

# ***“An Analysis of the Entry Modes of Hong Kong Firms into China”***

**By**

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Dissertation**

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*I hereby certify that the work embodied in this dissertation is the result of original research and has not been submitted for a university degree or other similar qualification to any other University or Institution.*

*Signed:* \_\_\_\_\_

## Synopsis

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China's WTO accession brings forth both great opportunities and challenges to Hong Kong's economic development and improving the economic interface between Hong Kong and the Mainland. These came into being with a free trade agreement with China, for the Closer Economic Partnership Arrangement (CEPA). Given these changes and with the removal of investment restrictions and Government incentive program (CEPA), Hong Kong firms are increasing the scope of their investment in China. Therefore, the importance of selecting the right mode of entry is becoming a vital topic for many Hong Kong firms. As such, the objective of this research was to provide new and important insights on Hong Kong firms entry into China. This was achieved by focusing on the choice of entry mode via equity and non-equity modes, and exploring the interrelationship and focus on the internal firm factors (firm and product characteristics) and external factors (industry and host market characteristics) that may impact Hong Kong firm's market entry decisions and performance related to entering China.

The data for the study were collected from a self-administered mail survey of 1,200 senior executives yielding 208 usable responses from wide cross section of industries. From the application of the Partial least squares (PLS) analysis it was found that the internal and external characteristics have strong effects on Hong Kong firm's decisions of entry mode strategy. Findings from this study also highlighted the significant relationship (such as firm characteristics and product characteristics), and non-significant relationship (such as industry characteristics, host market characteristics and the effect of entry mode strategy) with overall marketing performance. Finally, this study

advances the literature on marketing management and the understanding of the situation for China's developing economy that explore the exogenous and endogenous factors that influence on entry mode theory and performance of Hong Kong firms.

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# **Chapter One**

## **The Research Study**

### **1.1 Introduction**

China is an increasingly important business market for firms. With its huge population and rapid rate of economic growth and social development, it has become one of the top five global markets (China Statistical Yearbook, 2005). In the past two decades, China has acted as a magnet for firms wishing to undertake business and gain access to the billion plus Chinese consumers. Since China has joined the World Trade Organization (WTO), the Chinese government has agreed to open more of its domestic economy to outside investors and introduced a number of specific commitments to trade and investment liberalization, thereby reducing restrictions on foreign-owned businesses (China Statistical Yearbook, 2005). China's WTO accession brings forth both great opportunities and challenges to Hong Kong's economic development and improving the economic interface between Hong Kong and the Mainland (Hong Kong Trade Development Council, 2005). Since then, Hong Kong has been endeavoring to improve its attractiveness as a commercial and trading center. Such efforts include the conclusion of a free trade agreement with China, for the Closer Economic Partnership Arrangement (CEPA). It continues to refine its financial architecture, and strengthen its economic interaction in the Pearl River Delta in an effort to maintain its position as a gateway to China (Economic Overview, 2007).

The CEPA provides opportunities for Hong Kong people to establish business or work on the Mainland, which applies to 1,087 products and improved market access for 18 service areas, including management

consulting, convention and exhibition, advertising, accounting, construction and real estate, medical and dental, distribution, logistics, freight forwarding, storage and warehousing, transport, tourism, audio-visual, legal, banking, securities, insurance (Hong Kong Trade Development Council, 2005). This initiative is also expected to further stimulate Hong Kong investment and production targeting goods with higher value-added content or substantial intellectual property input into China (Economic Overview, 2007). However, in the face of growing competition and with more international competitors entering the China market, CEPA also brings challenges to Hong Kong firms to work out how they can target and enter those sectors in China in which they have a comparative advantage.

## **1.2 Research Objectives**

The Closer Economic Partnership Arrangement (CEPA) is providing enhanced access for Hong Kong firms into the Mainland China market, especially in the Pearl River Delta (PRD) region. The economic links between Hong Kong and Southern China (PRD region) have been achieved in the absence of any formal integration framework, and in different legal systems and infrastructure (Hong Kong Yearbook, 2005). In this context the importance of selecting the most appropriate mode of entry is becoming an important topic for many Hong Kong firms. As such, the objective of this research is to provide insights into Hong Kong firm's market entry into China, and to explore the influence of firm and environmental factors on market entry modes and firm performance.

What follows provides an overview of the research questions that focus on the internal firm factors (i.e., firm and product characteristics) and external

factors (i.e., industry and host market characteristics) that may impact upon Hong Kong firm's market entry decisions related to entering China:

### Research Questions

- RQ1: To what extent do firm characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?
- RQ2: To what extent do product characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?
- RQ3: To what extent do industry characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?
- RQ4: To what extent do host market characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?
- RQ5: To what extent does entry mode strategy influence the overall marketing performance of Hong Kong firms' entering China?
- RQ6: To what extent do firm characteristics influence the overall marketing performance of Hong Kong firms' entering China?
- RQ7: To what extent do product characteristics influence the overall marketing performance of Hong Kong firms' entering China?
- RQ8: To what extent do industry characteristics influence the overall marketing performance of Hong Kong firms' entering China?
- RQ9: To what extent do host market characteristics influence the overall marketing performance of Hong Kong firms' entering China?

### **1.3 Research Method**

This research adopts a quantitative methodology to examine the research questions and the theoretical framework outlined in Chapter 2. A self-administered questionnaire was mailed to 1,200 senior executives obtained from the membership lists from Hong Kong Industrial and Commercial Associations and the Trade Department of the Hong Kong Government. Self-administered questionnaires are a most common and effective data collection method for foreign market entry research (e.g., Jones and Pitt, 1999; Swoboda, Muhlberger, Weitkunat and Schneeweib, 1997; Truell, Bartlett and Alexander, 2002; Osland, Taylor and Zou, 2001; Julian and O'Cass, 2004; Ekeledo and Sivakumar, 2004). The sampling frame included Hong Kong firms from a wide cross-section of industries, including textile, transportation, light industries, metal-working, electronic, chemical and services industries.

A mail survey with telephone follow up (Jones and Pitt, 1999; Swoboda, Muhlberger, Weitkunat and Schneeweib, 1997; Truell, Bartlett and Alexander, 2002) was applied to increase the response rate (Burns, 1995). The questionnaire utilized existing measures from the literature and adapted the measures where needed and adopted five-point bipolar scales from strongly disagree (1) to strongly agree (5) adopted from Cavusgil and Zou, (1994).

Partial least squares (PLS) was used to analyze the data following similar procedures used by O'Cass and Julian (2003) to check for the strength of the relationship between the constructs being studied. Moreover, a systematic examination of a number of fit indices for predictive relevance of the model developed was necessary (Fornell and Cha, 1994; Lohmoeller, 1989), including reliability and convergent, discriminant and nomological validity were evaluated using conventional approaches found within the literature by Fornell,



Tellis, and Zinkhan (1982) and Fornell and Larcker (1981).

#### **1.4 Justification and Importance of the study**

China's accession into the World Trade Organization (WTO) has accelerated the change process and provides a good opportunity to Hong Kong firms (Hong Kong Trade Development Council, 2005) for conducting business in Mainland China. With the removal of investment restrictions by the Chinese Government and incentive programs (such as CEPA), a large number of Hong Kong firms are increasing the scope of their investment in China. With such a growing focus on investment and market development, the theoretical underpinning of market entry decisions related to China is important, particularly for Hong Kong firms' entry into China.

Market entry mode strategy is a key international marketing issue. However, so far few studies (including large firm studies) have examined the relationship between the environmental factors with market entry mode and performance (Brouthers, 2002; Brouthers, Brouthers and Werner, 1999; Detlev, Beamish and Shige, 1996). Over the last the last 20 years, transaction cost theory and resource-based theory, Uppsala model, the eclectic framework, the network theory and a number of other models have been broadly employed to explain Multinational Corporations (MNCs) international investment activities. Within the context of these theories and frameworks, it has been argued that transaction costs are the major determinants of MNCs' entry modes (Beamish, 1993), and previous literature has mainly focused on MNCs' market entry modes and used secondary data analysis for different market entry modes which represent varying levels of control, commitment, and risk (Dunning, 1988; Shenkar, 1990).

Importantly, China's increasingly influential role in the international business arena is undeniable. To continue to develop and ensure growth the Chinese Government have altered their policy concerning FDI which correspondingly the role of joint ventures being heavy emphasized in China in past two decades (Walsh; Boylan; Huzey and Burke, 1999). However, identifying successful market entry modes for Hong Kong firms entry into China is not easy, because it is impossible to view China as a homogeneous market, the political, economical and industrial structure for each province is very decentralized (Sun, 1999). Doing business in China requires new and creative approaches to understand and match the rapidly changing environment (especially after China joined WTO) and to effectively implement the chosen market entry strategy. Another important issue regarding the current body of research is that the majority of market entry studies to date have been conducted in developed countries (e.g., the United States, Canada and Western European countries) with very little attention given to developing countries, especially those in Asia (Julian and O'Cass, 2002). Therefore, the lack of research in these areas of market entry modes and the performance of Hong Kong firms are at present a major limitation in the literature.

Finally, the research is important for three essential reasons. First, it extends and contributes (theoretical implications and managerial implications) to the entry mode literature by synthesizing and examining the theoretical frameworks of Cavusgil and Zou (1994); Pan and Tse (2000); Julian and O'Cass (2003); and Weerawardena, O'Cass and Julian (2006), which focused on market entry modes and firm performance. Secondly, it examines the validity of measurement scales of Cavusgil and Zou (1994) for use across different countries and thirdly, the research evaluates the criteria used for

Hong Kong firms' decision making for their choice of entry modes into China.

## **1.5 Organization of the Study**

The structure of this study adopts the five chapter approach outlined by Perry (1999). The first chapter presents the topic and the overview of market entry modes and performance is described, and the relevant research process of this study is outlined.

The next Chapter 2 contains the literature review, which examines the current literature on a firm's motives for internationalization, and factors which influence the choice of entry modes are discussed. The theoretical model constructed is based on the market entry modes and performance research by Cavusgil and Zou (1994); Pan and Tse (2000); Julian and O'Cass (2003); and Weerawardena, O'Cass and Julian (2006). This model includes the key decision criteria that have been posited in the literature as the pivotal elements to be considered by the firms' decision making for market entry options.

The methodology is presented in chapter 3 which outlines the research method used to develop the survey instrument used to gather the primary data to answer the research questions.

Chapter 4 presents the results of the data analysis related to the research questions.

The discussion of findings and conclusions are then presented in chapter 5. Theoretical and practical implications and limitations are examined with some suggestions for future research, followed by concluding remarks.

## **1.6 Conclusion**

In conclusion, Hong Kong firms have shown great interest in positioning

themselves to capitalize on the opportunities arising from the opening of China's market and the removal of trade barriers and cuts in tariffs. However, at the same time competition will increase as China is offering "supra-national" treatment to other WTO members in the form of tax incentives. Thus, the success of any venture in China may start with careful choices related to market entry mode strategy. Entry presents risks and challenges for firms, particularly in acquiring the relevant resources for operating in conditions of high uncertainty in foreign markets. Importantly, frameworks of interfirm governance for examining the factors influencing the choice of market entry mode and performance of Hong Kong firms into China are required.

## **Chapter 2**

### **Literature Review**

#### **2.1 Introduction**

This chapter examines two major areas related to entry mode strategies covering firm's motives for internationalization and entry mode strategies and overall marketing performance. The principles drawn on in this study are based on the conceptual frameworks developed by Cavusgil and Zou (1994); Pan and Tse (2000); Julian and O'Cass (2003); and Weerawardena, O'Cass and Julian (2006) and focus on how specific internal and external factors are related to and impact upon Hong Kong firms strategic responses related to their entry mode strategies and overall marketing performance in China.

#### **2.2 Firm Motives for Internationalization**

The rapid growth of international trade has brought a much deeper form of economic integration moving from domestic to internationalization. The term "internationalization" epitomizes both the competitive pressure and the expanding market opportunities around the world (Kotabe, 2000). The main reasons for internationalization are to resist international competition, domestic market saturation, business expansion, new market development and diversification, all of which are impact continuous business operation (Welch and Luostarinen, 1993).

Importantly, a firm's international activities can be crucial to its growth and survival and regardless of the size of a firm, expanding operations overseas is a major strategic decision that must be considered carefully (Leavy, 1984). Firms of all sizes consider the decision to establish international operations

and such decisions include the internal facilitating competencies of leadership, functional coordination, experience, perceptions and attitudes determine the predisposition of firms' decision makers toward certain market entry strategies. It also includes bringing a closer integration of national and regional economies, which link consumers, suppliers and producers within complex and enduring exchanges. Whether it is a lack of growth opportunities in the domestic market (Zinn, 1994), or to maximize profits according to Rameswamy; Desarbo; Jibstein and Robinson (1986, 1998) internationalization is a critical issue.

Many researchers have sought to examine the reasons why firms enter international markets (Kotabe, 2000), and how a firm maximizes its alignment of strategy with its environment to achieve performance outcomes (Burns and Stalker, 1961; Christensen and Montgomery, 1981; Galbraith and Kazanjian, 1986; Keats and Hitt, 1988; McArthur and Nystom, 1991; Goll and Rasheed, 1997; Simerly and Li, 2000). It has been identified, that normally, a company starts its operations and activities in its domestic market and then gradually expands to other markets (Kotabe, 2000). Firms which operate in diverse markets can acquire rich knowledge and strong technological capabilities through exposure to a variety of ideas and experiences (Erramilli, 1991; Barkema and Vermeulen, 1998; Zahra et al, 2000). In addition, research in the area of internationalization has focused on issues covering firm capabilities, internal management know-how, and international experience (Etemad and Wright, 1999).

On the other hand, the notion of Internationalization is sometimes used interchangeably with globalization to refer to economic and cultural effects of an increasingly interconnected world. While internationalization most

commonly refers to the addition of a framework for multiple language support, especially in software, it sometimes refers to the process whereby something (a corporation, idea, highway, war, etc.) comes to affect multiple nations. This usage is rare; globalization is preferred. Because of globalization, many companies and products are found in multiple countries worldwide, giving rise to increasing localization requirements (Vrontis and Kitchen, 2005).

In summary, the overarching motive for firm internationalization appears to be profit seeking for growth and expansion through entering into foreign markets and to capture new opportunities in international trade. However, in the context of internationalization a firm must also deal with language and cultural differences, fluctuating currencies, political and legal uncertainties, and adapting their products to different customer needs and expectations. Thus, there is a need for firms to be aware of the impact of international environmental change which plays in the strategic choices of the participation into international business activities.

### **2.2.1 Firm Environment Fit**

As many firms operations become more internationalized, their business environment becomes more complex. Firms need to assess the environment in which they operate, especially the industry or industries in which it competes. On this point, Grant (2001) argued that the driving force of the firm to change to fit the environment has been the application of the rigorous yardstick of shareholder value against all aspects of strategy, structure, and managerial decisions for international expansion, including expanding trade, information flow and the mechanics of carrying out international business transaction for new knowledge and expertise is being sought.

The characteristics of international industries and the associated managerial approaches to address the structure strategy fit have been previously specified by Prahalad and Doz (1987). Such approaches in general identify a host of factors which make or break the success of market entry, and include how a firm interacts with the environmental changes, developing strategies for growth or cost reduction through complex strategic decisions for the differences between the home and host country.

On the other hand, in the context of strategic planning, with particular relevance to environmental change and its impact on firms, a key strategy issue is whether to adapt or standardize the offering (Shoham, 1999). For example, should regional and global differences be accounted for in one basic design or should a firm customize products for different markets. Based on this key strategy issue, O'Cass and Julian (2003) argued that the decision to adapt or standardize the marketing mix strategy did not significantly impact marketing performance, implying that either standardization or adaptation is appropriate and yields comparable outcomes. Similarly, Cavusgil et al (1993) and Wind and Douglas (1987) also found that both standardization and adaptation are equally important, and companies have been encouraged to balance these conflicting requirements in their international market entry strategy. Nevertheless, firm fit environment changes by requiring them to develop their own distinct competencies (e.g., assets, capabilities, competencies, and especially relations). Such competencies are then leveraged at home and abroad to overcome entry, exit, and competitive barriers, especially when they face competitive and marketplace difficulties in home markets (McDougall and Oviatt, 1991).

The role of different types of knowledge related to demand conditions and



factor conditions of the business environment of the host country has been shown to positively influence strategic transition of MNC and the foreign subsidiary performance (Liu, 2006). Thus, the influence of environmental factors presents numerous challenges and opportunities for international expansion (Prahalad and Doz, 1987; Katsikeas, 2003; Hutchings and Weir, 2006).

### **2.2.2 Challenge and Opportunity of Internationalization**

Internationalization provides both opportunities and challenges to firms (Lee and Chen, 2003) and a firm's survival in international markets appears to require it to be able to quickly exploit opportunities and immediately respond to the changes in the business environment, adjust their way of doing business and make new plans. On this point, Root (1994) argued that firms seeking to internationalize and those already undertaking international expansion are faced with the challenge of choosing the best structural arrangement, to seek resources that focus on the development and exploitation of unique bundles of capabilities, including knowledge, skills and assets (Teece, 1998; Teece, Pisano, and Shuen, 1997). Also, there exist many uncertainties and risks in the emerging international markets and the transitional business environments, such as uncertainty in market demand, high competition among industries, high political risk, the extent of cross-cultural difference and high technological intensity (Liu, 2006).

Nevertheless, firms operating in international market can explore comparative advantages by relocating business activities in foreign countries or exploit firm-specific advantages by replicating competences abroad in order to achieve continuous business growth (Lee and Chen, 2003). Importantly,

firms can also overcome the problem of market saturation by lengthening or rejuvenating product life cycles in international trade for developing the international operation to control for the order-of-entry effect and time in market (Dunning, 1981). The order of entry mode literature has typically deliberated the rewards and dangers associated with being the first entrant in a new market, and the continuing challenge is to understand the determinants of entry order and lead times across a diversity of market environments (Lieberman and Montgomery, 1988; Lambkin, 1988; Kerin, Varadarajan and Peterson, 1992; Golder and Tellis, 1993).

Past research indicates that multinational corporations (MNCs) enjoy economies of scale in mass production and mass marketing. This enables them to become lower-cost producers than their competition in foreign countries and extend market power by entering new markets (Kotabe, 2000), and to exploit market knowledge when following domestic clients or competitors to foreign countries (Li and Guisinger 1992). A firm's competitive advantage is derived from the scale economies of the market place (Porter, 1985), and Czinkota, (1995) also argued that Multinational Corporations (MNCs) with international operation face a lower probability of insolvency and less average risk than do domestic companies.

However, firms beginning to operate in the international marketplace will confront unfamiliar environments with varied risks, and unforeseen influences from abroad, and adverse effects (risks) on such firms do exist. These risks include political risk (e.g., instability of political system), owner and control risk (e.g., expropriation and intervention), operations risk (e.g., price control, local content requirements), transfer risk (e.g., currency inconvertibility, remittance control) (Brewer, 1993; Root, 1987), cultural differences (Hofstede, 1980), and

uncontrollable risks (e.g., economic, political, legal, cultural, and competitive forces, geography and infrastructure, level of technology, and structure of distribution) (Careora and Ghauri, 2000). Such factors appear to influence management expectations about the effects of international market development on business goals.

In summary, the overarching outcomes of internationalization can be benefits to the firm's organizational development, for example, profit maximization, improvements in the quality of products and programs, enhanced customer preference, and increased competitive advantage. However, firms attempting to seize new business opportunities for growth or cost reduction through foreign market investments often face complex option decisions (Osland, Taylor and Zou, 2001). Also, the scale of international business operation is becoming more complex and difficult to control. Therefore, a general conclusion seems to be that the fundamental process of internationalization and firm's decision of choice of market entry modes must weigh up numerous risks and benefits, and evaluate their capability and constraints (strength and weakness) to make important strategic decisions on the most appropriate entry mode to use for a market (Agarwal and Ramaswami, 1992).

### **2.2.3 Choice of Market Entry Modes**

Whilst the literature identifies the positive and negative aspects of internationalization, a critical aspect of importance to firm success appears to be entry mode choices. The selection of an appropriate entry mode strategy is crucial and affects overall success (Porter, 1987; Woodcock, Beamish and Makino, 1994). When a firm considers entering international markets, entry

decisions constitute a critical first step on the path to internationalization (Douglas and Craig, 1992).

Over the past two decades, market entry researchers have identified several different types of foreign entry modes including low control non-equity modes, covering exporting, licensing/contractual agreement and R&D contracts, franchising, strategic alliance, and high control equity modes, such as joint venture and wholly owned subsidiary (see: Root, 1994; Brassinton and Pettitt, 2000; Peinado, Barber and Hébert, 2007). Each of these entry modes is aligned with a different level of control, resource commitment, and dissemination of risk (Hill, Hwang and Kim 1990).

#### Low control non-equity modes

*Exporting* is the most traditional and well established form of operating in foreign markets. Export entry modes may be direct or indirect. The direct method involves choosing an agent or a distributor, or establishing a branch or subsidiary to represent the firm in the foreign market-place. The indirect method consists of making an arrangement whereby the firm delegates varying degrees of foreign sales and/or distribution responsibility to a third party. This third party may be an independent buyer for export to the foreign market or an export management company (Cateora and Graham, 2002).

*Licensing / Contractual Agreement:* A licensing / contractual agreement is an arrangement whereby a licensor grants the rights to intangible property to another entity (the licensee) for a specified time period, and in return, the licensor receives a royalty fee from the licensee. Intangible property includes patents, inventions, formulas, processes, designs, copyrights, and trademarks. The primary advantage of licensing is that the firm does not have to bear the

development costs and risks associated with operating in a foreign market. But licensing does not give a firm the tight control over manufacturing, marketing, and strategy that is required for realizing experience curve and location economies (Czinkota, 1996; Rajan and Pangarkar, 2000).

