investment.

H2.4: The higher the level of tariff, the more the firm will invest at entry time.

The variable of tariff (β=-.158 p>.013) is significantly negatively related with investment at entry. The results reject the hypothesis that high tariffs increase investment. The finding indicates that China's tariff structure is an important negative factor impacting on entry into China.

H2.5: The more a company has experienced managerial staff available in China, the more the firm will invest at entry time.

The variable of availability of experienced managerial staff (β=.240 p>.000) has a positively significant relationship with investment at entry, and this confirms the hypothesis. The finding implies that a firm with more experienced managerial staff available in China have the confidence to invest more.

8.4 Industry Characteristics with Entry Strategy

The relationships between industry characteristics and entry strategies are discussed in this section. The industry characteristics variables are used as independent variables in a regression analysis, with the dependent variables being timing of entry and investment at entry. Stepwise regressions are conducted to identify which industry variables significantly contribute to entry strategy (timing of entry and investment at entry).

8.4.1 Overall Results

Correlations of Industry Characteristics and Entry Strategy

The correlation matrix of industry characteristics with the dependent variables is shown in Table 8.4. For the entry strategy dependent variables, the correlation coefficients for timing of entry indicate a significant correlation with technology orientation (TO=.191**). While, the correlation coefficient for investment at entry shows a significant correlation with average industry gross margin (AIG=.141*).

Table 8.4
Correlation Matrix of the Industry Characteristics with Entry Strategy

	TO	AIG	STG	LTG	CU	BWS
Technology orientation (TO)	1.000					
Average industry gross margin (AIG)	.377***	1.000				
Short-term growth (STG)	.140*	.401***	1.000			
Long-term growth (LTG)	.147*	.279***	.583***	1.000		
Capacity utilisation (CU)	.256***	.378***	.441***	.348***	1.000	
Bargain with suppliers (BWS)	.279***	.341***	.189**	.161**	.227**	1.000
Timing of entry	**.191***	**-.058**	**.002**	**.085**	**.098**	**-.020**
Investment at entry	**.041**	**.141***	**.041**	**-.062**	**.112**	**.093**

*** p<.001; **p<.01; *p<.05

Regression analysis was used to estimate the relationship between the industry independent variables and the dependent entry strategy variables. Stepwise regressions were run separately on the two entry strategy variables, timing of entry and investment at entry to find which determinant has a more significant contribution to entry strategy. As can be seen from Table 8.5, the regression of timing of entry registered a significant

F-ratio, however R^2 indicates only 8.6% of the variation in timing of entry is explained by industry characteristics.

Timing of Entry

Step-wise regression analysis of timing of entry indicates that this measure is best explained by technology orientation and average industry gross margin, as indicated in Table 8.5.

Table 8.5 Step-wise Regression of Industry Characteristics and Timing of Entry

Predictors	Beta	t-value	p-value
Technology orientation	.248	3.387	.001
Average industry gross margin	-.151	-2.063	.040
R^2	.086		
Adjusted R^2	.077		
F-Ratio	8.220		
p-value	.000		

The first variable to enter the step-wise regression equation was technology orientation (β=.248, $p<.001$). The regression coefficient is positive, which suggests that a firm in the advanced technology industry area will be first to enter into the market. However, the regression coefficient of average industry gross margin (β=-.151, $p<.040$) is negative, which suggests that a lower industry gross margin was gained by earlier entrants.

Investment at Entry

The relationship between industry characteristics with investment at entry was best explained by bargaining power with major suppliers. However, this variable only helps to explain 5.6% of the variance in investment at entry.

Table 8.6
Step-wise Regression of Industry Characteristics and Investment at Entry

Predictors	Beta	t-value	p-value
Bargain with suppliers	.164	2.380	.018
R^2	.056		
Adjusted R^2	.047		
F-Ratio	6.094		
p-value	.003		

Bargaining power with major suppliers (β=.164 p<.018) positively influences timing of entry. This indicates that the more attractive the industry bargaining power with major suppliers, the larger is the company investment at entry.

8.4.2 Discussion

The following hypotheses from Chapter three are discussed:

H3.1: The higher the level of technology developed, the earlier will be market entry.

The results in Table 8.5 suggest that technology development (β=.248 p<.001) is the most important predictor of timing of entry. This confirms the hypothesis and is consistent with the literature (Jain 1993: Bredley 1991; Johnston 1994). Firms in advanced technology industries have better international market opportunities.

Chinese foreign investors have been encouraged to invest in telecommunications, transportation, energy and other high technology industries in order to transfer technology. Government policies particularly target large projects, which introduce advanced technologies and skills to upgrade Chinese industry (EAAU 1997). The technology development focus has positively impacted on the timing of entry for Australian companies.

8.5 Firm Characteristics with Entry Strategy

The firm characteristics consist of firm skills and firm resource variables. In the regression analysis the timing of entry and investment at entry become the dependent variables. Stepwise regressions are used to measure which determinants significantly contribute to timing of entry and investment at entry.

8.5.1 Overall Results

Correlations of Firm Characteristics and Entry Strategy

The correlation matrix of the firm's characteristics with entry strategy is illustrated in Table 8.7. For the entry strategy variables, the correlation coefficients in the line of timing of entry demonstrate significant correlations with number of employees (EN=.253***), and international business experience (IE=.271***). While, the significant correlation coefficients in the line of investment at entry are number of employees (EN=.253***), international experience (IE=.271***), number of countries

in business operation (OE=.157*), time by top management spent on investment /export activity (TOI=-.162*), and decreasing the cost of production (DC=-.149*).

Table 8.7
Correlation Matrix of the Firm Characteristics with Entry Strategy

	DC	AT	NP	IPL	TOI	TOP	MCS	RTC	SI	CVC	EN	IE	OE
Decrease cost of production (DC)	1.000												
Advanced technology (AT)	.499***	1.000											
New products (NP)	.342***	.550***	1.000										
Increase product line (IPL)	.286***	.382***	.546***	1.000									
Time on invest. export (TOI)	.341***	.280***	.246***	.386***	1.000								
Time on policy (TOP)	.280***	.333***	.241***	.295***	.583**	1.000							
Meet customer satisfaction (MCS)	.158*	.174*	.350***	.205**	.254***	.286***	1.000						
React to customers (RTC)	.124	.245***	.318***	.249***	.225**	.223**	.523***	1.000					
Strategy integrating (SI)	.222**	.376	.378***	.275***	.319***	.404***	.367***	.452***	1.000				
Create value for customer (CVC)	.319***	.301***	.430***	.328***	247***	.286***	.571***	.467***	.520***	1.000			
Employee number (EN)	-.011	.078	.100	.037	-.094	.140*	-.094	-.020	.019	-.027	1.000		
International experience (IE)	-.043	.028	.008	-.049	-.168*	-.022	-.123	-.051	-.052	-.030	.339***	1.000	
Operation countries(OC)	-.109	-.047	-.062	-.062	.026	.045	-.131	-.002	-.062	-.151*	.150*	.422***	1.000
Timing of entry	**.002**	**.108**	**.023**	**.049**	**-.058**	**-.076**	**-.112**	**-.079**	**-.061**	**.047**	**.253*** **	**.271*** **	**.131**
Investment at entry	**-.149***	**.108**	**.055**	**-.131**	**-.162***	**.098**	**.012**	**-.008**	**-.010**	**.114**	**.257*** **	**.167***	**.157***

*** p<.001; **p<.01; *p<.05

Timing of Entry

Firm characteristics with timing of entry are best explained by international business experience and employee numbers. As shown in Table 8.8, these two variables explain 10.2% of the variance in the dependent measure.

Table 8.8
Step-wise Regression of Firm Characteristics and Timing of Entry

Predictors	Beta	t-value	p-value
International business experience	.209	2.972	.003
Employee number	.182	2.582	.011
R^2	.102		
Adjusted R^2	.094		
F-Ratio	11.703		
p-value	.000		

Of the thirteen firm characteristic variables, the first variable to enter the stepwise regression was international business experience (β=.208, $p<.003$), followed by employee number (β=.182, $p<.001$). International business experience was positively significantly related to timing of entry, which is consistent with what one would expect. Longer international business experience gives a firm confidence to enter the Chinese market earlier. Moreover, the larger the firm size, the earlier the firm is able to enter into the market.

Investment at Entry

The stepwise regression result for the relationship between the firm characteristic variables and investment at entry was shown in Table 8.9. Investment of entry was best

explained by employee numbers, decreasing the cost of production, using advanced production technology, and increasing the product line. These variables explain 14.9% of the variance in investment at entry.

Table 8.9
Step-wise Regression of Firm Characteristics and Investment at Entry

Predictors	Beta	t-value	p-value
Employee number	.239	3.680	.000
Decrease cost of production	.232	3.074	.002
Advanced technology	.273	3.479	.001
Increase product line	-.178	-2.523	.012
R^2	**.149**		
Adjusted R^2	**.132**		
F-Ratio	**8.874**		
p-value	**.000**		

In the stepwise regression, the first variable to enter was employee numbers (β=.239, p<.000), followed by decreases in the cost of production (β=.232, p<.002), using advanced production technology (β=.273, p<.001), and increasing the product line(β=-.178, p<.012). The result is consistent with expectations, that is, the larger firm size, the larger the amount of investment at entry. Also decreasing the cost of production and using advanced technology will positively influence investment at entry. However, increasing the product line is negatively related with investment at entry, as this is expensive, allowing for less money on investment at entry.

8.5.2 Discussion

The following hypotheses from Chapter Three are discussed here:

H4.1: The longer the years of international business experience, the earlier will be market entry.

International business experience (β=.209, p>.000) is positively related to timing of entry, and this supports the hypothesis. Firms with more international experience, are more confident about entering a new market. The findings confirm the previous research that prior entry (international) experience should establish early credibility (Lawless and Fisher 1990).

H4.2: The greater the number of employees, the greater the likelihood of a firm taking up an investment at entry time.

Number of employees (β=.182, p>.011) is an important predictor of investment at entry. Large firms are less constrained in devoting financial resources (Reid 1982), and this is confirmed by a positive relationship between the firm size and investment at entry.

8.6 Product Characteristics with Entry Strategy

Correlation and regression analyses of the relationships between product characteristics and entry strategy are conducted in this section. As previously, stepwise regression is conducted to better understand which product variables are significantly impacting on entry strategy (timing of entry and investment at entry).

8.6.1 Overall Results

Correlation of Product Characteristics with Entry Strategy

The correlation matrix of product characteristics with timing of entry and investment at entry is demonstrated in Table 8.10. The correlation coefficients in the line of timing of entry indicate that significant correlations exist with product exposure (PE=. 289***) and product uniqueness (PU=.212**). In the line of investment at entry, the correlation coefficients are positively significant with cultural specificity (CS=.464***) and product exposure (PE=.236**), but negatively significant with product quality (PQ=-.219**) and product price (PP=-.157*).

Table 8.10
Correlation Matrix of Product Characteristics with Entry Strategy

	PU	PE	CS	PI	PF	PP	PQ	SR	PA
Product uniqueness (PU)	1.000								
Product exposure (PE)	.088	1.000							
Cultural specificity (CS)	.139*	.367***	1.000						
Product innovation (PI)	.569***	.044	.148*	1.000					
Product features (PF)	.244***	.065	.016	.359***	1.000				
Product price (PP)	.077	.097	-.235**	.020	.152*	1.000			
Product quality (PQ)	.310***	.059	-.241***	.267***	.239**	.451***	1.000		
Product services requirement (SR)	.123	-.120	-.029	.265***	.208**	.076	.160*	1.000	
Product application (PA)	.190**	-.078	-.065	.224**	.213**	-.211**	.055	.204**	1.000
Timing of entry	**.212****	**.289*****	**.088**	**.063**	**.001**	**-.039**	**-.019**	**.026**	**.007.**
Investment at entry	**-.005**	**.236****	**.464*****	**.110**	**.000**	**-.157***	**-.219****	**-.032**	**.021**

*** p<.001; **p<.01; *p<.05

Timing of Entry

Timing of entry is best explained by product exposure and product uniqueness. These two variables help to explain 11.8% of the variance of timing of entry (Table 8.11).

Table 8.11
Step-wise Regression of Product Characteristics and Timing of Entry

Predictors	Beta	t-value	p-value
Product exposure	.272	4.132	.000
Product uniqueness	.188	2.854	.005
R^2	.118		
Adjusted R^2	.110		
F-Ratio	13.751		
p-value	.000		

In the stepwise regression of product characteristics with timing of entry, the first variable to enter was product exposure (β=.272, p<.000), followed by product uniqueness (β=.188, p<.005), and both are positively related to timing of entry.

The results indicate that product exposure is the most important variable for timing of entry. The more product exposure in the Chinese market, the earlier a firm entered the market. Product uniqueness is also important in encouraging an early entry.

Investment at Entry

Product characteristics and investment at entry are best explained by product cultural specificity. This variable helps to explain 21.5% of the variance in investment at entry, which is relatively high as a single explanatory variable.

Table 8.12
Step-wise Regression of Product Characteristics and Investment at Entry

Predictors	Beta	t-value	p-value
Cultural specificity	.464	7.515	.000
R^2	.215		
Adjusted R^2	.211		
F-Ratio	56.477		
p-value	.000		

The results indicate that product cultural specificity (β=.464, p<.000) significantly and positively influenced investment at entry.

8.6.2 Discussion

The following hypotheses from Chapter Three are discussed:

H5.1: Product characteristics will affect the timing of entry. For instance, increased product exposure in the market will lead to an earlier entry.

The results suggest that product exposure (β=.272, p>.000) is positively and significantly related with timing of entry and this is consistent with previous studies (Pavord and Bogart 1975; Bradley 1991; Jain 1989), which suggest that products with higher exposure in the market are more likely to enter early into the international market.

H5.2: Product characteristics will affect the investment at entry. For instance, increased product cultural specificity will lead to a greater investment at entry time.

Cultural specificity (β=.464, p>.000) is the most important predictor of investment at entry. A product with more cultural specificity has a higher investment at entry. Previous literature has found that cultural specificity of the product increases the degree of product adaptation (Cavusgil and Zou 1995; Douglas and Wind 1987). However, it is suggested here that it also increases the investment at entry.

8.7 Entry Strategy and Business Performance

This section tests the relationship between the entry strategy variables and business performance. Entry strategy variables consist of timing of entry and investment at entry, as the independent variables. Business performance variables include performance, sales, profit and return on investment as the dependent variables.

8.7.1 Overall Results

The correlation coefficient in the lines of performance, sales, profit and return on investment have a significant correlation with investment at entry (r=.174*, r=.156*, r=.588***, r=.233**), and with timing of entry (r=.207**, r=.206**, r=.322***). However, the correlation of return on investment and timing of entry variables (r=-.009) is both low and insignificant.

Table 8.13
Correlation Matrix of Entry Strategy with Business Performance

	Timing of entry	Investment at entry
Timing of entry	1.000	
Investment at entry	-.016	1.000
Performance	**.207****	**.174***
Profit	**.206****	**.156***
Sales	**.322*****	**.588*****
Return on investment	**.009**	**.233****

In Table 8.14, the multiple regressions of entry strategy (timing of entry and investment at entry) with performance, sales, profit and return on investment registered highly significant F-ratios.

Table 8.14
Multiple Regressions of Entry Strategies (timing of entry and investment at entry) with Business Performance

	Performance			**Return on Investment**		
Predictors	**Beta**	**t-value**	**p-value**	**Beta**	**t-value**	**p-value**
Timing of entry	.210	3.118	.002	.012	.182	.856
Investment at entry	.178	2.642	.009	.234	3.439	.001
R^2	**.268**			**.148**		
Adjusted R^2	**.235**			**.109**		
F-Ratio	**8.061**			**3.812**		
p-value	**.000**			**.000**		
	Sales			**Profit**		
Predictors	**Beta**	**t-value**	**p-value**	**Beta**	**t-value**	**p-value**
Timing of entry	.331	6.428	.000	.209	3.099	.002
Investment at entry	.594	11.519	.000	.159	2.363	.019
R^2	**.456**			**.255**		
Adjusted R^2	**.450**			**.221**		
F-Ratio	**85.841**			**7.525**		
p-value	**.000**			**.000**		

The R^2 of the regression equation indicated 26.8% for performance, 14.8% for profit, 45.6% for sales and 25.5% for return on investment of variation which explained by entry strategy (timing of entry and investment at entry). Sales are best explained by entry strategy. Entry strategy can explain 45.6% of the total variance of sales. The regression results indicate that investment at entry has a strong impact on return on investment, but timing of entry was found to have little impact on return on investment.

8.7.2 Discussion

Based on the multiple regression results, the hypothesised relationships between entry strategy and business performance are discussed below:

H1.6: The earlier the entry into the market, the better the performance.

Timing of entry (β=.210, p>.002) has a positively significant relationship with performance, which supports the hypothesis. Early entry into the market improved performance, and this is consistent with the literature (Golder and Tellis 1993; Robinson 1988; Miller, Gartner and Wilson 1989).

H1.7: The earlier the entry into the market, the higher the sales.

Timing of entry (β=.331, p>.000) is positively and significantly related to sales, and hence supports the hypothesis. Earlier entrants increase their sales and receive an early entry benefit.

H1.8: The greater the investment at entry time, the higher the sales.

The investment at entry is positively and significantly related to sales (β=.594, p>.000) and is more significant than timing of entry. Hence, the hypothesis is supported.

H1.9: The greater the investment at entry time, the higher the profit.

Investment at entry (β=.159, p>.019) is positively and significantly related to profit, which supports this hypothesis. It appears that sales could be increased largely by investment, but profit could not achieve such large increases. The reasons could be high market costs and expenses for companies in the Chinese market.

H1.10: The greater the investment at entry time, the greater the return on investment.

Investment at entry (β=.234, p>.001) was found to have a significant and positive relationship with return on investment. This finding confirms the hypothesis and is in agreement with most of the literature which states that an increase in investment, results in an increase in the return on investment.

8.8 Entry Strategies and Competitive Position

This section tests the relationship between entry strategies (timing of entry, investment at entry) and competitive position. Competitive position includes two key variables: market share and contact with Chinese officials.

8.8.1 Overall Results

The correlation matrix of entry strategy and competitive position is illustrated in Table 8.16. The correlation coefficients demonstrate that significant associations exist between timing of entry and market share (r= .149*), and investment at entry and market share (r=. 168*). However, there are no significant correlations between timing of entry and investment at entry and contact with Chinese officials.

Table 8.15
Correlation Matrix of Entry Strategies with Competitive Position

	Timing of entry	Investment at entry
Timing of entry	1.000	
Investment at entry	-.016	1.000
Market share	**.149***	**.168***
Contact with Chinese officials	**-.081**	**.033**

*** p<.001; **p<.01; *p<.05

The multiple regression is only conducted with market share. The results of the multiple regression analysis of entry strategies and market share are portrayed in Table 8.15, and show that the regressions for market share registered significant F-ratios. However, the

low R^2 indicates that both variables provide a low level of overall explanation of market share.

Table 8.16
Multiple Regression of Entry Strategy and Competitive Position

	Market share		
Predictors	**Beta**	**t-value**	**p-value**
Timing of entry	.151*	2.223	.027
Investment at entry	.170*	2.503	.013
R^2	**.147**		
Adjusted R^2	**.113**		
F-Ratio	**4.289**		
p-value	**.000**		

8.8.2 Discussion

It appears that timing of entry and investment at entry have a significant and positive relationship to market share but a lack of correlation exists with contact with Chinese officials. The relevant hypotheses are discussed below:

H1.11: The earlier the entry into the market, the higher the market share.

Timing of entry has a significant and positive relationship with market share (β= .151 p>.027). Early entrants do have higher market shares than later entrants. The results also agree with the previous findings in Chapter 5, which mentioned that early entrants had market share benefits.

H1.12: The greater the investment at entry time, the higher the market share.

Investment at entry (β=.170, p>.013) has a significant and positive relationship with market share, which supports the hypothesis. The amount of investment at entry relates positively to the Australian companies' market share in China. However, the findings indicate that neither early entry nor investment at entry improve competitive position in regard to contact with Chinese officials.

8.9 Chapter Summary

In this chapter, multiple regressions were used to examine the relationship of two entry strategy variables (timing of entry and investment at entry) on business performance (performance, sales, profit and return on investment), and on competitive position (market share). Additionally, eight stepwise regressions of market characteristics, industry characteristics, firm characteristics and product characteristics were conducted in order to better understand which determinants significantly contribute to timing of entry and investment at entry. Market characteristics (36%), product characteristics (21.5%), and firm characteristics (14.9%) explained more of the variance for investment at entry than industry characteristics (5.6%). On the other hand, timing of entry was explained more by market characteristics (20.1%), product characteristics (11.8%) and firm characteristics (10.2%). Additionally, market characteristics and product characteristics are significant in explaining both timing of entry and investment at entry.

