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A multi-dimensional international strategic management approach to market entry to China.

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ABSTRACT

Australian-Chinese business relationships are important to Australia. China is currently experiencing phenomenal economic growth, and it is important for Australian businesses to participate in this market. Little is known, however, about the correct approach for this, and a decision model that shows how Australian businesses internationalise into China is required. This paper presents a model for Australian businesses entry into China, and identifies the strategies necessary to successfully participate in that market. The model is based on a multi-dimensional international strategy approach to market entry, viewed from a process perspective. The model proposes that country factors should be considered first when making entry decisions. Country factors include the state of the economy, political system and politics, regional area, WTO accession, culture, legal system, and state of the Chinese financial system. The model then recommends that organisations should consider the organisational factors impacting on their decisions. These include market knowledge, product, industry effects, organizational size, financial resources and capability. The model then directs the organisation to a choice of a domestic market focussed strategy, export market focussed, a host country market strategy and the other market focussed strategy, based on these factors.
INTRODUCTION

China’s GDP growth has been consistently between 8-9% for the past two decades (Liu 2000). As a major emerging market, China offers many companies great potential in their future growth (Chung, 2006). China now accounts for 33.79% of the world’s crude steel output and 46.6% of the world’s pig iron output (Hua 2007), consequently, as a major minerals producer, Australia’s current mineral boom is largely built on this Chinese demand (Kirk 2004). Although entering the market appears to be an easy task for some companies, an effective model which assists companies in better producing a successful entry strategy has not been articulated. Developing such a model is important because Foreign Direct Investment (FDI) in China is increasing dramatically. A large amount of capital has been invested into China since the economic reform in 1978 (Chevrier 1985), and business performance has been inconsistent, and there have been examples of business failure in the Chinese market (Chung 2004). Hence there is a need for research which leads to the development of a model that will assist businesses in Australia achieving desirable objectives.

The purpose of this paper is to present a model that outlines factors that Australian businesses could consider when developing strategies to enter the China market, how they impact on the decisions made by these organisations and the international strategies they pursue. In the proposed model the writers include country and organisational factors that impact on the decisions that organisations make. Strategic choices in our model are based on the nature of the markets that companies aim to service, which can include:

1. produce products in China for the Australian domestic market
2. produce products in China to capture the Chinese domestic market
3. produce products in China for international markets such as the United States, Europe and Others

The information developed in the model will be helpful for other firms wishing to pursue similar strategies in China. The model will also be useful to understand the types of factors that may be influential for strategy choices when entering China. The paper is structured around the following issues:

• Why is China important for Australia?
• Australian businesses in China
• Theoretical perspectives on internationalisation
• Country factors and organisational influence on international strategy choices
• The development of a model of an entry strategy process

WHY IS CHINA IMPORTANT FOR AUSTRALIA?

The constant rapid economic growth of China is expected to continue until at least 2011 (Department of Foreign Affairs and Trade 2006). China's growth has been the single largest contributor to global growth over the past five years and in 2005 accounted for around one quarter of world economic growth (Department of Foreign Affairs and Trade 2007). China is now Australia's 2nd largest trading partner (Department of Foreign Affairs and Trade 2005). China's importance to Australia has grown with China's increasing economic, political and strategic weight in the Asia-Pacific region and the global economy (Department of Foreign Affairs and Trade 2007). At 31 December 2004, Australian investment in China amounted to $1.2 billion, making it our 22nd largest destination (Department of Foreign Affairs and Trade 2006). China has approved some 5000 Australian investments and there is currently around $1 billion currently in the pipeline. Recognising this significance, Australia and China have begun negotiations for a Free Trade Agreement (FTA). The FTA aims to further facilitate the Australian exporters and businesses in gaining further and smoother access to the market. Hence, studies of Australia-China's business development bears significant importance to Australia as a whole.