*R&D Contracts:* R&D contracts have similar arrangements to licensing / contractual agreements that occur when a company transfers to a foreign entity, usually based on R&D contract, the right to use its individual property (patents, technical knowledge or trademarks) and contracts for the assembly of its products by manufacturers established in a foreign market, with targeted sales there or elsewhere, while still maintaining the responsibility for marketing and distributing its products. This arrangement has advantages related to requiring minimum investment of cash, time and executive talent and permits a rapid entry into a new market (Luo, 2006),

*Strategic Alliance* is a mutually beneficial long-term formal relationship formed between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations. It is a synergistic arrangement whereby two or more organizations agree to cooperate in the carrying out of a business activity where each brings different strengths and capabilities to the arrangement (Czinkota, 1996; Pan, Tse and Au, 1997).

*Other approaches: Franchising* is basically a specialized form of licensing in which the franchisor not only sells intangible property to the franchisee, but also insists that the franchisee agree to abide by strict rules as to how it does business. The advantages of franchising as an entry mode are very similar to those of licensing. Specifically the firm is relieved of many costs and risks of opening up a foreign market. Hybridized franchising arrangements such as

master franchising often actually a common occurrence to used to entry host country market that involve different levels of parent company control, investment and local market adaptation outcomes (Welsh, Alon and Falbe, 2006). Franchising may inhibit the firm's ability to take profits out of one country to support competitive attacks in another (Czinkota, 1996; Jarmalaite and Sekundo, 2003).

### High control equity modes

*Joint Ventures:* A joint venture entails establishment of a firm that is jointly owned by two or more otherwise independent firms. A firm can benefit from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems, and business systems. But a firm also enters into a joint venture risks giving control of its technology to its partner (Czinkota, 1996; Rajan and Pangarkar, 2000; Chung and Enderwick, 2001). Joint ventures fall into several categories, including equity based operations (50% shares of joint ventures) that benefit foreign and/or local private interests, groups of interests, or members of the general public. There are also non-equity joint ventures (minority joint ventures vs majority joint ventures), also known as cooperative agreements with minority and majority shares of ownership, in which the parties seek technical service arrangements, franchise and brand use agreements, management contracts or rental agreements, or one-time contracts, for example via construction projects.

*Wholly owned subsidiary:* The firm owns 100 percent of the stock in this arrangement. Establishing a wholly owned subsidiary in a foreign market can be done two ways. The firm can either set up a new operation for Greenfield investment in a new country or it can acquire an established firm (merger and

acquisition) or use that firm to promote its products in the country's market. A wholly owned subsidiary gives a firm the tight control over operations in different a country that is necessary for engaging in global strategic coordination. But establishing a wholly owned subsidiary is generally the most costly method of serving a foreign market (Czinkota, 1996; Rajan and Pangarkar, 2000; Chung and Enderwick, 2001).

Based on the discussion of different types of foreign entry modes, it is important to note that differences in entry mode strategies may also be explained in part by the country of origin of the investment that involves choosing the best country market to enter based on the strategic needs and orientation of the firm (Papadopoulos, 1988; Kumar, Stam and Joachimsthaler, 1994). In this context, Sanjeev and Sridhar (1998) identified four major attributes for entry mode choices. Firstly, the exporting mode is a low resource (investment) and consequently low risk/return alternative. This mode, while providing a firm with operational control, lacks in providing marketing control that may be essential for market-seeking firms. Secondly, the sole venture mode is a high investment and consequently high risk or return alternative that also provides a high degree of control to the investing firm. Thirdly, the joint venture mode involves relatively lower investment and hence provides risk, return, and control commensurate with the extent of equity participation by the investing firm. Finally, the licensing mode is a low investment, low risk/return alternative which provides the least control to the licensing firm.

Each market entry mode has been argued to have advantages and disadvantages in terms of risk, cost, control and return in serving a foreign market (Hirsch, 1976; Grosse, 1985; Anderson and Gatignon, 1986; Root,

1987). On this point, Contractor and Lorange (1988) also argued that the effects of different entry modes could influence a foreign investor's ability to achieve control over local ventures, monitor local operations, reduce operational risks, and fulfill strategic objectives. However, the effects of industry specific characteristics may explain entry mode decisions, because an industry with a specific structure and hence distinct potential entry barriers (or attractions) (for example: perfect competition, monopolistic competition, oligopoly, and monopoly) can be determined by industry profitability and growth through the interaction of supply and demand (Hill and Myatt, 2007).

Recently, Pan and Tse (2000) outlined the choice of entry modes as a multi-level hierarchy. As shown in Figure 2.1, this multi-level hierarchy structure identifies the choice of entry into a market. Their view is that decisions to enter a market through the choice of entry mode alternatives can be viewed as a hierarchical process that begins with an initial decision between non-equity and equity-based modes (Chen, 2007). However, managers consider only a few critical factors at each level of the hierarchy, because those employed at the lower level of the hierarchy may take into account different factors. It is researchers who tend to classify different entry modes into two, equity vs non-equity, or collaboration vs non-collaboration modes, when studying entry modes. Managers are likely to choose an exact mode to enter a market. Also, Pan and Tse (2000) and Erramilli, Sanjeev and Chekitan (2002) defined the non-equity modes, as modes that do not entail equity investment by a foreign entrant, and are becoming increasingly popular among service firms for organizing overseas ventures/operations. Non-equity modes are especially popular among consumer-services firms (such as hotel and restaurant firms) as compared to professional-services



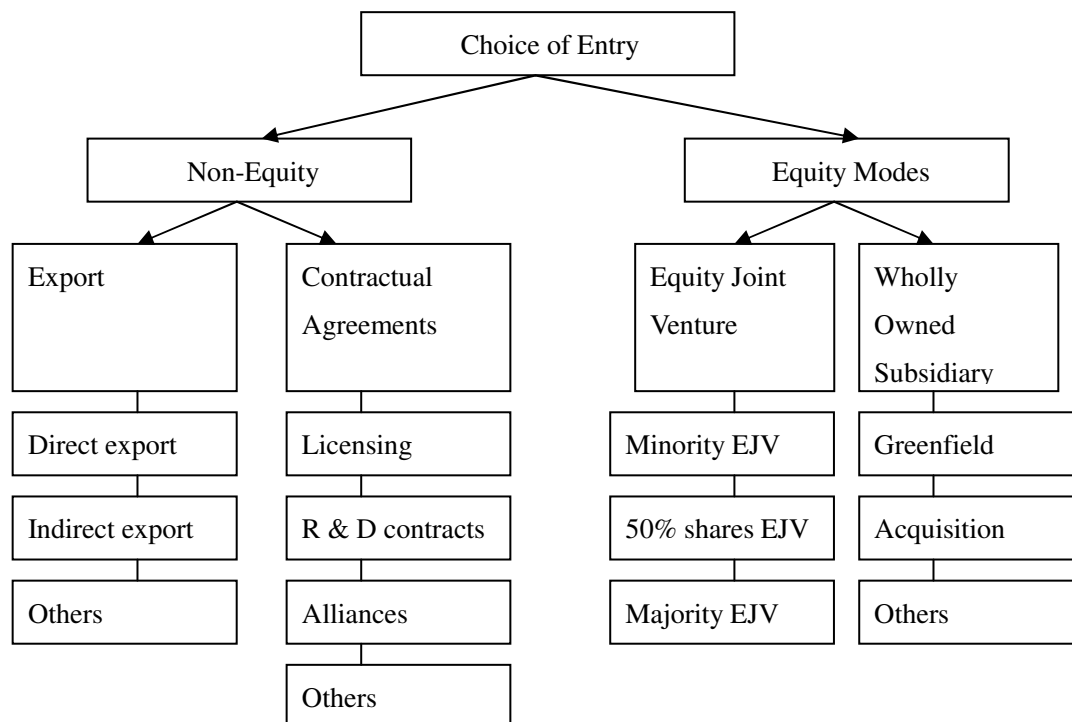
firms (such as consulting firms) (Erramilli, 1990). Non-equity modes are essentially contractual modes, such as leasing, licensing, franchising, and management - service contracts (Dunning, 1988).

In the context of foreign direct investment (FDI), substantial capital and an ability to absorb risk is often required. FDI also offers firms a higher degree of control over international business operations in the host country (Enderwick, 2001). Simultaneously, Pan and Tse (2000); Rajan and Pangarker (2000) also proposed equity modes which are defined as foreign direct investment (FDI), and split into equity joint ventures (EJVs). Equity Joint Ventures involve sharing of assets, risks and profits and participation in the ownership of a particular enterprise by more than one firm. EJVs are operationally defined as ventures with 5% to 95% equity stake by the parent, and wholly owned new ventures. Wholly owned subsidiaries: may be formed through acquisitions or green-field operations. Wholly owned subsidiaries are operationally defined to be ventures with 95% to 100% equity held by the multinational parent (Rajan and Pangarker, 2000).

From the perspective of managerial control, the equity mode gives foreign firms more control from inception to demise (Hill, Hwang and Kim, 1990; Madhok, 1997), and requires higher resource commitment for full control and ownership (Rhoades and Rechner, 2001; Chen, 2007). Although the non-equity mode cannot provide such a high level of control, Krishna, Agarwal and Dev (2002) argued that non-equity mode offers the most effective transfer of the firm's capabilities to the host country venture. For example, according to Contractor and Kundu (1998) the use of non-equity modes account for 65.4% of multinational properties worldwide in the hotel industry. Nevertheless, the choice of entry mode is regarded as a key issue in international marketing

and has a significant impact on the venture's success overseas (Wind and Perlmutter, 1977).

**Figure 2.1 Choices of Market Entry Modes**



Source: Pan and Tse (2000)

In summary, a number of studies (e.g, Anderson and Coughlan, 1987; Reid and Rosson, 1987; Buckley and Casson, 1998; Douglas and Craig, 1992; Root, 1994; Ellis, 2000) have identified the criteria that appear to be needed to be taken into consideration when considering and developing foreign market entry. These include, but are not limited to, classifying market entry modes into two categories based on their level of control, including full-control (i.e. wholly owned operation), and shared-control mode (i.e. contractual transfer or joint venture) Kotabe (2002) that related to the equity and non-equity modes of entry.

#### **2.2.4 Equity Entry Modes versus Non-Equity Entry Modes**

Firms have a wide range of possibilities for market entry mode strategy. Normally, decision criteria can be distinguished as equity mode versus non-equity mode as shown in Figure 2.1, which indicates both type of entry modes are different. However, it is argued that both contribute to market performance (Lu and Beamish, 2001). On this point, Pan and Tse (2000) proposed that market entry mode decisions for equity modes versus non-equity modes, which generally entail a two-step process where potential entrants first decide whether or not to make an equity commitment to the international effort. The second step in the decision process follows a hierarchical path, where decision makers choose among exporting, licensing, or franchising strategies if no equity is preferred, or they choose among joint venture or wholly owned alternatives available to them, depending on the firm's strategy, resource availability, the local market environment, prior international experience and commitment, cultural distance and need for control (Chan, 1995; Ekeledo and Sivakimar, 1998; Hill, Hwang and Kim, 1990). Such choices on entry modes have important implications and are often seen in an industry specific context. For example, manufacturing industries are widely established in foreign countries through the equity entry modes, because of their ability to do so, and degree of control and experience (Agarwal and Ramaswami, 1992).

Equity modes provides the control over ownership advantages to the firm and protect these advantages from dissemination and with more efficient means of transfer for equity entry modes (joint ventures and wholly owned subsidiary) (Anderson and Gatignon, 1986). Also, equity modes require a major resource commitment in the overseas location (Anderson and Gatignon,

1986; Vanhonacker, 1997) and investment to set up an independent operation, on-going direct management of the establishment, and interaction with local parties (Contractor, 1984; Hennart, 1988; Hill, Hwang and Kim, 1990).

Entry mode researchers have found that equity mode entries are preferred in high growth markets (Kwon and Konopa, 1993; Pan and Tse, 2000). Firms also tend to use equity modes of entry when entering low investment risk markets (Erramilli and Rao, 1993; Pan and Tse, 2000; Shrader, Oviatt, and MsDougall, 2000). However, according to Agarwal and Ramaswami (1992), host countries with greater probability of restrictive policies impede foreign investment and encourage non-equity modes. In this context, Erramilli, Agarwal, and Dev (2002) argue that the non-equity entry modes are becoming increasingly popular among service industries for organizing overseas ventures and operations.

Nevertheless, equity modes differ dramatically from non-equity modes in resource commitment, risk, return, control, and other characteristics, which can effectively differentiate equity modes from non-equity modes (Contractor, 1984). When market growth is low for the host market, firms tend to use non-equity modes of entry (Contractor, 1984). Each mode of entry entails a concomitant level of resource commitment that is difficult to change from one entry mode to another without considerable loss of time and money. For example, exporting is important in an economy's service sector and generated over 60 percent of the gross products (GDPs) of the world's industrialized countries (Griffin and Pustay, 2000). In exporting, a firm does not control the operation in the foreign market, it either exports directly through agents or distributors. Exporting allows a firm to internationalize without major investment in a foreign market (Mahoney, 1998), with low resource

commitment and low risk entry mode (Chung and Enderwick, 2001).

Another entry mode is joint venture, which seems to be preferred when cultural distance is large between the host and the home countries (Agarwal, 1994; Benito, 1996; Barkema, Bell and Pennings, 1996). The probability of forming JVs is positively related to the level of host country welfare (Gomes-Casseres, 1989 and 1990), the level of host government restrictions (Fagre and Wells, 1982; Lecraw, 1984; Gatigon and Anderson, 1988; Gomes-Casseres, 1989 and 1990; Padmanabhan and Cho, 1996), and level of competition in the host country (Gomes-Casseres, 1990). Firms appear more likely to establish JVs when they enter into a research and development intensive industry (Kogut and Singh, 1988b), and a growth industry (Hennart, 1991).

In summary, the classification of foreign market entry modes is not easy and a number of studies assert that many relevant criteria should be taken into consideration for decision of foreign market entry strategies, as each entry mode offers different of benefits and risks (Chang and Rosenzweig, 2001). Such benefits and risks are normally associated with firm's decision to start their international involvement. Most commonly in taking the first step into a foreign market, exporting is associated with a low investment and low risk for provides little control to the firm (Agarwal and Ramaswami, 1992). However, in this context research indicates that firms which have prior host market experience are more likely to choose a FDI mode (Kim and Hwang, 1992). Thus, the market entry strategies and performance have become an important consideration in companies' foreign market entry decisions (Taylor, Zou and Osland, 2000).

## **2. 3 Entry Mode Strategy and Marketing Performance**

In principle, entry mode strategy focuses on evaluation of the range of potential benefits and positive future returns, because the choice of an appropriate entry mode is a critical determinant of the likely success of the foreign operations and has crucial impact upon competitive advantage of MNEs (Root, 1994; Tallman and Shenkar, 1994). Prior studies have shed light on the market entry strategy as a comprehensive plan that lays down the objectives, resources, and policies that guide a firm's international business over a period of time long enough to achieve sustainable growth in markets (Porter, 1986). In this area it has been identified that firms often adopt exporting as the first approach to foreign market entry. After gaining knowledge and experience in the host country, they may then expand their operations in that country through foreign direct investment (FDI) via ownership of production or distribution facilities. This is an incremental approach (Johanson and Vahlne, 1977; Root, 1994).

Over the past two decades, the relationship between market entry strategy and performance has received considerable attention in the literature (for example, Cavusgil and Zou, 1984; Christensen et al, 1987; Koh and Robicheaux, 1988; Miesenbock, 1988; Ford and Leonidou, 1991; Da Rocha and Christensen, 1994; Brouthers, Brouthers and Werner, 1999; Brouthers, 2002; Chen and Mujtaba, 2007). Performance dimensions used for measuring profitability and market share are identified as key issues in a firm's success (Green, Barclay and Ryans, 1995). In terms of the performance implications of internationalization, evidence supports the importance of choosing a foreign market entry mode (Daniels and Bracker, 1989) and in this context research indicates firms have higher rates of international revenue

growth using non-equity-based (e.g.: exporting) foreign market entry modes in growing domestic environments, and international revenue growth is higher for equity-based modes when foreign market risks are high (Rasheed, 2005).

Previous studies have viewed exporting simply as a means of realizing the economic goals of the firm, where performance is measured in terms of sales or profits (Julian, 2004). However, Douglas and Wind (1987) argued that it is unrealistic to expect that the same marketing performance results will be achieved in all export market ventures. Nevertheless, the export marketing literature has tended to dwell upon issues, such as the correlates of export marketing strategy, as defined by the degree of product and promotional adaptation (Cavusgil et al., 1993), and the effects of standardization and adaptation on export performance (Aaby and Slater, 1989; Cavusgil and Zou, 1994).

Another important issue, in this area of performance differentials, is that covered by Shoham and Albaum (1994) who examine the impact on export performance of the degree of transference that occurs between domestic and export marketing strategies. They found the relationship between firm strengths and export performance may be indirect and operate in a way where strengths determine strategies, which in turn affect performance (strength → strategy → performance). This approach is more in line with frameworks used in market entry strategy (e.g. Day and Wensley, 1988) and strategic planning (e.g. Porter, 1980, 1985). Conversely, foreign direct investment (FDI) had a curvilinear effect on financial performance, such that firm performance declines with initial FDI activity and improves with greater FDI activity. In a related context, Kim and Hwang (1992) found those firms which have prior host market experience are more likely to choose a FDI mode and with positive

return of firm performance, that eventually shows the strategic fit for organizational capability and the choices of foreign market entry is significantly related to performance in foreign markets.

From an organizational capabilities perspective, a firm can usually integrate forward and perform all the marketing and distribution functions itself by establishing a sales subsidiary in a foreign market (Aulakh and Kotabe, 1997). Also, the capabilities of firms influence their ability and willingness to invest the resources required to make forward and backward integration decisions (Nelson, 1991; Madhok, 1996). Therefore, decisions related to integration become more salient with a firm's ability to control an operation in foreign markets, where they face different cultural, political, legal, and economic environments (Robinson, 1978) and thus impact choice of entry mode selection (Kogut and Singh, 1988).

In summary, the existing literature has not devoted significant attention to evaluating modes of entry and performance (Led and Cavusgil, 1991). Also, it is lacking a conceptual framework that explains the choice of various entry modalities and strategies of firms from multiple theoretical perspectives (Coviella and Mcauley, 1999; Hill, Hwang and Kim, 1990). In the context of complex decisions related to the relationship between entry mode strategies and marketing performance the means by which a firm responds to market forces to meet its objectives, and the factors that influence the firm decision making to select the entry strategies should be viewed as a firm's strategic response to the interplay of internal and external forces.



### **2.3.1 Factors that Influence Entry Mode Strategy and Overall Marketing Performance**

Firms deciding to enter a foreign market face a critical decision in choosing the best market entry mode to service the market. This decision is crucial because it can have an ongoing impact on a firm's international business performance (Anderson and Coughlan, 1987; Klein and Roth, 1990). Thus, entry mode selection is an important strategic decision (Agarwall and Ramaswami, 1992), with firm decisions relating to entering specific markets and how to proceed with strategic decisions regarding how and where to start their efforts (Vida and Fairhurst, 1998). In this area of research a number of authors have commented on the possible link related to entry mode strategy and performance that integrates the influence of both external and internal factors, including Brooke and Remmers (1972); Franko (1976); Johnansson and Vahlne (1977); Stopford and Haberich (1978); and Wilson (1980). On this point, Goodnow (1985) and Root (1994), have attempted to define an entry mode as an institutional arrangement and identified possible links to the external and internal factors including environmental, a firm's products and market, technology, human skills, management, or other resources with regard to a variety of financial and non-financial indicators that cause significant impacts to the mode of entry decisions and performance. These factors and the influences on the decision to enter foreign markets have generally been depicted as an antecedent of subsequently enhanced business performance.

Most importantly, each of external and internal factors that appear to influence the choice of market entry modes appears to be dynamic. This is because the environment changes and it requires flexibility and proactive scanning for participating in international markets. In this context, Hollensen

(2001) identified several external factors which influence the selection of a foreign target market that include economic influences, socio-cultural influences, and political and legal influences. Another important factor that refers to the relationship between (national) culture and entry strategy is explicitly examined (using a reductionist version of Hofstede's (1980) cultural classification) by Kogut and Singh (1988) (see also Shane, 1994) is foreign market experience. For example, Bakema, Bell and Pennings (1996) argued that cultural barriers are utilized in an examination of foreign market entry, and Benito and Gripsrud (1994) argued "cultural learning process" helps explain the expansion of FDI.

On the other hand, Jobber (2004) argued that the internal factors influence international market selection, indicating that they are connected with company capability profile, resources commitment, and strategic planning and implementation. Similarly, prior studies have found evidence of a significant positive effect of firm and product characteristics as internal factors that significantly influence on decision of the market entry strategy (Goodnow, 1985; Root, 1987). In this context, Hollensen (2001) proposed additional internal factors that relate to the choice of entry modes, such as, company size, international experience, product complexity and product differentiation, risks, control, and flexibility.

In summary, when deciding on the most appropriate entry mode for a particular product and entry into a foreign country, a firm needs to consider several, often conflicting external forces in the target country as well as several factors internal to the company (Daniels and Radebauh, 1994). Based on the above discussion which outlines factors that have been identified as influencing entry mode strategies and performance these can be classified into

internal factors (firm characteristics and product characteristics) and external factors (industry characteristics and host market characteristics). These may help explain how a firm maximizes the alignment of strategy with its environmental factors to achieve performance outcomes (internationalization success) are discussed as follows.