Table 8.17
Summary of Hypotheses for External and Internal Factors with Entry Strategy, and Long-Term Performance

	Hypotheses	Expected Sign	Assessment
H1.6	Timing of Entry→Performance	+	Accepted*
H1.7	Timing of Entry→Sales	+	Accepted*
H1.8	Investment at Entry→Sales	+	Accepted*
H1.9	Investment at Entry→Profit	+	Accepted*
H1.10	Investment at Entry→Return on Investment	+	Accepted*
H1.11	Timing of Entry→Market Share	+	Accepted*
H1.12	Investment at Entry→Market Share	+	Accepted*
H2.1	Competition→Timing of Entry	-	Rejected
H2.2	Experienced staff→Timing of Entry	+	Accepted
H2.3	Language difference→Investment at Entry	+	Accepted
H2.4	Tariff→ Investment at Entry	-	Rejected
H2.5	Experienced staff→ Investment at Entry	+	Accepted
H3.1	Technology developed→Timing of Entry	+	Accepted*
H4.1	International business experience→Timing of Entry	+	Accepted*
H4.2	Number of employees→Timing of Entry	+	Accepted*
H5.1	Product characteristics→Timing of Entry	+	Accepted*
H5.2	Product characteristics→ Investment at Entry	+	Accepted*

*Statistically significant.

The accepting and rejecting of the hypotheses in this Chapter are summarised in Table 8.17. The majority of the hypotheses were accepted. Some of the hypotheses were rejected, especially those relating to competition in the Chinese market. Entry strategy (timing of entry, investment at entry) had strong effects on the performance component. Coefficients of timing of entry impacted on the performance components, in the order, sales, performance, profit and return on investment (Refer Table 8.15). Coefficients of investment at entry impacted on the performance components, in the order, sales, return on investment, performance and profit. Entry strategy was found to have very important effects on sales and also to have strong effects on performance, profit and return on investment. However, timing of entry had little impact on return on investment.

It appears that competitive position was less impacted upon by entry strategies than business performance (Refer Table 8.15 and Table 8.16). Market share was strongly impacted upon by entry strategy, but the other competitive position variables had little impact.

It is interesting to find that other foreign companies' competition had a positive effect on timing of entry and investment at entry. The competitive environment of the Chinese market has stimulated Australian firms in this market. The results suggest that the external and internal factors are predictors of entry strategy, although their effect may depend on different factors.

This chapter dealt with only two entry strategy components (timing of entry and investment at entry), their effect on long-term performance, and the direct impact of external and internal factors on timing of entry and investment at entry. The other entry strategy component marketing adaptation, will be investigated through structural modelling in Chapter Nine.

CHAPTER 9

STRUCTURAL EQUATION MODELING: EXAMINATION OF MARKETING AND CHANNEL ADAPTATION

9.1 Introduction

The previous chapters have investigated the entry strategy components: mode of entry (Chapter 6), timing of entry and investment at entry (Chapter 8), as they are impacted upon by the external and internal factors. The purpose of this chapter is to test the impact of the external and internal factor dimensions on the entry strategy components of marketing adaptation and channel adaptation against long-term performance (business performance and competitive position) as outlined in Chapter 3. Structural equation modelling (SEM) will be conducted based on the dimensions identified by the principle components analysis in Chapter 7.

9.2 Procedures of Testing the Proposed Model

The cross tabulation analysis in Chapter 6 was used to examine the entry modes. Multiple regression analysis in Chapter 8 was used to examine the timing of entry and investment at entry, because they were measured as single dependent variables. Structural equation modelling is useful in examining the marketing adaptation components because it can test a series of dependence relationships simultaneously

(Hair et al. 1995). Here, structural equation modelling is used to achieve two major objectives:

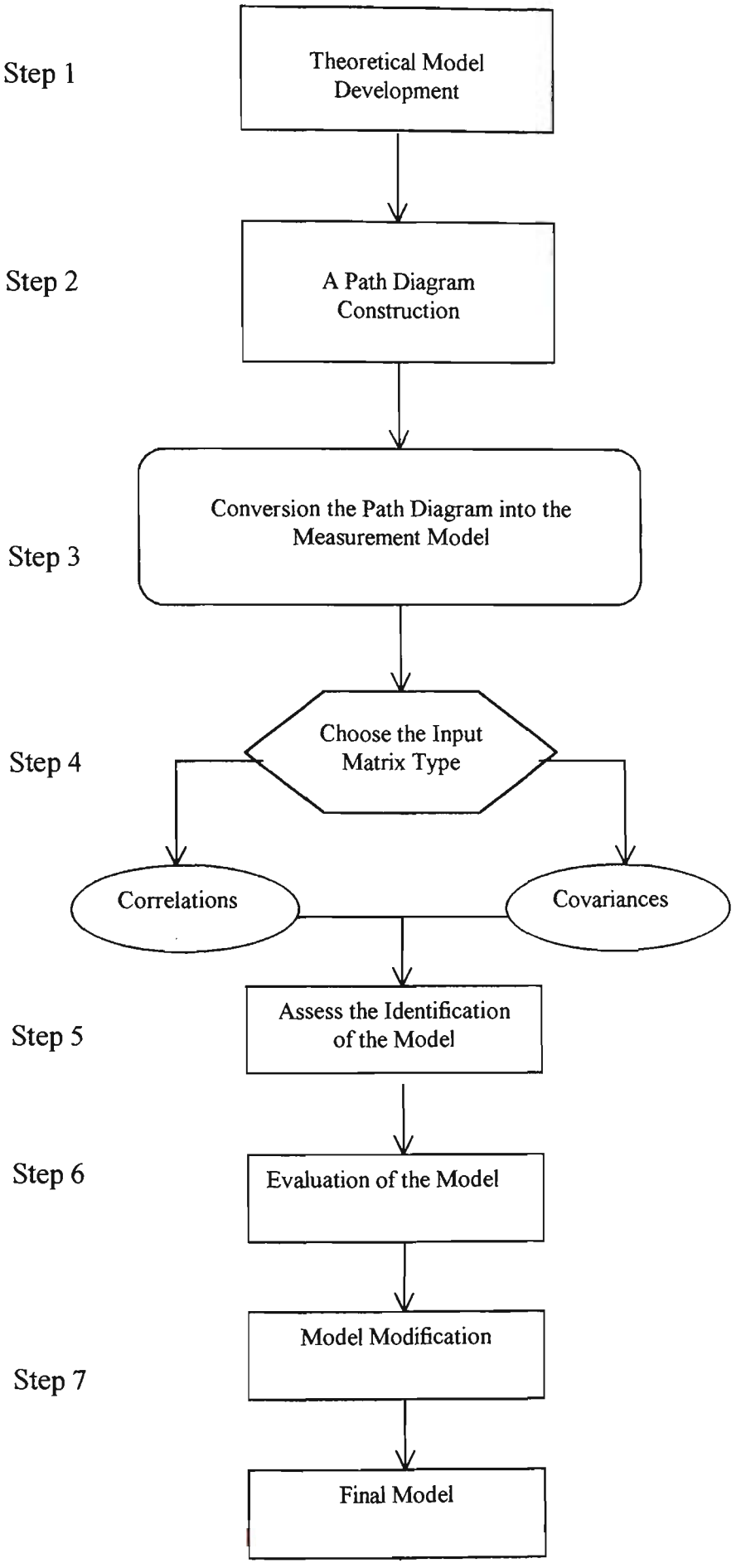
(1) to examine a series of multiple relationships simultaneously between the external factor dimensions (market environment and industry characteristics), internal factor dimensions (firm and product characteristics) and entry strategy(marketing and channel adaptation), and long-term performance (performance and competitive position);

(2) to test the hypothesised relationships between constructs, determine the overall fit of the model to the data, and confirm if the conceptual model is appropriate for the study of the entry strategy and performance relationship.

The Amos version 3.6 software package linked to SPSS version 7.5 is used.

A structural (confirmatory factor analysis) model comprising two parts was developed, including a measurement model and a structural component. This model tests whether the observable items proposed to define each construct are reliable and valid estimates of the construct and that the overall model including these items fits the data, and confirms if the conceptual model is appropriate for the study of entry strategy and performance relationships. Hair et al. (1995) proposed that structural modelling should be conducted in seven steps. The seven-step process for structural equation modelling is shown in Figure 9.1.

Figure 9.1
The Procedure of Structural Equation Modelling



Step 1: Theoretical Model Development

An initial theoretical model with linkages (defined causal relationships) was theorised and illustrated in Figure 3.1 (Chapter 3). The purpose of this chapter is to test the relationship between the external factors and internal factors against marketing adaptation and channel adaptation to determine long-term performance. A hypothetical measurement model is developed. The structural model comprises unobserved (latent) variables representing the independent and dependent variables. The principal component analysis (Chapter 7) provided justification for inclusion of the specific latent constructs, and their indicators in each model. Each of these latent variables has its own measurement model, where the observed variables (items) defining each construct are included in the model. Therefore, justification for inclusion of specific latent constructs and their indicators in a model is provided by the factor analysis. The inclusion together with hypothesised causation must be theoretically sound and be weighted against the limitations of SEM and the computer programs (Reisinger and Turner 1999).

The operational model is developed into an external factor model, internal factor model, and entry strategy and long-term performance model. The operational model for the external factors (Figure 9.2) consists of the theoretical relationship between the dimensions of the external factors against entry strategy. The external factors (market characteristics and industry characteristics) are measured by (1) culture difference, (2) industry growth, (3) competition in the Chinese market, (4) access distribution channel, (5) exchange currency, (6) industry technology, and (7) local policy. The entry strategies are measured by (1) marketing adaptation and (2) channel

adaptation. The external factor model has eleven latent constructs, each measured by a set of observable variables. The internal factor model (Figure 9.3) consists of the dimensions of internal factors against entry strategy. The internal factors (firm and product characteristics) are measured by (1) marketing skills, (2) production skills, (3) product uniqueness, (4) time commitment of top management, (5) product quality, (6) product exposure, (7) firm resources and (8) product application. The entry strategies are measured by (1) marketing adaptation and (2) channel adaptation. The internal factor model has ten latent constructs, each measured by a set of observable variables.

Figure 9.2
Operational Model of External Factors

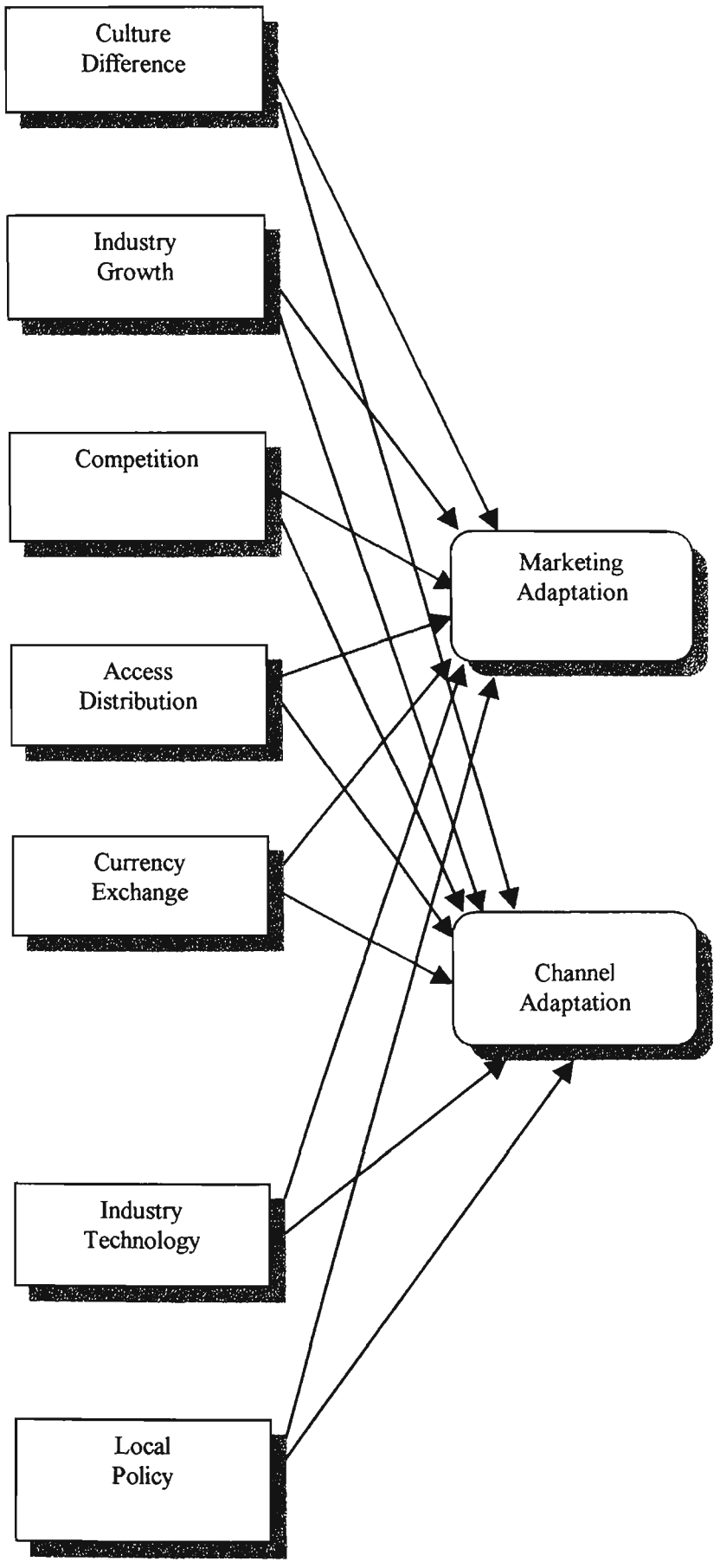
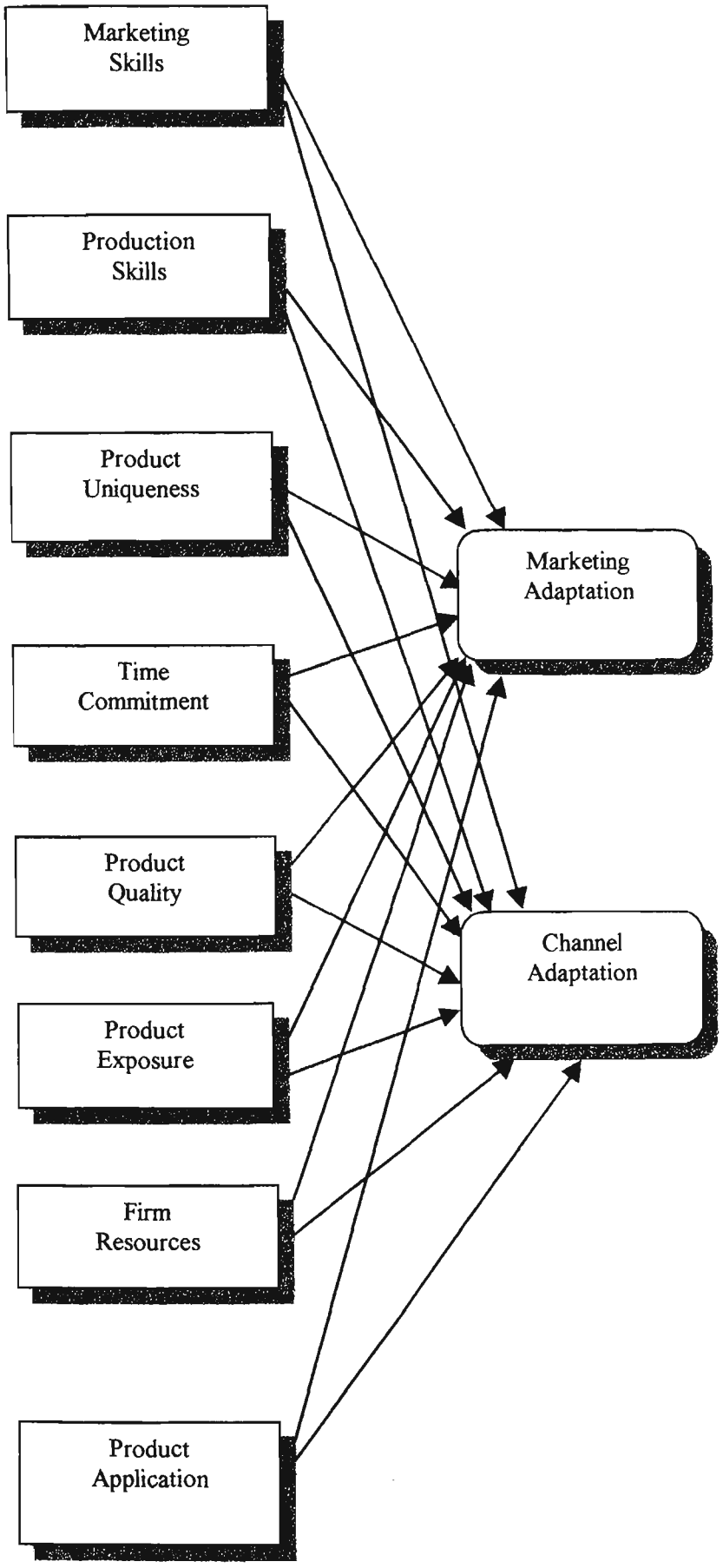
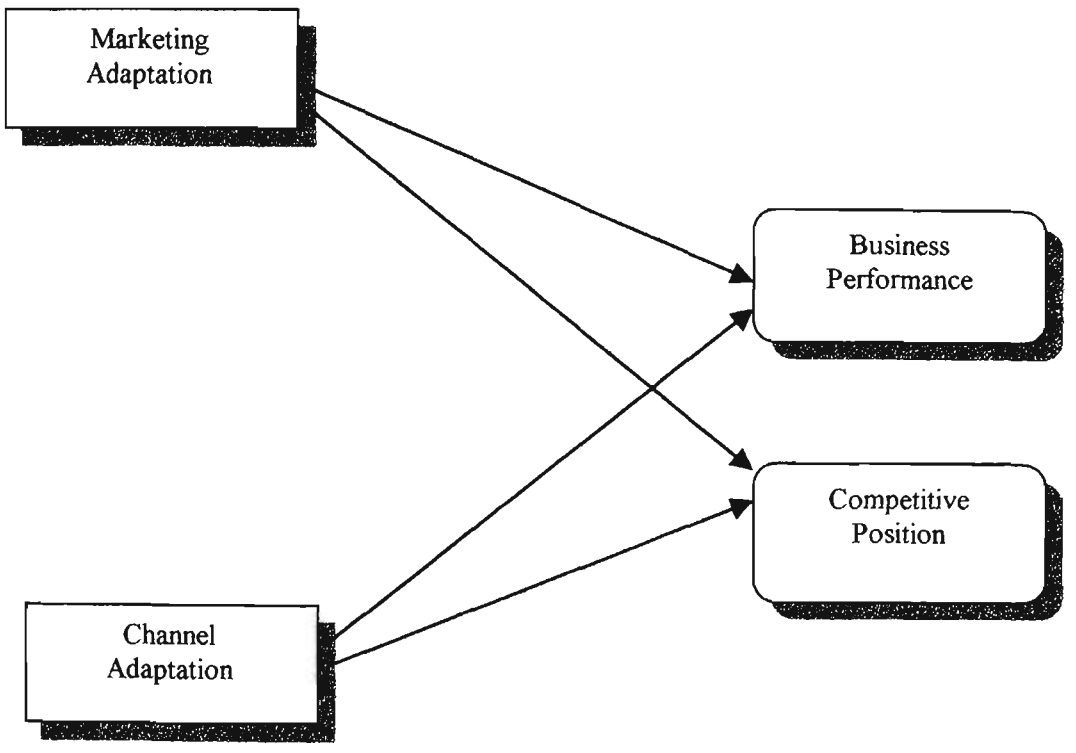


Figure 9.3
Operational Model of Internal Factors



The entry strategy and long-term performance model (Figure 9.4) is measured by (1) marketing adaptation, (2) channel adaptation, (3) business performance and (4) competitive position.

Figure 9.4
Entry Strategy and Performance Model



Step 2: Path Diagram Construction

The portrayal of the causal relationship is in the form of a path diagram. The variables measuring each latent construct are connected in path diagrams with arrows. A straight arrow indicates a direct relationship from a construct to its indicators. A plus or minus sign indicates what kind of relationship is hypothesised. All constructs in a path diagram can be placed into one of two classes of constructs: exogenous or endogenous. The external factors (culture difference, competition in the Chinese

market, access distribution channel, exchange currency, local policy, industry growth and industry technology), and the internal factors (production skills, marketing skills, time commitment of top management, product uniqueness, product exposure, product quality and product application) are exogenous constructs. Entry strategy (marketing adaptation and channel adaptation in the Chinese market) and long-term performance (business performance and competitive position), are endogenous constructs.

Step 3: Conversion of the Path Diagram into the Measurement Model

After developing the theoretical model and presenting them in path diagram form, the models were specified through:

(1) the structural equations that linked the constructs,

(2) variables which measured various constructs,

(3) matrices indicating any hypothesised correlations among constructs or variables.

Each endogenous construct is the dependent variable in a separate equation. The predictor variables are all constructs leading into the endogenous variables. The value for each factor is calculated by the principal component loadings on each variable. A factor is a latent variable defined by the loading of all relevant variables.

Step 4: Choose the input matrix type

A correlation matrix is appropriate because the objective of the research is to investigate the pattern of relationships between the latent constructs. A correlation matrix is also suitable for comparisons across different variables. The correlation matrix provides more conservative estimates of the significance of coefficients and is not upwardly biased (Hair et al. 1995).