AUSTRALIAN BUSINESSES IN CHINA

By April 2006, 3,245 Australian companies were exporting to China (Department of Foreign Affairs and Trade 2007). Major areas of opportunity include mining and energy, agribusiness, manufacturing, construction, technology, management consultancy, such as for the Olympic games, regional development, and financial, legal, education, engineering and architectural services (Department of Foreign Affairs and Trade 2007). Major merchandise exports from Australia to China include iron ore, wool, copper ores and coal (Department of Foreign Affairs and Trade 2006). In terms of services, Australia's major exports to China were education and related travel, and personal travel,
excluding education (Chinese visitors to Australia). Australia represents China's 7th principal import source in 2006 (Department of Foreign Affairs and Trade 2006).

There are approximately 1,000 Australian exporters entering the Chinese market each year (Austrade 2007). There are about 400 Australian businesses operating in China, engaged in manufacturing, property, business services, finance, insurance, education, mineral exploration and information services (Australia China Business Council 2007).

THEORETICAL PERSPECTIVES ON INTERNATIONALISATION

there has been considerable research interest in the correct methodologies for foreign investment, based on mode of entry strategies (Barale 1990; Woodcock, Beamish et al. 1994; Pan, Vanhonacker et al. 1995; Breth and White 2002; Bruton and Ahlstrom 2003) in order to assist organisations to improve their success rate. Research activity in this area peaked in the 1960's and 70's. However most of these studies were longitudinal and used time series rather than cross-sectional statistics (Dunning 1997). Foreign investments have continued its popularity following the rapid growth of globalisation. Entry modes and strategies are a complex issue that researchers are continuously seek to find answers for, so as to achieve desirable outcomes.

One of the most consistent arguments in the literature is that economic factors are a major driving force for Foreign Direct Investment (FDI) (Kelly 1982; Ehrman and Hamburg 1986; Zhang 2000). These factors may include the availability of land, existence and/or costs of raw material, cost and quality of labour, availability and cost of capital, efficiency of production, access to supporting industries, availability and access to technology, closeness to potential or additional market and tax incentives and/or benefits. These factors may be grouped to determine the homogeneity of countries in order to assist the decision making process (Sethi 1971; Ehrman and Hamburg 1986; Terpstra and Yu 1988; Zhang 2000; Zhang and Zhang 2001). Other theories such as the "market imperfections paradigm" by Calvet (Cited in Kelly and Philippatos 1982) suggests that disequilibrium, caused by factors such as labour, currency, government interference, market structure imperfections, market failure imperfections, are and continue to be the major drivers of FDI. Some literature simply refers FDI as a ‘strategic necessity’ (Zhao and Levary 2002). That is for
firms to survive, they must reorientate their strategies to international markets. There may be other reasons, such as increasing revenues, or gaining greater production runs.

Internationalisation theory has long been considered valuable in explaining why organisations choose particular strategies over others (Johanson and Vahlne 1977) when entering a foreign market. This theory examines how international experience influences firm’s choices in international markets. The theory proposes that the more internationally experienced a firm, the more likely they are to make foreign direct investment choices as opposed to less risky entry modes, such as exporting (Johanson and Vahlne 1977). For example, an organisation may start off by creating a product and servicing the domestic market. Its managers may realise that there are international markets, such as China to sell to, in order to boost sales, revenues and achieve economies of scale. It may then realise that it is cheaper to produce in the foreign location and then service the market that way. Hence, production in the foreign location means that international activity requires investment (Johanson and Vahlne 1977). This hence suggests that experiential knowledge is important for internationalisation (Lin 2000).