### **2.3.2 Internal Factors Influence on Entry Mode Strategy and Overall Marketing Performance**

Most past research has focused on factors that influence market entry through firm size, management know-how, market competition, capability and resources, and the stage of internationalization (Huber, 1991; Hamel and Prahalad, 1994; Cavusgil and Zou, 1994; Doherty, 2000). It appears that in this context, firms develop a strategic orientation which reflects their individual and group experience, values and attitudes of their employees (those currently employed and their predecessors). Further, it has been identified that production competencies allow firms to manufacture a broad range of products, including specialty and high quality items, build a reputation in the industry, and reduce operating costs, which also act as key factors to achieve competitiveness (Conant, Mowka, and Varadarajan 1990; Dess and Davis 1984). It also has other implications for the level of resource commitment as an internal factor that appears to have direct bearing on the entry strategies and performance, and survival potential of a foreign venture (Bradley and Gannon, 2000; Chowdhury, 2006). Also, Koch (2001) has argued that two major factors that influence the decision making stage of internationalization are a firm's strategic orientation and international competitiveness. On this point, Cavusgil and Zou (1994) have emphasized the internal importance of

company capability for market entry mode selection that involves the extent to which a firm commits to building new capabilities through learning from other organizations, creating new skills, or revitalizing existing skills in new market situations (Luo, 2002).

### **2.3.2.1 Firm Characteristics as Internal Factor Influence to Entry Mode Strategy and Overall Marketing Performance**

In deciding the form of market entry strategy, the firm usually considers its own characteristics that relate to capabilities and resources that determine the stream of competitive advantage in the marketplace. In the past, research on market entry mode has shown that firms with greater resource availability are more likely to make an ownership mode entry into foreign markets (Brouthers and Nakos, 2002). Strong determinants of the resources include size advantages (Reid, 1982), international experience (Douglas and Craig, 1989), and the ability to execute a chosen strategy (Aaker, 1988). On this point, Aaker (1980) and Porter (1980) also emphasized firm capabilities and constraints as profoundly influencing the choice of marketing strategy and ability to execute the chosen strategy.

Further, O'Cass and Julian (2001) have suggested and identified other important motivational elements influencing the international marketing strategy that including product uniqueness, international experience, supportiveness, and resource commitment. Such elements appear to be related to firm growth and sales revenue that eventually caused a significant impact on marketing performance as outlined by Ahmet (1993). As such, the analysis of the internal environment of the firm, via its own characteristics has been concerned with issues of strategy implementation, choice of

organizational structure, systems of control, capability and resources, and management style has been viewed primarily as consequences of the strategy adopted (Grant, 1991), and are often seen as being driven through responding to environmental opportunities (Barney, 1999).

Finally, the characteristics of firms have been identified as having major effects on export performance (Fortuna, 2006). Firm characteristics are also related to its product which have been identified as having a significant influence on export marketing performance (Cavusgil et al, 1993), and a unique product provides a firm with a differentiation advantage that other firms in a competitive market may find difficult to challenge or overcome resulting in higher performance than a standardized product (Douglas and Craig, 1989).

#### **2.3.2.2 Product Characteristics as Internal Factor Influence to Entry Mode Strategy and Overall Marketing Performance**

As indicated above a core category of firm internationalization is related to the product characteristics defined as the complex nature of tangible and intangible elements that distinguish it from the other entities in the international marketplace. Product characteristics are the inherent features of the product offering, whether actual or perceived. In this context, Cavusgil and Zou (1994) point out that product characteristics influence marketing performance including, culture specificity, strength of patent, and uniqueness. To the extent that a product's physical characteristics offers some bases of differentiation that determine a firm's success, outcomes do as such depend on how well the product or service is and on how well a firm is able to differentiate the product from the offerings of competitors. Products can be differentiated by their composition, by their country of origin, by their tangible

features (such as packaging or quality) or by their augmented features (such as warranty). Such product differentiation can also affect positional competitive advantage (Day and Wensley, 1988), which influences the choice of an offensive or defensive strategy (Cook, 1983).

Previous studies have suggested that the service requirements of a product can also affect the choice of market entry mode (Anderson and Coughlan, 1987). On this point, Ramaseshan and Patton (1994) suggest that when a product requires a higher level of before or after sales service, there is a tendency to produce products in the host market or to have a local presence in order to ensure that adequate services are performed. The same discussions on service providers whose products require a high degree of supplier-buyer interaction tend to choose a FDI mode to serve the market (Vandermerwe and Chadwick, 1989; Patterson and Cicic, 1995). Therefore, product characteristics are associated with increased internationalization and effects of venture performance (Bloodgood, 2006).

### **2.3.3 External Factors Influence to Entry Mode Strategy and Overall Marketing Performance**

In the context of external factors influencing entry mode strategy and overall marketing performance, many entry mode researchers have focused on business factors within the legal, political, economic, technology and cultural environments. For example, Whitelock and Jobber (2004) considered the effect of macro-environmental factor on a potential target market, including the legal system, market attractiveness, and technological factors. In this context, a number of authors have defined the business environment as external forces that influence a firm's capability to achieve its

objectives (Hambrick, 1982; Russell and Prince, 1992; Weillhrich, 1999). On this point, Baburoglu (1988) found that the increase in complexity, dynamic and unpredictable change, and relevant uncertainty within the business environment influences firms decisions related to entry modes and subsequent performance significantly. Similarly, Steers (1977) also noted that a business environment is one in which firms deal with macro-environmental forces and Welch and Wiedersheim-Paul (1978) included external stimuli such as market opportunity, economic integration, and government stimulation in their model of factors affecting the pre-export behavior of firms.

When considering market selection, foreign market and industry potential are the common criterion used (Hodgson and Uytterhoeven, 1962; Johansson, 1997; Moyer, 1968; Root, 1994), because a firm usually expands into foreign market in order to capture a large number of potential customers, internalize new concepts, assimilate ideas from new cultures, access new resources and carve out competitive advantages (Kogut and Singh, 1988; Jeannet and Hennessey, 2000; Leonidou and Katsikeas, 2002; Luo, 2002). This implies that market entry mode plays a critical role in shaping transnational firm's behavior and performance, and represents an important source of competitive advantage in international settings (Mascarenhas, 1992). This is also associated with the evolving industry characteristics and market structures in the host country (Luo, 1998).

#### **2.3.3.1 Industry Characteristics as External Factor Influence to Entry Mode Strategy and Overall Marketing Performance**

Industry characteristics have been considered a key determinant of firm strategy in international market contexts (Kerin, Mahajan, and Varadarajan

1990; Porter, 1980; Pecotich et al, 1999). These appear to represent the need to achieve recognition of the structure of competition and determinants of profitability in an industry and are fundamental to formulating good competitive strategies.

In the context of industry characteristics, the most influential contribution of over the past decade of industry (structure) analysis has undoubtedly been by Michael Porter (Pecotich, Hattie and Low, 1999). Porter's five forces model (1980) proposes that the intensity of industry competition is governed by five basic forces, including bargaining power of buyer, bargaining power of supplier, new entrant, substitution effect, and level of rivalry that determined the strength of the competitive forces within an industry and corresponding to industry profitability, and related to the set up cost and barrier of exit (Christopher; Brain and Nicholas, 1994). Additionally, Weerawardena, O'Cass and Julian (2006) proposed another determination of industry environment that included demographic change, market demand, technology change, and Government intervention which are presented as the most frequent factors that influence the choice of industry structure and profitability.

On the other hand, previous research has suggested that high R&D intensity in an industry discourages equity entry modes, particularly when it was within the core business area of firms (Howell, 2004). Therefore, the significance of industry profitability appears more straightforward, in both Luo (1999) and Tiessen and Linton's (2000) research it is revealed that a positive link exists between industry structure and industrial performance. On this point, Burton and Kaserman (1999) has also argued that market entry decisions and the threat of entry are crucial both in shaping industry structure and determining long-run industry performance.



The potential risks of doing business in China are compounded by the fact that China is actually a collection of regional markets with different industry, economic, financial, political, social and operating conditions. China's government is trying to even out the regional imbalances, but these restructuring and investment programs will take time. One considerable factor related to potential risk must treat carefully about the effect of China's entry into the WTO that in regard to insufficient of regulatory transparency and predictability of industry, especially of implementation procedures, also creates great uncertainty and strains in doing business in the Mainland China (Teng, 2004).

In summary, based on above industry factors that may take the form of changes in entry mode strategies (for example, product designs, product features and attributes, promotional strategies, packaging, advertising, and prices in the international marketplace). Thus, a firm decides to invest on foreign market, the decision or selection of host country has created profound impacts on its entry mode strategy and performance (Li, 2000; Smarzynska, 2000; Araujo and Rezende, 2003).

#### **2.3.3.2 Host Market Characteristics as External Factor Influence to Entry Mode Strategy and Overall Marketing Performance**

Host market characteristics constitute the external institutional environment in which foreign entrants are embedded, and consist of various authorities and stakeholders, including states, local activist groups, customers, supplier groups, labor unions, and national trade associations, all of which constitute institutional arrangements that shape economic activities and bestow legitimacy on foreign firms (Chan, Makino and Isobe, 2006). Also, the

host market risks, which refer to the perceived discontinuity or unpredictability of the political and economic environment of a host country, are like the type of external uncertainty faced by firms in foreign markets (Aulakh and Kotabe, 1997). Thus, the importance of the selection of an entry strategy may be inter-linked with the choice of the country, which involves choosing the best country market to enter based on the strategic needs and orientation of the firm (Papadopoulos, 1988; Kumar, Stam and Joachimsthaler, 1994). On this point, Vernon (1971), Stopford and Wells (1972), and Franko (1971) have focused on the "specific locational advantage" of the host country to explain differential foreign investment in different country markets, which posits that the host country has certain specific location advantage. On this issue, the choice of a mode of entry also depends upon the nature of the "ownership advantage" the firm possesses, because firms appear more likely to choose to have their securities traded on foreign markets, and most prefer to realize substantive valuation gains (Sarhissian and Schill, 2004).

On the other hand, target market potential is a common criterion used in market selection (Hodgson and Uytterhoeven, 1962; Johansson, 1997; Moyer, 1968; Root, 1994), because the ultimate goal of a firm expanding into foreign markets is to explore the opportunity for accessing large number of potential customers and exploit competitive advantages (Kogut and Singh, 1988; Jeannet and Hennessey, 2000; Leonidou and Katsikeas, 2002).

Basically, the market size of the host country is an important attraction to foreign direct investment (Agarwal and Ramaswami, 1992; Kwon and Konopa, 1993; Root, 1994; Terpstra and Yu, 1988). Attractiveness of the host country refers to the degree to which the particular country's home market is desirable to the operations of foreign firms. Such attractiveness factors usually related

to host country include market size, population structure, per capita income, bilateral trade, legal system, political, economic, social and culture, and technology issues (Linder, 1961; Hofstede, 1980; Agarwal, 1994; Hill, 2000; Elango, 2001).

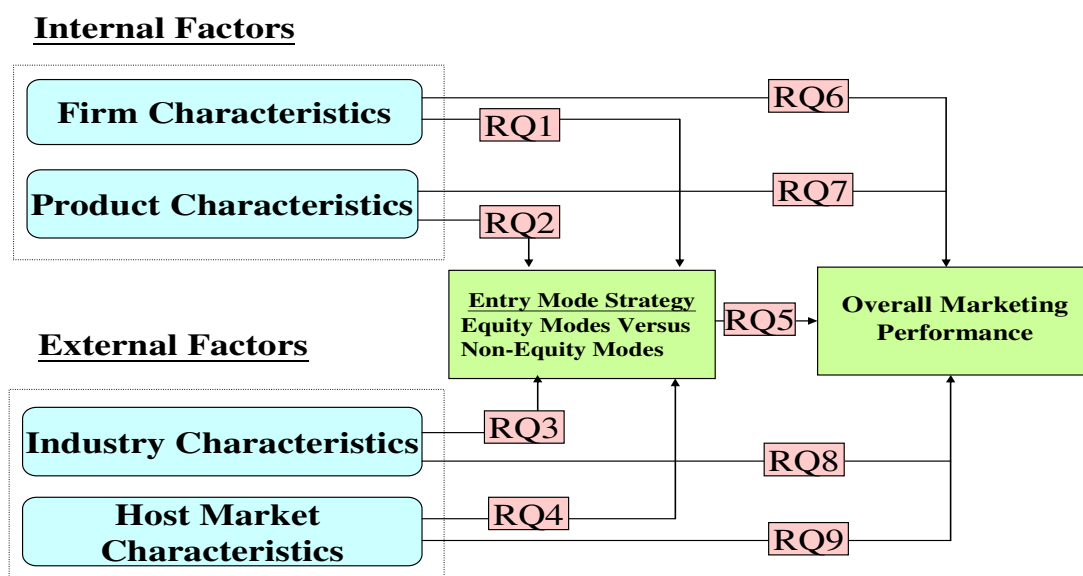
Another important issue affecting the choice of entry modes is related to Government incentives from the host country. Government incentives can be an important catalyst for market entry strategy, including reduced utility rates, employee training programs, infrastructure additions, and tax reductions (Griffin and Pustay, 2000). For example, the Hong Kong and Mainland China, Closer Economic Partnership Arrangement (CEPA) provides incentives in various areas of business. Within CEPA, 90% of Hong Kong domestic exports to Mainland China incur zero tariffs. The annual savings in tariffs are estimated to be HK\$750 million (Hong Kong Trade Development Council, 2005). The immediate benefit of the trade in goods is the saving in tariffs, thus increasing the price competitiveness of Hong Kong's domestic exports of consumer products into Mainland China. According to China's customs statistics, 1,273 types of Hong Kong origin goods worth US\$ 65.61 million were imported under general trade via Guangdong ports in the first three quarters of 2004, accounting for 96.2% of the total value of imports under the CEPA framework, and translating into RMB 36.495 million savings in tariffs and import-related taxes (Hong Kong Trade Development Council, 2005).

In conclusion, the Chinese Government incentive program stimulated Hong Kong firm's entry into China. Firms have benefited from the opening up and liberalization of trade and markets beyond the mainland's commitments in its WTO accession protocol, taking advantage of this CEPA project (economic development incentive).

## 2.4 Conceptual Framework

Based on the above discussion, the following theoretical framework (Figure 2.2) is developed. While taking into account the above discussion the framework is largely based on the work of Cavusgil and Zou (1994); Pan and Tse (2000) and O'Cass and Julian (2003) and focuses on internal and external factors that influence the entry modes strategy (equity modes versus non-equity modes) and overall marketing performance. This framework is built from a set of criteria (including firm characteristics, product characteristics, industry characteristics, and host market characteristics) and related to the choice of entry modes and overall marketing performance for Hong Kong firms into China. The relationships of these criteria led to the generation of several related research questions and outline possible courses of action will be discussed in following section.

**Figure 2.2 Conceptual Frameworks for Hong Kong Firms Entry into China**



Source: Developed from this study

## **2.5 Research Questions Development**

According to Cavusgil and Zou (1994) the conceptualization of market entry modes and performance is appealing for three reasons. The first reason is to substantiate the empirical link between entry mode strategy and overall marketing performance in the context of entry modes. The second reason is to contribute to a more comprehensive understanding of the variables impinging on market entry strategy and performance and thirdly, to lay a theoretical foundation on which further inquiries can be based. These three reasons for the pursuit of entry mode performance differentials are further enhanced when placed in the context of entry into China.

As has been discussed above, firms at different stages will differ in their international experience, extent of international involvement, strategic thrust, international levers, and strategy decisions (Douglas and Craig, 1989). Research on international expansion and foreign market entry is well established within the international market diversification literature, but has focused primarily on multinational corporations (Stopford and Wells, 1972; Daniels, Pitts and Tretter, 1984; Galbraith and Kazanjian, 1986; Ghosal, 1987; Kim, Hwang and Burgers, 1989; Habib and Victor, 1991). Based on literature discussion as above, the following sections (2.5.1 to 2.5.5) present the development of research questions that are based on Cavusgil and Zou (1994); Pan and Tse (2000); Julian and O'Cass (2003); and Weerawardena, O'Cass and Julian (2006) and relevant factors set in the context of the Hong Kong firms entry into China.

### **2.5.1 Internal Factors (Firm Characteristics and Product Characteristics) Influence to Entry Mode Strategy**

The market entry strategy appears to be influenced by two sets of internal forces (i.e., firm characteristics and product characteristics) (Cavusgil and Zou, 1994). Firm characteristics are referred to as management commitment and resource commitment to the venture (Fladmore-Lindquist and Tallman, 1994). This theory focuses on how unique firm-specific resources can be used for competitive advantage under different situations (Barney, 1991; Mahoney and Pandian, 1992). In terms of firm specific resources, they are referred to as idiosyncratic resources such as human, financial, size, product market position, profitability, technology intensity, characteristics of key employees, international experience and organizational resources (Lindqvist, 1991; Bloodgood, Sapienza and Almeida, 1996; Linden and Karagozoglu, 1997; Ratnatunga and Schroder, 1999). Also, Kogut and Singh (1988) have emphasised that the larger the firm, the greater its ability to invest in order to control the higher risk of operating in psychologically distant markets. On this point, Grant (1991) highlighted that the key to a resource-based approach to strategy formulation is the understanding of the relationships between resources, capabilities, competitive advantage, and profitability, that eventually firms will choose product market positions that represent the best application of their core competence (Collis, 1991).

However, Albaum and Tse (2001) argue that firms usually formulate their market entry strategy through a conscious consideration of their objectives, their resources, and the host country environment to determine the entry mode, the entry alliance strategy, and the timing of the entry corresponding to their management's experience. Nevertheless, the entry mode strategy is

associated with a firm's international competence (Aldrich and Martinez, 2001). This implies that management judgment, based on experience, will continue to dominate the decision making process of selecting an international mode of entry strategy (Goodnow, 1998). On this point, Bharadwaj and Varadarajan (1993) successfully modeled a firm's capability to interact with the foreign market environment (competitive environment) in deciding its international marketing strategy. Therefore, this research seeks to understand:

RQ1 : To what extent do firm characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?

Product characteristics are the inherent feature of the product offering, and the benefits that are provided to consumers in the various markets through the product. The link between product characteristics and firm entry strategy has been a subject of considerable importance to international marketing management (Zhao and Luo, 2002). Previous research on internationalization has found that product characteristics affect the way firms manage their international activities (Cavusgil and Zou 1994; Cavusgil, Zou, and Naidu 1993), and product differentiation (Stopford and Wells, 1972). Also, McDonald (1961); Wind and Douglas (1981) and Root (1987) have argued that the contingency (selective strategy) mode is likely to increase profits due to the fact that the strategic entry mode is tailored to the specific product's characteristics and the foreign target market's distinctive traits.

Within the context of product differentiation (product value), which is an important issue in determining whether the price is high, equal or low in relation to the market or whether it depends on the country of destination (i.e. a

market-based pricing strategy) (e.g. Kirpalani and Macintosh, 1980; Piercy, 1981; Christensen et al, 1987; Burton and Schlegelmilch, 1987; Louter et al, 1991; Shoham, 1996). Similarly, product value also reflects domestic costs or competitors' prices that are partly influenced by the degree of competition and product differentiation strategy in each market (Buisan, 2006). On this point, Czinkota (1995) proposed that the core of a firm international operation is the product's attributes, which includes the complex bundle of tangible and intangible elements that differentiates it from the other offerings in the marketplace. These include type of product (consumer or industrial), country of origin, packaging or quality, product uniqueness (design and features), augmented feature, training sales force to handle product, and warranty. Therefore, models of international entry mode choice recognize product characteristics as among the determinants of that choice (Ekeledo and Sivakumar, 1998). Therefore, this research seeks to understand:

RQ2 : To what extent do product characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?

### **2.5.2 External Factors (Industry Characteristics and Host Market Characteristics) Influence upon Entry Mode Strategy**

Industry characteristics are a part of the general economic environment. They refer to a set of firms producing the same, or functionally similar, products or services and vying for the same customers. Past research has a great deal of interest in empirical attempts to understand the effects of industry structure as a factor in determining firm performance (e.g., Waits, 1985; Alba et al, 1997). Industry characteristics often evolve through structures as firms



respond to or create profit opportunities. (Three different types of industry structure includes monopolistic, oligopolistic, and perfect markets) (Pecotich, 1999). On this point, Cavusgil and Zou (1994) and Weerawardena, O'Cass and Julian (2006) argue that the analysis of the relationship between industry environment and marketing strategy must incorporate the significant variations in the market systems, demographic factors, government interventions, technology development and presence of foreign competitors across market. In addition, technology intensiveness and intensity of price competition in the industry must also be considered as the relevant correlates of adaptation of marketing strategy (Jain, 1989). This is because, technological change will have a major effect on market entry strategy, and revolutionary innovation in product, market, and technologies give a firm a temporary competitive advantage (Czinkota, 1995).

Previous research has addressed the intensity of industrial competitive rivalry and much attention has been devoted to pricing reactions related the innovativeness of the entry of a new product and the innovativeness of the response to it (Gatignon and Soberman, 2002). In this context, Berg (1996) indicated market entry strategy has a significant impact on the firm's pricing response, and market competition plays a pivotal role in company pricing decisions. This implies barriers to entry are created by absolute cost advantages, economies of scale, product differentiation, the degree of firm concentration (Bain, 1956; Mann, 1966). Therefore, the analysis of industry characteristics can help the firms to formulate the foreign market entry strategy and provide important insights on specific determinants. Therefore, this research seeks to understand:

RQ3 : To what extent do industry characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?

Host market characteristics have been described in terms of the business environment, production factors, and competitiveness of local competitors (Chui and Leonard, 1993). Past research has established that companies select foreign markets according to the attractiveness, demand factors, infrastructure, customer preference, product familiarity, and legal and regulatory barriers (Cavusgil and Zou, 1994). Entry mode choice and performance are determined and interpreted with respect to a firm's strategic objectives and the foreign market's characteristics that relate a firm's product(s) to foreign market(s) and the relevant foreign market's production factors and the level of competitiveness of local firms (Kwon and Konopa, 1993).

In the context of host market characteristics, the intensity of competition in the host market could force firms to seek a high degree of product and promotion adaptation to gain a competitive advantage over rivals (Cavusgil, Zou and Naidu, 1993; Jain, 1989). Simultaneously, a host countries trade policy, including incentive programs is viewed as one of the most important business environment variables that encouraged foreign investment (Caves, 1971; Goodnow and Hansz, 1972; Horst, 1971; Lipsey and Weiss, 1981; Root, 1987; Smith, 1987). The degree of familiarity and exposure of customers in host market towards the product/service also bring a positive effect on firms overall performance (O'Cass and Julian, 2003).