The structural model uses a maximum likelihood estimation method. Goodness-of-fit measures for the models are also produced. Hail et al. (1995) suggest a sample size range between 100 to 200 for the maximum likelihood estimation method. As sample size becomes large (400 to 500), the maximum likelihood estimation method becomes too sensitive and almost any difference is detected, making all goodness-of-fit measures poor. Therefore, the Australian companies' sample size of 208 is satisfactory in this study.

Step 5: Assess the Identification of the Model

Identification of the structural model is required to produce logical and meaningful results. The symptoms of potential problems must be identified and problems eliminated before the results can be evaluated for goodness-of-fit. These possible symptoms include:

(1) very large standard errors of coefficients,

(2) the inability of the program to invert the information matrix,

(3) Unreasonable estimates (such as negative error variance),

(4) High correlations (more than ±. 90) among the estimated coefficients.

The three sources of identification problems usually are:

(1) a large number of estimated coefficients relative to the number of degrees of freedom,

(2) the use of reciprocal effects (two-way causal arrows between two constructs),

(3) failure to fix the scale of a construct.

Procedures for the identification of problems could be:

- to eliminate some of the estimated coefficients (deleting paths from the path diagram),
- to fix the measurement error variances of constructs,
- to fix any structural coefficients that are reliably known,
- to eliminate some problem variables.

It is clear that the very large size of some of the original factor loading matrices (refer to Chapter 7) will create overidentification problems and all the factors with lower explained variance cannot be included in any structural model. That is, some of the paths (hence factors) will have to be eliminated from the models.

Step 6: Evaluating the Model

Evaluating the results involves assessing whether the proposed model meets the assumptions of structural equation modelling. Three important assumptions are independence of observations, random sampling, and linearity of all relationships. All these assumptions of structural equation modelling are met in the study. Reisinger and Turner (1999) suggest that results must first be examined for offending estimates which are coefficients exceeding acceptable limits. The examples are:

- negative error variance or non-significant error variances for any construct;
- standardised coefficients exceeding or very close to 1.0;
- very large standard errors associated with any estimate coefficient.

These offending estimates are resolved before evaluating the model results.

The determination of the fit of the structural equation model is not as straight forward as in other statistical approaches. There is no one statistical test of significance that identifies a correct model fit for the sample data. There are a host of goodness-of-fit indices available to test the fit of a model. These indices can be grouped as model fit, model comparison and model parsimony. Model fit indicates the degree to which the model fits the sample data. Model comparison is when the proposed model is contrasted to a null (independence) model to search for difference. Model parsimony checks for the number of estimated coefficients needed to achieve a level of fit where an over-indentified model is compared with a restricted model (Schumacker & Lomax 1996). Although there is no absolute test to determine the acceptable level of fit, researchers (Hair et al. 1995, Fan and Wang 1998, Schumacker and Lomax 1996, Tucker and Lewis 1993) suggest some goodness-of-fit measures for structural equation modelling.

Measures of Absolute Fit

The absolute fit measure provides information to evaluate the degree to which the overall model (structural and measurement) predicts the observed covariance or correlation matrix. The selected absolute fit measures used here are: Chi-square statistic (χ^2), Cmin/df, Goodness-of-Fit Index, Adjusted GFI (AGFI) and Root Mean Square Error of Approximation (RMSEA).

Likelihood ratio of the **Chi-square statistic (χ^2)** is the fundamental measure of overall fit. A χ^2 test assesses the degree of discrepancy between the covariance matrix estimated from the sample and the reconstructed convariance matrix based on the specified model. A small and non-significant χ^2 value indicates that the proposed model fits the observed covariances and correlations well. However, this does not guarantee identification of the correct model and therefore does not give any assurance that another model would not provide the same or better fit. A significance level of 0.05 is recommended as the acceptable minimum. Levels exceeding 0.10 or 0.20 confirm no significant difference between the covariances (Fornell, 1983).

Cmin/df is the ratio of minimum discrepancy to the degrees of freedom. A value close to 1 indicates a good fit. However, Wheaton (1977) suggested that a relative χ^2/df ratio should also be computed. A ratio of 2:1 or 3:1 indicates an acceptable fit between the proposed model and the sample data.

Goodness-of-Fit Index (GFI) is a non-statistical measure representing the overall degree of fit between the squared residuals from prediction and the actual data. It is not adjusted for degrees of freedom. The GFI has no absolute threshold levels for acceptability. Its value ranges from 0 to 1, higher values indicate better fit. This statistic is analogous to the R^2 value associated with multiple regression (Tanaka, 1987).

Adjusted GFI (AGFI) is an extension of GFI. It is adjusted by the ratio of degrees of freedom for the hypothesised model to that for the null model. The recommended level is a value greater than or equal to 0.90.

Root Mean Square Error of Approximation (RMSEA) is a measure which attempts to correct the tendency of the χ^2 statistic to reject any specified model with a large sample. Similar to the RMSR which describes an average of the residuals between observed and estimated input matrices, the value is the discrepancy per degree of freedom. The value represents the goodness of fit which could be expected had the model been estimated in the population instead of the sample. Hair et al. (1995) suggests values ranging from 0.05 to 0.08 as acceptable, while Sugavara and MacCallum (1993) considered a value of up to 0.10 as reasonable.

Incremental Fit Measures

Incremental Fit Measures compare the hypothesised model with the independence model or any badly fitting baseline model to see how big the discrepancy function becomes (Tucker and Lewis 1973, Bentler and Bonnett 1980). The values of these measures range from 0 to 1, with 1 reflecting a good fit. The selected incremental fit measures used are: Tucker-Lewis Index (TLI), Normed Fit Index (NFI) and Comparative Fit Index (CFI).

Tucker-Lewis Index (TLI), also known as the nonnormed fit index (NNFI), combines a measure of parsimony into a comparative fit index between the

hypothesised model and the null model. It is a means of evaluating factor analysis and has been extended to structural equation modelling. This index provides an unbiased indication of model fit at all sample sizes (Finch and West, 1997). Values close to 0 indicate poor fit, while values close to 1 indicate good fit.

Nimrod Fit Index represents the proportional reduction in lack of fit of the hypothesised model compared to the null model. There is no absolute value indication of an acceptable level of fit. Its value is between 0 (no fit at all) and 1 (perfect fit). NFI is compromised by small samples (Finch and West, 1997).

Comparative Fit Index (CFI) indicates the improvement in noncentrality between the least restrictive and saturated models using a noncentral χ^2 distribution. This index works well with relatively small sample sizes and is a good compromise between the favourable properties of TLI and NFI (Finch and West, 1997). The values range from 0 (poor fit) to 1 (very good fit).

Parsimonious Fit Measures

These measures associate the hypothesised model's goodness-of-fit to the number of estimated coefficients necessary to attain this level of fit. The primary aim is to determine whether model fit has been achieved by overfitting the data with too many coefficients. The use of these measures is constrained in most cases to comparisons between models, as there is no statistical test for them. The selected parsimonious fit

measures used are: Parsimonious Fit Index (Pclose) and Akaike Information Criterion (AIC).

Parsimonious Fit Index (Pclose) is a p value for testing the null hypothesis that the population RMSEA is no greater than 0.05. The value ranges between 0 and 1, with higher values indicating better model parsimony.

Akaike Information Criterion (AIC) is a measure comparing models with different numbers of constructs. Small AIC values occur when small χ^2 values are achieved with fewer estimated coefficients. Not only does this illustrate a good fit between observed and predicted covariances or correlations, but also a model that is not prone to overfitting.

Table 9.1
Evaluation of Structural Model with Goodness-of-fit (GOF) Criteria

Goodness-of-fit Criteria	Levels of Acceptable Fit	Interpretation
Model fit		
Likelihood ratio Chi-square statistic (χ^2)	Tabled χ^2 value	Compares χ^2 value with tabled value for given df. An insignificant χ^2 value indicates a good fit.
CMIN/DF (χ^2/df)	Ratios 2 to 1 or 3 to 1	The close to 1, the better the fit.
Goodness-of-fit (GFI)	0 (no fit) to 1 (perfect fit)	Value close to .90 reflects a good fit, no established thresholds.
Adjusted GFI (AGFI)	0 (no fit) to 1 (perfect fit)	Value adjusted for df, with .90 a good model fit.
RMSEA(Root mean square error of approximation	.08 or less	Close fit of the model in relation to degrees of freedom.
Model comparison		
Tucker-Lewis index (TLI)	0 (no fit) to 1 (perfect fit)	Value close to .90 reflects a good fit.
Normed fit index (NFI)	0 (no fit) to 1 (perfect fit)	Value close to .90 reflects a good fit.
Comparative Fit Index (CFI)	0 (no fit) to 1 (perfect fit)	Value close to .90 reflects a good fit.
Model parsimony		
Parsimonious goodness-of-fit index (PGFI)	0 (no fit) to 1 (perfect fit)	Compares values in alternative models.
Akaike information criterion (AIC)	Low scores indicate good fit	Compares values in alternative models.

The Goodness-of-fit criteria are exhibited in Table 9.1. Some of the indices are more dependent on sample size than others, and there is no consensus on the best measure of model fit. Therefore, a variety of Goodness-of-fit indices are best used in determining the best fit of models.

Step 7: Modifying the Model

The initial Goodness-of-fit indices indicate a model that could be improved. The first phase is to consider the statistical significance of the parameters estimated by the model through an examination of the t-values. A t-value less than 1.96 indicates that the parameter is not significant at the 5% level. Non fixed parameters are also examined to see if they can be respecified as fixed in the new model.

The second phase is to consider the modification indices produced for all non-free parameters in the previous identification phase. The modification index for each parameter indicates the difference to the Chi-square statistic, that would result from: the deletion of a parameter, constraint of a parameter, addition of a new parameter, or allowing for covariation with other parameters. Large modification indices are considered for first the regression weights, and then the covariance. Modification is made where possible (or reasonable) in order to achieve a model with a better fit. Fixed parameters were examined for the possibility of freeing them in the new model. Additionally, the normalised residual matrix was examined to check for any abnormal characteristics.

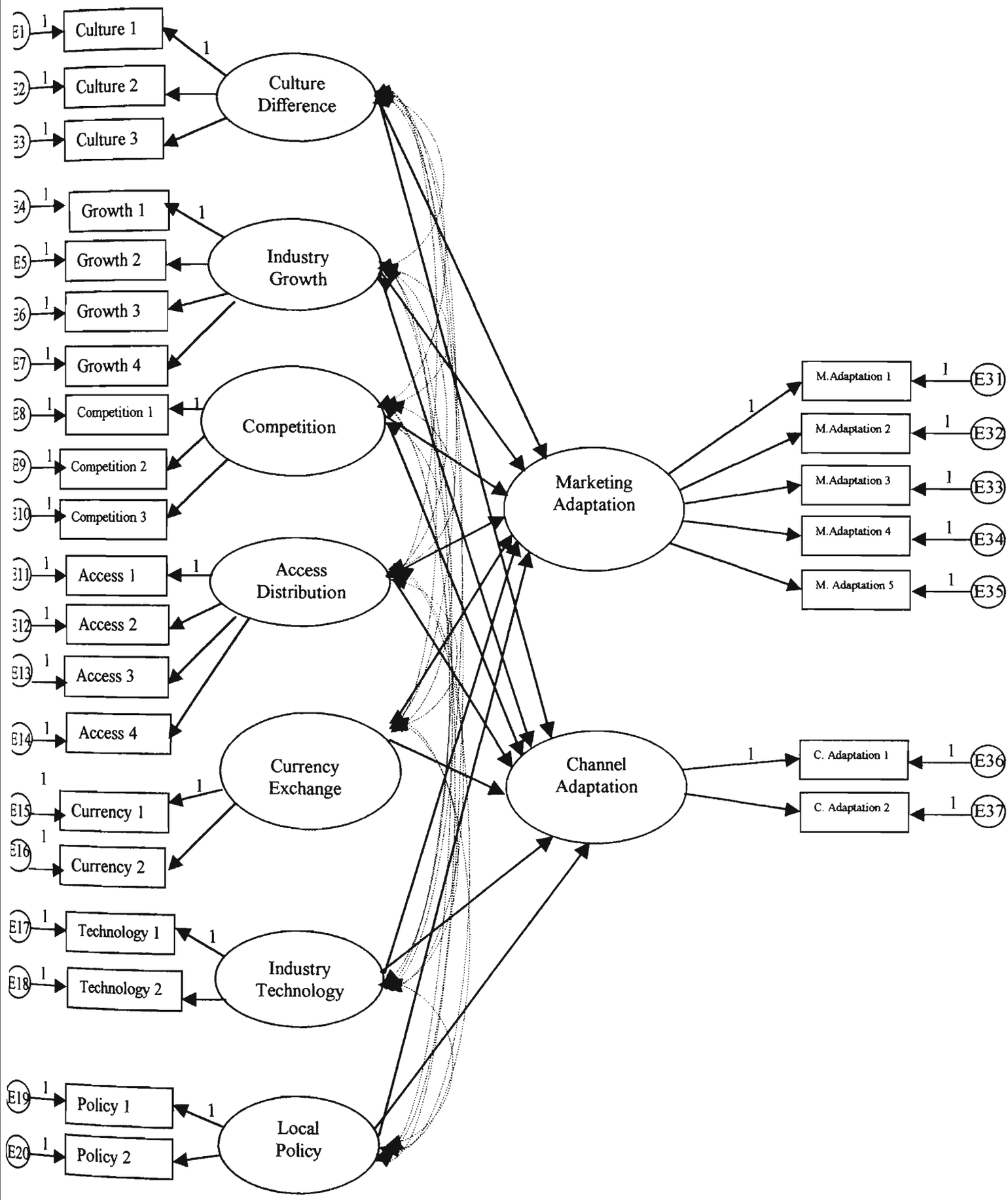
9.3 External Factors and Entry Strategy

This section tests the external factors against entry strategy (marketing adaptation and channel adaptation).

9.3.1 Original Model

The structural equation model (Figure 9.5) is developed with culture differences, industry growth, competition in the Chinese market, access distribution channels, exchange currency, industry technology, local policy, and marketing adaptation and channel adaptation as latent (unobserved) variables. Each construct was then defined using the number of observed items created to measure it in the questionnaire. The items selected for each construct were based on the previous factor analysis presented in Chapter Seven. External factors are market characteristics and industry characteristics, including culture differences, industry growth, competition in the Chinese market, access distribution channels, exchange currency, industry technology, and local policy. Entry strategy factors are marketing adaptation and channel adaptation. A total of twenty-seven items comprise the measurement model: three items for culture difference, four items for industry growth, three items for competition, three items for access distribution channels, two items for currency, two items for industry technology, two items for local policy, five items for marketing adaptation, two items for channel adaptation.

Figure 9.5
Original Structural Model of External Factors and Entry Strategy



The original structural model is greatly overspecified, with a large number of degrees of freedom as illustrated in Figure 9.5. It was expected that the initial model should include all variables in the model, but might not provide a very good model fit. Then the model was respecified based on the findings of the identification process, according to significance tests and modification indices.

Minimisation was achieved with full identification of the initial model and its parameter estimates. The series of goodness-of-fit indices indicated that the model could be improved to fit the data well (Table 9.2). Therefore, re-specification of the model was done. The final model is produced and discussed in the next sub-section.

Table 9.2
GOF Measures for Original Structural Model (External Factors)

Goodness-of-fit Criteria	Levels of Acceptable Fit	Model Estimate
Model fit		
Likelihood ratio Chi-square statistic (χ^2)	Tabled χ^2 value	1482.301
Degree of freedom	The number of non-redundant correlations/covariance minus the number of estimated coefficients.	542 (p=.000)
CMIN/DF (χ^2/df)	Ratios 2 to 1 or 3 to 1	2.735
Goodness-of-fit (GFI)	Value close to .90, high value indicates better fit.	.723
Adjusted GFI (AGFI)	Value (adjusted for df) close to .90, high value indicates better fit.	.678
RMSEA(Root mean square error of approximation	.08 or less	.092
Model comparison		
Tucker-Lewis index (TLI)	Value close to .90, high value indicates better fit.	.504
Normed fit index (NFI)	Value close to .90, high value indicates better fit.	.446
Comparative Fit Index (CFI)	Value close to .90, high value indicates better fit.	.465
Model parsimony		
Parsimonious goodness-of-fit index (PGFI)	Higher values reflect greater model parsimony.	.622
Akaike information criterion (AIC)	Low scores indicate good fit	1658.301

9.3.2 Final Model

Figure 9.6 illustrates the final structural model. Regression weights are shown in Table 9.3. Local policy (Factor 7) which is less important with 4.67% of explained variance was eliminated in order to get a better model fit. Eight latent variables remained, but six items were removed in the process of re-specification, and the final number of measurement items was reduced to twenty-one.

In the process of improving the model, the parameters were first examined for statistical significance and non-significant parameters, which had insubstantial theoretical justification were deleted. Secondly, the modification indices were considered for all the non-free parameters, and large scores that were not supported theoretically were deleted. Some constructs had too many measurement items defining them in the original model, so the items that produced consistently large modification indices were deleted. This reduced the degrees of freedom and improved the fit of the model. Schumacke and Lomax (1996) suggest the ideal number of items for each latent construct has been found to be about three. Some fixed parameters were freed and some covariance linking variables were included.

Figure 9.6
Final Structural Model of External Factors and Entry Strategy

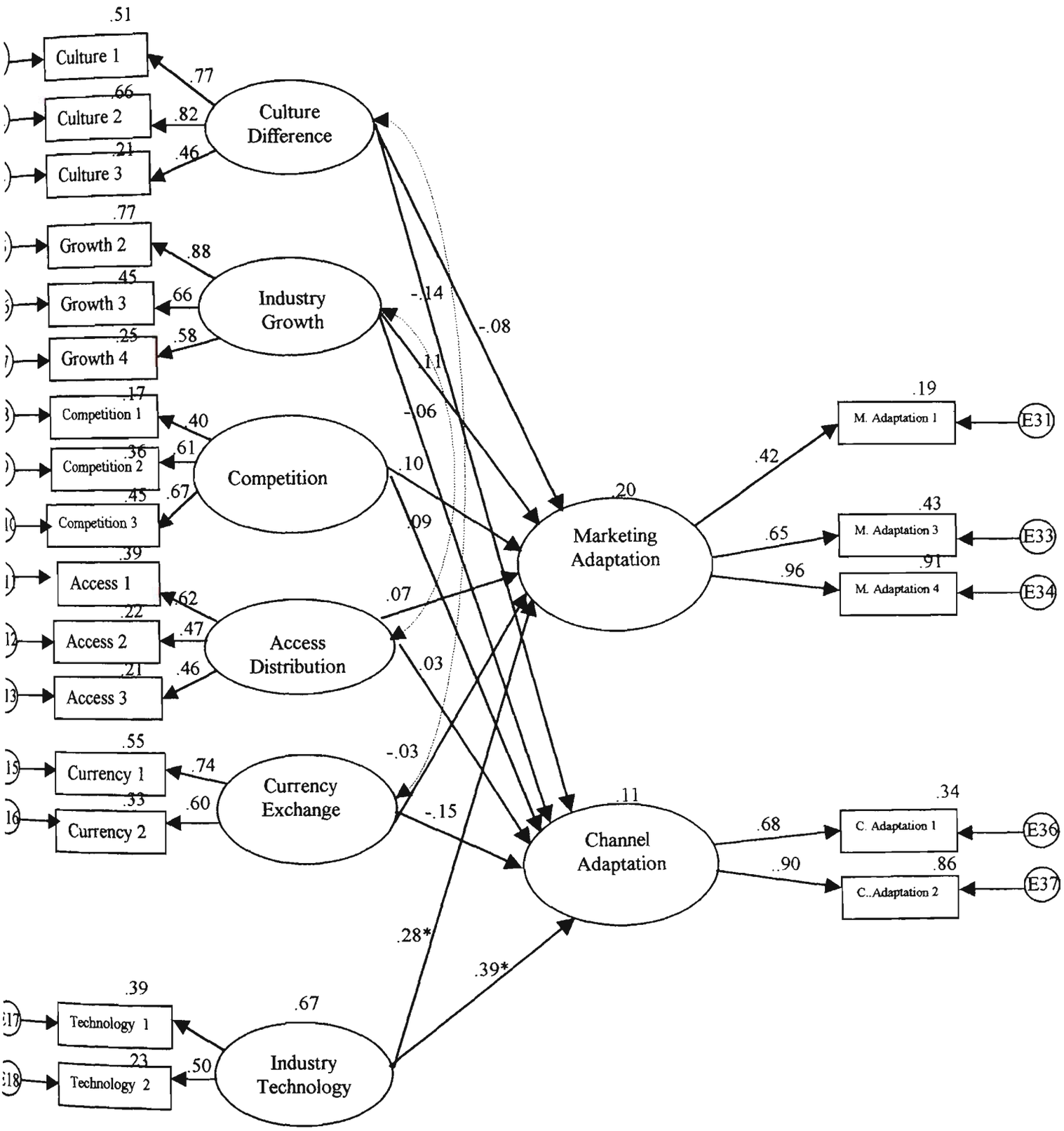


Table 9.3
Regression Weights of External Factors and Entry Strategy

Marketing Adaptation			
Internal Factor Variable	**Estimate**	**S.E**	**Significance**
Culture Difference	-.230	.235	-.997
Industry Growth	.249	.184	1.357
Competition	.148	.173	.859
Access Distribution	.137	.200	.687
Currency Exchange	-.065	.210	-.309
Industry Technology	.517	.211	2.448
Channel Adaptation			
Internal Factor Variable	**Estimate**	**S.E**	**Significance**
Culture Difference	-.406	.230	-1.767
Industry Growth	-.146	.173	-.847
Competition	.150	.167	.899
Access Distribution	.066	.188	.350
Currency Exchange	-.307	.206	-1.492
Industry Technology	.756	.248	3.053

The final model improves the goodness-of-fit. The most basic measures of a model fit are the likelihood-ratio Chi-square (χ^2), the good-of-fit index (GFI), and the root mean square residual (RMSR). Table 9.4 provides a comparison of the goodness-of-fit indices for the final structural model as compared with the original model. An improvement in the final model is observed in terms of model fit after the re-specification process, probably resulting from the deletion of a number of measurement items from the constructs.