Further, Chui and Leonard (1993) argued that host market involvement is inherently risky due to elements such as cultural differences, political instability, or changes in the value of exchange rates. Therefore, doing business in

foreign countries should take into account risk and return issues, since risk and return are related to a firm's costs and returns of doing business in a foreign market. The risk-return and cost-control trade-offs model is offered as an explanation of a firm's behavior of maximizing profit by choosing the optimal entry mode for a desired foreign market (Grosse, 1985). Therefore, this research seeks to understand:

RQ4 : To what extent do host market characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?

### **2.5.3 Entry Mode Strategy Influence to Overall Marketing Performance**

Market entry mode has been argued to be the cornerstone of a firm's market entry strategy (Tse, Pan and Au, 1997). The selection of an appropriate entry mode strategy is crucial and affects the overall success of an investment (Porter, 1987; Woodcock, Beamish and Makino, 1994), so that the entry mode choice for a firm when expanding into foreign markets has long been considered to have major impact upon the success of a firm's foreign operations (Delios and Beamish, 1999). Marketing performance is the degree of market success attained by a product at market maturity or the point at which product market boundaries change (Colin; McDonald and Greaves, 2003). In this context, previous studies on export performance have generally measured export performance by such indicators as export sales (e.g., Cavusgil, 1984; Cooper and Kleinschmidt, 1985; Czinkota and Johnston, 1983; Madsen, 1989; McGuinness and Little, 1981), export sales growth (Cooper and Kleinschmidt, 1985; Madsen, 1989), export profits (Bilkey, 1982; Johnson and Arunthanes, 1995; Madsen, 1989), total sales and market share

(Donna, Barclay and Ryans, 1995; Donna, Donold and Adrian, 1995), export intensity (export/sales ratio) (Axinn, 1988; McGuinness and Little, 1981), and overall performance (Cavusgil and Zou, 1984; Julian and O'Cass, 2004).

Furthermore, entry mode strategy involves the development of a comprehensive product marketing plan that includes choosing a foreign market entry mode (Root, 1987, p85). According to Pan and Tse (2000) entry modes strategies can be viewed as a choice between equity modes versus non-equity modes, and ranging from licensing and franchising, through exporting (directly or indirect channels), to foreign direct investment (FDI) (such as, joint ventures, mergers and acquisitions, and wholly owned subsidiary). From another perspective, market entry mode strategy is also defined as institutional arrangements that allow firms to use their product or service in a country (Calf, 1993) or "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country" (Root, 1987, p73). Market entry strategy involves two interdependent decisions, covering location and mode of control. For example, exporting is located domestically and is controlled administratively, foreign licensing is foreign located and is controlled contractually, and FDI is foreign located and is controlled administratively (Rasheed, 2005).

In addition, Pan and Tse (2000) argued that entry strategy variables refer essentially to the firm strategy, resource availability, market environment, control, management international experience and commitment, and cultural distance which are the key factors to success. Therefore, overall marketing performance is related to the issue of strategic fit in an international context and takes on the problems of control and coordination, confounded by the

actions of foreign market agents and the policies of foreign governments in the entry strategy (Lu and Beamish, 2001). Therefore, this research seeks to understand:

RQ5 : To what extent does entry mode strategy influence the overall marketing performance of Hong Kong firms' entering China?

#### **2.5.4 Internal Factors (Firm Characteristics and Product Characteristics) Influence to Overall Marketing Performance**

A long list of firm characteristics has been studied for affect the entry mode and performance. The internal factors (such as, product characteristics and firm characteristics) have been identified as having a significant influence on marketing performance (Goodnow, 1985; Root, 1987; Cavusgil et al, 1993; O'Cass and Julian, 2003). In the context of firm characteristics, the determinants of entry strategy performance consequences are related to internal factor of firms' resource commitment to the venture, because high commitment and early entry appear to have positive impacts on the perceived economic performance of the market ventures (Makino and Montgomery, 2000).

Another important issue of firm characteristics related to organizational features may include such factors as firm size, firm structure, normative cohesion, staff influence, shared decision making and leadership behavior, organizational complexity, and organizational goals. These issues have important implications for market entry choice that can limit the flexibility, affect how much authority can be delegated and firms performance. Thus, the importance of a firm's experience can facilitate cost reductions over time and

the span of control, structure design, technology and task development in the process of organizational development, and establish a control system lead to an emphasis on results rather than how the work is actually performed (Henderson, 1984; Porter, 1985; Huszagh and McIntyre, 1992). In the analysis of the marketing of a specific product in a specific host market, the degree of the various aspects of product adaptation and promotion adaptation are significantly influenced by a company's strategic objectives (Cavusgil, Zou and Naidu, 1993; Julian, 2002), which also determine the development of firm-specific factors are also the important elements that can influencing the overall marketing performance of export market ventures Cavusgil and Zou (1994).

Further, firm-specific assets and skills comprise ownership advantages. Assets are reflected by the firm's size and multinational experience, and skills are measured by the firm's ability to develop differentiated products (Dunning, 1988). Therefore, this research seeks to understand:

RQ6 : To what extent do firm characteristics influence the overall marketing performance of Hong Kong firms' entering China?

It has been argued that product characteristics serve as a key determinant of entry mode choice. For example, the need to protect the proprietary content of a product in which Multinational Corporations (MNCs) would tend to choose a high-control entry mode in foreign market operations (Ekeledo and Sivakumar, 1998). Product characteristics including culture-specificity, strength of patent, age, unit value, uniqueness and service/maintenance requirements have also been argued to influence marketing performance

(Cavusgil and Zou, 1994). Moreover, Henard and Szymanski (2001) and Schaefer (2004) indicate that a strong positive association exists between rapid technological change with product adaptation strategy and marketing performance that capture elements pertaining to the offering. These include price, innovativeness, and manager's perceptions of how well the offering meets customer's needs.

As it stands firm performance in a new foreign market is a function of the uniqueness of the support (Cavusgil and Zou, 1994; O'Cass and Julian, 2003) for differentiating the product based on differentiation-based competitive advantages. This may be because product differentiation is a source of competitive advantage that serves as an entry barrier and helps incumbent firms build brand identification and customer loyalty (Park, Li and Tse, 2006), product differentiation primarily impacts performance through reducing directness of competition so that the firms can eventually charge higher prices and generate above-normal profits (Nachum and Wymbs, 2005). Therefore, this research seeks to understand:

RQ7 : To what extent do product characteristics influence the overall marketing performance of Hong Kong firms' entering China?

### **2.5.5 External Factors (Industry Characteristics and Host Market Characteristics) Influence to Overall Marketing Performance**

The effects of environmental factors (including, industry characteristics and host market characteristics) often have been used in performance models (Dess and Beard, 1984; Keats and Hitt, 1988; McArthur and Nystrom, 1991; Kwon and Konopa, 1993; Goll and Rasheed, 1997; Pelham, 1999; Simerly and

Li, 2000). In the context of industry characteristics, increasing evidence exists that the progression from exporting to increasingly sophisticated forms of foreign direct investment is contingent on industry characteristics and market conditions (Gray, 1997). Industry structure, in the form of concentration, has been argued to positively impact firm performance (Hill and Hansen, 1991). It has been suggested that the dimensions of industry environment should include the degree of technological change, government policy and regulation, government imposition of pricing restrictions, customer change in preference and their looking for new product, different product-related need, unpredictable advertising regulations from the Government, and the extent of competition to which foreign firms control the local market (Koch, 2001). Together these factors in the industrial environment correspond to a company's performance (Weerawardena, O'Cass and Julian, 2006).

Further, Douglas and Wind (1987); Cavusgil and Zou (1994); and O'Cass and Julian (2003) suggest that the more internationally experienced a firm is, the more likely it is that standardization alone will not lead to optimal results, because they claim that a competence firm knows the difference in industry conditions, and a host market strategy is more likely to select the most attractive market for the venture and adapt the marketing strategy to accommodate the specific needs of the market. Therefore, this research seeks to understand:

RQ8 : To what extent do industry characteristics influence the overall marketing performance of Hong Kong firms' entering China?



Previous studies have pinpointed host country-specific factors as significant influences on a firm's foreign investment decision (Chen, 2007). The characteristics of a host country with a more volatile environment and increased uncertainty will affect management control and investment risks (Chen and Mujtaba, 2007). Firms tend to prefer wholly owned modes of entry, so they can obtain scale economies, reducing per unit costs and establishing a long-term market presence (Agarwal and Ramaswami, 1992). The findings of various studies found in the international business literature have identified various external issues associated with host market characteristics and performance. Some of literature which outlines the international market experience of the firm as a key dimension for strategy performance. These works identify country-specific economic, legal, political, institutional, and cultural considerations, having received the most attention in both conceptual and empirical studies of firm's performance (Delios and Beamish, 1999).

Furthermore, O'Cass and Julian (2003) identified that firms can match their strengths with market opportunities to negate market threats, which understand and seek favorable host market environments and manage their own capabilities will perform better, especially, in a firm's perceptions of external environment factors, and risk factors related to foreign transactions for entry barriers (Pehrsson, 2004). However, in China, all enterprises are under the control of different levels of governmental jurisdiction. Depending on the nature of operations, location, and scale, they are associated with one of the 800,000 jurisdictions along the government hierarchy that are normally classified into six levels: central, province, municipality (prefecture), county, township, and village (Walder, 1995; NBS, 2003). This implies the impact of such Government intervention on firm performance has been of major interest

to scholars of strategic management and international business (Park, Li and Tse, 2006). Therefore this research seeks to understand:

RQ9 : To what extent do host market characteristics influence the overall marketing performance of Hong Kong firms' entering China?

## **2.6 Conclusion**

In conclusion, in the context of the exploration of the strategic motivation for firms going into international markets, one could argue that the profit opportunities for firms should be enough of an incentive to motivate firms to entry international market. Firms venturing beyond their familiar domestic markets must be knowledgeable and recognize foreign business customs, values, tight budget constraints and competing public priorities, and definition of ethical behavior, because most countries have their own particular rules from outcomes of their history, culture or political system. The framework developed above focuses on the relationship between market entry modes and performance that cover the key factors which influence the selection of choice of entry modes, comprise external factors including industry and host market characteristics, and the internal factors for firm characteristics and product characteristics.

## **Chapter 3**

### **Research Design**

#### **3.1 Introduction**

In the previous chapter the key literature related to market entry modes was reviewed and theoretical framework presented, along with the research questions. This chapter details the research methodology and design based on the research design process advocated by Aaker, Kumar and Day (2001). This process provides the platform for the study design to gather the data to address the research questions. The discussion focuses on the research approaches, research design, data collection methods, measurement and scale poles, sample, analytical approaches, and specifies the time and financial costs.

#### **3.2 Research Approaches**

In general, two major research paradigms have been identified in the social sciences, namely positivism and interpretivism (Galliers, 1991). Logical positivism, or quantitative research as it is commonly known, uses experimental methods and quantitative measures to test hypotheses. Researchers adhering to positivism believe that reality is stable, can be observed and described from an objective viewpoint (Levin, 1988). Conversely, phenomenological inquiry, or qualitative research as it is often labeled, uses a naturalistic approach that seeks to understand phenomena in context-specific settings. Interpretivists contend that only through the subjective interpretation of and intervention in reality can that reality be fully understood. In addition, qualitative research, broadly defined, means "any

kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification" (Strauss and Corbin, 1990). Quantitative researchers seek causal determination, prediction, and generalization of findings. Qualitative researchers seek, instead, illumination, understanding, and extrapolation to similar situations (Samdahl, 1999). Quantitative research is based more directly on its original plans and its results are more readily analyzed and interpreted (Hoepfl, 1997).

Each paradigm represents a fundamentally different scientific paradigm. Importantly, researcher actions are based on the underlying assumptions of each paradigm. Importantly, for this study quantitative methods corresponds to the positivist perspective of a "fixed, measurable reality" (Glesne, 1998). Quantitative research is an organized method for combining deductive logic with precise empirical observations of individual behavior in order to discover and confirm a set of probabilistic causal laws that can be used to predict general patterns of human activity (Neuman, 1997). As such, this research followed the positivist approach using quantitative methodology to test proposed theoretical relationships and measurement model, because most of the positivist research in market entry analysis uses deductive reasoning with a theoretical position and moving towards concrete empirical evidence that identifies a set of universal laws used to predict general system of human activity (e.g., Srinivasan and Ratchford, 1991; Dholakia, 1997; Klein, Ettenson and Morris, 1998; O'Cass, 2000; Cavana, 2000). Additionally, the key benefit of a quantitative study is simplicity, it boils a complex situation down to a single number that is easy to grasp and discuss. Quantitative research has also held more traditional ground for acceptance than qualitative research.

### **3.3 Research Design**

Over the past decade, many researchers have adopted the descriptive approach in the study of market entry strategy (see, Wood (2003); Martin and Salomon (2003); Albaum and Tse (2001); Tse, Pan and Au (1997); Mark and Hasso (1996); Jan Nowak (1996); and Krishna (1991)). Descriptive research is a type of research that is primarily concerned with describing the nature or conditions and degree in detail of a situation (Landman, 1988). Therefore, a descriptive study was undertaken for this study that involves the collection of data in order to answer questions concerning the opinions of people about the topic (Fitzpatrick, 1998).

In the context of research design, this research adopted the step-down models outlined by Tull and Hawkins (1990) and Aaker, Kumar and Day (2001). These models specifically focus on research approaches and designs that include the data collection methods, measurement, sampling, data analysis and time and financial costs (Burns and Bush, 1995). They provide a useful tool to guide a research study with highly detailed step-by-step understanding and follow the research objective (Tull and Hawkins, 1990). The following section presents the step-down models with explicit stage in the research process.

### **3.4 Data Collection Methods**

Given the objectives of the study and the specified research questions primary data were collected. A self administered survey was undertaken to gather data to test the model that focused on the research questions. The use of the questionnaire sought to use questions that were easy to answer and that permitted quantitative evaluation "a posteriori" (Sharma, 1995). Also, a

self administered survey offers the opportunity to gain insight into the perceptions of decision-makers and the factors that influence their decisions more directly (Rajan and Pangarkar, 2000).

The key advantage of undertaking a survey was standardization, ability to tap the “unseen”, suitability to tabulation and statistical analysis and ease of administration (Burns and Bush, 1995). On this point, Agarwal and Ramaswami (1992); Erramilli and Rao (1993) and Kim and Hwang (1992) also emphasized that survey research allows a researcher to obtain information about motives of respondents, mental deliberations, circumstances and the sequence of events. It also facilitates the placing respondents into subgroups for comparisons. As such given the nature of the research questions and the objectives of this study, a quantitative survey of Hong Kong firms was chosen as the data gathering approach.

Survey data can be collected in a number of ways as indicated in Table 3.2. For example, telephone interviews, personal interviews, mail interviews, and computer interviews. This research adopted a self-administered mail survey with telephone follow up, because this was the most common approached within the literature and was deemed to be an effective data collection method for foreign market entry research using busy senior executives as key informants (e.g., Jones and Pitt, 1999; Swoboda, Muhlberger, Weitkunat and Schneeweib, 1997; Truell, Bartlett and Alexander, 2002; Osland, Taylor and Zou, 2001; Julian and O’Cass, 2004; Ekeledo and Sivakumar, 2004). Such an approach can speed up the data gathering process and increase the response rate (Geng Cui, 2001), especially for large population survey and cover wide range of sample in a certain period (Salant and Dillman, 1994; Bourque Fielder, 1995; and Truell, 2003).

**Table 3.2 Comparative Advantage of Surveys Administration Approaches**

	MAIL	TELEPHONE	PERSONAL INTERVIEW	ONLINE
Cost	Low	Moderate	High	Low
Speed	Slow	Immediate	Slow	Fast
Response rate	Low	Moderate	High	Self Selection
Geographic flexibility	Excellent	Good	Difficult	Excellent
Interviewer bias	N/A	Moderate	Problematic	N/A
Interviewer supervision	N/A	Easy	Difficult	N/A
Quality of response	Limited	Limited	Excellent	Excellent

Source: Burns and Bush (1995)

### 3.5 Measurement and Scale Poles

The validation of measurement scales can play an important part in advancing marketing theory by establishing reliable scales that encouraged the use of similar measurement instruments and to compare findings across national settings (Julian, 2003). Therefore, the measurement for this study was based on the conceptual framework adopted from Cavusgil and Zou (1994); Pan and Tse (2000); Julian and O'Cass (2003); and Weerawardena, O'Cass and Julian (2006), which was associated with the (i) internal factors influence to entry modes and overall marketing performance (firm characteristics and product characteristics), (ii) external factors influence to entry modes and overall marketing performance (industry characteristics and host market characteristics) and, (iii) market entry modes influence to overall marketing performance that obtain valid and reliable measures of the variables. Each component of the measurement related to the focal constructs will be

discussed in detail in the following sections (3.5.1 to 3.5.4).

### **3.5.1 Measurement of Internal Characteristics (Firm Characteristics and Product Characteristics)**

*Firm characteristics* are described as the firm's capabilities and constraints (Aaker, 1998; Porter, 1980). Firm characteristics were measured via items adopted from Cavusgil and Zou (1994) that tapped the (i) firm's relative position in China, (ii) amount of firm's China experience, (iii) amount of firm's resource of business development, (iv) the extent of planning for China venture, (v) extent of firm's management commitment, and (vi) extent of resource commitment. These 6 items were measured via a five point bipolar scales from none (1) to substantial (5) adopted from Cavusgil and Zou (1994).

*Product characteristics* are related product attributes (Day and Wensley, 1988). The measurement of product characteristics was adopted from Cavusgil and Zou (1994), are relate to (i) product establishment, (ii) strength of product patent, (iii) training needs of sales force, (iv) degree of product uniqueness, (v) degree of cultural specific, and (vi) degree of service and maintenance requirement. The 6 items measuring product characteristics were measured via a five point bipolar scales from none (1) to substantial (5) adopted from Cavusgil and Zou (1994).

### **3.5.2 Measurement of External Characteristics (Industry Characteristics and Host Market Characteristics)**

*Industry characteristics* are related the industry structure and environment (Porter 1980). They were measured by 9 items from the industry environment scales originally developed by Weerawardena, O'Cass and Julian (2006) and



are related to (i) technology changing rapidly, (ii) technology development dramatic, (iii) customer's preferences change dramatically, (iv) customer look for new product, (v) different product-related need (new and existing customer), (vi) Government regulation change constantly, (vii) pricing restriction by Government, (viii) unpredictable advertising regulation from Government, and (ix) distribution/handling of product/service change constantly by Government. The 9 items were measured by a five point bipolar scales from none (1) to substantial (5).

*Host market characteristics* are described as the conditions in foreign markets which pose both opportunities and threats, and match firm's strengths with market opportunities (Aaker 1988; Terpstra 1987). They were measured by 7 items from the measurement of host market characteristics adopted from Cavusgil and Zou (1994) related to (i) extent of demand of potential of Chinese market, (ii) sophistication of marketing infrastructure, (iii) cultural similarity of markets, (iv) extents of legal and regulatory barriers, (v) competitive intensity, (vi) product exposure in Chinese market, and (vii) brand familiarity in Chinese market. These 7 items were measured via a five point bipolar scales from none (1) to substantial (5) adopted from Cavusgil and Zou (1994) to determine whether such variables caused significant impact for entry mode strategy and overall marketing performance.

### **3.5.3 Measurement of Impact for Entry Modes Strategy on Overall Marketing Performance**

Market entry modes strategy is a complex decision for a firm, which first involves whether to enter foreign markets (Bradley and Gannon, 2002). Entry mode strategy was captured through major entry modes covering Equity and

Non-Equity Modes adopted from Pan and Tse (2000) as outlined in Chapter 2 (Figure 2.1) asking key informants to indicate the mode of entry from Hong Kong into China their company adopted.

*Overall marketing performance* is defined as the performance of a firm on key marketing outcomes. A firm usually initiates a venture with a number of financial objectives (i.e.: profits, sales, market share etc) and strategic objectives (i.e.: market expansion, competitive response, gaining a foothold in foreign market, or increasing the awareness of the product/firm). The most common approaches to assessing the subjective perceptions of performance are via five main indicators encompassing *sales*, *profitability*, *total sales and market share*, and *overall performance* (Cavusgil, 1984; Cooper and Kleinschmidt, 1985; Czinkota and Johnston, 1983; Madsen, 1989; McGuinness and Little, 1981; Bilkey, 1982; Madsen, 1989; Johnson and Arunthanes, 1995; Donna, Barclay and Ryans, 1995; Zou, Taylor and Osland, 1998; Cavusgil and Zou, 1994; Julian and O'Cass, 2004).

In determining the performance of firms the work of Cavusgil and Zou (1994) provide a solid foundation via five main indicators, and these were adopted here. The study measured firm satisfaction with their overall marketing performance including (i) total sales, (ii) market share, (iii) gross profit, (iv) overall performance, and (v) overall profitability. These 5 items were measured by a five point bipolar scales from very poor (1) to very good (5) (see Cavusgil and Zou, 1994).

As indicated above various measurement scales were adopted and used differing scale poles to tap items. *Scale poles* are a set of numerical values assigned to subjects, objects, or behaviors for the purpose of quantifying the measuring qualities. Scales are used to measure attitudes, values, and

interests (Larson K, 2004). Quantitative research normally involves the use of structured questions where the response options have been predetermined and a large number of respondents are sought. (Burns and Bush, 1995).

Therefore, the questionnaire was constructed using Likert scales (five point bipolar scales). The aim was to keep the questionnaire as simple as possible with a focus on questions with limited response categories rather than on open-ended questions (Rajan and Pangarkar, 2000). The questionnaire design was based on items adopted from Cavusgil and Zou (1994), Pan and Tse (2000); Julian and O'Cass (2003); and Weerawardena, O'Cass and Julian (2006), which requested respondents to specify their level of agreement to factors influenced the firm's entry mode decision making were limited responses in selection from the list of statements, and also the questions was related to overall marketing performance of the venture.

### **3.6 Sampling**

The survey was sent to 1,200 firms in Hong Kong, covering a wide cross section of industries, including manufacturing, building and construction, shipping and transportation, garment and textile, trading, and services and consultancy industries involved in business in China based on the previous work of Faught, Green and Whitten (2004). Targeting 1,200 surveys was chosen because of the information published on survey responses in Hong Kong. Information obtained indicated in Hong Kong overall survey response rates of 20% are the norm (The University of Hong Kong Public Opinion, 2004). Further, similar response rates had also been reported in the international marketing literature (see, Julian and O'Cass, 2004). Therefore, a mail-out of 1,200 surveys was selected for this research with the expectation to receive

around 200 completed surveys returned.

The sample list of firm was developed by accessing authorized websites (as shown in Table 3.3 and 3.4) and randomly collecting membership information that contained the address, telephone number, the full name of the firm's representative (senior executive) from Hong Kong Industrial and Commercial Associations and Hong Kong Government departments to randomly captured 1,200 firms from two groups:

**Table 3.3 Group One - Hong Kong Industrial and Commercial Associations**

a)	Hong Kong Chamber Small & Medium Business Ltd.	<a href="http://www.hkcsmb.org.hk/">http://www.hkcsmb.org.hk/</a>
b)	The Hong Kong General Chamber of Commerce	<a href="http://www.chamber.org.hk/hkdir/">http://www.chamber.org.hk/hkdir/</a>
c)	The Federation of Hong Kong Industries	<a href="http://www.industryhk.org/">http://www.industryhk.org/</a>
d)	HKSME Association Ltd	<a href="http://hksmea.asiansources.com/MEMBERS/INDEX.HTM">http://hksmea.asiansources.com/MEMBERS/INDEX.HTM</a>
e)	The Federation of Hong Kong Watch Trades & Industries Ltd.	<a href="http://fdwatch.asiansources.com/MEMBERS/INDEX.HTM">http://fdwatch.asiansources.com/MEMBERS/INDEX.HTM</a>

**Table 3.4 Group Two - Hong Kong Government Department**

a)	Hong Kong Productivity Centre	<a href="http://www.hkpc.org/html/eng/clients_experience/client_exp.jsp">http://www.hkpc.org/html/eng/clients_experience/client_exp.jsp</a>
b)	Hong Kong Trade Development Council	<a href="http://www.tdctrade.com/index_c.htm">http://www.tdctrade.com/index_c.htm</a>

### **3.6.1 Key Informants**

Executives were used as the key informants based on the discussions of research using key informants by Borg and Gall (1989) and Zahra and Covin (1993). Senior executives were chosen in this study, because such executives are argued to be more knowledgeable about the business operation and characteristics of the organization, its strategy and performance according (Snow and Hreblick, 1980). The sample were drawn from executives in managerial position such as, General Managers, Sales and Marketing Managers, Financial Managers, Logistic Managers, IT Managers, Operation Managers, China trade Managers, Technical Managers, and Business Owners.

### **3.6.2 Mail Survey**

This research firstly used an initial telephone call to the identified key informants to enlist participation and confirm that using a mail survey for sending the questionnaire to them was acceptable (Geng Cui, 2001; Truell, 2003). This also allowed the researcher to obtain the relevant verbal agreement from the key informant.

Following the initial telephone call a cover letter was used to explain the questions and the objectives of the study (Allan and May, 1991). Consent to access respondents was obtained together with an invitation to participate by mail to 1,200 firms, and requested self-administrative of the questionnaire for the respondent that it would take approximate 20 to 30 minutes and by return to researcher.

### **3.6.3 Telephone Follow Up**

Researchers have observed that the response rate for studies of business executives usually has lower than normal response rate, often in the range of 10 to 30 percent (Sharma, 1995). Therefore, telephone follow up was adopted to remind and encourage participation to increase the response rate (Burns and Bush, 1995) after two weeks for the questionnaire sent out.

### **3.7 Analytical Approach**

Given the nature of the theoretical framework and research questions the data were initially analyzed using principal components analysis to assess the psychometric properties of the instrument. Following similar procedures to Cavusgil and Zou (1994) which sought to establish that items loaded onto their appropriate constructs and factor were interpretable. The study then adopted the use partial least squares (PLS) to analyze the data to address the research questions based on the work of Green, Barclay, and Ryans (1995) and O'Cass and Julian (2003). Partial Least Squares (PLS) is a general structural equation modeling (SEM) variance based technique for estimating path models involving latent constructs indirectly observed by multiple indicators. It is often referred to as a form of soft modeling (Falk and Miller, 1992). In circumventing the necessity for the multivariate normal assumption PLS has advantages for non experimental research (Kroonenberg, 1990), and is particularly well suited for determining a smaller number of dimensions in a large number of predictors and response variables. Partial least squares regression is an extension of the multiple linear regression model, that is appropriate to this research to maximize several responses of the prediction of variables with entry mode and performance, because PLS regression makes

no assumptions regarding multivariate normal data and enables the analysis of small sample (Lohmoller, 1982).

Partial least squares (PLS) model is specified by two sets of liner relations; the outer model in which the relationships between the latent and the manifest variables are specified, and the inner model where the hypothesized relationships between the latent variables are specified and whose interpretation is as for standardized regression coefficients (Chin, 1998a,b; Falk and Miller, 1992; Fornell and Cha, 1994; Kroonenberg, 1990; Lohmoller, 1989; Wold, 1981; O'Cass, 2001).

In addition, the evaluation of the model in Chapter 2 (Figure 2.2 conceptual framework) cannot be made on the basis of any single, general fit index, but rather involves multiple indices which are characterized by aspects such as their quality, sufficiency to explain the data, congruence with substantive expectation, precision and confidentiality (Lohmoeller, 1989). Therefore, a systemative examination of a number of fit indices for predictive relevance of the model is necessary (Fornell and Cha, 1994; Lohmoeller, 1989) including reliability and convergent, discriminant and nomological validity were evaluated using approaches developed for a PLS context by Fornell, Tellis, and Zinkhan (1982) and Fornell and Larcker (1981) that provides with the standardized measurement model and then proceeding to the structural model.

### **3.8 Time and Financial Costs**

The time required to package the 1200 surveys, post them, allow time for administration, completion, and return, was estimated to be approximately 3-4 weeks. It was expected that the questionnaires would be returned within 3

weeks (after send out), and use telephone follow up with the non-respondents. The cost of sending 1,200 survey packages by post was estimated at HKD \$6.00, and the total cost was around HKD 7,200.

### **3.9 Conclusion**

This research was based on the theoretical framework developed by Cavusgil and Zou (1994); Pan and Tse (2000); O'Cass and Julian (2003). This chapter developed the research design as a detailed blueprint guiding the implementation of the study. Adopting the positivism paradigm, this study was designed as a quantitative-based descriptive research. As such, this work adopted a positivist approach to investigate the factors that influence the market entry modes and performance of Hong Kong firms into China. A mail survey and telephone follow up of key informants (Hong Kong firm's executives) was undertaken. The research design and step-down process was based on the research model outlined by Tull and Hawkins (1990), Aaker, Kumar and Day (2001) to guide a research study. The next two chapters provide the results of the data analysis, outline the findings, the implications and the limitations respectively.



## **Chapter Four**

### **Data Analysis**

#### **4.1 Introduction**

This chapter provides the results of the data analysis conducted to examine the research questions previously developed in Chapter Two. Within this study, Chapter Two provided a review of the existing marketing literature, examining issues related to the focal constructs of interest. The review resulted in the proposed model as the underlying theoretical framework for the research questions developed in Chapter Two. Chapter Three then discussed the methodology and research design selected for the study and considered the approach in which the data would be analyzed. This chapter presents the results of the data analysis procedures outlined in Chapter Three. This chapter initially presents the profile of the sample, preliminary analysis of the data, including descriptive statistics and data normality tests. Following this the results of the exploratory analysis via partial least squares component factor analysis is presented to assess the latent structure of the constructs. Finally, analysis of the proposed model that encapsulates the research questions is presented using Partial Least Squares (PLS) analysis.

#### **4.2 Profiles of the Sample**

As indicated in Chapter Three, the survey was mailed to 1,200 firms located in Hong Kong who were also engaged in business in China. A total of 208 completed surveys were received, yielding an overall response rate of 17.3%. The characteristics of the responding firms are presented in Table 4.1 and Table 4.2. As indicated in Table 4.1 the number of full-time employees

within firms shows that firms with less than 50 fulltime employees accounted for 62% of the sample, and firms with between 50 and 100 fulltime employees accounted 8.7%, and firms with between 101 and 300 fulltime employees accounted 22.1%, firms with 301 and more employees accounted 7.2%.

Further as indicated in Table 4.1, firms differed in sales volume between Hong Kong and China. For example, 72.6% of firms had less than \$5 million in sales in the Hong Kong market in comparison to 38% of firms in China market had less than \$5 million in sales. Only 0.5% of Hong Kong firms had more than \$100 million in sales, however operations China had more than \$100 millions in sales which accounted for 5.8% of firms.

In relation to business operation location, Table 4.1 shows that 82.2% of respondent firms had operations located in Southern China, especially in Pearl River Delta of Guangdong Province and the coastal economic zones. The profile of the sample also shows that most of Hong Kong firms were experienced in conducting business in mainland China with 76% of firms having more than 6 years of operation in China. Firms that operated in consumer goods sectors accounted for 57.2% of the sample, while only 3.8% of respondent firms operated in industrial sectors. Regarding type of industry, respondent firms come from a wide variety of industry types. Specifically, home appliances firms accounted for 16.3% of the respondents, investment consulting 14.4%, toys 13.9%, and others that accounted for less than 10%. Results in Table 4.1 also indicate that manufacturing firms accounted for a majority of the sample (61.1%), followed by services firms (27.4%) and trading firms (11.5%).

In terms of product value, 18.8% of respondent firms had product unit price under \$100, 26.4% between \$100 and \$500, 17.3% between \$500 and

\$1000, 11.1% between \$1000 and \$5000, 10.6% between \$5000 and \$10,000, and 9.1% between \$10,000 and \$50,000. Only 2.9% and 3.8% of respondent firms had price unit between \$50,000 and \$100,000, and over \$10,000, respectively.

**Table 4.1 Profiles of the Sample**

<b>Variables</b>	<b>Category</b>	<b>Percentage of responses</b>
<b>Number of Employees (in Hong Kong)</b>	Below 50	62.0
	50-100	8.7
	101-300	22.6
	Over 500	6.7
<b>Number of Employees (in China)</b>	Below 50	28.4
	50-100	17.3
	101-300	1.0
	Over 500	53.4
<b>Sales Volume (in Hong Kong)</b>	Under \$1,000,000	34.6
	\$1,000,001 - \$5,000,000	38.0
	\$5,000,001 - \$10,000,000	17.3
	\$10,000,001 - \$50,000,000	4.3
	\$50,000,001 - \$100,000,000	5.3
	Over \$100,000,000	.5
<b>Sales Volume (in China)</b>	Under \$1,000,000	15.4
	\$1,000,001 - \$5,000,000	22.6
	\$5,000,001 - \$10,000,000	42.8
	\$10,000,001 - \$50,000,000	9.6
	\$50,000,001 - \$100,000,000	3.8
	Over \$100,000,000	5.8
<b>China Operation Location</b>	Southern China	82.2
	Middle China	9.1
	Northern China	8.2
	Others	.5

**Table 4.1 Profiles of the Sample (continued)**

<b>Variables</b>	<b>Category</b>	<b>Percentage of responses</b>
<b>Length of time Firm involved in business China</b>	0-5 years	24.0
	6-10 years	33.2
	11-15 years	1.9
	16-20 years	33.2
	Over 20 years	7.7
<b>Type of Product</b>	Consumer Product	57.2
	Industrial Product	3.8
	Others	38.9
<b>Value of Product</b>	Under \$100	18.8
	\$101-\$500	26.4
	\$501-\$1000	17.3
	\$1000-\$5000	11.1
	\$5001-\$10000	10.6
	\$10001-\$50000	9.1
	\$50001-\$100000	2.9
	Over \$100000	3.8
<b>Age of Firm Product (Commercialization)</b>	0-5 years	56.3
	6-10 years	26.4
	11-15 years	.5
	16-20 years	8.2
	Over 20 years	8.7
<b>Primary Business of Firm</b>	Manufacturing	61.1
	Trading	11.5
	Services	27.4
<b>Entry Modes</b>	Equity modes	54.8
	Non equity modes	45.2
<b>Firm Strategies</b>	Type 1 (Broad product-market)	24.0
	Type 2 (Maintain stable)	27.4
	Type 3 (Niche market)	32.2
	Type 4 (Many different strategies)	16.3

**Table 4.1 Profiles of the Sample (continued)**

Variables	Category	Percentage of responses
Firm's Industry	Electronic	4.3
	Toys	13.9
	Consultant service	9.1
	Chemical	4.8
	Investment consultant	14.4
	Home Appliances	16.3
	Public relation	4.8
	Footwear	8.2
	Building and construction	3.4
	Logistics	2.9
	Plastic	1.4
	Paper	1.9
	Retail	1.9
	Garment	1.0
	Food and Beverage	1.9
	Unclassified	9.6

#### **4.3. Preliminary Analysis and Outer Model Results for Focal Constructs**

Following on from the analysis and presentation of the sample profile, the measures were examined to provide information to assist in the decision of whether or not it is appropriate to perform the primary statistical analysis to address the research questions. This section presents the results of the preliminary analysis conducted via measures of central tendency, dispersion, measurement item correlations, exploratory factor analysis via component analysis and reliability tests (composite reliability and Cronbach's Alpha) of the focal constructs. As such these tests covering firm characteristics, product characteristics, industry characteristics, host market characteristics, and overall marketing performance were analyzed to examine the psychometric properties of the constructs before proceeding to the analysis of the data

addressing the research questions.

Initially, apart from inspecting the box plots and histograms, as suggested by Schumacker and Lomax (1996), the variables were examined for skewness and kurtosis. As indicated in Table 4.7 below, the skew and kurtosis values for all measurement items were all within the accepted +2 to -2 range, indicating normal distributions of the data. Furthermore, each of the variables was inspected for outliers to ensure that no scores fell outside three standard deviations (Hair et al. 1998), with no outliers detected. The means, standard deviations appear in Tables 4.2 to 4.6 and the skew and kurtosis values for all the items appear in Table 4.7. The following section presents and discusses the preliminary results in greater detail.

Any item that did not correlate  $> 0.3$  was considered for deletion, since such low correlations are not considered to be strong enough for factor analysis according to Hair et al (1998). Similarly, Tabachnick and Fidell (1996) recommend that items correlating within the ranges of 0.3 and 0.9 are considered acceptable, whereas items  $> 0.9$  should also be deleted to prevent over-fitting of the data. Based on the correlation analysis items were inspected and decisions made to either keep or delete. The outcomes from the inspection of the correlation matrix are outlined below in Tables 4.2 to 4.6, along with the items means, standard deviations, which is then followed by the presentation of the component loadings, reliability estimates.

#### **4.3.1 Preliminary Analysis of Firm Characteristics**

Firm characteristics were measured via six items. Table 4.2 provides the results of the data analysis of firm characteristics. The means and standard deviation of the items that measure firm characteristics are presented, along

with correlation coefficients. Table 4.2 indicates means values ranged from 3.14 to 3.99, standard deviations from .81 to .96. The results also show that correlations for items measuring firm characteristics ranged between -.19 to .90.

**Table 4.2 Preliminary Results of Firm Characteristics**

Firm Characteristics	Mean	SD	Correlation					
Firm 's relative position in China	3.14	.96	.17					
Amount of firm's China experience	3.36	.81	.32	.74				
Firm's resource for business development	3.99	.92	.67	.38	.32			
Extent of planning for China venture	3.38	.93	-.19	.69	.71	.18		
Extent of firm's management commitment	3.36	.85	-.15	.69	.67	.23	.87	
Extent of resource commitment	3.50	.93	.04	.63	.69	.32	.83	.90

All correlations significant at  $p < .01$ .

#### 4.3.2 Preliminary Analysis of Product Characteristics

The preliminary analysis results of product characteristics measure is presented in Table 4.3 with mean scores, standard deviation, and correlation coefficients of items that measure product characteristics via six items. The results indicate mean values ranged from 2.81 to 3.50, standard deviations from .75 to 1.47. The results also show that correlations for items measuring firm characteristics ranged between .42 to .80.

**Table 4.3 Preliminary Results of Product Characteristics**

Product Characteristics	Mean	SD	Correlation				
Product establishment	3.42	1.22					
Strength of product patent	3.02	1.47	.80				
Training needs of sales force	3.50	1.17	.74	.75			
Degree of product uniqueness	3.37	1.21	.62	.66	.85		
Degree of cultural specific	3.39	1.28	.59	.72	.69	.74	
Degree of service/maintenance requirement	2.81	0.75	.42	.54	.52	.52	.49

All correlations significant at  $p < .01$ .

### 4.3.3 Preliminary Analysis of Industry Characteristics

The preliminary analysis results of industry characteristics measures are presented in Table 4.4 with mean scores, standard deviation, and correlation coefficients of items that measure industry characteristics via eight items. Table 4.4 shows that mean values ranged from 2.98 to 3.91, standard deviations from .89 to 1.35. The results also show that correlations for items measuring firm characteristics ranged between .37 to .96

**Table 4.4 Preliminary Results of Industry Characteristics**

Industry Characteristics in China	Mean	SD	Correlation							
Changing Technology	3.87	1.17								
Technology Development	3.50	1.10	.70							
Changes in Customer's Preferences	3.90	.89	.57	.70						
Changes in Customer choices	3.91	.99	.62	.68	.84					
Changes in Product-Related Needs	3.54	1.10	.45	.76	.80	.76				
Changes in Gov't Regulation	3.10	1.18	.53	.75	.67	.53	.74			
Regulation of Pricing by Gov't	2.98	1.20	.49	.68	.62	.48	.69	.88		
Regulation of Advertising Gov't	3.19	1.35	.60	.59	.53	.37	.49	.82	.85	
Gov't Regulation of Product/Service	3.22	1.32	.63	.62	.54	.39	.52	.80	.83	.96

All correlations significant at  $p < .01$ .



#### 4.3.4 Preliminary Analysis of Host Market Characteristics

Table 4.5 provides the results of the data analysis of the host market characteristics measure via 10 items. The means, standard deviation of the items that measure host market characteristics is presented, along with correlation coefficients. Table 4.5 indicates means values ranged from 3.05 to 4.16, standard deviations from .88 to 1.19. The results also show that correlations for items measuring firm characteristics ranged between .04 to .93.

**Table 4.5 Preliminary Results of Host Market Characteristics**

Host Market Characteristics	Mean	SD	Correlation									
Access to Distribution Channel	3.30	1.10										
Chinese Gov't Intervention	3.55	1.19	.26									
Foreign Competitors in China	3.81	.92	.26	.63								
Demand Potential in China	4.16	.90	.14	.57	.71							
Cultural Similarity	3.56	.88	.12	.74	.48	.36						
Marketing Infrastructure	3.05	.99	.59	.34	.26	.42	.24					
Exposure of Product/Service	3.52	1.17	.83	.28	.29	.27	.18	.75				
Familiarity of Product/Service	3.51	1.17	.79	.32	.30	.28	.20	.75	.93			
Legal/Regulatory Barriers in China	3.74	1.10	.19	.58	.55	.39	.49	.04	.11	.17		
Similarity of Legal/Regulatory	3.59	1.13	.13	.59	.23	.30	.61	.52	.27	.25	.130	

#### 4.3.5 Preliminary Analysis of Overall Marketing Performance

The results of the preliminary analysis of five items measuring overall marketing performance is presented in Table 4.6 with mean scores, standard deviation, and correlation coefficients of items. The results indicate means values ranged from 3.22 to 6.20, standard deviations from .59 to 1.75. The results also show that correlations for items measuring firm characteristics ranged between .31 to .87.

**Table 4.6 Preliminary Results of Overall Marketing Performance**

Firm Performance in China	Mean	SD	Correlation			
Total Sales	3.35	.59				
Market Share Growth	3.22	.70	.38			
Gross Profit	3.46	.58	.53	.47		
Overall Performance	3.54	.55	.48	.59	.87	
Overall profitability	6.20	1.75	.31	.53	.84	.84

All correlations significant at  $p < .01$ .

The above presentation of results covering measures of dispersion and central tendency and correlations indicate initially measures were within acceptable benchmarks found in the literature. Following on from the above analysis and presentation of results the following section presents the results of the component analysis conducted and reliability estimation of constructs.

#### 4.4 Preliminary Analysis of Outer Models via Partial Least Squares

In terms of the model presented in Chapter two (Figure 2.1) such models are generally seen as possessing two sets of linear relations which specify the model: the outer model relationships between the latent constructs and the manifest variables; and the inner model where the hypothesized relationships between the latent constructs are specified and whose interpretation is as for standardized regression coefficients (weights). However, the focus here is on the outer model results of the model as they relate directly to each of the components in the theoretical model as shown in Chapter Two.

The outer model parameters as depicted in the Figure 2.1 were estimated using partial least squares (PLS), a multivariate, and variance based technique used for estimating path models involving latent constructs indirectly observed

by multiple indicators. Another major advantage of PLS is that the outer model formulation explicitly allows for the specification of both reflective and formative models. This procedure is similar to that adopted by O'Cass and Pecotich (2005) when analysing models using PLS with formative and reflective variables. An examination of the outer model indices (results) was undertaken via, average variance extracted (AVE), and bootstrap critical ratios (t-values). The component loadings and weights were also examined, along with composite reliabilities (CR) as calculated for each component of the model in PLS.