Table 9.4
GOF Measures for Final Structural Model
(External Factors)

Goodness-of-fit Criteria	Original Model	Final Model	Levels of Acceptable Fit
Model fit			
Likelihood ratio Chi-square statistic (χ^2)	1482.301	455.435	Tabled χ^2 value
Degree of freedom	542 (p=.000)	178 (p=.000)	The number of non-redundant correlations/covariance minus the number of estimated coefficients.
CMIN/DF (χ^2/df)	2.735	2.559	Ratios 2 to 1 or 3 to 1
Goodness-of-fit (GFI)	.723	.830	Value close to .90, high value indicates better fit.
Adjusted GFI (AGFI)	.678	.780	Value (adjusted for df) close to .90, high value indicates better fit.
RMSEA(Root mean square error of approximation	.092	.080	.08 or less
Model comparison			
Tucker-Lewis index (TLI)	.504	.649	Value close to .90, high value indicates better fit.
Normed fit index (NFI)	.446	.601	Value close to .90, high value indicates better fit.
Comparative Fit Index (CFI)	.465	.701	Value close to .90, high value indicates better fit.
Model parsimony			
Parsimonious goodness-of-fit index (PGFI)	.622	.640	Higher values reflect greater model parsimony.
Akaike information criterion (AIC)	1658.301	561.435	Low scores indicate good fit

The GFI value of .830 and AGFI of .780 are at a marginal acceptance level, as the RMSR value is .80. The final model demonstrated the improvement of the Goodness-

of-fit measures, shown in Table 9.4. The χ^2 value of the final model was 455.435 and significant. It has been acknowledged though that the χ^2 value is affected by large sample sizes above 200 cases, where it tends to reflect a significant probability level (Schumacker and Lomax 1996). This is also supported by the Hoelter "critical N" indicating the largest sample size when the χ^2 value would be non-significant. The Hoelter ($p<.05$) indicated that critical N for the model was 208 cases, and this is probably why the χ^2 value was found to be significant (Arbuckle 1997).

9.3.3 Discussion

The discussion in this section will be based on the results of the final model of external factors with entry strategy and long-term performance (Table 9.5). The hypotheses tested were developed in Chapter three.

Table 9.5
Hypotheses for External Factors and Entry Strategy
(Marketing Adaptation and Channel Adaptation)

Hypotheses	Expected Sign	Coefficient	Assessment
H2.6 Cultural difference→Marketing Adaptation	-	-.08	Accepted
H2.7 Competition→ Marketing Adaptation	+	.10	Accepted
H2.8 Access to distribution channels→ Marketing Adaptation	-	.07	Rejected
H2.9 Currency Exchange→ Marketing Adaptation	-	-.03	Accepted
H2.10 Cultural difference→ Channel Adaptation	-	-.14	Accepted
H2.11 Competition→ Channel Adaptation	+	.09	Accepted
H2.12 Access to distribution channels→ Channel Adaptation	-	.03	Rejected
H2.13 Currency Exchange→ Channel Adaptation	-	-.15	Accepted
H3.2 Industry Growth→ Marketing Adaptation	+	.11	Accepted
H3.3 Industry Technology→ Marketing Adaptation	+	.39	Accepted*
H3.4 Industry Growth→ Channel Adaptation	+	-.06	Rejected
H3.5 Industry Technology→ Channel Adaptation	+	.28	Accepted*

Note: Refer to Chapter 3 for detailed hypothesis development. *Statistically significant.

The effect of market characteristics on marketing adaptation. The finding indicates that competition in the Chinese market is positively influencing marketing adaptation. It suggests that increased levels of competition in the market would enhance marketing adaptation. This is consistent with the literature (Hill and Still 1984, Cavusgil and Zou 1994). In a competitive foreign market, a high degree of marketing/product adaptation is needed due to intense competitive pressure, because marketing/product adaptation can help gain a competitive superiority over rivals. Moreover, cultural difference and currency exchange are found to be slightly negatively related with marketing adaptation, which suggests that decreasing the level of cultural difference and currency exchange would increase marketing adaptation. However, contrary to the hypothesis, the barrier of access distribution channel is slightly positively related with marketing adaptation, but the impact is very small.

The effect of market characteristics on channel adaptation in the Chinese market. Hypotheses related to market characteristics and channel adaptation are H2.11, H2.12, H2.13, H2.14, H2.15. Currency exchange is an important barrier for channel adaptation in the Chinese market. An explanation of this is that the Chinese currency is not a convertible currency and some of the difficulties experienced by foreign companies trying to do business with China include a lack of foreign exchange and difficulty in getting their money out of the country (Genzberger et al. 1994). Cultural difference is also found to have an important effect on channel adaptation in the Chinese market. This is not surprising as the Chinese business culture, (including the Guanxi - business relationship) could be an obstacle for a company's channel

adaptation. Competition in the Chinese market was found to have a positive effect on channel adaptation in the Chinese market. This finding is consistent with the literature (Cavusgil and Zou 1994). Competition seems to compel managers to strengthen their distributor capabilities in the foreign market.

The barrier access distribution channel was also found to be slightly positively related to channel adaptation, which causes the rejection of this hypothesis.

The effect of industry characteristics on marketing adaptation. Industry technology was found to have a prominent effect on marketing adaptation, which agrees with previous research (Cavusgil and Zou 1994), and technology orientation is the strongest determinant of marketing adaptation. A firm in a high technology industry will have a high degree of marketing adaptation. However, industry growth seems to have no effect on marketing adaptation.

The effect of industry characteristics on channel adaptation. The finding indicates that industry technology has a very significant effect on channel adaptation in the Chinese market. Consistent with the literature (McGuinness and Little 1981; Cavusgil and Zou 1994), channel adaptation is more likely in technology intensive industries. However, industry growth has no significant effect on channel adaptation.

9.4 Internal Factors and Entry Strategy

The relationship of internal factors (firm characteristics and product characteristics) with entry strategy (marketing adaptation and support to distributors) is examined in this section.

9.4.1 Original Model

The structural equation model of internal factors was developed with marketing skills, production skills, product uniqueness, time commitment of top management for the venture, product quality, product exposure, firm resources, product application, marketing adaptation, and channel adaptation as latent variables.

The constructs were defined by the number of observed items used to measure them in the questionnaire. The items selected for each construct were based on the previous factor analysis results in Chapter Seven. A total of twenty-eight items comprised the measurement model, four items from marketing skills, four items from production skills, two from product uniqueness, two from time commitment, two items from product quality, two items from product exposure, three items from firm resources, two items from product application, five items from product adaptation, and two items from channel adaptation (Figure 9.7).

The original structural model was run using the Amos program. Figure 9.5 shows that the model was over-specified with a large number of degrees of freedom. It was

hypothesised that the original model should include all variables, however, such a large model is unlikely to be analysable and provide meaningful parameters.

Figure 9.7
Original Structural Model of Internal Factors

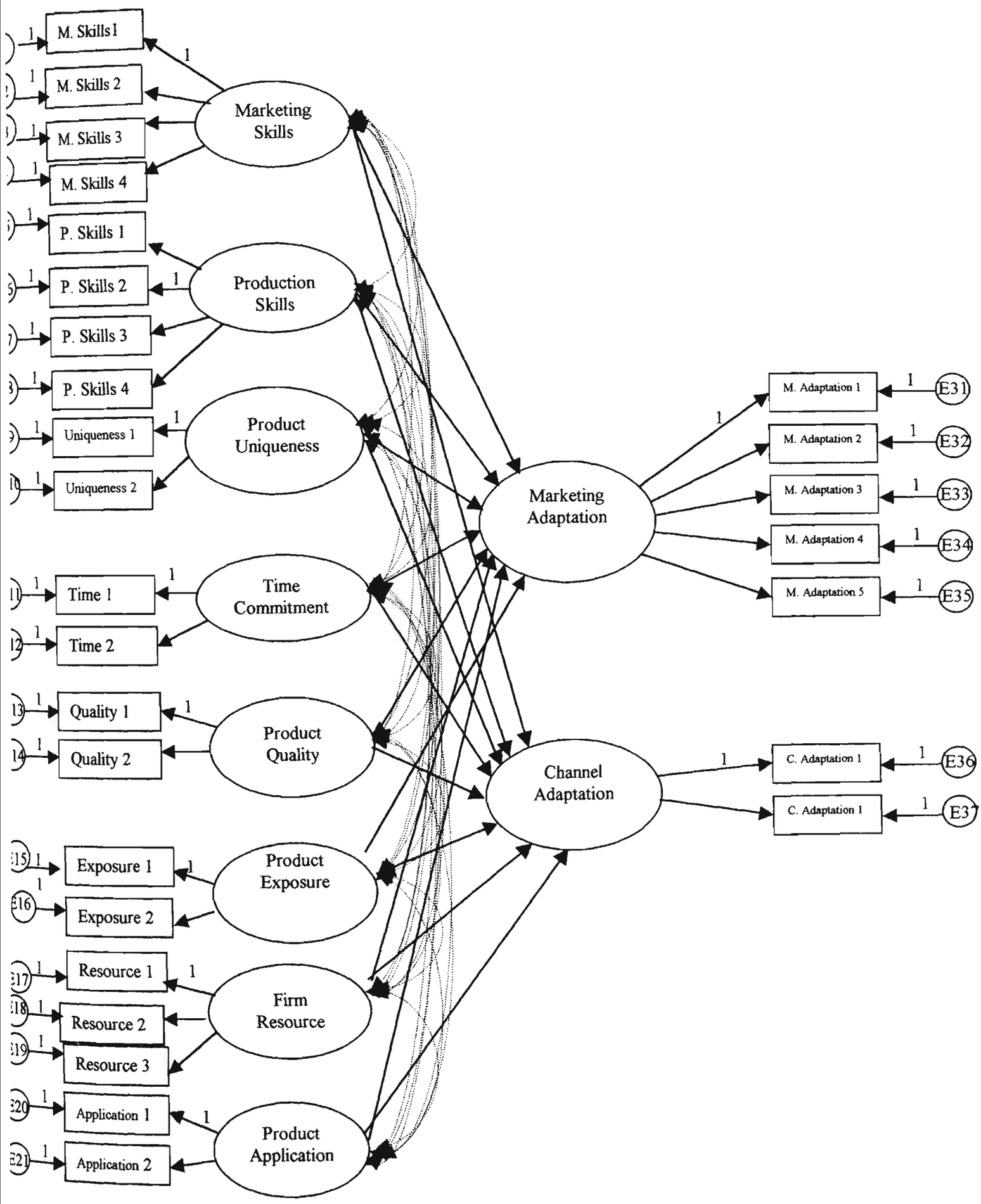


Table 9.6
GOF Measures for Original Structural Model (Internal Factors)

Goodness-of-fit Criteria	Levels of Acceptable Fit	Model Estimate
Model fit		
Likelihood ratio Chi-square statistic (χ^2)	Tabled χ^2 value	1664.204
Degree of freedom	The number of non-redundant correlations/covariance minus the number of estimated coefficients.	574 (p=.000)
CMIN/DF (χ^2/df)	Ratios 2 to 1 or 3 to 1	3.899
Goodness-of-fit (GFI)	Value close to .90, high value indicates better fit.	.691
Adjusted GFI (AGFI)	Value (adjusted for df) close to .90, high value indicates better fit.	.641
RMSEA(Root mean square error of approximation	.08 or less	.096
Model comparison		
Tucker-Lewis index (TLI)	Value close to .90, high value indicate better fit.	.527
Normed fit index (NFI)	Value close to .90, high value indicates better fit.	.579
Comparative Fit Index (CFI)	Value close to .90, high value indicates better fit.	.563
Model parsimony		
Parsimonious goodness-of-fit index (PGFI)	Higher values reflect greater model parsimony.	.596
Akaike information criterion (AIC)	Low scores indicate good fit	1848.204

Next, the model re-specification was based on the findings of the identification process, depending on significance tests and modification indices. Minimisation was achieved with full identification of the initial model and its parameter estimates. The

series of goodness-of- fit indices show that the model did not fit the data very well (Table 9.6).

Therefore re-specification of the model has to be done. To achieve a better goodness-of-fit model, the steps required included : reducing the number of coefficients in the measurement model; fixing the measurement error variances of constructs, and eliminating some insignificant variables. The final model is analysed and discussed in the next subsection.

9.4.2 Final Model

In improving the model, the parameters were examined for statistical significance. Non-significant parameters that had insubstantial theoretical justification were deleted. Then, the modification indices were considered for all the non-free parameters, and large scores that could not meet theoretical justification were deleted. Some constructs had too many items defining them in the original model, so the items that produced consistently large modification indices were deleted. This improved the fit of the model by reducing the degrees of freedom. Some fixed parameters were freed, and some covariances linking variables were included.

The final structural model is shown in Figure 9.8. Regression weights are shown in Table 9.7. The product quality latent construct has one problem variable, which was removed. Product application is less important, with only 4.7% of explained variance, and was eliminated to get a better goodness-of-fit. Eight latent variables remained,

but items were eliminated in the process of re-specification, and the measurement items were reduced to twenty.

Figure 9.8
Final Structural Model of Internal Factors

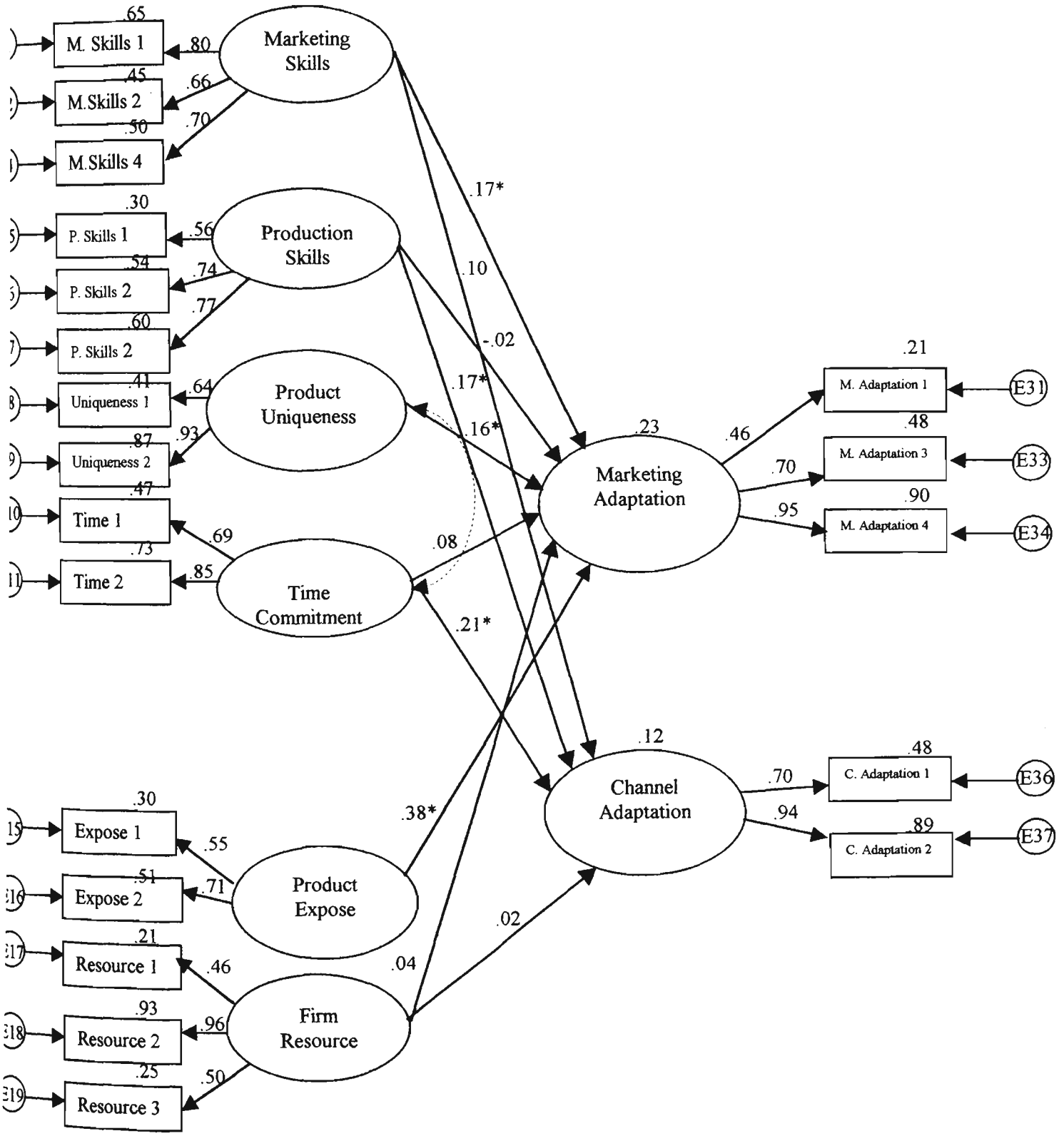


Table 9.7
Regression Weights of Internal Factors and Entry Strategy

Marketing Adaptation			
Internal Factor Variable	**Estimate**	**S.E**	**Significance**
Marketing Skills	.293	.156	1.885
Production Skills	-.043	.123	-.350
Product Uniqueness	.417	.204	2.045
Time Commitment	.157	.171	.921
Product Expose	.527	.173	3.055
Firm Resource	-.006	.010	-.570
Channel Adaptation			
Internal Factor Variable	**Estimate**	**S.E**	**Significance**
Marketing Skills	.154	.151	1.024
Production Skills	.251	.121	2.073
Time Commitment	.372	.168	2.211
Firm Resource	.002	.009	.243

The goodness-of-fit indices for the final structural model are illustrated in Table 9.8. An improvement in the final model is achieved in terms of model fit after the re-specification process, resulting from the deletion of a number of measurement items, and reduction of the model to a more analysable size.

Table 9.8
GOF Measures for Final Structural Model (Internal Factors)

Goodness-of-fit Criteria	Original Model	Final Model	Levels of Acceptable Fit
Model fit			
Likelihood ratio Chi-square statistic (χ^2)	1664.204	626.469	Tabled χ^2 value
Degree of freedom	574 (p=.000)	200 (p=.000)	The number of non-redundant correlations/covariance minus the number of estimated coefficients.
CMIN/DF (χ^2/df)	3.899	3.100	Ratios 2 to 1 or 3 to 1
Goodness-of-fit (GFI)	.691	.785	Value close to .90, high value indicates better fit.
Adjusted GFI (AGFI)	.641	.728	Value (adjusted for df) close to .90, high value indicates better fit.
RMSEA(Root mean square error of approximation	.096	.078	.08 or less
Model comparison			
Tucker-Lewis index (TLI)	.527	.640	Value close to .90, high value indicates better fit.
Normed fit index (NFI)	.579	.610	Value close to .90, high value indicates better fit.
Comparative Fit Index (CFI)	.563	.687	Value close to .90, high value indicates better fit.
Model parsimony			
Parsimonious goodness-of-fit index (PGFI)	.596	.621	Higher values reflect greater model parsimony.
Akaike information criterion (AIC)	1848.204	732.496	Low scores indicate good fit

The GFI has a value .785 and the AGFI has a value .728, which are in the marginal acceptance level. The final model has improved model fit.

The RMSEA value .078 is lower than .08, to indicate only a reasonable error of approximation. The χ^2 value of 626.496 with 200 degree of freedom is statistically significant at the 99% significance level. The significance of this measure is probably affected by the large sample size of over 200 cases, as mentioned in the previous section.

The measurement model indicates good measures for each of the constructs. The high factor loadings with very highly significant t-values ($p<.0001$) for internal factors and entry strategy provide further support for the reliability and validity of the items in the definition of the latent constructs.

9.4.3 Discussion

The hypotheses (refer to Chapter 3) of internal factors and entry strategy (marketing adaptation and channel adaptation) are discussed here. Table 9.9 provides the summary of the hypotheses of internal factors and entry strategy.