Factor (component) analysis seeks to uncover the underlying structure of a set of variables, and there is an assumption that any indicator may be associated with any factor (Garson 2002). Based on the formulation of the research questions developed in Chapter Two, the objective of this study is to further develop theory in entry-mode strategy and marketing performance, which explores constructs with multiple dimensions. Thus, to examine the dimensionality of these constructs with multiple dimensions component analysis was used. After careful consideration component analysis was undertaken via partial least squares (PLS) using PLS graph 3.0 (Chin and Fry 2000). PLS is a general technique for estimating path models involving latent constructs indirectly observed by multiple indicators (O'Cass and Grace 2004). A PLS model is formally specified by two sets of linear relations: the outer model in which refers to the relationships between the latent and the manifest variables; and the inner model where the hypothesized relationships between the latent variables are specified and whose interpretation is as for standardized regression coefficients (Chin 1998a, 1998b; Falk and Miller 1992; Fornell and Cha 1994; Lohmoeller 1989; Wold 1981). Therefore, given the

theoretical formulation and the research context, component analysis via PLS were selected to assess the outer model. The technique is capable of calculating key output such as factor loadings, weights, average variance explained (AVE) and composite reliabilities (CR) to establish measurement and construct validity and reliability (Fornell and Cha, 1994).

PLS was used to undertake the outer model analysis via component analysis, composite reliability. Evaluating the reliabilities of the construct indicators were assessed using two criteria Cronbach's alpha and composite reliabilities (CR). Cronbach's Alpha can be described as a coefficient of reliability that measures how well a set of items measure a single uni-dimensional latent construct (i.e., inter-item consistency) and is estimated using the reliability analysis procedure in SPSS. On the other hand, composite reliabilities differs from Cronbach's alpha, which weighs all of the items equally without factor loading considerations and are obtained from Principal Component Analysis in PLS (Chin, 1998). As recommended by Nunnally (1978), the reliability scores were scrutinized to ensure that they met the desired criteria of  $> 0.70$  as reliable indicators of the construct. The results of reliability analysis and factor analysis for each construct are outlined below (Table 4.7). As advocated by Shi and Wright (2001) items with factor loadings  $< 0.35$  were deleted.

Table 4.7 presents the results of the outer model analysis of the items used to measure the five focal constructs (including firm characteristics, product characteristics, host market characteristics, industry characteristics, and firm performance). The items measuring firm characteristics had component loadings ranging from 0.36 to 0.92, the item measure product characteristics had component loadings ranging from 0.66 to 0.91, the industry

characteristics measure had component loadings ranging from 0.74 to 0.88, host market characteristics had component loadings ranging from 0.41 to 0.83, and the items used to measure overall marketing performance in China had component loadings ranging from 0.61 to 0.95. All items had component loadings above the threshold of 0.35 by Shi and Wright's (2001) and all loadings were significant at .05 (t-value > 1.96).

The results of the reliability analysis presented in Table 4.7 indicates the scale's composite reliability for five focal factors resulted in reliabilities of 0.89, 0.91, 0.94, 0.87, and 0.79 respectively for the factors of firm characteristics, product characteristics, industry characteristics, host market characteristics, and overall marketing performance, which met Nunnally's (1978) criteria of > 0.70, indicating good reliability of the scales. Thus, all items in the five focal construct met the criteria, as previously outlined and were retained for further analysis.

**Table 4.7 Partial Least Squares (PLS) Generated Outer Model Results**

<b>Firm Characteristics</b>			<b>Cronbach's</b>		
<b>CR .92 AVE .68</b>	<b>Loadings</b>	<b>T-values</b>	<b>Alpha</b>	<b>Skewness</b>	<b>Kurtosis</b>
Firm 's relative position in China	.85	27.97		-.218	-1.080
Amount of firm's China experience	.84	39.36		-.228	-1.050
Firm's resource of business development	.36	4.37		-.472	-.336
Extent of planning for China venture	.92	43.04		-.711	-1.089
Extent of firm's management commitment	.92	41.73		-.634	-.839
Extent of resource commitment	.90	46.60		-.308	-.932
			.89		

**Table 4.7 PLS Generated Outer Model Results (Continued)**

<b>Product Characteristics</b>					
<b>CR .93 AVE .71</b>					
Product establishment	.82	27.93		.132	-1.466
Strength of product patent	.90	84.69		.248	-1.395
Training needs of sales force	.91	64.01		-.262	-1.101
Degree of product uniqueness	.88	51.28		-.076	-1.264
Degree of cultural specific	.84	32.07		-.317	-1.236
Degree of service/maintenance requirement	.66	19.25		.053	.066
			.91		
<b>Industry Characteristics</b>					
<b>CR .95 AVE .69</b>					
Technology Changing Rapidly	.74	20.46		-.675	-.878
Technology Development Dramatic	.88	45.40		-.097	-.937
Customer's Preferences Change Dramatically	.88	45.27		-.541	-.371
Customer look for New Product	.81	39.38		-.928	.026
Different Product-Related Need Customer	.87	61.49		-.152	-1.235
Gov't Regulation Change Constantly	.87	41.03		.383	-.701
Pricing Restriction by Gov't	.84	30.25		.410	-.575
Unpredictable Advertising Regulation fm Gov't	.77	20.60		-.263	-1.129
Product/Service Change Constantly by Gov't	.78	22.23		-.304	-1.028
			.94		
<b>Host Market Characteristics</b>					
<b>CR .89 AVE .46</b>					
Accessibility of Distribution Channel	.71	14.43		.217	-1.226
Chinese Gov't Intervention	.68	12.67		-.717	-.558
Foreign Competitors in China	.64	11.70		-.648	.007
Demand Potential in China	.62	10.64		-.728	-.322
Cultural Similarity	.54	10.18		-1.069	.345
Sophistication of Marketing Infrastructure	.82	40.92		-.067	-1.824
Product/Service Exposure in China	.83	28.27		-.248	-1.342
Product/Service Familiarity in China	.83	28.25		-.242	-1.287
Extent of Legal/Regulatory Barriers in China	.56	11.41		-.418	-.998
Similarity of Legal/Regulatory Barriers (China & HK)	-.41	6.34		-.916	.046
			.87		

**Table 4.7 PLS Generated Outer Model Results (Continued)**

<b>Overall Marketing Performance</b>					
<b>CR .91 AVE .68</b>					
Total Sales	.61	9.10		-.445	-1.238
Market Share Growth	.72	21.88		-.583	1.097
Gross Profit	.95	78.59		-.805	.073
Overall Performance	.94	130.95		-.839	1.338
Overall profitability	.90	67.32		-.318	.683
			.79		

CR = Composite reliability

AVE = Average Variance Explained

T-value significant at .05

#### 4.5 Convergent Validity

Convergent validity refers to the principle that the items of a construct be correlated (Garson, 2002), that is, that a measure correlates with other indicators of the same construct (Churchill, 1979). As argued by Fornell and Larcker (1981), convergent validity is achieved if the average variance explained (AVE) in items by their respective constructs is greater than the variance unexplained (i.e.  $AVE > 0.50$ ). To assess the constructs for convergent validity, the squared multiple correlations from the principal component factor analysis derived in PLS were used to calculate the AVE. The analysis indicated that all constructs have an average variance explained (AVE) greater than or equal to 0.50 as shown in Table 4.7, except for Host market characteristics which approached the benchmark value, therefore meeting the recommended criteria for convergent validity. Having assessed convergent validity, an evaluation of discriminant validity as recommend by Gaski and Nevin (1985) and O'Cass (2002) was initiated.

## 4.6 Discriminant Validity

Discriminant validity refers to the degree to which the measure is not similar to other measures that it theoretically should not be similar to, i.e. to the extent to which measures of a given construct differ from measures of other constructs (Sureshchandar et al., 2001). Gaski and Nevin's (1985) method for determining discriminant validity was selected, whereby the correlation between two composite constructs should not be higher than their respective reliabilities. Applying this technique to the data, the composite construct correlations derived from the PLS analysis were compared to the reliabilities calculated through Cronbach alpha's discussed above.

**Table 4.8 Evidence of Discriminant Validity for Constructs**

Constructs	1	2	3	4	5
1. Firm Characteristics	<b>.92</b>				
2. Product Characteristics	.80	<b>.93</b>			
3. Host Market Characteristics	.62	.82	<b>.89</b>		
4. Industry Characteristics	.23	.59	.80	<b>.95</b>	
5. Firm Performance	.56	.81	.75	.62	<b>.91</b>

Diagonal entries are composite reliabilities, others are correlation coefficients

As shown above in Table 4.8, the results indicate that correlations ranged from 0.23 to 0.82 with the composite reliabilities ranging from 0.89 to 0.95 revealing that no correlations were higher than their respective reliabilities. These findings provide evidence for discriminant validity.



#### **4.7 Main Data Analysis Addressing Research Questions**

This section presents the results of the data analysis corresponding to each research question presented in Chapter Two. The proposed model of the study, presented in Figure 2.1 in Chapter Two, suggests relationships among a group of latent or unobservable theoretical constructs. These constructs were measured via multiple manifest variables. Since the model hypothesizes the different relationships between several latent predictors and predicted variables measured with multiple measures. Structural Equation Modeling (SEM) is considered to be a valid approach for comprehensively testing the multiple relationships (Bollen and Long, 1993; Gerbing and Anderson, 1988).

There are two common approaches to SEM, including the covariance-based approach, as used in AMOS and LISREL, and the variance-based approach as used in Partial Least Squares (PLS) (Chin, 1995, 1998a; Fornell and Cha, 1994). Covariance-based approaches the objective is to estimate the model parameters so that the difference between the sample covariance matrix and the model-based covariance matrix is minimized. On the other hand, the objective in PLS is to estimate the model parameters 'based on the ability to minimize the residual variances of dependent variables (both latent and observed)' (Chin, 1998b).

As discussed in section 4.4 above, the PLS approach involves a two-step procedure (Cassell et al., 2000). First, the outside model (in terms of outer structure) approximates the case values of the latent variable estimated as weighted means of the indicators which is done independently for each block of manifest variable and related latent variables. Second, the inside model (in terms of the inner model) approximates the case values of the latent variables,

estimated as weighted means of the latent variables that are adjacent in relation to the inner structure.

PLS as developed by Wold (1981) is a procedure for constructing predictive models when there are many factors that may be highly collinear. It is also often referred to as a form of soft modeling (Falk and Miller, 1992), and is recommended for predictive models rather than explanation (Barclay et al., 1995). It also offers several advantages over other approaches to SEM, including for example, that it does not make any presumptions regarding distributions, is capable of estimating complex models while using small samples (Barclay et al., 1995; Chin, 1998a) and does not require interval scale measurement (Pulos and Rogness, 1995). Further, PLS is not hampered by collinearity among manifest variables.

Based on the issues discussed above, for the purposes of this study the PLS analytical procedure was considered to be appropriate. Further, supporting the use of PLS is the point that, the theoretical models and measures in entry mode and marketing performance has seen limited studies adopting a SEM-based approach for data analysis. Also, PLS is gaining acceptance within the general marketing, strategy and consumer behaviour literature (e.g. Grace and O'Cass, 2002; Weerawardena, O'Cass and Julian, 2006), and is considered to be a suitable method of analysis of theoretical propositions similar to that of the proposed model (see Chapter Two, Figure 2.1).

Based on the above discussion, PLS-Graph Version 3.0 as implemented by Lohmoller (1981) and further developed by Chin and Fry (2000) was used to systematically evaluate the inner (structural) model as depicted in Figure 2.1. In the context of PLS, the evaluation of the proposed model in Figure 2.1 is not

made using a single general fit index, but multiple indices as espoused by Lohmoller (1981). These indices are characterized by their quality and their ability to explain the data congruence with systematic expectations as set out in Figure 2.1 and their precision. Consequently, various indices for the predictive relevance of the proposed model are identified (Fornell and Cha, 1994; O'Cass, 2002). These include r-squared, average variance explained (AVE), average variance accounted for (AVA), regression weights and loadings, critical ratios, beta weights, composite reliabilities.

The key benchmarks established for PLS derived results are obtained from Chin (1998) who states that bootstrap ratios are acceptable at greater than 1.96,  $p < 0.05$ , being defined as the ratio between estimate and standard errors, the critical values greater than 1.64 (for one-tailed test) and 1.96 (two tailed test) are statistically significant at 90% and 95%. Table 4.9 presents the extracts from statistical tables that are used for specifying the significance levels based on the critical ratios for one-tailed tests and two-tailed tests (for the purposes of comparison). For example, to reject a null hypothesis at the 0.05 level, the critical ratios should be greater than 1.96 if it is a 2-tailed test.

To undertake the tests for addressing the research questions, PLS-Graph Version 3.0 developed by Chin and Fry (2000), is applied to systematically evaluate the properties of the theoretical model as depicted in Figure 2.1. The following section presents the results of the inner model results of the proposed model (Chapter Two, Figure 2.1). The inner model focuses on the relationships between firm characteristics, product characteristics, industry characteristics, host market characteristics, entry mode strategy and overall marketing performance. Table 4.9 summarizes the hypothesis results for the model and illustrates the path coefficients between the exogenous and

endogenous variables, AVA, r-squared and critical ratios. The structure for the presentation of the results for the inner model was adapted from O'Cass (2001).

**Table 4.9 Partial Least Squares Results for Theoretical Model**

Predicted variables	Predictor variables	Path weights	Variance due to path	R2	Critical ratio
RQ1 Entry Mode Strategy	Firm Characteristics	-.234	0.023	.42	1.67*
RQ2	Product Characteristics	.530	0.109		3.21*
RQ3	Industry Characteristics	.873	0.436		6.85*
RQ4	Host market Characteristics	-.794	-0.151		5.69*
RQ5 Overall Marketing Performance	Entry Mode Strategy	-.106	-0.019	.70	1.31
RQ6	Firm Characteristics	-.213	-0.119		2.15*
RQ7	Product Characteristics	.892	0.721		6.28*
RQ8	Industry Characteristics	.148	0.091		1.12
RQ9	Host market Characteristics	.102	0.076		0.63
AVA				.56	

\* indicates significant at .05 one-tailed t-test

As shown above in Table 4.9, all but three of the paths (i.e. RQ5, RQ8 and RQ9) exceeded all of the recommended criteria (indices). Therefore, all of the paths exceeding the criteria are significant. For example, the results indicate that the AVA for the endogenous variables was 0.557 and the individual r-squares are all greater than the recommended 0.10 cut-off (Falk and Miller, 1992) for the predicted variables of entry mode strategy and marketing performance. With all r-squared estimates being larger than the recommended level, it is appropriate, then, to examine the significance of the individual paths associated with these variables (Falk and Miller, 1992), with 0.015 (1.5%) of the variance being the recommended cut-off point (O'Cass,

2002).

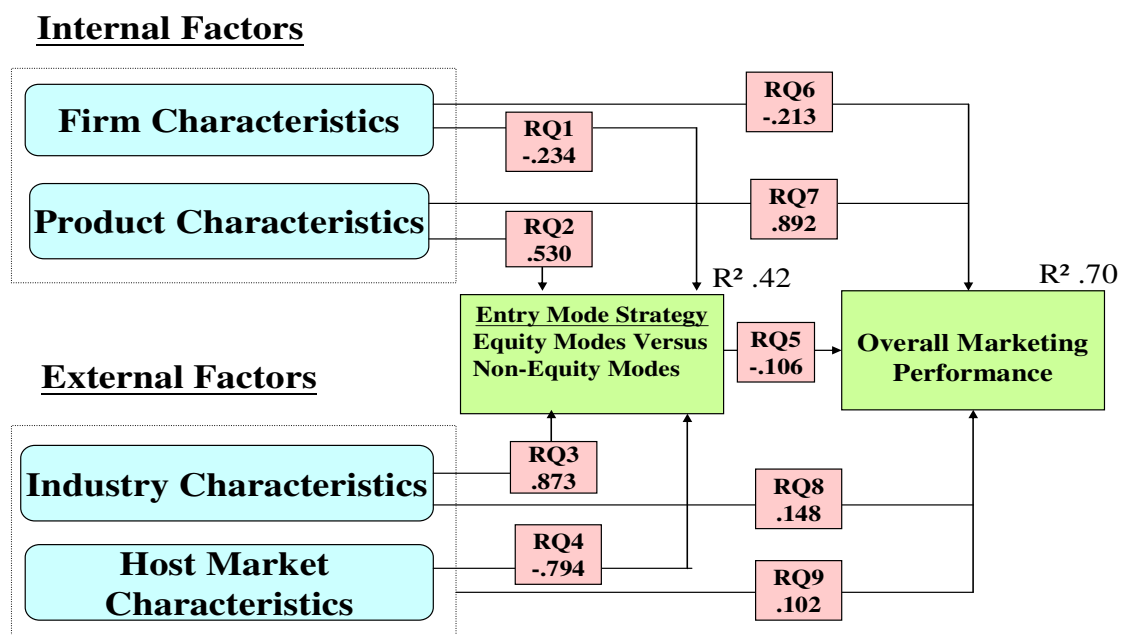
With regards to the bootstrap critical ratios, five of the paths exceeded the  $> 1.96$  criterion, one path exceeded the benchmark of  $> 1.64$ , whereas the other three paths did not meet the significance level criterion. For example, when the predicted variable was entry mode strategy, the constructs of firm characteristics, product characteristics, industry characteristics, host market characteristics exceeded this criterion and the bootstrap critical ratios are greater than 1.96. However, when the predicted variable was overall marketing performance, the paths from entry mode strategy (variance due to path = -0.019 and the critical ratio = 1.31), industry characteristics (variance due to path = 0.091 and the critical ratio = 1.12) and host market characteristics (variance due to path = 0.076 and the critical ratio = 0.63) did not meet the criteria. The results also show that 42% of the variance in entry mode strategy is explained by firm characteristics, product characteristics, industry characteristics, and host market characteristics, while entry mode strategy, firm characteristics, product characteristics, industry characteristics, and host market characteristics all together explain 70% of the variance in overall marketing performance.

#### **4.8 Summary of Results RQ1 to RQ9**

This study proposed was based around testing the research questions presented in Chapter two, focusing on determining the extent that specific firm, product and environmental characteristics impacted the choice of entry mode into the Chinese market. It also sought to examine the extent to which such characteristics and entry mode impacted on firm performance. The results shown in Table 4.10 confirm that the constructs examined have differential

impacts on entry mode and performance. This indicates that all relationships within the internal and external factor, for entry mode strategy, and overall marketing performance show strong effects. As shown in Figure 4.1 the proposed theoretical model showing the path coefficients of the inner model and the R values for the exogenous-endogenous constructs.

**Figure 4.1 Summaries of Results RQ1 to RQ9 for Theoretical Model**



Source: Developed from this study

## 4.9 Conclusion

This chapter has presented the results of the analysis undertaken on the data collected to address the research questions of this study. The data was obtained from a total of 208 surveys collected from Hong Kong. Preliminary data analysis progressed through a process entailing measures of dispersion and central tendency, followed by correlation analysis, factor analysis and reliability estimates. This was followed by tests for common method variance,

convergent and discriminant validity. The rationale behind this process was to ensure construct validity, reliability, construct dimensionality, convergent validity and discriminant validity of the data prior to the main analysis. Having established that the scales used in this study were both reliable and valid, the computation of relationships/effects was estimated via PLS analysis.

Results of the PLS analysis provided results to address the research questions. Firstly, the results indicated that internal factors (such as *firm characteristics and product characteristics*) and external factors (such as *industry characteristics and host market characteristics*) made a significant contribution to *entry mode strategy*. Secondly, the results also indicated that entry mode strategy made a significant contribution to overall marketing performance. Thirdly, the internal factors and external factors were significant contribution to overall marketing performance which resulted in strong support for the proposed Model. Finally, the Model was tested across the internal factors and external factors (i.e., *firm characteristics, product characteristics, industry characteristics and host market characteristics*), the results of which verify that the model can be confidently applied to examine the entry mode choices of firms and their overall marketing performance.

This chapter has presented the analysis undertaken to address the research questions this study. The findings provide a comprehensive base for the ensuing discussion in Chapter five that includes interpretation of the results, presentation of theoretical and practical implications and recommendations for future research.