Table 9.9
Hypotheses for Internal Factors and Entry Strategy (Marketing Adaptation and Channel Adaptation)

	Hypotheses	Expected Sign	Coefficient	Assessment
H4.3	Production skills→Marketing Adaptation	+	-.02	Rejected
H4.4	Marketing skills→ Marketing Adaptation	+	.17	Accepted*
H4.5	Time commitment→ Marketing Adaptation	+	.08	Accepted
H4.6	Firm resource→ Marketing Adaptation	+	-.04	Rejected
H4.7	Production skills→ Channel Adaptation	+	.17	Accepted*
H4.8	Marketing skills → Channel Adaptation	+	.10	Accepted
H4.9	Time commitment → Channel Adaptation	+	.21	Accepted*
H4.10	Firm resource → Channel Adaptation	+	.02	Accepted
H5.3	Product uniqueness→ Marketing Adaptation	+	.16	Accepted*
H5.4	Product exposure→ Marketing Adaptation	+	.38	Accepted*

Note: Refer to Chapter 3 for detailed hypotheses development. *statistically significant.

The effect of firm characteristics on marketing adaptation. The findings indicate that marketing skills are the most important determinant for marketing adaptation. Then, time commitment of top management on a business venture is second. This implies that higher levels of marketing skills will increase the level of marketing adaptation. However, production skills and firm resources have a small negative coefficient relationship with marketing adaptation. A finding that was not anticipated is the weak and inverse relationship between production skill, firm resource and marketing adaptation. The results point to the existence of a more complex relationship. The fact is that enhanced market adaptation strategy does not appear to result from production skills and firm resources.

The effect of firm characteristics on channel adaptation. Of the four proposed firm characteristic determinants, time commitment of top management is necessary for channel adaptation. This suggests that channel adaptation is promoted largely by time commitment of top management to the business venture, and is consistent with

previous research findings (Cavusgil and Zou 1994). Companies provide ongoing support to the distributors/subsidiaries in the form of marketing information, sales, personnel training, technical assistance, promotional support and so on. Management commitment is the most critical determinant of channel support in a foreign country. Production skills provide a relatively strong impact on channel adaptation. Marketing skills and firm resources have a positive, but not strong, impact on the support of distributors.

The effect of product characteristics on marketing adaptation. The results suggest that product exposure is a very important determinant of marketing adaptation. In a new market enhancing the level of product exposure can largely increase the degree of marketing adaptation in product promotion and positioning. A product that is unique to the Chinese market has an increased degree of marketing adaptation.

The effect of product characteristics on channel adaptation. The finding indicates that product characteristics have no effect on channel adaptation. All of the product characteristics have no significant relationship with channel adaptation.

9.5 Entry Strategy and Long-term Performance

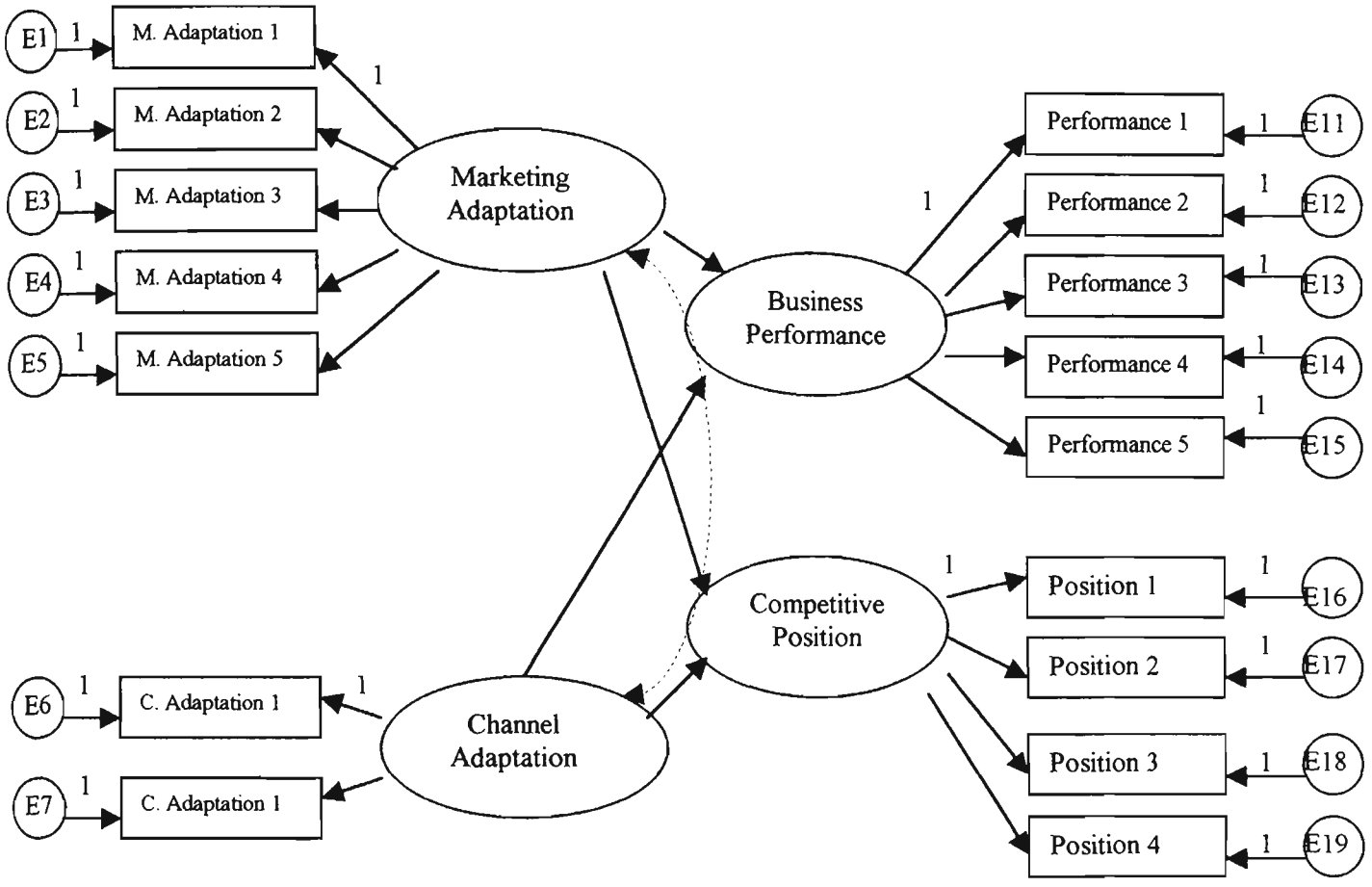
This section examines the relationship of entry strategy (marketing adaptation and channel adaptation) with long term performance (business performance and competitive position).

9.5.1 Original Structural Model

Figure 9.9 presents the initial structural model for entry strategy and long-term performance, including marketing adaptation, channel adaptation, business performance and competitive position as latent variables. Each construct was then defined by the number of observed items used to measure it in the questionnaire. The items selected for each construct were based on the previous factor analysis presented in Chapter Seven. A total of sixteen items comprised the measurement model. Five items for marketing adaptation, two items for channel adaptation, five items for business performance, and four items for competitive position.

It is necessary to note here that the original number of factors for long-term performance (six factors in Chapter 7) must be reduced to avoid over-identification problems in the original analysis. There are only two significant variables for the entry strategy variables and a simpler path structure is required for these two factors. Consequently, only the first two significant factors of long-term performance are included in the original model.

Figure 9.9
Initial Structural Model of Entry Strategy and Long-Term Performance



The original structural model was greatly over-specified, with a large number of degrees of freedom as illustrated in Figure 9.9. It was hypothesised that the initial model should include all variables in the model, but it is understood such a model might not provide a very good analytical fit. The model was respecified based on the findings of the identification process, according to significance tests and modification indices.

Minimisation was achieved with full identification of the initial model and its parameter estimates. The series of goodness-of-fit indices indicated that the model

could be improved to fit the data well (Table 9.10). Therefore, re-specification of the model was done.

Table 9.10
GOF Measures for Original Structural Model
(Entry Strategy and Performance)

Goodness-of-fit Criteria	Levels of Acceptable Fit	Model Estimate
Model fit		
Likelihood ratio Chi-square statistic (χ^2)	Tabled χ^2 value	375.591
Degree of freedom	The number of non-redundant correlations/covariance minus the number of estimated coefficients.	103 (p=.000)
CMIN/DF (χ^2/df)	Ratios 2 to 1 or 3 to 1	3.647
Goodness-of-fit (GFI)	Value close to .90, high value indicates better fit.	.818
Adjusted GFI (AGFI)	Value (adjusted for df) close to .90, high value indicates better fit.	.759
RMSEA(Root mean square error of approximation	.08 or less	.113
Model comparison		
Tucker-Lewis index (TLI)	Value close to .90, high value indicates better fit.	.643
Normed fit index (NFI)	Value close to .90, high value indicates better fit.	.628
Comparative Fit Index (CFI)	Value close to .90, high value indicates better fit.	.694
Model parsimony		
Parsimonious goodness-of-fit index (PGFI)	Higher values reflect greater model parsimony.	.619
Akaike information criterion (AIC)	Low scores indicate good fit	441.591

9.5.2 Final Structural Model

In improving the model, the parameters were examined for statistical significance, and non-significant parameters that had insubstantial theoretical justification were deleted. Then, the modification indices were considered for all the non-free parameters, and large scores that were not supported theoretically were deleted. Some constructs had too many items defining them in the original model, so the items that produced consistently large modification indices were deleted. This improved the fit of the model by reducing the degrees of freedom. Some fixed parameters were freed, and some covariances linking variables were included.

The final structural model is shown in Figure 9.10. Regression weights are illustrated in Table 9.11. Four latent variables remained, but items had been eliminated in the process of re-specification and the measurement items were reduced to eleven in number.

Figure 9.10
Final Model of Entry Strategy and Long-Term Performance

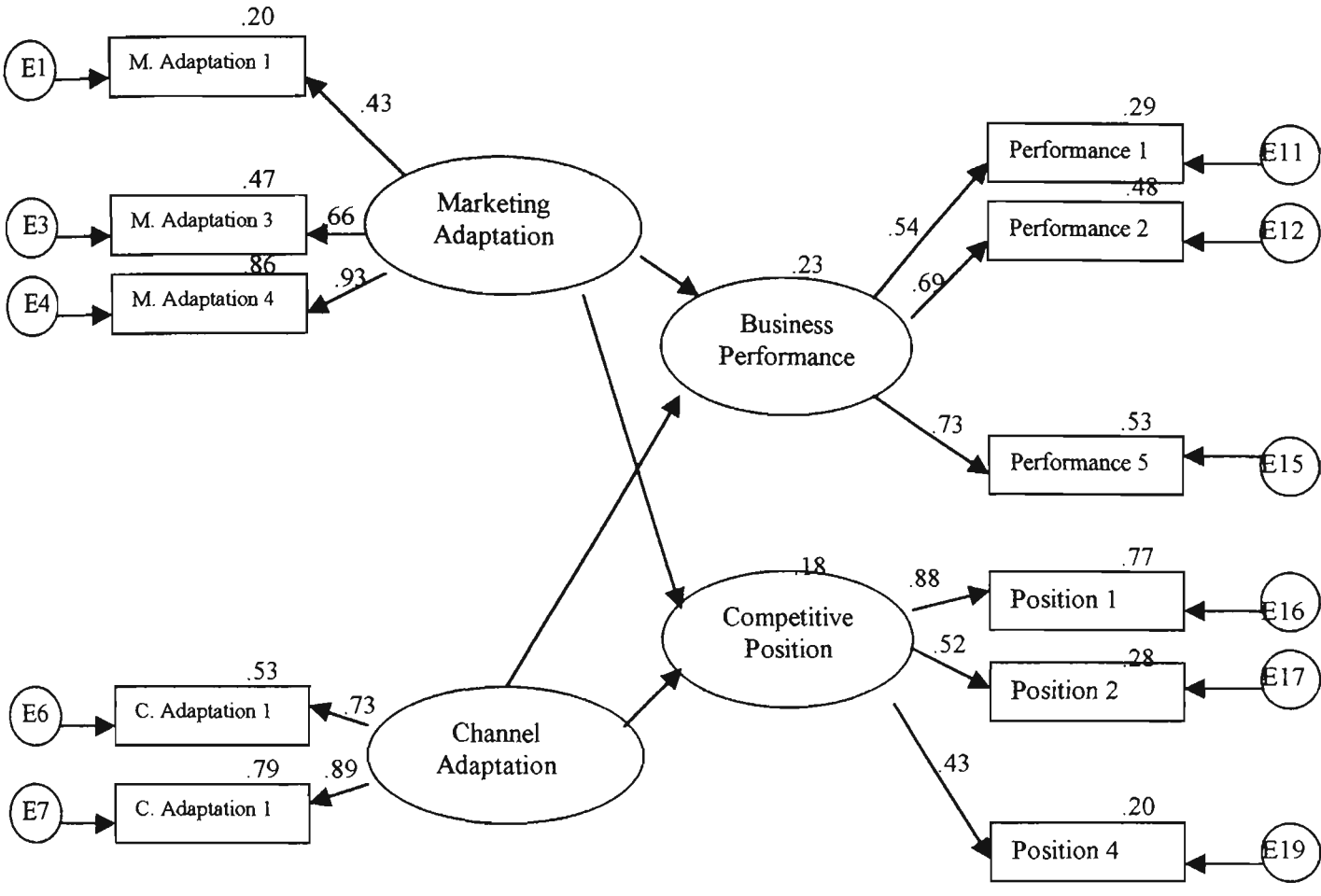


Table 9.11
Regression Weights of Entry Strategy and Performance

Business Performance			
Internal Factor Variable	**Estimate**	**S.E**	**Significance**
Marketing Adaptation	.209	.096	2.183
Channel Adaptation	.206	.098	2.110
Competitive Position			
Internal Factor Variable	**Estimate**	**S.E**	**Significance**
Marketing Adaptation	.274	.087	3.148
Channel Adaptation	.270	.089	3.027

The goodness-of-fit indices for the final structural model are illustrated in Table 9.12 including a comparison with the original model. An improvement in the final model is achieved in terms of model fit after the re-specification process, resulting from the deletion of a number of measurement items.

The GFI has a value .872 and the AGFI has a value .811, which are in the marginal acceptance level. The final model has improved the model fit.

Table 9.12
GOF Measures for Final Structural Model
(Entry Strategy and Performance)

Goodness-of-fit Criteria	Original Model	Final Model	Levels of Acceptable Fit
Model fit			
Likelihood ratio Chi-square statistic (χ^2)	375.591	188.844	Tabled χ^2 value
Degree of freedom	103 (p=.000)	53 (p=.000)	The number of non-redundant correlations/covariance minus the number of estimated coefficients.
CMIN/DF (χ^2/df)	3.647	3.563	Ratios 2 to 1 or 3 to 1
Goodness-of-fit (GFI)	.818	.872	Value close to .90, high value indicates better fit.
Adjusted GFI (AGFI)	.759	.811	Value (adjusted for df) close to .90, high value indicates better fit.
RMSEA(Root mean square error of approximation	.113	.082	.08 or less
Model comparison			
Tucker-Lewis index (TLI)	.643	.689	Value close to .90, high value indicates better fit.
Normed fit index (NFI)	.628	.691	Value close to .90, high value indicates better fit.
Comparative Fit Index (CFI)	.694	.751	Value close to .90, high value indicates better fit.
Model parsimony			
Parsimonious goodness-of-fit index (PGFI)	.619	.692	Higher values reflect greater model parsimony.
Akaike information criterion (AIC)	441.591	238.844	Low scores indicate good fit

The RMSEA value of .08 indicates a reasonable error of approximation (Hair et al. 1995). The χ^2 value of 188.844 with 53 degrees of freedom is statistically significant

at the 99% level. The significance of this measure is probably affected by the large sample size above 200 cases as mentioned previously.

The measurement model indicates good measures for each of the constructs. The high factor loadings with very highly significant t-values ($p<.0001$) for entry strategy and long-term performance provide further support for the reliability and validity of the items in the definition of the latent constructs.

9.5.3 Discussion

Table 9.13 provides information for discussion of the hypotheses of entry strategy and long-term performance.

Table 9.13
Hypotheses for Entry Strategy (Marketing Adaptation and Channel Adaptation) and Long-Term Performance

Hypotheses	Expected Sign	Coefficient	Assessment
H1.13 Marketing Adaptation→Business Performance	+	.19	Accepted*
H1.14 Channel Adaptation →Business Performance	+	.19	Accepted*
H1.15 Marketing Adaptation→Competitive Position	+	.25	Accepted*
H1.16 Channel Adaptation → Competitive Position	+	.26	Accepted*

Note: Refer to Chapter 3 for detailed hypotheses development. *Statistically significant.

The effect of entry strategy on long-term performance. Marketing adaptation, including product adaptation, promotion adaptation and packaging adaptation has positive significant effects on business performance. High levels of marketing adaptation have directly contributed to better business performance. Channel adaptation also has a significant effect on business performance. The findings support

the hypothesis. Channel adaptation in the Chinese market greatly contributes to successful performance.

Both marketing adaptation and channel adaptation have a direct and important impact on competitive position. These key findings indicate that the importance of entry strategy contributes to competitive position. In the survey, managers interviewed for the study often stated that the objectives of entering the Chinese market are to further long-term development and to gain a competitive position, not just to gain profit. The marketing adaptation and channel support strategies are important to a company in gaining competitive position. Additionally, in a developing country's market, competitive position would be the first result that can be attributed to entry strategy. A foreign company could not expect to gain a large profit in the short term. They must spend time to build their competitive position and wait for a chance to become profitable.

9.6 Summary

Several key findings were made in this chapter.

Firstly, the measurement and structural components of the structural (confirmatory factor analysis) model provided empirical support for the reliability and validity of the measures defining the key constructs in the conceptual model. The model confirms that entry strategy (marketing adaptation and channel adaptation) is critical to long-term performance. The external factors and internal factors have different impacts on entry strategy.

Secondly, significant effects were found for entry strategy on long-term performance. For business performance, both marketing adaptation and channel adaptation are significant determinants. For competitive position, both marketing adaptation and channel adaptation are significantly strong determinants. It is concluded that both marketing adaptation and channel adaptation are important for business performance and competitive position.

Thirdly, of fifteen external and internal factors, industry technology, marketing skills, product exposure and product uniqueness are found to be the key influences on marketing adaptation. Moreover, industry technology, time commitment of top management, production skills and currency exchange are seen as key influences on channel adaptation. Marketing skills, production skills, currency exchange, industry growth and product quality have some strong impacts on channel adaptation.

Finally, the structural model provides evidence to support the theoretical framework underpinning the international entry strategy and long-term performance conceptual model. It indicates that the model is applicable to the investigation of entry strategies in China.

CHAPTER 10

CONCLUSIONS, IMPLICATIONS AND FUTURE RESEARCH

10.1 Introduction

The conceptual model of international market entry strategy, consisting of external and internal factors, entry strategy and long-term performance, was proposed in Chapter 3. This model is based on constructs that emerged from the existing literature (Chapter 2), including the relationship of external factors (foreign market characteristics and industry characteristics), and internal factors (industry characteristics and firm characteristics) with entry strategy (mode of entry, timing of entry, investment at entry, marketing adaptation and channel adaptation), and long-term performance (business performance and competitive position). The model was tested with data for a sample of companies collected in Australia and in China. The entry strategies have been examined with different statistical analyses due to the nature of the data. Chapter 5 provided an overview and comparison of Australian companies with other foreign companies. Chapter 6 evaluated mode of entry. Chapter 7 conducted factor analysis to provide reliability, validity and the basis for a structural equation modelling analysis. Chapter 8 tested timing of entry and investment at entry. Moreover, Chapter 9 examined marketing adaptation and channel adaptation. The results and discussion of the hypotheses were presented in the previous chapter.

This chapter firstly provides the overview of Australian companies' business ventures in China. Secondly, the contributions made by this study, as well as the implications

for management are also discussed, and finally, the chapter ends with recommendations for future research.

10.2 An Overview of Australian Business in China

Australian companies entered into the Chinese Market after the 1980's Chinese economic reform that opened the door to the international business community. More than half the companies entered into China after the 1990's, as a result of further Chinese economic reform that accelerated and encouraged foreign investment. In the 1980's, most Australian companies used exporting (direct exporting, exporting through other countries, branch offices in China and exporting-through an agency in Australia) as the entry mode. Australian companies started to use joint ventures as an entry mode after 1980 following the implementation by the Chinese government of joint venture regulations, and most companies choose WODI as the entry mode around 1986 as the Chinese market became more accessible, and government policies became more favourable to foreign investors.

The major entry modes of the Australia companies in this study were exporting (78%) which consisted of direct exporting, exporting through agencies in Australia, exporting-through other countries and with branch offices in China. Joint ventures were also an important entry mode used by 16.8% of Australian companies.

About 69% of the Australian companies had Chinese partners. Their Chinese partners include state-owed enterprises (53%), collective enterprises (9%), and private enterprise (32%).

Australian companies in this study were mainly from the food industry, machinery industry, metal production, chemical, textile and clothing, tele-communication, agriculture, computing and mining industries.

Based on the number of employees, two thirds were from medium and small companies, (employee numbers less than 240) and one-third were from large companies (employee numbers over 241). In regard to the total sales at entry time, 50.5% of the companies had less than $5 million in sales and 49.5% of the companies had more than $5 million sales; while 41% of the Australian companies had been in the international market less than 10 years, and 59% of the companies more than 11 years.

Australian product demand has significantly increased in recent years. The survey indicates that when the Australian companies first entered into China, there were 27.4% of companies with a product growth rate of more than 11%. In 1997, 46.6% of companies had a product growth rate of more than 11% (refer 5.3.3).

In regard to investment at entry, 45% of the Australian companies were small investors (less than $50,000) and 55% of the Australian companies invested more than $50,001. In 1997, Australian companies enlarged their investment, with 33% of companies investing less than $50,000 and 67% of the companies investing more than $50,001.

In regard to sales in China in the first year, 17.4% of the Australian companies had sales of more than $5 million. In 1997, 39.4% of the firms had sales of more than $5 million. These findings to some extent are consistent with earlier research by the EAAU (1997), stating that Australian products achieved a strong performance rate in the Chinese market.

In regard to market share, when the Australian companies entered into the Chinese market, 7.2 % of the companies had more than 11% market share for their product. Their market share had largely improved after their entry. In 1997, 22.2% of the companies had more than 11% market share. This supports the findings of the Department of Foreign Affairs and Trade (DFAT 1997, p160), that Australian companies have been very successful in the Chinese market.

The findings indicate that Australian early entrants achieved more market share than later entrants. Of the early entrants (in China more than 16 years) 63.7% achieved higher market share by more than 6%, and only 39.4% of the later entrants (in China less than 15 years) achieved higher market share of more than 6%. Most of the late entrants had achieved market share of less than 5% for their products.

Comparing Australian companies with other foreign companies (USA, Japan, Western Europe and others), the other foreign companies were larger than the Australian companies. More than 50% of the foreign companies could be categorised as large companies, with more than 241 employees and with large sales of more than $50 million. Other foreign companies comprised more early entrants and had longer

international business experience than the Australian companies. Of the other foreign companies 78% had more than 31 years international business experience, and 40.3% invested more than $5 million. Most of the other foreign companies came from the computing, tele-communication, metal and chemistry, and machinery industries.

These other foreign companies had similar choices of entry mode as the Australian companies, including exporting, contracting, joint venture and WODI. The foreign companies had more market share in the Chinese market, compared with Australian companies; more than 44.2% of other foreign companies had market share of over 11% in 1997, but only 23.3% of the Australian companies had such a large market share. Consequently, other foreign companies were the important competitors in the Chinese market, as indicated by the Australian managers interviewed in China.

10.3 Conclusion of Hypotheses

10.3.1 Relationships between Entry Strategy and Long-term Performance

Hypothesis 1.1 to 1.16 stated that perceptions entry strategy (entry mode, timing of entry, investment at entry, marketing adaptation and channel adaptation) would influence long-term performance (business performance and competitive position).

It was expected that a high commitment mode, early timing of entry and large magnitude of investment at entry would have positive effects on business performance and competitive position. Hypothesis 1.1 stated that a high commitment entry mode would result in a high level of return of profits and sales. The modes of

resource commitment from low to high are, in order, exporting through agencies in Australia, exporting through other countries, direct exporting, branch offices in China, contracting, joint ventures, and wholly owned direct investment (WODI). In fact, five of the seven entry modes confirmed this hypothesis:

Exporting-through agency in Australia is a low commitment mode, which had a low return of profit and sales;

Direct exporting is a medium resource commitment mode, which had a medium return of profit and sales;

Branch office in China is a medium resource commitment model, which had a medium return of profit and sales;

Contracting is a medium resource commitment model, in which return of profits and sales is medium to high;

Joint venture is a high resource commitment model, which had a medium to high return of profit and sales.

However, entry modes of exporting through other countries and WODI did not support the hypothesis. Exporting through other countries is a low commitment mode, but return of profits and sales were medium to high. WODI is a very high commitment mode, and return of profits and sales were medium to high.

Hypothesis 1.2 stated that a high commitment mode would have a higher risk and a low commitment mode would have a lower risk. Six out of the seven entry modes supported this hypothesis:

Exporting through an agency in Australia and exporting through other countries are low resource commitment modes, in which risks are low to very low.

Direct exporting and branch office in China are medium resource modes, in which risks are medium to low.

Joint venture and WODI are high resources commitment modes, for which risks are medium to high. WODI's risk is very high, because it is a high resource commitment mode. However, contracting has a high risk, which rejects the hypothesis.

Hypothesis 1.3 stated that high resource commitment modes would have high costs and low resource commitment modes would have low costs. Four out of seven entry modes support the hypothesis, they are: exporting through agency in Australia, direct exporting, branch offices in China and joint ventures. However, exporting through other countries is a low resource commitment mode, in which costs are medium. Contracting is a medium commitment mode, but has low cost. Costs of WODI are hypothesised to be high to very high, but its costs are medium to high, and reject the hypothesis.

Hypothesis 1.4 stated that a high resource commitment mode would have high management control, and a low resource commitment mode would have less management control. Five out of seven entry modes accepted the hypothesis. Direct exporting, branch office in China and contracting are medium resource commitment modes, for which management control is medium. Joint venture and WODI are high resource commitment modes, in which management control is high to very high. Only two low resource commitment modes, exporting through agency in Australia and

exporting through other countries rejected the hypothesis. Management controls of these two modes are medium, which are higher than hypothesised.

Hypothesis 1.5 stated that a high resource commitment mode would result in a high level of control of the market, and low resource commitment mode would result in a low level control of the market. Five out of seven entry modes confirmed this hypothesis. Exporting through an agency in Australia, direct exporting, branch offices in China, contracting and joint venture supported the hypothesis. However, exporting through other countries and WODI rejected the hypothesis. Exporting through other countries has medium control of the market, which is higher than hypothesised, and WODI has medium control of the market, which is lower than hypothesised.

The six hypotheses (hypothses1.6 to 1.11) stated that timing of entry and investment at entry influenced business position and competitive position, and these hypotheses were accepted. Chapter 8 indicates that timing of entry and investment at entry has significant effects on business performance and competitive position. Timing of entry is found to impact significantly on performance and market share. Investment at entry is observed as impacting on sales, return on investment, performance, profit and market share. Therefore, a relationship is found between importance of entry strategy (timing of entry and investment at entry) and long-term performance.

The hypotheses 1.12 to 1.16) stated that marketing adaptation and channel adaptation affected long-term performance. The structural equation modelling in Chapter 9 examined this relationship. Marketing adaptation has a significantly strong impact on

business performance, while channel adaptation has a significant impact on business performance and competitive position. Therefore, both marketing adaptation and channel adaptation are important for long term performance.

10.3.2 Relationship of Foreign Market Characteristics and Entry Strategy

Hypothesis 2.1 to 2.13 stated that foreign market characteristics influenced entry strategy (timing of entry, investment at entry, marketing adaptation and channel adaptation). Here eleven of the thirteen hypotheses are accepted. Hypothesis 2.2 stated that timing of entry was positively influenced by availability of experienced staff, and is accepted. Hypotheses 2.3 stated that the lower the level of the market barrier of language difference, the higher the investment by the firm would be at entry time, and this is accepted. Additionally, Hypothesis 2.5 stated that investment at entry was positively influenced by availability of experienced staff, and is accepted. However, Hypothesis 2.1 stated that the lower the level of market competition, the earlier the market entry, this is rejected. Hypotheses 2.4 stated that the higher the level of tariff, the higher the investment by the firm would be at entry time, and this is also rejected.

Hypotheses 2.6 to 2.9 stated that *Marketing adaptation* was influenced by cultural difference, competition in the market, access to distribution channels, and currency exchange. Market barriers of cultural difference, access to distribution channels and currency exchange has a slightly negative impact on market adaptation. The competition in the market has a strong impact on marketing adaptation. Three of the four hypotheses of market characteristics and marketing adaptation are accepted,

excepting that access to distribution channels has a slightly positive impact on marketing adaptation, which rejected hypothesis 2.8.

Hypotheses 2.10 to 2.13 stated that channel adaptation was influenced by cultural difference, competition in the market, access to distribution channels, and currency exchange. Currency exchange has a strong negative influence on channel adaptation. Competition in the market has a strong positive influence on channel adaptation. Market barrier of cultural difference has a negative influence on channel adaptation. However, access to distribution channels has a slightly positive impact on channel adaptation, which rejects hypothesis 2.12.

10.3.3 Relationship of Industry Characteristics and Entry Strategy

Hypotheses 3.1 to 3.5 stated that industry characteristics (technology orientation, short-term and long-term market growth prospects) influenced entry strategy (timing of entry, investment at entry, marketing adaptation and channel adaptation). Four of five hypotheses (excepting number 3.4) are accepted. Industry technology orientation significantly influences timing of entry, which suggests that a company in an advanced technology industry would enter the market earlier than a company in another less technology based industry. Moreover, industry technology orientation has a strong and significant influence on marketing adaptation. This result indicates that a firm in an advanced technology industry will have a high level of marketing adaptation and channel adaptation. Industry growth has a positively significant impact on marketing adaptation. However, industry growth has little influence on channel adaptation, which rejects hypothesis 3.4.

10.3.4 Relationship of Firm Characteristics and Entry Strategy

Hypotheses 4.1 to 4.10 stated that firm characteristics (business experience, number of employees, production skills, time commitment of business, production skills, marketing skills) influenced entry strategy (timing of entry, investment at entry, marketing adaptation and channel adaptation).

Eight out of ten hypotheses are accepted by the analysis. A firm's business experience has a strong positive influence on timing of entry (hypothesis 4.1). A firm that has more international business experience enters into the market earlier. Employee numbers has a strong and significant positive influence on investment at entry (hypothesis 4.2). It is suggested that large firms would take up more investment at entry time. The marketing skills and the time commitment of top management to the business has a significantly positive influence on marketing adaptation (hypothesis 4.4 and 4.5), and also to channel adaptation (hypothesis 4.8 and 4.9). Moreover, the firm resources also have a positive influence on channel adaptation (hypothesis 4.10); even if the influence is little. However, the results indicate that the production skills and firm resources have a small negative influence on marketing adaptation, which rejects the hypotheses 4.3 and 4.6.

10.3.5 Relationship of Product Characteristics and Entry Strategy

Hypotheses 5.1 to 5.4 stated that product characteristics (product exposure in the market, product cultural specificity, product uniqueness) affected the entry strategy (timing of entry, investment at entry, marketing adaptation). Product exposure in the

market has a significantly positive effect on timing of entry (hypothesis 5.1). This suggests that increased product exposure in the Chinese market will lead to an earlier entry. Product cultural specificity has a strongly significant effect on investment at entry (hypothesis 5.2), which indicates that increased culture specificity would lead to a greater investment at entry. Product uniqueness and product exposure has a significant positive effect on marketing adaptation (hypotheses 5.3 and 5.4), increased product uniqueness and product exposure would increase the level of marketing adaptation. All of the four hypotheses are accepted.

10.4 Contributions

This study makes several significant contributions to knowledge in both theory and methodology.

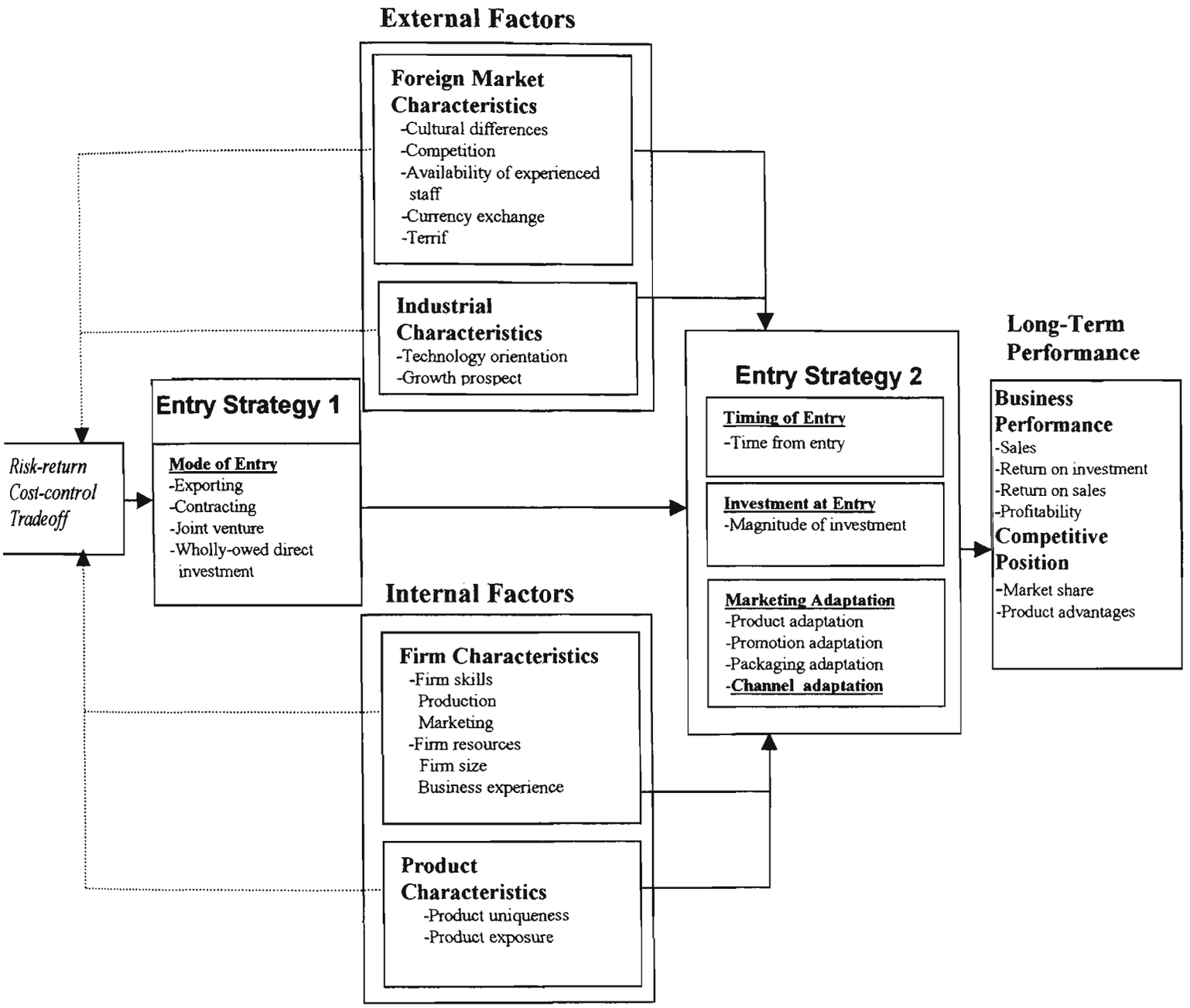
10.4.1 Theoretical Contributions

Firstly, this study has developed a comprehensive international entry strategy conceptual model. The conceptualisation of a comprehensive international strategy performance model allows for the development of a more sophisticated understanding of the factors influencing long-term firm performance after entering an international market. This study proposes an international entry strategy and performance conceptual model, based on findings from a broad spectrum of international marketing literature including internationalisation theory, transaction theory, relationship marketing, international marketing environment studies, entry strategy study and marketing strategy studies. Support was found for a relationship between

entry strategy and performance for Australian companies operating in China. This makes a contribution to existing knowledge in the area of international marketing and the study of entry strategies.

Secondly, the proposed international entry strategy conceptual model gave a better explanation of long-term performance. The construct of long term performance incorporated both economic and strategic dimensions, and concerned both objective and subjective measures. Most previous studies have used performance measures of an economic nature, such as sales, profits and sales growth (Cavusigil and Zou 1994). This study combines economic performance (business performance: sales, sales growth, profits, return of investment), and strategic performance, (competitive position: market share, market relations and product advantages). Therefore, this study makes a theoretical contribution in establishing a complex international market performance measurement model.

Figure 10.1
International Market Entry Strategy Final Model



Thirdly, the model has been empirically tested and found to explain a significant set of relationships between international entry strategy and long-term performance.

While entry strategy has been studied previously by other authors (Biggadike 1976, Szymanski, Troy and Bharadwaj 1995), these studies have lacked empirical investigation or have focused only on single strategy components. No other study has been concerned with multiple international entry strategy components including entry mode, timing of entry, investment of entry and marketing adaptation. This research advances the understanding of international marketing by empirically testing a multiple entry strategy component model and its capacity to explain long-term performance. The various relationships in the international market entry strategy model have been tested and confirmed. Most importantly, entry strategy has significant influence on long-term performance. Moreover, internal and external factors impact on entry strategy decisions (refer to Figure 10.1).

The results indicate that timing of entry has impacted significantly on performance and market share. Investment at entry has impacted significantly on sales, profit, return on investment and market share. Marketing adaptation and channel adaptation also have significant effects on business performance (sales, profit, return on investment, return on sales) and competitive position (market share and product advantages). Hence the results make a contribution by confirming the importance of entry strategy to long-term performance (Green, Barclay and Ryan 1995).

Finally, this thesis has also demonstrated the value of an empirical study of international entry strategies for companies based in western developed countries that market in eastern developing countries. Most previous studies have only focused on

the entry strategies of a western developed country marketing in other western or eastern developed countries.

10.4.2 Methodological Contributions

Firstly, this study has raised and dealt with critical measurement issues in international entry strategy research. Entry strategy includes entry modes, timing of entry, investment at entry, and marketing adaptation. Analysing these entry strategy components necessitates developing different analytical measurement approaches. Cross tabulation, simple regression, multiple regression, and the structural equation modelling based upon factor analysis have been used to interpret the data. A wide range of data is required to measure these different aspects of international marketing, which means that no one analysis technique is likely to be satisfactory.

Secondly, the multi-item scales used in the measurement of constructs in the study were found to be reliable and valid through a series of assessment techniques, including calculations of the coefficient alpha and factor analysis. They were found to be appropriate for the measurement of the various constructs of international marketing.

Additionally, the development of new or modified items for measuring the constructs also provide a methodological contribution. In particular, new scales for the constructs of foreign market characteristics, and competitive position were developed as none existed in the literature. The reliability and validity of those multi-item scales

were acceptable, and refined by improving the clarity of the instructions, reducing ambiguity in the items, or by adding similar items to the scales in future research (Peter, 1979).

10.5 Implications for Management

The international entry strategy performance model provides a useful conceptual framework for managers facing international entry strategy decisions (Figure 3.1). This model can be used to examine the possible results of various entry strategies, because the model incorporates the key entry factors shown to influence long-term performance.

The results point to tangible outcomes resulting from entry strategy choice. Companies can achieve better performance in Chinese market business ventures through the selection of appropriate entry strategies. As such entry strategies should be adapted to the context of the foreign business venture, as defined by external factors, such as foreign market and industry characteristics, and internal factors, such as firm and product characteristics.

External factors will influence the firm's entry strategy decision, including industry technology orientation, competition in the market, cultural difference, and currency exchange. Industry technology is an important factor impacting on a firm's entry strategy decision. Chinese government policy has encouraged high technology industries in China. These industries can use their technological advantage to establish business ventures. Market competition is another important factor

influencing a firm's entry strategy decisions and performance. Australian companies face strong competitors, including the US, Japanese, and Western European companies. The other companies may possess more resources and longer international experience than the Australian companies. Therefore, Australian companies must consider their competitive situation when first making entry strategy decisions. Additionally, cultural differences will influence the Australian Company's entry strategy decision. Understanding the Chinese culture and building Guanxi are critical for a firm's access into the Chinese market. Moreover, currency exchange and local customs form market barriers will impact on the firm's entry decisions. A firm's market entry decisions must consider Chinese currency conversion and the high level of tariffs on some products.

Internal factors will also impact on the entry strategy decisions, including marketing skills, production skills, top management commitment to the venture, firm resources, product exposure in the Chinese market and product uniqueness. Marketing skills mostly influence marketing adaptation. Top management commitment and production skills largely impact on channel adaptation. International business experience significantly influences the timing of entry. A high degree of product exposure in the Chinese market and product uniqueness results in an earlier timing of entry and better marketing adaptation.

Several specific normative prescriptions are justified by the finding. Firstly, long-term performance (business performance and competitive position) is determined by entry strategy decisions. Long-term performance can also be enhanced through marketing

adaptation and channel adaptation. Managers should be aware that the optimal degrees of marketing adaptation and channel adaptation are determined by the interplay of external and internal factors. Moreover, long term performance of market share and sales will be served better by an early entry. Long-term performance of sales, market share and return on investment can also be achieved by a larger investment.

Secondly, entry mode choice depends on not only the firm's resources but also on the stage of development of the product. Small or medium Australian firms wishing to enter into the Chinese market may not have enough resources and experience to build up business relationships. Therefore, they must use low commitment entry modes, such as direct exporting and a representative office in China. They could shift to joint venture after they obtain a better understanding of the Chinese market environment and after establishing business relationships. Large companies, possessing sufficient resources and more international experience, will find it easier to penetrate the Chinese market. They should start with a high commitment mode such as joint ventures and WODI, if they anticipate significant potential in the Chinese market. Joint venture is the more appropriate entry mode chosen by foreign companies in recent years. In this way foreign firms can use local partner business relationships, distribution channels and sales networks. The local partner can also work with the Chinese government to get document approval. Moreover, China has beneficial policies, such as tax deductions for joint ventures.