## **Chapter Five**

### **Discussion of Findings and Conclusion**

#### **5.1 Introduction**

Hong Kong has been a major gateway to doing business in China and under the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA), Hong Kong companies in a wide range of services industries have benefited from market access above and beyond the Chinese mainland's WTO commitments (Hong Kong Trade Development Council, 2005). Business developments have highlighted the importance of choice of entry mode into China. Decisions related to foreign market entry strategy of Hong Kong firms can significantly effect a firm's performance and survival in the market (Root, 1994; Terpstra and Sarathy, 1994), as was discussed in Chapter one. On this basis Chapter Two discussed the key literature related to entry mode strategy and developed the research questions related to the impact of firm, product, industry and host market characteristics on entry mode choice and marketing performance and examining issues related to the focal constructs of interest. Chapter Three discussed the development of the research design for gathering the data, and discussed the methodology and considered the approach of the survey (1,200 firms located in Hong Kong who were engaged in business in China) would be analyzed followed by Chapter Four which presented the results of the analysis of the data collected of 208 completed surveys were received (overall response rate of 17.3%). This chapter discusses the findings and implications of the results for theory and practice for entry mode strategy into China. Such evaluations focus on the relationship between key factors instrumental for the market entry of firms into China. The

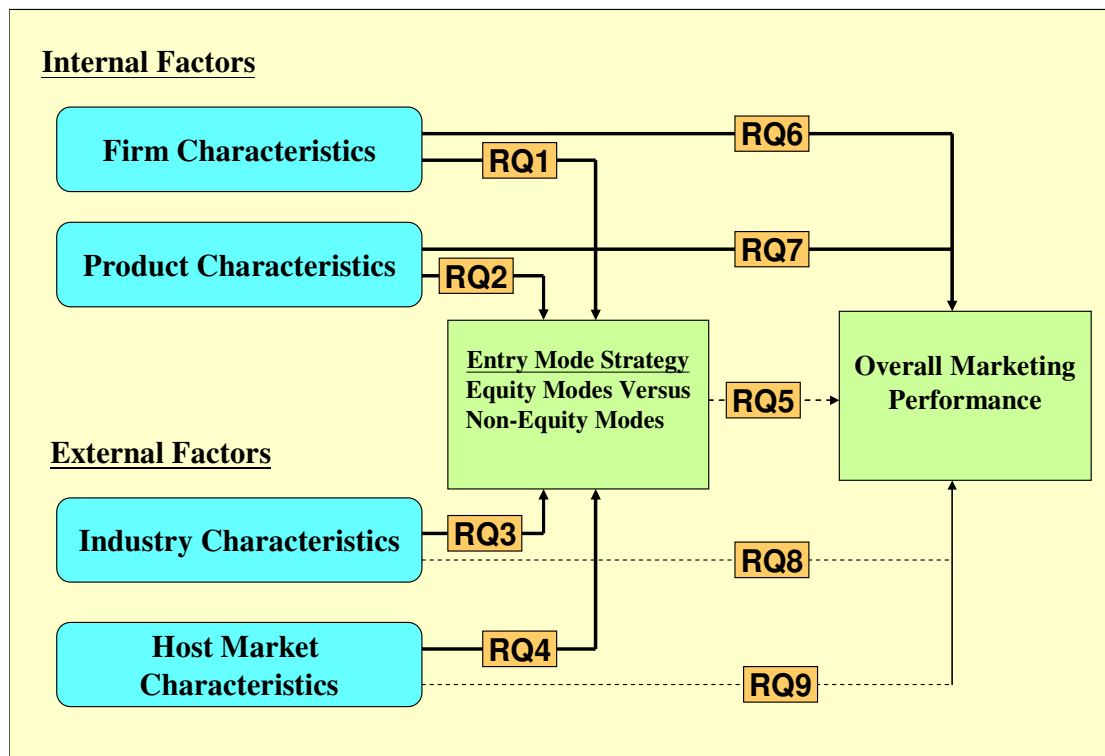


Chapter is structured around the research questions, followed by the implications, limitations and future research and finishes with the conclusions.

## **5.2 Discussion of Research Findings**

Based on the results of the data analysis presented in Chapter Four the following discussion outlines the key findings focusing on the nine research questions posed and synthesizes the findings with the extant literature. The findings provide insight into the impact of specific firm and environmental characteristics on the entry mode strategies firms in Hong Kong adopt to enter the Mainland Chinese market and the subsequent marketing performance of these firms. It does this via an examination of the determination of internal factors (firm characteristic and product characteristic) and external factors (industry characteristic and host market characteristic) on the firms' choice of entry mode strategies (equity mode Vs non-equity mode), and the influence of entry mode and internal and external factors on overall marketing performance. The theoretical model developed for this study presented in Figure 5.1 provides a summary of the findings for the research questions (1 to 9). Figure 5.1 outlines the key findings by identifying significant and non-significant paths. The significant paths are shown in non-dashed lines and the non-significant in dashed lines within the figure related to each research question (RQ).

**Figure 5.1 Findings in Relationship in Theoretical Model for RQ1 to RQ9**



The following sections (5.2.1 to 5.2.9) present the discussion for the significant and non-significant relationships amongst the focal constructs within Figure 5.1 in relation to each research question.

### **5.2.1 Discussion of Research Question 1: *Firm Characteristics Influence to Entry Mode Strategy***

Based on the prior work of Cavusgil and Zou (1994), the aim of research question 1 was to empirically test the theoretical contention that the internal characteristics of Hong Kong firms influences their choices of entry mode strategy into China. As presented in Chapter 2, research question 1 asked:

**To what extent do firm characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?**

The relevant dimensions of firm characteristics that were argued to be instrumental components of the firm encompassed a firm's relative position in China, the amount of a firm's China experience, the amount of resources committed by the firm for business development, the extent of planning for the business venture in China, and the extent of the firm's management commitment to the business venture in China.

The findings associated with research question one as shown in Figure 5.1 indicate that firm characteristics have a significant impact on choice of entry mode strategy. The findings indicate that it is important for management to be aware of a firm's own characteristics as they play a critical role in influencing managerial choices toward entry mode strategy. The key aspect of Hong Kong firms characteristics were captured by considering factors such as those relating to a firm's experience, and working on the extent of planning for the resource commitment of firms constitutes their sources of sustainable competitive advantage in China. Such resources include the extent of management commitment by the firm to the venture, and the firm's relative position in China, all of which appear impact entry mode choices through the overarching construct firm characteristics.

The results presented in Chapter 4 for this research question indicate that firms' which possess the above characteristics in a positive manner as measured in this study appear to choose to enter the market via an equity mode strategy. This is explained by the extent of planning for possessing greater resource commitment, greater management commitment and experience that will influence the choice equity mode entry method into China, and indicate that Hong Kong firms that acquire relevant knowledge and experience about the China market tend to shift to a higher level of resource

commitment to entry mode (e.g. equity entry mode)

This study's findings support similar findings in the extant literature in relation to firms pursuing an equity entry mode, that appears to be influenced by their greater resource commitment, greater management commitment and experience (for example; McDonald, 1961; Johanson and Weidersheim-Paul, 1975; Johanson and Vahlne, 1977; Bilkey, 1978; Buckley and Mathew, 1978; Jull and Walters, 1987; Kwon and Leonard, 1993). Also, the findings support other work, related to management know-how and resources by Hamel and Prahalad (1994), the connection between foreign market entry mode and firm position by Eriksson, Majkgard and Sharma (1999), market experience by Herrmann and Datta (2002), commitment to the venture by O'Cass and Julian (2003), and firm resources by Cavusgil and Zou (1994) which show that a firm's strategic approach must match the characteristics of the firm and its environment. The findings support and the position adopted here are evident in the claim by Douglas and Craig (1989) and O'Farrell et al. (1998) that internal factors eventually link the firm's choice of market entry strategy.

### **5.2.2 Discussion of Research Question 2: *Product Characteristics Influence to Entry Mode Strategy***

Research question 2 was based on the earlier work of Cavusgil and Zou (1994) and sought to empirically examine the influence of Hong Kong firm's product characteristics on their entry mode strategy into China. As presented in Chapter 2 research question 2 asked:

**To what extent do product characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?**

The dimensions of product characteristics as identified here were related to product establishment within the firm, strength of product patent, the training needs of the products sales force, the degree of product uniqueness, the degree of cultural specificity, and the level of service and maintenance requirements for the product.

The findings related to this research question as shown in Figure 5.1 indicate that firms' product characteristics have a significant impact on their choice of entry mode into China. The results indicate that a firm's focus on its products characteristics should consider the unique features and product patent advantage, the culture specific requirements for the product and service maintenance requirements, the provision of comprehensive training for the sales force to enhance the quality of service. Such issues appear to determine the importance of a firm's decision in relation to its entry mode choice via these products specific characteristics.

This indicates that firms who possess in a positive manner the specific product characteristics as studied here are more likely to choose an equity mode entry strategy from Hong Kong into Mainland China. This may explain why entry mode not only depends on the characteristics of the firm, but also on its specific product characteristics. This point has also been made by Kwon and Leonard (1993), who found that product adaptation is a key strategic determinant for the selection of entry mode strategy which may be either by direct application or through modification for entry into foreign markets. As such, the findings provide additional support for the argument that product characteristics influence market entry strategy and supports earlier findings from Cavusgil and Zou (1994) and Julian and O'Cass (2003) on the importance of product uniqueness, culture specificity of the product and

product attributes can affect the positional competitive advantage, which influences the firm's product strategy.

### **5.2.3 Discussion of Research Question 3: *Industry Characteristics Influence to Entry Mode Strategy***

Research question 3 was based on the work of Pecotich et al (1999) and Weerawardena, O'Cass and Julian (2006) and sought to examine the influence that industry characteristic in China have on Hong Kong firm's choice of entry mode strategy. As presented in Chapter 2, research question 3 asked:

**To what extent do industry characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?**

From the general perspective, industry characteristics explain the structure of competition and identify the determinants of profitability in an industry and explain market entry barriers which are critical factors that influence a firm's choice of entry mode decisions (Porter, 1980; Kerin, Mahajan and Varadarajan, 1990; Pecotich et al, 1999). The components of this research question within the context of industry environment were related to technology changing rapidly (i.e., pace of technology change), customer's preferences changing dramatically with regards to new products and services, government regulation changing constantly, government regulations on pricing restrictions and advertising regulation and handling (i.e., distribution) laws of products and service imposed by the Chinese Government.

The findings (presented in Figure 5.1) related to research question 3 indicate that industry characteristics do indeed have a strong influence on the

entry mode strategy of Hong Kong firms entering China. The findings indicate that when firms perceive the industry environment as highly competitive and changing, they are more likely to enter China via an equity entry mode strategy. This supports the findings of Kogut and Singh (1988b) and Mutinelli and Piscitello (1998) that firms establish equity mode entry strategy when they enter into a research and development intensive industry. They also support Lindquist and Jacque (1995) who stated that firms operating in intensively competitive industries choose an equity mode of entry, which allows for fast reaction and the possibility of forming a stable relationship with other key players.

The results indicate that the perceived industry environment in China were related to rapidly change technology environment proposed by Hanson (2003), that correlated to customer's preferences changing dramatically with regards to highly acceptance of new products and services identified by Czinkota and Ronkainen (1996), and the difficulties of heavily controlled by the Chinese Government (Wang and Xia, 2005), such as government regulation changing constantly with pricing restrictions and advertising regulation, and handling laws of products and services imposed by the Chinese Government, which indicate these relevant factors are a key determination for the Hong Kong firm's decisions of entry mode into mainland China.

These findings are also similar to Yue (2004) and Kim (2005) who also found that the competitive structure of an industry, such as technology change, competition, customer preference changes and industry profitability, are key factors that influence managers' entry mode decisions, supporting the view that industry structure (including technological and marketing sophistication and the probability of shared ownership) affects the choice of entry mode (see

also Smarzynska, 2000).

#### **5.2.4 Discussion of Research Question 4: *Host Market Characteristics Influence to Entry Mode Strategy***

Research question 4 was based on the work of Cavusgil and Zou (1994) and sought to examine the effect that the host market characteristic of Hong Kong firms have on their entry mode strategy. As presented in Chapter 2, research question 4 asked:

**To what extent do host market characteristics influence the entry mode strategy adopted by Hong Kong firms' entering China?**

Extending on the work of Goodnow and Hansz (1972) who demonstrated that certain environmental factors of a firm's host market environment play an important role in their choice of entry mode, this study's findings suggested the choice of entry modes is related to a firm's familiarity with the characteristics of the host market of the firms studied. This finding also supports the work of Gatignon and Anderson (1988), Kim and Hwang (1992) and Sarkar and Cavusgil (1996) who also found that host market characteristics have an impact on firms entry mode choice.

The findings related to research question 4 as shown in Figure 5.1, show that the host market characteristics have a strong influence on the choice of entry mode strategy for Hong Kong firms entering China. This indicates that firms which see the host market as being important adopted an equity entry mode strategy. This may be explained by the view that China as a market opportunity ordinarily is indicated by its size and the country's economic development and performance. Where an extensive market opportunity



exists, Hong Kong firms tended to choose a high resource commitment entry mode (i.e. equity mode entry) over a low resource commitment entry mode (i.e. non-equity mode) to increase the rate of return (see also Kwon and Leonard, 2003).

Another important indication is related to China's market characteristics related specifically to product and service familiarity and accessibility of distribution channels in China as the essential motives for Hong Kong firms entry into China. However, in relation to the under-development of marketing infrastructure (Lu, 1999), the legal and regulatory barriers in China and similarity of legal and regulatory barriers (China & Hong Kong), which indicate these relevant factors are the major concerns for Hong Kong firms entry into China.

The findings in relation to research question 4 also supports studies by Papadopoulos (1988) and Kumar, Stam and Joachimsthaler (1994) which also indicated that market selection decision involves choosing the best country market to enter based on the strategic needs and orientation of the firm. Also, along the lines of earlier studies focusing on market size (see: Terpstra and Yu, 1988; Agarwal and Ramaswami, 1992; Kwon and Konopa, 1993; Root, 1994) and population structure, per capita income, bilateral trade, legal system, political, economic, social and culture, technology issue, and Government incentives (see: Linder, 1961; Hofstede, 1980; Agarwal, 1994; Hill, 2000; Elango, 2001) which also confirmed that host market characteristics are an important catalyst for the decision of market entry. The findings presented in Chapter 4 show significant impacts for the components of host market characteristics on choice on entry mode by Hong Kong firms into mainland China.

### **5.2.5 Discussion of Research Question 5: *Entry Mode Strategy Influence to Overall Marketing Performance***

Research question 5 was concerned with determining the entry mode strategies (equity mode Vs non-equity mode proposed by Pan and Tse, 2000) influence on the overall marketing performance. As presented in Chapter 2, research question 5 asked:

**To what extent does entry mode strategy influence the overall marketing performance of Hong Kong firms' entering China?**

Entry mode choice has been defined as a "frontier issue" in international business (Anderson and Gatignon, 1986) and a "very important, if not critical, strategic decision" (Agarwal and Ramaswami, 1992, p. 2). The most common measures of performance commonly use profitability, sales growth and market share in entry mode literature (Green, Barclay and Ryans, 1995). Research question 5 attempted to pinpoint the effect of entry mode strategy on overall marketing performance.

The entry mode strategy used here focused on market entry strategy which can be viewed as a choice between equity modes versus non-equity modes (Pan and Tse, 2000), and the dimensions of marketing performance used here were total sales, market share growth, gross profit, overall performance, and overall profitability as key elements for determining the overall marketing performance of Hong Kong firms operating in China.

The findings presented in Chapter 4 related to research question 5 (as shown in Figure 5.1) show that the entry mode strategy did not have significant impact on overall marketing performance. This is possibly explained by the point that the entry mode strategy is just an institutional arrangement that

enables a company to transfer its products, technology, management, and other resources to a foreign country and that perhaps does not determine the overall marketing performance (Daniels and Radebauh, 1994). The results for research question 5 provide a different view from the stream of research in international business which has argued and/or shown that entry mode choice affects foreign direct investment performance (Li and Guisinger, 1991; Woodcock et al., 1994; Li, 1995).

Overall, the findings support the findings of earlier research on market entry strategy that a non-significant relationship between marketing performance and entry mode strategy (Julian, 2003) exists. This also indicates that an entry mode successful for one country may not be successful for another country (Kwon and Leonard, 2003) or one firm or another. It indicates entry mode strategy is a strategic approach that must match the capability of both the firm and its environment (see also Julian and O'Cass, 2003).

#### **5.2.6 Discussion of Research Question 6 - *Firm Characteristics Influence to Overall Marketing Performance***

Research question 6 was concerned with determining the firm characteristics that influence the overall marketing performance. As presented in Chapter 2, research question 6 asked:

**To what extent do firm characteristics influence the overall marketing performance of Hong Kong firms' entering China?**

The dimensions of firm characteristics captured here were the same as those explored in research question 1 that related to firm's relative position in

China, amount of firm's China experience, amount of firm's resource of business development, extent of planning for China venture, extent of firm's management commitment, and extent of resource commitment.

It is important to note that the findings related to research question 6 (shown in Figure 5.1) show that firm characteristics have a significant impact on the overall marketing performance of Hong Kong firms operating in China. This means that a positive relationship between Hong Kong firm's management experience and commitment in China, to extent of planning for China venture that focus on the firms' relative position in China, decide the amount of firm's resource for business development, and extent of resource commitment as major components of firm characteristics that significantly influence manager's decision of formulation of strategy that related to outcomes of marketing performance.

This is similar to O'Cass and Julian (2003) and others, who also found that a strong correlation between commitment and performance (Beamish, 1988; Julian and O'Cass, 2004) exists. Also, this finding supports prior work that determined firm characteristics, included resource and commitment factors, managerial competence and international experience, firm's position strategy and firm supportiveness as internal elements play an important role in marketing performance (Root, 1987; Aaby and Slater, 1989; Donthu and Kim, 1993; Evangelista, 1994). Such internal elements act as a stimulating factor that motivate the firms to enter international markets, which enables the firms to identify the idiosyncrasies in foreign market, develop the necessary marketing strategy, then implement it effectively (Ahmet, 1993; Cavusgil and Zou, 1994), and eventually have positive impact on firm performance.

### **5.2.7 Discussion of Research Question 7: *Product Characteristics Influence to Overall Marketing Performance***

Research question 7 was concerned with examining the theory that a product's characteristic influence overall marketing performance of firms. As presented in Chapter 2, research question 7 asked:

**To what extent do product characteristics influence the overall marketing performance of Hong Kong firms' entering China?**

The dimensions of product characteristics captured here were the same as research question 2 that related to product establishment, strength of product patent, training needs of sales force, degree of product uniqueness, degree of cultural specific, and degree of service and maintenance requirement. In terms of this study, the finding for research question 7 (presented in figure 5.1) show that factors within the context of product characteristics have a significant impact on overall marketing performance. This finding as in the findings related to question 2, reflect that the firm's product strategy focus on the products characteristics are the major key factor that both influence on entry mode strategy and performance. The findings indicate that those Hong Kong firms which maintain a high level of product flexibility and adaptability benefit from the possession of sustainable competitive advantages in China operation, that should considered the components of product characteristics as expressed within culture-specificity, strength of patent, product age, unit value, legal and regulatory barriers, product uniqueness and service and maintenance requirements appear to be fundamental elements for successful performance in the China market. These support the findings of Robertson and Fu (1998) who indicated that

product flexibility and adaptability were believed to be the basis of a competitive advantage, and those of Julian (2003) that shown product adaptation and product strength are important determinants of overall marketing performance, and the importance of the product adaptation strategy in international business (Chung, 2005).

The findings presented in Chapter 4 identify the importance of product characteristics on performance, as has been shown in other studies which also determined that product and promotion strategies impact firm success (Cavusgil and Zou, 1994), and positive link between adapting products to the market entry performance (Cavusgil and Zou, 1994; Kirpalani and MacIntosh, 1980). Further, it also indicates that firms need to design an entry strategy for each product and each foreign market to gain a competitive advantage over rivals as has been argued by Cavusgil and Zou (1994).

#### **5.2.8 Discussion of Research Question 8: *Industry Characteristics Influence to Overall Marketing Performance***

Research question 8 focused on the theoretical contention that industry characteristics influence overall marketing performance. As presented in Chapter 2, research question 8 asked:

**To what extent do industry characteristics influence the overall marketing performance of Hong Kong firms' entering China?**

An industry characteristic is a complex idea that can be studied from many different perspectives (Barney, 1986). In this context, research question 8 sought to explore the influence of industry characteristics on overall marketing

performance, where the components of industry characteristics captured here were the same as research question 3 that related to technology changing rapidly, technology development being dramatic, customer's preferences changing dramatically, customers looking for new products, different product-related needs (new and existing customer), Government regulation changing constantly, pricing restrictions by Government, changing advertising regulation from Government, and distribution and handling laws of product and service changing constantly by Government.

The findings related to research question 8 as shown in Figure 5.1 demonstrate that external factors focusing on industry characteristics do not have a significant impact on the overall marketing performance of Hong Kong firms operating in China that have different result from research question 3. One possible reason for this finding is that Hong Kong firms have overcome the issue of different legal system and infrastructure between China and Hong Kong achieved in the absence of any formal integration framework (Hong Kong Yearbook, 2005). This may be because Hong Kong firms have been undergoing a process of relocation and expansion since the 1980's, and developed a unique business relationship with China where firms have basic understanding of China's industry characteristics (Hong Kong Trade and Development Council, 2005). In the meantime, Hong Kong is the largest "foreign" investor in Mainland China (Hou and Zhang, 2003), successfully capturing the changing technology and customer's preferences in China, and providing a quick response to the customer looking for new products and different product-related needs. They may have built up a good bargaining position to negotiate with the Mainland Government related to product handling regulations changing constantly, pricing restrictions and

unpredictable advertising regulation, and distribution and handling laws of product and service changing constantly in China and as such better understand the industry characteristics.

Another important issue may due to the regional and industrial disparities (Zhao, 1996; Fujita and Hu, 2001), because China is a huge country, both in terms of population and geographic areas, and it are not surprising to have different levels of development co-existing between and among regions and industry (Hong Kong Trade and Development Council, 2005). In response to this regional and industrial disparities issue, the collected data reflected evident insight show that 82% (Table 4.1, Profiles of the Sample in Chapter 4) of Hong Kong firms were operating in Southern China, not the other major regions in China (such as, Shanghai, Nanjing, Hangzhou and Suzhou, Beijing, Tianjin, and Dalian), which may explain to some extent the findings related to RQ8 as not reflecting the whole picture of the influence of industry characteristics on marketing performance in China. Especially when hard to measure or unobservable industry characteristics affects both strategy choice and performance as has previously been supported by Shaver (1998). Thus, together all these factors may explain reasonably why an industry's characteristics are not the major influences on overall marketing performance a shown in this study.

#### **5.2.9 Discussion of Research Question 9: *Host Market Characteristics Influence to Overall Marketing Performance***

Research question 9 was concerned with the theory that the host market characteristics influence overall marketing performance of Hong Kong firms. As presented in Chapter 2, research question 9 asked:



## **To what extent do host market characteristics influence the overall marketing performance of Hong Kong firms' entering China?**

Foreign target market potential is a common criterion used in market selection (Hodgson and Uytterhoeven, 1962; Moyer, 1968; Root, 1994; Johansson, 1997). The market selection decision involves choosing the best country market to enter based on the strategic needs and orientation of the firm (Papadopoulos, 1988; Kumar, Stam and Joachimsthaler, 1994). Based on these issues, the focus of this research question was to examine the influence of host market characteristics on the overall marketing performance of firms' operating out of Hong Kong into Mainland China.