Thirdly, early entrants can achieve better business performance in sales, profit and market share. Firms need to take a long-term view possibly not making an early profit. It is necessary to establish the company name and the brand name, and wait for the chance to succeed. In recent years, the Chinese government has developed favourable policies to encourage high technology industry into China. A firm in a high technology industry should take early entry now.

Fourthly, investment at entry appears to be critical for business performance of sales and return on investment. Large entry investments achieve larger sales. However, profit does not only depend on a large investment, many other factors will influence a firm's profitability. Because experienced staff, dispute resolution, language, and product culture specifications contribute to investment at entry, companies can invest more by hiring qualified personnel, smoothly resolving disputation, and investing in improving a product's culture specificity. Perhaps the best investment companies can make in this context is in strengthening their human resource capabilities and product design abilities. Companies must cultivate international competence and ensure consistent commitment to the business venture. Consequently, this relationship can not be simply stated as a larger firm has an advantage by having greater initial investment capacity, as the initial investment must be focused in the correct direction.

Finally, managers are advised to improve marketing adaptation and channel adaptation in order to achieve long-term performance. The important internal effect on marketing adaptation is the firm's marketing skills. The standard ways of developing a firm's marketing skills are through setting objectives to meet customer

satisfaction, making all departments aware of their role in creating superior value for customers, and reacting quickly to a competitor's actions. Such marketing skills are critical in high technology industry and an intensively competitive market. In addition, product exposure in the Chinese market would significantly benefit marketing adaptation. Managers should be aware that in such a huge market, it is not easy to make a product familiar to Chinese customers. Different products should use different promotional strategies. Moreover, developing unique products does improve marketing adaptation.

A critical impact of channel adaptation is the time commitment of top management to the venture. Top management must develop a long-term plan and policy designed to cultivate Chinese market opportunities. Business activities must include searching for Chinese distributors and establishing beneficial partnerships to improve channel adaptation. The need is to develop a network of Chinese distributors and strengthen their ability to perform distribution, marketing and customer service functions through support and training. This support is particularly necessary in high technology industries. Chinese cultural differences and currency exchange should not be ignored. Additionally, developing new products, using advanced technology, and decreasing product cost would obviously improve channel adaptation.

10.6 Limitations and Recommendations for Future Research

Several limitations of this research should be mentioned when interpreting the findings. The limitations, however, present opportunities for future study.

First, the study is subject to the traditional limitation of any self-administered, mail survey. The sampling methodology may be criticised for its lack of statistical rigour due to the very large size of the Chinese market. Therefore, the findings reported here leave themselves open to testing by future researchers using alternative research methodology.

Second, the cross-national approach raises an argument about whether the scales exhibit adequate reliability and validity when translated into different languages. Although the aim was to develop scales which were as similar or universal as possible, it was observed that some constructs (e.g. competitive position) present relatively lower estimates of reliability. However, most of the core constructs provided high estimates of reliability and validity. It is recommended that further research be done in this area to identify the reliability and validity of scales in different languages.

Third, the set of predictor variables used in the study is not exhaustive, although attempts to include as many variables as possible have been made. This study only investigates time from the point of entry. Other timing of entry variables, such as number of previous entrants should be studied in the future. In addition, the inclusion of potentially relevant variables like intensity of price competition in the industry, organisational structure, government intervention, and competitor entry strategy could provide more insight.

Fourth, the variables measuring competitive position in the Chinese market also need to be re-considered. The variables chosen were based on findings in the existing literature (Jain 1993, Green, Barclay, Ryans 1995). Other variables measuring competitive position in the Chinese market may be more suitable. Future study could explore this area in detail.

Finally, the difference in sample size (208 for Australia, 129 for other foreign companies) raises the question of comparability of the two samples, given there are more foreign companies operating in China. The researcher was constrained by financial and time factors. It is possible further study might examine whether entry strategies are different when companies are compared separately between European companies, Japanese companies and US companies.

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APPENDIX A

English Questionnaire Materials

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October 1997

VICTORIA UNIVERSITY OF TECHNOLOGY

Dear Sir/ Madam:

RE: A SURVEY OF AUSTRALIAN BUSINESS VENTURES IN CHINA

We are writing to invite you to cooperate in a doctoral research project with the Department of Applied Economics, Victoria University of Technology. The researcher of this project is Ms Lily Qiu, supervised by Associate Professor Dr Lindsay Turner. Your name was obtained from a commercial database of Australian companies which undertake business with China.

The aim of this research is to gather data to analyse why some companies have successfully penetrated the Peoples Republic of China and others have not. This study will indicate the factors influencing the effectiveness of a firm's choice of marketing strategy as well as their performance. The questionnaire should take you about 20 minutes to complete. If you are not involved in your company's Chinese business, please give this questionnaire to the person in your company who is.

Be assured that all information is totally confidential. The data sheet will be separated from the cover letter on receipt and the data base will not include reference to you or your company.

The data base will contain information about companies both in Australia and in China. This information will help a company's decision making, market research and successful entry into the international market. The data base and analysis will be available to you if you indicate you would like to receive a copy on the attached data sheet.

If you have any queries regarding this survey, please do not hesitate to contact Associate Professor Dr Lindsay Turner on the telephone number (03) 9688 4743, Ms Lily Qiu on the telephone number (03) 9365 2697.

We greatly appreciate your assistance and cooperation.

Yours sincerely

Lily Qiu
Project Researcher

Professor Ken Wilson
Head of Department

VICTORIA UNIVERSITY OF TECHNOLOGY

International Market Entry Strategy

A SURVEY OF AUSTRALIAN COMPANIES' BUSINESS VENTURES IN CHINA

A Research Project by Victoria University of Technology

Please return the completed questionnaire in the reply paid envelope to:

Department of Applied Economics
St Albans Campus
Victoria University of Technology
PO Box 14428 MCMC Melbourne
Victoria 8001
Attn: Lily Qiu

All Information Will Be Strictly Confidential

FACULTY OF BUSINESS
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INSTRUCTIONS

Please answer all questions, even if some may appear similar. If uncertain about some answers, please make the best estimate.

If you find you are unable to answer some questions, please complete the rest of the survey.

China in this study refers to the People's Republic of China.

If you wish to give further information on any of the questions, please use the space around the question or in the space given at the end of the questionnaire.

The questionnaire should take you approximately 20 minutes to complete.

On completion, please return the questionnaire in the reply paid envelope within 10 days.

Please rest assured that your information is **strictly confidential**. No information will be released in a way that would enable any firm or person to be identified.

If you have any queries about the questionnaire, please do not hesitate to contact
Lily Qiu on **(03) 9365 2697.**

If you have any concerns about the manner in which this research has been conducted, please contact the Human Research Ethics Committee at the following address:
The Secretary: Victoria University of Technology, Office for Research,
6 Geelong Road, Footscray, Victoria 3011, Telephone: (03) 9688 4710

Please attach a copy of your business card/address if you would like a summary of the results of this research.

SECTION 1 THE FIRM DEMOGRAPHICS

1.1 How many employees currently work in your company in Australia (including part time)?
Please circle the most appropriate answer.

1	1-40	**6**	201-240	**11**	401-500
2	41-80	**7**	241-280	**12**	501-600
3	81-120	**8**	281-320	**13**	601-800
4	121-160	**9**	321-360	**14**	801-1000
5	161-200	**10**	361-400	**15**	more than 1000 (Please specify) _____

1.2 How long has your company been in business in Australia? _____ years

1.3 How many years international experience does your company have (anywhere outside Australia), either through exporting or offshore investment ? _____ years

1.4 In which year did your company begin its operations in the Chinese market? 19_____

1.5 In how many other countries, besides China, does your company currently conduct business ?
_____ Countries

1.6 What was your total (Australian and International) sales volume in the following years? (**First year** being the year of your company beginning business in China.) *Please circle the number under each year.*

	AU$	First year	1994/1995	1995/1996	1996/1997
1	Less than 100,000	1	1	1	1
2	100,001-500,000	2	2	2	2
3	500,001-1M	3	3	3	3
4	1,000,001-5M	4	4	4	4
5	5.000,001-10M	5	5	5	5
6	10,000,001-50 M	6	6	6	6
7	More than 50M	7	7	7	7

1.7 What is your best estimate of your company's market share (%) in Australia in the following years? (**First year** being the year of your company beginning business in China.)

		First year	1994/1995	1995/1996	1996/1997
1	0-10%	1	1	1	1
2	11-20%	2	2	2	2
3	21-30%	3	3	3	3
4	31-40%	4	4	4	4
5	41-50%	5	5	5	5
6	More than 51%	6	6	6	6

1.8 Which industry is your firm currently in? *Please circle the appropriate number .*

Production/Manufacturing
- **1** Agriculture/Forestry/Fishing
- **2** Processed food
- **3** Un-processed food
- **4** Metal product/Chemical
- **5** Textile/Clothing/Footwear
- **6** Machinery
- **7** Mining

Others
- **8** Wholesale trade
- **9** Retail trade
- **10** Accommodation, Cafes, Restaurants
- **11** Communication Services
- **12** Finance and Insurance
- **13** Construction
- **14** Other (Please specify) _____

SECTION 2 INDUSTRY CHARACTERISTICS

2.1 Which of the following statements best describes your company's current position in the industry?

1 My company is the market leader in the industry.
2 My company prefers to follow the market leader rather than attack.
3 My company specialises in serving smaller more specific markets which large companies overlook.
4 My company is fighting hard to increase market share.

2.2 How would you describe each of the following items for your industry?

		Minimal technologically advanced				Highly technologically advanced
1	Technology orientation	1	2	3	4	5
		Unattractive				Most attractive
2	Average industry gross margin	1	2	3	4	5
3	Average industry pre-tax profit	1	2	3	4	5
4	Short-term (1 years) market growth prospect	1	2	3	4	5
5	Projected (5 years) market growth rate	1	2	3	4	5
6	Industry capacity utilisation	1	2	3	4	5
7	Bargaining power vis-a-vis major customers	1	2	3	4	5
8	Bargaining power vis-a-vis major suppliers	1	2	3	4	5

2.3 How many competitors does your company have in the Australian market? _____

2.4 What is your best estimate of the market share of your competitors in the Australian market?
Largest _____ %, Second largest _____ %, Third largest _____ %

SECTION 3 PRODUCT CHARACTERISTICS

3.1 What type of product does your company sell to the Chinese market? (If your company sells more than one product, please select the major one.) _____
If your company's product is **food**, please specify.

1 Meat and prepared meat
2 Fish, crustaceans, molluscs and aquatic, invertebrates and preparations thereof
3 Cereals and cereal preparations
4 Dairy products and eggs
5 Sugars, sugar preparations and honey
6 Vegetables and fruit
7 Coffee, tea, cocoa and manufactures thereof
8 Other beverages
9 Tobacco
10 Others (please specify) _____

3.2 How much has market demand for this product increased in China? (**First year** being the year that your company began business in China.)

	Below 0	0-5%	6-10%	11-15%	16-20%	Above 20%
(a) First year	1	2	3	4	5	6
(b) 1995-1997 average	1	2	3	4	5	6

3.3 What is the unit value of the product which you are exporting (per unit/ AU$)?
First year of selling to China $_____ in 1997 $_____

3.4 How would you describe the characteristics of this product?

1 Degree of uniqueness of the product (design, features, etc.)	Not unique 1	2	Some uniqueness 3	4	Unique 5
2 Degree of product exposure in the Chinese market	Limited exposure 1	2	Some exposure 3	4	Extensive exposure 5
3 Degree of cultural specificity of product	Not culturally specific 1	2	Partly specific 3	4	Unique 5
4 Degree of product familiarity to Chinese customer	Unfamiliar 1	2	Some familiarity 3	4	Familiar 5
5 Degree of product innovation	Poor 1	2	Moderate 3	4	Excellent 5

SECTION 4 YOUR COMPANY'S BUSINESS IN CHINA

4.1 In which mode did your company engage in the Chinese market? Please supply answers for first year of involvement and for the year of 1997. (*If you have more than one, please select only the major one. Please circle the number under the first year and 1997.*)

	First year	1997
1 Export		
a Direct exporting	1	1
b Exporting-through agency in Australia	2	2
c Exporting-through other countries	3	3
d Branch offices in China	4	4
c Appointing Chinese local agent/distributors	5	5
2 Joint venture		
a Equity joint venture	1	1
b Contractual joint venture	2	2
3 Contracting		
a Licensing	1	1
b Franchising	2	2
c Management contracting	3	3
d Joint marketing agreement	4	4
4 Wholly-owned direct investment		
a Assembly plant for local sale	1	1
b Basic manufacturing	2	2
c Other	3	3

4.2 Consider your company's current engagement in the Chinese market. How would you evaluate the following characteristics?

	Very Low		Medium		Very high
1 Risk	1	2	3	4	5
2 Cost	1	2	3	4	5
3 Management control	1	2	3	4	5
4 Control of the entered market	1	2	3	4	5
5 Return of profits and sales	1	2	3	4	5

4.3 In your opinion, how important are the following , in establishing business with China?

		Not very important		Neither important nor unimportant		Very important
1	Cultural difference	1	2	3	4	5
2	Language	1	2	3	4	5
3	Business relationships with Chinese	1	2	3	4	5
4	Negotiating with Chinese	1	2	3	4	5
5	Chinese bureaucracy	1	2	3	4	5
6	Reaching the right officials	1	2	3	4	5
7	Local government policy and local laws	1	2	3	4	5
8	Dispute resolution	1	2	3	4	5
9	Access to distribution channels	1	2	3	4	5
10	Securing exchange risk	1	2	3	4	5
11	Local customs	1	2	3	4	5
12	Finding the right local partner	1	2	3	4	5
13	Competition from local enterprises	1	2	3	4	5
14	Competition from other countries	1	2	3	4	5
15	Lack of clear regulations	1	2	3	4	5
16	High tariff levels	1	2	3	4	5
17	Availability of experienced managerial staff	1	2	3	4	5

4.4 How would you evaluate the following, when your company made initial market contact with China?

		Very Not important				Very important
1	Sales letters	1	2	3	4	5
2	Taking part in exhibitions and trade shows	1	2	3	4	5
3	Taking part in trade fairs in China	1	2	3	4	5
4	Direct contact with Chinese end-users	1	2	3	4	5
5	Direct contact with Chinese officials	1	2	3	4	5
6	Technical seminars in China	1	2	3	4	5
7	Participation in business delegations	1	2	3	4	5

4.5 How would you describe your company's production, management and marketing skills?

		Not existent				Highly developed
1	Decreasing the cost of production	1	2	3	4	5
2	Using advanced production technology	1	2	3	4	5
3	Developing new products	1	2	3	4	5
4	Increasing the product line	1	2	3	4	5
5	Time that top management spend on export/investment activity	None 1	2	Some 3	4	Substantial 5
6	Time that top management meet about export/investment policy	1	2	3	4	5
		None				Great extent
7	Setting objectives to meet customer satisfaction	1	2	3	4	5
8	Customer information sharing among departments	1	2	3	4	5
9	Reacting quickly to competitors' actions	1	2	3	4	5
10	Marketing strategy integrating the activities of all departments	1	2	3	4	5
11	All departments aware of their role in creating superior value for the customer	1	2	3	4	5

4.6 How would you describe the following characteristics of the Chinese market?

1 Demand potential in the Chinese market	Limited		Moderate		Extensive
	1	2	3	4	5
2 Cultural similarity of the Chinese market to home market	Dissimilar		Similar		Very similar
	1	2	3	4	5
3 Sophistication of marketing infrastructure in the Chinese market	Not well-developed		Fairly developed		Very well developed
	1	2	3	4	5

Questions 4.7 to 4.9 relate to your association with your Chinese partner. If your company has more than one Chinese partner choose the most important partner. If your company does not have a Chinese partner, go to Section 5.

4.7 The company in China is a :

1 State-owned enterprise
2 Collective enterprise
3 Private enterprise
4 Other (please specify) _____

4.8 How long has your company been associated with this Chinese partner?

1 Less than 1 years
2 1-5 years
3 6-10 years
4 11-15 years
5 16-20 years
6 More than 20 years

4.9 Please indicate the city of your partner in China? City _____ Province _____

SECTION 5 ENTRY STRATEGY

5.1 Which of the following initial strategic objectives were set by your company on entering the Chinese market? *(1) Circle the number corresponding to their importance. (2) Circle the number corresponding to the degree to which the objectives were achieved.*

	(1) Not important at all				Very important	(2) Not achieved at all				Achieved 100%
1 To gain access to a market in development	1	2	3	4	5	1	2	3	4	5
2 To further long-term development plan of your company	1	2	3	4	5	1	2	3	4	5
3 To gain a foothold in the market	1	2	3	4	5	1	2	3	4	5
4 To gain short and long term profit	1	2	3	4	5	1	2	3	4	5
5 To increase the awareness of your product/company	1	2	3	4	5	1	2	3	4	5
6 Other (please specify) _____	1	2	3	4	5	1	2	3	4	5

5.2 What percentage of investment was allocated to the following in the first year of marketing activities in China? (*Assume that you have 100 percent to allocate among the following selected marketing activities.*)

1 Distribution investment (logistics, retailing, wholesaling) _____ %
2 Promotion investment (Advertising, personal sales, public relations) _____ %
3 Packaging _____ %
4 Customer services _____ %
5 Research & Development _____ %
6 Others _____ %

Total 100%

5.3 How much was the magnitude of investment (AU$) in the Chinese market?
(First year is the time your company started business.)

		Below 50,000	50,001-100,000	100,001-500,000	500,001-1M	1M&1- 5M	5M&1-10M	Above 10M
1	First year	1	2	3	4	5	6	7
2	1994/95	1	2	3	4	5	6	7
3	1995/96	1	2	3	4	5	6	7
4	1996/97	1	2	3	4	5	6	7

5.4 What are your company's marketing (adaptation) strategies in the Chinese market?

		Modest		Moderate		High
1	Level of sales goals set for the venture	1	2	3	4	5
2	Degree of price competitiveness in the Chinese market	1	2	3	4	5
		None		Some		Substantial
3	Degree of initial product adaptation	1	2	3	4	5
4	Degree of product adaptation subsequent to entry	1	2	3	4	5
5	Degree of adaptation of product positioning	1	2	3	4	5
6	Degree of adaptation of promotion approach	1	2	3	4	5
7	Degree of adaptation of packaging	1	2	3	4	5
8	Extent to which product label is in local language	1	2	3	4	5
9	Amount of training to sales force of foreign distributor/subsidiary	None		Some		Considerable
		1	2	3	4	5
10	Overall support to foreign distributor/subsidiary	1	2	3	4	5

SECTION 6 COMPETITIVE POSITION

6.1 Compared with your major competitors in the Chinese market, how do you evaluate your company's competitive advantages?

		None				Considerable
1	Economies of scale already achieved	1	2	3	4	5
		Lower				Stronger
2	Profitability (pre-tax ROA)	1	2	3	4	5
		Narrow				Broad
3	Breadth of product line	1	2	3	4	5
4	Vertical integration	1	2	3	4	5
		Poor				Good
5	Advertising effectiveness	1	2	3	4	5
6	Quality of customer service	1	2	3	4	5
7	Sales force effectiveness	1	2	3	4	5
8	Knowledge about customer	1	2	3	4	5
9	Cost efficiency	1	2	3	4	5
10	Control of distribution channel	1	2	3	4	5
11	Marketing /Management skill	1	2	3	4	5
		Narrow				Wide
12	Geographical coverage	1	2	3	4	5
		Weak				Strong
13	Possibility of gaining market share	1	2	3	4	5
14	Capacity utilisation	1	2	3	4	5
15	Product and process patent	1	2	3	4	5
16	Brand Equity	1	2	3	4	5

6.2 Compared with your major competitors in the Chinese market, how do you describe your product's characteristics?

1	Product features	Similar 1	2	3	4	Different 5
2	Product price	Lowest 1	2	Medium 3	4	Highest 5
3	Product quality	1	2	3	4	5
4	Product services requirement	None 1	2	Some 3	4	Considerable 5
5	Product application	General 1	2	3	4	Special 5

6.3 In your opinion, your company's competitive position/strength in the Chinese market mainly depends on:

		Strongly Disagree		Agree		Strongly agree
1	Contact with Chinese officials	1	2	3	4	5
2	Contact with many business people	1	2	3	4	5
3	Being an entry pioneer	1	2	3	4	5
4	Specialised product	1	2	3	4	5
5	Price	1	2	3	4	5
6	Quality	1	2	3	4	5
7	Technology	1	2	3	4	5
8	Negotiating skill	1	2	3	4	5
9	Contact with many distributors	1	2	3	4	5
10	Exports to China	1	2	3	4	5

SECTION 7 YOUR COMPANY'S MARKETING PERFORMANCE

7.1 How would you rate your company's performance in China in the first year and last three years (1995-97)? (**First year** was the year that your company began business in China.)

		Very Unsuccessful		Successful		Very successful
a	First year	1	2	3	4	5
b	1995-97	1	2	3	4	5

7.2 Was the Chinese venture profitable in the first year and in the last three years (1995-1997)?

		Not at all				Very profitable
a	First year	1	2	3	4	5
b	1995-97	1	2	3	4	5

7.3 How much was your **total sales volume** in the following years **in China**? (**First year** was the year your company beginning business in China.) *Please circle the appropriate number under each year, which corresponds to the values in dollar.*

	AU$	First year	1994/1995	1995/1996	1996/1997
1	Less than 100,000	1	1	1	1
2	100,001-500,000	2	2	2	2
3	500,001-1M	3	3	3	3
4	1,000,001-5M	4	4	4	4
5	5,000,001-10M	5	5	5	5
6	10,000,001-50 M	6	6	6	6
7	More than 50M	7	7	7	7

7.4 Please indicate **sales growth rates** in China in the second years and last three years by circling the appropriate number in each column.

Sale growth		Second compared with first year	1995 compared with 1994	1996 compared with 1995	1997 compared with 1996
1	Negative growth	1	1	1	1
2	No growth	2	2	2	2
3	1-5%	3	3	3	3
4	6-10%	4	4	4	4
5	11-15%	5	5	5	5
6	16-20%	6	6	6	6
7	Over 20%	7	7	7	7

7.5 What were **export sales** of your company in China as a **percentage of total sales** in following years.

		First year	1994/1995	1995/1996	1996/1997
1	0-10%	1	1	1	1
2	11-20%	2	2	2	2
3	21-30%	3	3	3	3
4	31-40%	4	4	4	4
5	41-50%	5	5	5	5
6	More than 50%	6	6	6	6

7.6 Based on sales volume, what is your best estimate your company's **market share** in the Chinese market?

	1-5%	6-10%	11-15%	16-20%	Above 20%
a First year	1	2	3	4	5
b 1997	1	2	3	4	5

7.7 How much has your company's **return on sales** increased ?

	Below 0	0-5%	6-10%	11-15%	16-20%	Above 20%
a First year	1	2	3	4	5	6
b 1995-1997 average	1	2	3	4	5	6

7.8 How much has your company's **return on assets** increased ?

	Below 0	0-5%	6-10%	11-15%	16-20%	Above 20%
a First year	1	2	3	4	5	6
b 1995-1997 average	1	2	3	4	5	6

7.9 How many **employees** has your company taken on ?

	Below 0	0-5%	6-10%	11-15%	16-20%	Above 20%
a First year	1	2	3	4	5	6
b 1995-1997 average	1	2	3	4	5	6

7.10 How much **return on investment** has your company increased ?

	Below 0	0-5%	6-10%	11-15%	16-20%	Above 20%
a First year	1	2	3	4	5	6
b 1995-1997 average	1	2	3	4	5	6

7.11 How much **book value of assets** has your company gained ?

	Below 0	0-5%	6-10%	11-15%	16-20%	Above 20%
a First year	1	2	3	4	5	6
b 1995-1997 average	1	2	3	4	5	6

7.12 What are the **assets** of your company ?

	Under AU$1 million	1m&1-10m	10m&1-50m	50m&1-100m	100m&1-1 billion	above 1 billion
a First year	1	2	3	4	5	6
b 1997	1	2	3	4	5	6

SECTION 8 RESPONDENT INFORMATION

8.1 Age **1** Under 20 **2** 21-30 **3** 31-40 **4** 41-50 **5** 51-60 **6** Over 60

8.2 Sex **1** Male **2** Female

8.3 Position in the Company

1 Chief Executive Officer/Managing Director
2 Manager
3 Supervisor/ Team leader
4 Other (Please specify) _____

If there are any comments which you would like to contribute regarding the questionnaire or the topic, please do so below.

_____

_____

_____

_____

_____

Thank you very much
Your contribution to this research project is appreciated.

APPENDIX B

Chinese Questionnaire Materials

St. Albans Campus

McKechnie Street Telephone
St Albans (03) 9365 2111

PO Box 14428 Facsimile
M.C.M.C. (03) 9366 4852
Melbourne
Victoria 8001
Australia

维多利亚大学研究项目

跨国公司在中国经营状况调查

VICTORIA UNIVERSITY OF TECHNOLOGY

亲爱的先生、女士，

我们邀请您参加维多利亚大学应用经济系的国际市场进入战略-跨国公司在中国经营状况调查。希望您能给予本系研究人员邱林所承担的国际 市场学研究项目 支持 与合作。

国 际 市 场 进 入战略- 跨国公司在中国经营状况调查，目地在于研究为什么有些跨国公司能够成功的进入中国市场，而有些公司确没有成功· 分析企业选择市场战略及其经营情况的主要因素，研究企业经营成败的原因。

邱林已经顺利完成了在澳大利亚与中国有经营联系的跨国的调查。她现在调查在华跨国公司的情况。此项研究将有助于跨国公司的市场战略选择和成功的进入中国和其它市场。如果您需要最后的调查资料汇总，请给我们您的地址和姓名，我们将会寄给您。

本问卷调查所需时间大约20分钟。除了研究组成员，其它任何人都看不到您所提供的信息。本项目中的信息将被严格保密。您本人和公司名称都不会公开，最后的报告也不会包括任何有关个人答卷者的情况。

我们十分感谢您的帮助与合作，谢谢！

此致

商安！

邱林
课题负责人

肯·威尔逊 教授
Professor Ken Wilson
维多利亚大学
应用系经济系主任

1997年11月/12月

VICTORIA UNIVERSITY OF TECHNOLOGY

国际市场学研究

跨国公司经营情况调查

维多利亚大学研究项目

请将添好的问卷交还给:

Department of Applied Economics
St Albans Campus
Victoria University of Technology
PO Box 14428 MCMC Melbourne
Victoria 8001 Australia
Attn: Lily Qiu

所有情况都被严格保密

澳大利亚. 维多利亚州. 墨尔本 8001. 邮政信箱14428号 圣奥本分校 经济系.
电话: (61) (3) 93652696. 传真: (61) (3) 93652596

说明

请您回答所有问题，即使有些问题看起来很相似．如果您不能确定如何回答有些问题，请尽量估计作最合适的回答．

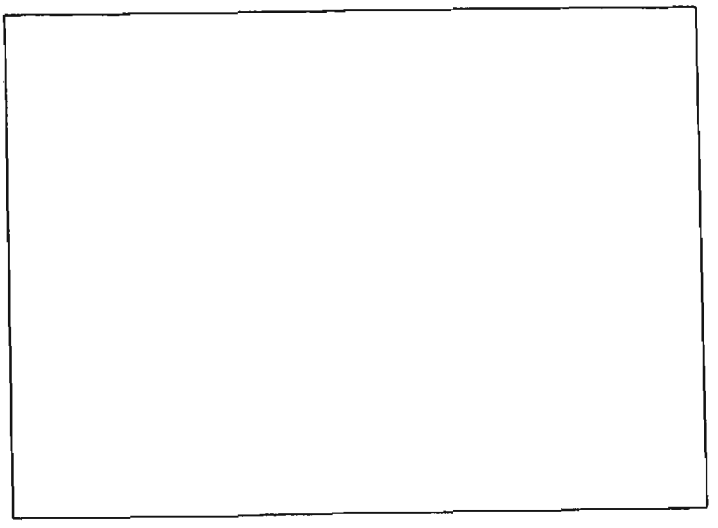
如果您对有些问题有任何建议的话，请写在问卷两边的空白处，也可以写在问卷最后的空白处．

此问卷需要时间大约 20 分钟．答完问卷，请交给本课题研究人员．

本项目中的信息将被绝对保密，您本人姓名和公司名称决不会公开，最后的报告将以综合形势出现，每个公司的情况无法识别．

我们十分感谢您的真诚协助．

请附一张您的名片或地址，如果您想要此项研究汇总报告．



第一部分　公司基本情况

1.1 贵公司目前职工总数有多少？(包括全职工和临时工.)

☐ 1 - 40	☐ 281 - 320	☐ 1001 - 2000
☐ 41 - 80	☐ 321 - 360	☐ 2001 - 3000
☐ 81 - 120	☐ 361 - 400	☐ 3001 - 4000
☐ 121 - 160	☐ 401 - 500	☐ 4001 - 5000
☐ 161 - 200	☐ 501 - 600	☐ 5001 - 8000
☐ 201 - 240	☐ 601 - 800	☐ 8001 - 10000
☐ 241 - 280	☐ 801 - 1000	☐ 1万以上（请指明）_____

1.2 贵公司在本国开业多长时间了？_____ 年

贵公司是哪国公司（总部所在国)？_____

1.3 贵公司开展国际业务有多少年经验了？_____ 年

1.4 贵公司在中国开业多长时间了？_____ 年

1.5 贵公司与多少国家（包括中国） 有业务联系？_____ 个国家

1.6 贵公司在本国和国际销售总额(人民币)为多少？(第一年为进入中国第一年)

	在华第一年	1995	1996	1997
少于10万	☐	☐	☐	☐
10万零1 - 50万	☐	☐	☐	☐
50万零1 - 1百万	☐	☐	☐	☐
1百万零1 - 5百万	☐	☐	☐	☐
5百万零1 - 1千万	☐	☐	☐	☐
1千万零1 - 5千万	☐	☐	☐	☐
5千万以上	☐	☐	☐	☐

1.7 请估计贵公司在本国市场的占有率？

	在华第一年	1995	1996	1997
0 - 10%	☐	☐	☐	☐
11 - 20%	☐	☐	☐	☐
21 - 30%	☐	☐	☐	☐
31 - 40%	☐	☐	☐	☐
41 - 50%	☐	☐	☐	☐
51%以上	☐	☐	☐	☐

1.7 贵公司所属于哪一个主要行业.

☐ 农/林/鱼	☐ 批发贸易
☐ 加工食品	☐ 零售贸易
☐ 非加工食品	☐ 交通/仓储/通讯
☐ 金属/化工	☐ 旅店/餐厅/咖啡店/冷饮店
☐ 纺织/服装/制鞋	☐ 金融/保险
☐ 机械	☐ 电力/煤气/供水
☐ 采矿业	☐ 建筑
☐ 包装工业	☐ 其它(请说明)

第二部分　本行业特点

2.1 以下各项中，哪一条最能说明贵公司目前在本国行业中所处的地位？

- ☐ 本公司在本行业中处于领导地位.
- ☐ 本公司目前正在努力增加市场占有率.
- ☐ 本公司希望跟随市场领导者前进，而不是于它们斗争.
- ☐ 本公司专营被大公司忽略了的小型，特定的市场.

2.2 贵公司所在行业的下述各项情况如何描述？

	技术很落后	比较落后	中等	先进	技术很先进
1 技术发展	☐	☐	☐	☐	☐
	很不好	不好	一般	好	很好
2 行业平均销售增长幅度	☐	☐	☐	☐	☐
3 税前利润	☐	☐	☐	☐	☐
4 短期市场预测	☐	☐	☐	☐	☐
5 长期市场销售增长率预测	☐	☐	☐	☐	☐
6 行业生产能力利用	☐	☐	☐	☐	☐
7 与主要顾客的协商能力	☐	☐	☐	☐	☐
8 与主要供应商的协商能力	☐	☐	☐	☐	☐

2.3 估计有多少个竞争者在本国市场？ _____ 个

2.4 请估计 贵公司本国市场三个最大的竞争者的市场占有率.

第一 _____ %　　第二 _____ %　　第三 _____ %

第三部分　产品特点

3.1 贵公司在华销售那种产品？（如果有多种，请考虑主要一种）

产品名称 _____

3.2 贵公司产品在中国市场需求增加情况？请回答开始中国业务第一年增长率和1995 - 1997 平均增长率，选择合适的空格.

	少于0	0 - 5%	6 - 10%	11 - 15%	16 - 20%	大于20%
第一年增长率	☐	☐	☐	☐	☐	☐
1995-1997平均增长率	☐	☐	☐	☐	☐	☐

3.3 这种产品的单位价格多少？第一年在华销售 _____ 元（人民币）

1997 年价格 _____ 元（人民币）

3.4 如何描叙这种产品在中国市场述特征？

	没有	少	一般	多	很多（很大）
1 产品设计·使用特点	☐	☐	☐	☐	☐
2 市场知名度	☐	☐	☐	☐	☐
3 文化特点	☐	☐	☐	☐	☐
4 消费者对产品的熟悉程度	☐	☐	☐	☐	☐
5 产品开发程度	☐	☐	☐	☐	☐

第四部分　公司在华业务

4.1 贵公司以哪种　方式在中国经营？请回答开始中国业务第一年　方式和 1997 年　方式，选择合适的空格.

	第一年	1997年
出口		
1 通过本国代理商出口	☐	☐
2 通过其它国家出口	☐	☐
3 通过在华设立公司分部	☐	☐
4 通过指定在华代理．批发商	☐	☐
中外合资	☐	☐
1 合资经营	☐	☐
2 合作 经营		
合同		
1 许可证	☐	☐
2 连锁店	☐	☐
3 管理合同	☐	☐
4 市场营销协议	☐	☐
独资经营		
1 零件装配在华销售许可证	☐	☐
2 制造	☐	☐
3 其它	☐	☐

4.2 如何评价贵公司主要投资方式的下述特点？

	没有	少	一般	多	很多
承担风险	☐	☐	☐	☐	☐
成本	☐	☐	☐	☐	☐

	很不好	不好	一般	好	很好
管理控制	☐	☐	☐	☐	☐
进入市场时的控制	☐	☐	☐	☐	☐
利润．销售收益	☐	☐	☐	☐	☐

4.3 请评估下述市场障碍的重要程度.

	很不重要	不重要	一般	重要	很重要
1 文化差异	□	□	□	□	□
2 语言不同	□	□	□	□	□
3 在华的业务联系	□	□	□	□	□
4 谈判技术	□	□	□	□	□
5 主管部门的官僚作风	□	□	□	□	□
6 接触主要主管官员	□	□	□	□	□
7 当地政府的政策和法律	□	□	□	□	□
8 矛盾的处理	□	□	□	□	□
9 进入流通渠道	□	□	□	□	□
10 换汇风险	□	□	□	□	□
11 当地海关	□	□	□	□	□
12 寻找合适合作伙伴	□	□	□	□	□
13 同当地企业竞争	□	□	□	□	□
14 同其它外国企业竞争	□	□	□	□	□
15 缺乏清楚的规定	□	□	□	□	□
16 高关税	□	□	□	□	□
17 得到有经验的管理人员	□	□	□	□	□

4.4 请评估下述进入市场手段的重要性.

	很不重要	不重要	一般	重要	很重要
推销信	□	□	□	□	□
参加中国在外国举办的展销会	□	□	□	□	□
参加在华举办的交易会	□	□	□	□	□
同中国最终用户直接联系	□	□	□	□	□
同中国政府直接联系	□	□	□	□	□
参加在华的技术研讨会	□	□	□	□	□
参加贸易代表团	□	□	□	□	□

4.5 请描述贵公司下述生产，管理和营销技术特点.

	没有	少	一般	多	很多
1 减少产品成本	□	□	□	□	□
2 使用先进生产技术	□	□	□	□	□
3 发展新产品	□	□	□	□	□
4 增加生产线	□	□	□	□	□
5 高级管理人员从事进出口或投资的时间	□	□	□	□	□
6 高级管理人员开会研究进出口或投资政策的时间	□	□	□	□	□
7 建立使消费者满意的目标	□	□	□	□	□
8 公司各部门共同使用消费者信息	□	□	□	□	□
9 对竞争者的市场行为反映迅速	□	□	□	□	□
10 各部门对市场战略的一致行动	□	□	□	□	□
11 各部门为消费者创造价值的意识	□	□	□	□	□

6.2同贵公司在中国市场的主要竞争者比较，您如何评价贵公司产品的竞争地位？

	很相同	相同	一般	不相同	很不相同
产品特点	☐	☐	☐	☐	☐
	很低	低	一般	高	很高
产品价格	☐	☐	☐	☐	☐
产品质量	☐	☐	☐	☐	☐
	很少	少	一般	多	很多
产品服务需要时间	☐	☐	☐	☐	☐
产品多种用途	☐	☐	☐	☐	☐

6.3贵公司在中国市场的竞争优势，主要依靠下述原因，请您说明同意或不同意的程度.

	很不同意	不同意	同意	很同意	极其同意
1 与中国政府有联系	☐	☐	☐	☐	☐
2 与中国商界有联系	☐	☐	☐	☐	☐
3 较早进入中国市场	☐	☐	☐	☐	☐
4 产品有特点	☐	☐	☐	☐	☐
5 价格合理	☐	☐	☐	☐	☐
6 质量好	☐	☐	☐	☐	☐
7 技术先进	☐	☐	☐	☐	☐
8 谈判能力	☐	☐	☐	☐	☐
9 与多家批发商有联系	☐	☐	☐	☐	☐
10 向中国出口	☐	☐	☐	☐	☐

第七部分 贵公司市场营销表现

7.1 请评估 贵公司在中国经营第一年和1995 - 1997 的营销表现？

	很不成功	不成功	成功	很成功	非常成功
在华第一年	☐	☐	☐	☐	☐
1995 - 1997	☐	☐	☐	☐	☐

7.2 请评估 贵公司在中国经营第一年和1995 - 1997 的利润状况？

	无利润	很少利润	一般	利润多	利润很大
在华第一年	☐	☐	☐	☐	☐
1995 - 1997	☐	☐	☐	☐	☐

7.3 贵公司在下述各年在中国的总销售额是多少？(第一年为在中国经营第一年.)

人民币元	在华第一年	1995	1996	1997
少于10万	☐	☐	☐	☐
10万零1 - 50万	☐	☐	☐	☐
50万零1 - 1百万	☐	☐	☐	☐
1百万零1 - 5百万	☐	☐	☐	☐
5百万零1 - 1千万	☐	☐	☐	☐
1千万零1 - 5千万	☐	☐	☐	☐
5千万以上	☐	☐	☐	☐

7.4 贵公司在下述各年在中国的销售增长率是多少？

	在华第2年同第1年比较	1995同1994比较	1996同1995比较	1997同1996比较
负增长	☐	☐	☐	☐
无 增长	☐	☐	☐	☐
1 - 5%	☐	☐	☐	☐
6 - 10%	☐	☐	☐	☐
11 - 15%	☐	☐	☐	☐
16 - 20%	☐	☐	☐	☐
20%以上	☐	☐	☐	☐

7.5 贵公司在下述各年在中国的销售占全公司总销售比例是多少？

	在华第一年	1995	1996	1997
0 - 10%	☐	☐	☐	☐
11 - 20%	☐	☐	☐	☐
21 - 30%	☐	☐	☐	☐
31 - 40%	☐	☐	☐	☐
41 - 50%	☐	☐	☐	☐
51%以上	☐	☐	☐	☐

7.6 根据在中国的销售额，请估计贵公司在下述各年中国市场占有率是多少？

	1 - 5%	6 - 10%	11 - 15%	16 - 20%	大于20%
在华第一年占有率	☐	☐	☐	☐	☐
1995-1997平均占有率	☐	☐	☐	☐	☐

7.7 贵公司下述各年在中国的利润增长率是多少？

	少于0	0 - 5%	6 - 10%	11 - 15%	16 - 20%	大于20%
在华第 一年增长率	☐	☐	☐	☐	☐	☐
1995-1997平均增长率	☐	☐	☐	☐	☐	☐

7.8 贵公司下述各年的资产回收率增加百分比是多少？

	少于0	0 - 5%	6 - 10%	11 - 15%	16 - 20%	大于20%
在华 第一年增长率	☐	☐	☐	☐	☐	☐
1995-1997平均增长率	☐	☐	☐	☐	☐	☐

7.9 贵公司下述各年在中国的增加雇员百分比是多少？

	少于0	0 - 5%	6 - 10%	11 - 15%	16 - 20%	大于20%
在华第一年增长率	☐	☐	☐	☐	☐	☐
1995-1997平均增长率	☐	☐	☐	☐	☐	☐

7.10 贵公司下述各年在中国的投资回收率增加百分比是多少？

	少于0	0 - 5%	6 - 10%	11 - 15%	16 - 20%	大于20%
在华第一年增长率	☐	☐	☐	☐	☐	☐
1995-1997平均增长率	☐	☐	☐	☐	☐	☐

7.11 贵公司下述各年帐面资产增长率是多少？

	少于0	0 - 5%	6 - 10%	11 - 15%	16 - 20%	大于20%
在华第一年增长率	☐	☐	☐	☐	☐	☐
1995-1997平均增长率	☐	☐	☐	☐	☐	☐

7.12 贵公司下述各年全部资产总值(人民币)是多少?

	少于10万	10.1万至1百万	1.1百万至1千万	1.1千万至5千万	5.1千万至1亿	1.1亿至10亿	10亿以上
在华第一年总值	☐	☐	☐	☐	☐	☐	☐
1995-1997平均总值	☐	☐	☐	☐	☐	☐	☐

第八部分 答卷人情况

8.1 年龄
- ☐ 20 岁以下
- ☐ 21 - 30
- ☐ 31 - 40
- ☐ 41 - 50
- ☐ 51 - 60
- ☐ 60岁 以上

8.2 性别
- ☐ 男
- ☐ 女

8.3您在公司的职位是什么?
- ☐ 总经理/总裁
- ☐ 经理/部门主任
- ☐ 处长
- ☐ 科长
- ☐ 其它(请指明)

关于问卷, 您如果有任何建议和意见, 请写在下面.

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衷心感谢您参加本研究项目.