The components of host market characteristics captured here were the same as those in research question 4. They related to accessibility of distribution channels, Chinese Government intervention, foreign competitors in China, demand potential in China, cultural similarity, sophistication of marketing infrastructure, product and service exposure in China, product and service familiarity in China, extent of legal and regulatory barriers in China, and similarity of legal and regulatory barriers (China and Hong Kong) were examined as aspects of host market characteristics and how they influence a firm's overall marketing performance.

Despite the findings within the extant literature that emphasized the importance of impact for host market characteristics on marketing performance identified by Goodnow and Hansz (1972); Kwon and Konopa (1993); Chen and Mujtaba (2007). The results presented in Chapter 4 indicate that host market characteristics did not have a significant influence on overall marketing performance of Hong Kong firms operating in mainland China. This may be

because Hong Kong has a long historical involvement in China's development, and Hong Kong often has been called China's "window on the world" during Deng Xiao Ping's open door policy (Sung, 1999). This may imply that Hong Kong firms already understand the characteristics and nature of the market in China (see also Czinkota, 2000). Including; the level of tariff barriers in China, the impact of Chinese Government intervention, level of expropriation, level of foreign ownership restrictions, local currency convertibility, level of local content requirements, level of unionization, language similarity, the accessibility of distribution channels, size of target market and demand structure, product and service exposure and/or familiarity in China, relationship with local community and provinces, economic growth and performance, cultural distance and country risk, and similarity of legal and regulatory barriers (China and Hong Kong).

Further, based on the historical involvement in Mainland China, Hong Kong firms may have successfully developed offshore production bases and business connections for collecting and processing market information, negotiating with end users, producing and distributing products, enforcement of sales contracts, and collecting payments from end users that operating in China for years (Li, 2001). Such business connectivity and involvement are reflected in the degree of understanding of China market characteristics. Therefore, this may explain why the influence of host market characteristics did not appear to be an important determinant of Hong Kong firm's overall marketing performance.

#### **5.2.10 Summary of Result Finding for RQ1 to RQ9**

In summary, past research on entry mode selection has been based on

several theoretical perspectives, including transaction cost economics, resource-based theory, industrial organization, and strategic behavior, with a wide array of antecedent factors being used to explain entry-mode choices and performance (Lin, 2000). This study provides new and important insights into Hong Kong firms entry into China; providing a multidimensional framework focusing on the choice of entry mode via equity and non-equity modes that focuses on specific factors which impact differentially compared to the Cavusgil and Zou (1994); Pan and Tse (2000); Julian and O'Cass (2003) studies.

The findings here (shown in Figure 5.1) show environmental factors have differential impacts on entry mode strategy and overall marketing performance. For example, the firm characteristics, product characteristics, industry characteristics and host market characteristics have a significant relationship with entry mode strategy that possibly indicates Hong Kong firms are likely to choose equity modes that reflected all environmental factors plays an important determinant to the decision of choice entry modes, especially requires high commitment and resource, product adaptation, capture rapid change of technology and customer preference, and good understand the Government policy to enter into China markets.

On the other hand, the internal factors (firm characteristics and product characteristics) have a significant relationship with overall marketing performance, while the external factors (industry characteristics and host market characteristics) and the effect of entry mode strategy did not significantly impact firms overall marketing performance. This indicates that it is important for Hong Kong firms to be aware of their product's characteristics and firm characteristics as the key factors that can influence a firm's entry

mode performance in China marketplace, and determines commercial success.

Finally, the results indicate that all relationships within the internal and external characteristics show strong effects for Hong Kong firm's decision of choice entry mode and overall marketing performance that provides a more precise depiction of what effects the choice of entry modes and support of the propositions for entry mode strategy analysis in corporate strategic considerations.

### **5.3 Theoretical Implications**

From an academic perspective, the present study extends the literature on entry mode theory and marketing management practice in several areas. Firstly, this study has provided valuable insights into market entry theory by focusing on Hong Kong, and integrates existing foreign market entry research within the theoretical contentions raised in Chapter 3 and the findings presented in Chapter 4. The proposed theoretical model determined the environmental characteristics and internal characteristics influence choices of entry modes. The theoretical contribution incorporates the equity modes and non-equity modes which cover all major modes of entry, for example; exporting, license/contractual agreement, franchising, strategic alliance, joint venture and wholly owned subsidiary and overall marketing performance. This is an important contribution to research, because few studies in the past have included the equity modes and non-equity modes that covered all major modes of entry and a broad variety of internal and external determinants of entry mode strategy and marketing performance (see Pan and Tse, 2000; Lages and Jap, 2003).

Secondly, another essential issue for the current body of research is that most research in the area of foreign market entry choice has concentrated on large firms or multinational enterprises (MNEs) (Choo and Mazzarol, 2001), especially the USA and Japan, the two largest national players in international business (Osland, Taylor and Zou, 2001). This is because, most of these MNEs have a number of subsidiaries and follow absolute and comparative advantages policies, and also have different numbers of foreign production sites and thus different numbers of international markets and strategies (Carrier, 1994; Carson et al, 1995; Choo and Mazzarol, 2001). However, developing countries, especially those in South East Asia (Julian and O'Cass, 2002) hitherto have not been studied in depth. Therefore, this study provides another insight about different approaches and characteristics from these international strategies of multinational enterprises (MNEs) that come out with the important determination of external and internal variables influence on Hong Kong firms entry mode and performance.

Thirdly, much of the extant literature attempts to reconcile different entry mode explanations within a single theoretical framework (Contractor, 1990), for example: (a) transaction cost theory from Brouthers and Brouthers, 2003, (b) resource-based explanation of entry mode choice from Sharma and Erramilli, 2004, and (c) the factors that drive market entry success, such as marketing (or market) orientation, firm internal factors (such as firm size, management attitudes), industry, product and home/host market characteristics have been extensively reviewed and categorised by McGuinness and Little (1981); Madsen (1989); Dau (1992); Chetty and Hamilton, (1993); Cavusgil and Zou (1994); Diamantopoulos and Cadogan (1996); Slater and Narver (1996); Julian and O'Cass (2002). However, there have only been a handful of comparative

studies that provide data on the two major groups of factors. The first is described as the external (host market characteristics and industry characteristics) factors, including population, incomes, growth potential, cultural differences, entry barriers and technology development on the one hand. The second is described as internal (firm characteristics and product characteristics) factors, including company capabilities, service differentiation, foreign experience, product attribute, brand strength and product patent. This dual factor approach is particularly useful when all these factors are related to entry mode and marketing performance theory.

Lastly, this study has three major implications for the measurement scales of constructs. Firstly, the results and findings implication confirmed the validity of the scales for use across different countries and extended the Cavusgil and Zou (1994) study by identifying industry characteristics in host market and firm's commitment to the product as important determinants of market entry strategy and overall marketing success. Secondly, the results support the construct of market entry strategy as a significant predictor of overall marketing performance providing for the Cavusgil and Zou (1994) findings in a different country context. It is also provide further support for their measure as a valid and reliable measure of overall marketing performance (Julian and O'Cass, 2004), in which is the most comprehensive market entry and performance scale in both content and form in strategy, management, marketing, and exporting (Styles, 1998). Finally, Cavusgil and Zou (1994) considered only the adaptation of two of the four aspects of the marketing mix and product characteristics. This research is distinguished from Cavusgil and Zou (1994) in that two major entry modes strategy were considered and it incorporated all major modes of entry, and used a

simultaneous estimation approach. Therefore, the findings should enrich the literature on marketing management and the understanding of the situation for China's developing economy that explore the exogenous and endogenous factors influence on entry mode theory and performance on Hong Kong firms.

#### **5.4 Managerial Implications**

From a managerial perspective, this study provides insight to support Hong Kong firms in making informed marketing decisions such as entry mode choices, and understanding the implications for corporate planning and business strategies through appropriate strategy formulation and execution via a better understanding of key internal and external factors. In fact, this study highlights the key factors in entry mode strategy decisions and ultimate marketing performance related to firm characteristics, product characteristics, industry characteristics and host market characteristics. This is important, as shown in the findings of all key factors (such as firm characteristics, product characteristics, industry characteristics and host market characteristics) have significant influences on decisions for firms' choices of market entry mode. This appears to be so because a venture in China starts with choosing the right entry mode strategy that links with firm capabilities and environmental challenges and impacts. This consideration also relates to the overall marketing performance that shows a significant relationship with firm characteristics and product characteristics, and non-significant relationship with industry characteristics, host market characteristics and entry mode strategy in market ventures as it is enhanced when management has international experience, and commitment to the venture, and provides strong support to its foreign market venture and understands key factors that impact

the operation.

Of practical importance, Jain (1989) has indicated that managers have few research based guidelines about the conditions for impact performance to a greater understanding of such conditions contained within firms and their environments (foreign markets). Therefore, this study provides important insight related to Hong Kong firms entry into China with regard to entry mode choices (the optimal choice of entry mode varies from equity mode Vs non-equity mode) and marketing performance. The alternatives of entry mode strategy were characterized by the environmental impact and mainland China's market characteristics that fit or appropriately correspond to internal capabilities (such as firm's size, management experience, resources commitment, and human resource and product characteristics) for decision making for choice of entry mode. Thus, the decision on the choice of entry modes among these alternatives depends on the relative importance of such factors for market entry strategy to Hong Kong firms when they decide to enter China.

Although the findings show that external factors (industry characteristics and host market characteristics) did not have any significant relationship with overall marketing performance, China is still a developing country, policy changes and market reform, and demographical changes brought about by China's WTO accession (Hong Kong Trade and Development Council, 2006) are continuously causing differing and potentially serious impact on business operation in China. Further, regarding market reform and demographic changes, reflected in the collected data (Figure 4.2 - profiles of the sample in chapter 4), they show most of the Hong Kong firms were geographically focused on the Southern part of China. However, the rapid development of



Yangtze River Delta (YRD) region (Shanghai, Nanjing, Hangzhou and Suzhou), and Northern China (Beijing, Tianjin, and Dalian) has drawn much attention recently. These regions have become hot spots for domestic and foreign investors in the economic upsurge in the new century. To begin with, economic development has fueled significant growth in demand. Most cities in this region have a per capita GDP of over US\$3,000. This indicates Hong Kong firms need to further elaborate on these new opportunities or challenges of market reform and demographical change in China.

On the other hand, there is little doubt that the reduction in tariffs, the liberalization of industrial transactions, the increasing transparency and rule-based commerce brought about by China's WTO accession, along with a general rise in Chinese living standards, will benefit Hong Kong. However, Hong Kong firms will face a "Double-edge Sword" in that firms will probably enjoy more opportunities than companies from other countries, but contrarily, they are much more likely to bear the brunt of the adverse impacts that may ensue after economic reform for China's WTO accession (Hong Kong Trade and Industry Department, 2005). Thereby, China's economic system has been in a transition period from an "old" centralized planning economy to a more open and decentralized market economy. This implies a drastic restructuring is expected to take place, leading to a rapid change of industry structure and market environment. Hence, the impact of external factors (industry characteristics and host market characteristics) is still an important impact to marketing performance that requires a close scrutiny and further investigation.

## 5.5 Limitations

The results presented here should be interpreted with caution in the context of the specific research limitations that impact the study. This is so because of the sampling frame used in the research, the results reflected the marketing performance of Hong Kong small and medium sized firms (Small and medium enterprises) (SMEs). They are the prime engine for economic growth in Hong Kong and SMEs account for 95 percent of the companies in Hong Kong and employ about two-thirds of the workforce. They operate usually without good financial backup, limited managerial resources, and informal centralized planning and control systems (Carrier, 1994; Carson et al, 1995) that indicated the international strategy and structure of SMEs was different from those multinational enterprises. Therefore, the lack of large firms' involvement is a potential limitation that impacts this research.

Further, the research adopted a self administered survey for data collection, which may result in some error in data quality, which is related to an inability to monitor or interact with the respondents during the course of completing the survey and immediately respond to any misunderstanding or misreading survey questions. Further, an assumption was made that the potential companies that met the sample selection criteria may be sensitive to volunteering information and reluctant to participate, which may affect the data quality.

Another limitation relates to the analysis undertaken, as partial least squares (PLS) analysis is based on a linear model, but PLS does not rely on stringent distributional assumptions, such as the multivariate normality of observed variables, which is often violated in non-experimental data (Micceri, 1989).

A further limitation for this research relates to the omission of certain other relevant variables that were represented in previous studies. For example, other possible determinants relate to cultural issues, brand awareness, brand-country of origin and brand names, new policy impact and environment change, new monetary policy, leadership of CEO successor and the role of staffing approaches, and technology issues that can provide a comprehensive study towards market entry modes and performance analysis in China and the China market for future research

Despite the study's limitations, it is believed that all the measures presented in this study are reliable and valid, and the final structural model presents a sound assessment of the data. The findings have the potential to make contributions to the marketing literature even with the identified limitations acknowledged, which in reality also offer directions for future research.

## **5.6 Future Research**

Directions for future research are based on the finding, the variable omitted and limitations of the current study (shown in Table 5.1), should focus on a balance of data coverage, sampling on SMEs and large firms, and the data collection cover the major regions in China and firms from different countries that can ensure the data quality and result of findings. Also, as discussed in section 4.6 a limitation for this research relates to the omission of certain other relevant variables. Among these important variable issues, the cultural factors should be most important factor that affecting the way of doing business and totally different from the West. Because guanxi-based business variables have a significant and positive impact on venture's accounting and

market performance in China (Luo, 1997). These include the characteristics of the market approaches into China, competence of people who work in the industry and the goals, values, and strategies of organizations. The culture of China is the result of over 5,000 years of artistic, philosophical, political, and scientific advancement. Over a hundred ethnic groups have existed in China, regional differences provide a sense of diversity, and commonalities in language and religion connect a culture distinguished by such contributions as Confucianism and Taoism. This implies that there are differences between and within regions associated with industrial distribution (each of the main regions in China has different characteristics and conditions which influence the location choice of FDI). However, very few studies have dealt with how foreign firms in China have performed in terms of culture (Qing, 2000). Thus, cultural issues are one of the major concerns for entry into China and in need of research.

Based on above discussion of limitation for an other important factor related to entry mode theory that has been previously identified by market entry researchers is the CEO successor characteristics presented by Herrmann and Datta (2002), and the role of staffing approaches as a moderator (Konopaske, Werner, and Neupert, 2004). These are likely to be influenced by previous strategic decisions (and associated outcomes) and are important in the context of the relationship between internal firm's staff and choice of entry mode strategy and performance. These are essential aspects related to staffing issues and include each employee's level within the organization, the employee's functional area, and whether the employee had prior overseas experience. Any or all of these components of the staffing may account for some of the variance in the entry mode-performance relationship and

are worthy of future research.

Further, data collection in future research should consider adopting mixed or integrating research strategies (qualitative and/or quantitative), and set up data governance procedures and teams whose sole role in the data collection process is to be responsible for data quality to conceive and implement evaluation and ideally, more useful and accountable to broader audiences, and likely to produce better results in terms of quality and scope.

The focus of future research should also relate to environmental change and public policy change in China, and other factors (internal and external) influence to the strategy-performance nexus and the drivers of this relationship for sustain the competitive advantage (see Taylor, Zou, and Osland, 2000) that can undoubtedly improve our understanding of firm's entry into China and other markets. For example, currently, the prevalent examination of choice of entry mode that explores the correlation between the brand-country of origin (Paswan and Sharma, 2004) and brand names have been identified as very significant factors for the standardization of international market activities in Eastern bloc countries (Hooley et al., 1993; Kustin, 1993). This is because firms usually invest heavily in brand name capital will try to avoid free riding by other firms (Caves, 1982; Herring, 1983). Also, brand awareness (O'Cass and Julian, 2002) emphasizes that the brand asset is an important factor that influences the entry mode, especially for high control entry modes identified by Klein and Leffler (1981).

The environmental change factors could also be related China's entry to WTO. In relation to discussion on managerial implications, China's accession into the World Trade Organization (WTO) will accelerate the change process and includes a complex package of reform of trade and investment

liberalization (Teng, 2004). These will artificially stimulate exports of particular foreign competition products for increase of economic reforms and the restructuring of the state sector. However, the change in environmental factors may also be regarded as trade barriers, such as; economic development (monetary issues included the appreciation of RMB) and trade theories (structural change, catching up, and factor price) growth of various labor variables, energy crisis, demographic changes and economic growth have a number of implications for China and the world and could be considered valuable to study.

In addition, the new public policy change from the 11th China's Five-Year Plan announced by the Chinese Government (Mar/2006) emphasized the topic of reinforcement on foreign investment in high-pollution and high-consumption projects must make use of new technologies to lower energy consumption and reduce pollution to start in green production techniques, and applying a uniform 25% tax rate to company profits for foreign businesses. Hence, these new public policies will possibly cause significant impacts to marketing performance and approaches to doing business by Hong Kong firms operating in China.

In sum, future research could apply this study's findings and the proposed additional research topics to help improve our understanding of the complex set of issues and relationships surrounding executive characteristics, international strategies, and firm performance in China.

**Table 5.1 Summaries of Variables Omitted and Limitation for Future Research**

	<b>Variables Omitted and Limitation (this research)</b>	<b>Proposed for Future Research</b>
1)	Large Firms Involvement.	Balance of data coverage.
2)	Quantitative research, Self administered survey & PLS analysis.	Mixed or integrating research strategies, and data governance procedures and team.
3)	Determinants of culture issues, brand awareness, brand-country of origin and brand names, new policy impact and environment change, new monetary policy, leadership of CEO successor and the role of staffing approaches, and technology issues.	Cultural Issues (Guanxi), brand awareness, brand-country of origin and brand names, new policy impact and environment change, new monetary policy, leadership of CEO successor and the role of staffing approaches, and technology issues.
4)	Political issues.	Environmental change and new public policy.

## **5.7 Conclusion**

In conclusion, this study makes several empirical contributions to the emerging literature of entry mode and marketing performance. Firstly, this study provides empirical support for the Cavusgil and Zou (1994) and other theoretical contentions related to marketing strategy in a different national setting. The study has implications for a wide range of international marketing concerns of firms, providing essential insight for considering a variety of factors when seeking to enter new markets. These include the overall management capabilities, the strength and viability of the product development team, the adequacy of production process, the methods

available for product distribution, the marketing and sales organization's strengths and current activities, management experience versus that of competitors plus the ability to differentiate the product from the competition, the potential difficulties may encounter due to insufficient infrastructure and the availability of adequate operating capital. Additionally, management should consider the similarity of the foreign market to the home market, level of service required, tariffs and shipping, lead time requirements, brand awareness, and competitive advantage.

Secondly, these research findings also provide another important insight on the decision on selection of entry mode coincides with those correlations described in theory. For equity owned operations expansion is related to the company size, the management's willingness to learn abroad and awareness of the competition in the corresponding industry in foreign market were the main reasons for deciding on exactly this mode of entry. For the company preferring non-equity modes, indeed, the desire of fast penetration of the new market and inability to devote big resources to make significant investments in foreign outlet was the main driving forces for deciding in favour of franchisee agreement. The conclusion drawn was that there is no single most important factor and only several factor combinations can affect the choice of entry mode and performance.

Thirdly, despite the continuing problems and current difficulties for Hong Kong firms' entry into China, it is essential to regard foreign market entry as a dynamic and continuing aspect of the evolving strategy process, rather than an activity which is occasionally undertaken. Thus, this study provides a comprehensive theoretical framework in conducting entry mode research is necessary to obtain an effective explanation, and provide guidance for



managerial consideration. This indicate that Hong Kong firms need to obtain knowledge and managerial skills continuously, for acting as the catalyst for economic growth that working closer integration with China, where more mainland companies are going to utilize Hong Kong as a platform for internationalization, since the perception and experience of Hong Kong firms are valuable to the success of China market operations.

Fourthly, Hong Kong firms have increasingly explored and possibly exploited their business opportunities in China during the last two decades (Yang and Lee, 2002). Although many successful ventures have been established in China, but many have ended up in unhappy outcomes (Gao, 2000). Thus, this study has demonstrated that selecting the right mode of entry into a particular market is a crucial decision firms have to make. Such activities imply each way (equity Vs non-equity) of entering foreign markets places unique demands on firms in terms of organizational and financial resources. Some entry modes require a substantial amount of initial investment, whereas others require significant management input (Bradley and Gannon, 2000).

Finally, Hong Kong is the largest single source of external investment in Mainland China (accounting about 42% of the national total, with a cumulative value of US \$ 290 billion), and China also is an important export market for Hong Kong Domestic Exports (32.8% of total Hong Kong's Domestic Exports) (Hong Kong Trade and Industry Department, 2006). Thus, it performs an important role and integral function for Hong Kong within Mainland economic development. The Closer Economic Partnership Arrangement (CEPA) enables Hong Kong firms to identify greater business opportunities on the Mainland China. The integration of Pearl River delta region has greatest

strengths in the industrial development including low land and labor cost, productive workforce, reasonable infrastructure, improving technical skills, and a supportive policy regime. However, Hong Kong managers need to be aware that legal and environmental factors are changing constantly in China (Zhao and Luo, 2002), and competition is likely to heat up in the future cause by large amount of inward investment.

These findings provide an important contribution to the literature and practice of entry mode strategy and marketing performance. Importantly, the motivation of this study was based on the premise that:

**“Market entry deals mainly with market selection and the determination of suitable market entry modes. Aside from general selection criteria, such as, market potential, market growth, market volume, and market access, an assessment of the transformation process and the specific commercial risks is useful when evaluating target market”.**

**(Michael R. Czinkota, 1997)**

And that:

**“The art and science of choosing target markets and getting, keeping and growing customers through creating, delivering, and communicating superior customer value”.**

**(Philip Kotler and Kevin Lane Keller, 2006)**

Most importantly, the necessity for continuous investigations of the factors

(internal and external) that influence market selection and marketing performance is critical to gain insight into the conceptualization of a comprehensive understanding of the performance models, and provide potential determinations to marketing researchers and practitioners in marketing management related to firm entry and operations in China.

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