Transaction cost theory may also be explanatory, as firms will choose strategies that reduce transaction costs associated with doing business internationally. For example past research using the transaction cost approach (Anderson and Gatignon 1986; Erramilli and Rao 1993), says that firms will minimise all costs associated with the value chain (from production to consumption of goods), by undertaking cross-border activities (Anderson and Gatignon 1986), hence motivating them to internationalise. Therefore, firms will choose strategies that overall reduce their transaction costs. Other alternative models have been put forward by researchers, and Tse, Pan, & Au (1997) suggest that a consideration of operation related factors such as location, levels of government interaction required to achieve objectives, suggests a “process-orientated” notion to foreign market entry, and that foreign market entry takes a long time to do. This may be similar to the theory proposed by Johanson & Vahlne (1977). Also as firms gain more experience in internationalisation they seek to increase their commitment to internationalisation.
Bargaining power theory (Gomes-Casseres, 1990) maybe influential as well, as entry is seen as an outcome of negotiations between the firm and the government of a host country. An MNC will use its ownership advantage as a source of bargaining power, while the host government relies on its control over marketing access (Kumar and Subramaniam 1997). A government may want foreign direct investment to bolster its own economy, and therefore the business has some form of bargaining power over the government, because it has something, that the government wants.

Previous research has also found that international expansion can be influenced by host country characteristics (Benito and Gripsrud 1992; Luo and Peng 1999). This is consistent with location advantages, and how they influence entry mode choice proposed in Dunning's (1980) theory. In addition, resource based theory may explain why organisational factors will have an impact on international strategy choice. According to resource-based theory (Barney 1991), the ability of a firm to respond to strategic opportunities varies with its resource endowment which is not distributed uniformly across firms. The more resource rich the firm, both in terms of variety and amount, the greater its ability to launch new initiatives in response to environmental changes (Barney, 1991), and internationally.

In earlier research, Hill, Hwang & Kim (1990) developed the eclectic approach to foreign entry modes, which identifies exogenous, strategic and transaction specific factors relevant for choice of entry mode. Their model is consistent with the model presented in this paper in regard to external market factors having an impact on entry mode decisions. Factors such as market conditions, demand, market risk, location familiarity, and market infrastructure that exist in the local market can impact on selected entry mode strategies. Cateora & Keavency (1987) suggested that diversity of cultural, political, legal, political and economic environment will also impact on entry modes. Having considered a range of theoretical perspectives would present a background from the model proposed in this paper, the country and organisational factors Inc the model will now be considered as the basis for strategic choices at entry mode decisions when internationalising to China.

COUNTRY FACTORS INFLUENCE ON INTERNATIONAL STRATEGY CHOICES
State of the Economy

Past research by Gomes-Cassares (1990) found that economic growth in the host country is positively correlated with the establishment of joint ventures. Furthermore, a growing economy would strengthen their attraction for foreign investment. Therefore, firms may use GDP growth rates to choose strategies to follow in foreign markets. For example, knowledge of large economic growth rates may motivate firms to choose strategies whereby firms would want to service the Chinese market, to take advantage of those growth rates, the growing consumer demands for products. Past research has found that the distance between economic systems between countries will influence the entry mode chosen with firms choosing lower control modes, when the distance is larger (Anderson and Gatignon 1986).

Political System and Politics

The political system in China is a communist republic, and is a one party state dominated by the Chinese communist party since 1949 (Austrade 2007). Since, 1979, China has undergone profound economic reform, under Deng XiaoPing's reform program and ‘open door’ policy (Austrade 2007). This has led to economic prosperity and higher standards of living for Chinese nationals. The economic reform since 1978 has seen China moving out of a totally central planned economy into a market economy with socialistic characteristics. In 1998, guarantees were written into the state constitution removing ideological barriers to ownership diversification (Deng 2001), which suggests that it is more favourable to own land in China. Political risk is the degree of change or volatility that is likely to occur in a country. The Chinese government do not have any plans for political reform (Austrade 2007), nor do they have another party that could throw them out of power, suggesting that China is a politically stable country. In terms of corruption, China ranks as 70th in comparison to Australia, that ranks as 10th on indexes created by Transparency International (2006), suggesting that corruption is high, and would need to be considered in relation to strategy choices, when internationalising to China. A different and unstable political system may have impacts on the amount of investment a firm makes, and also the strategies that they pursue in the foreign environment. We propose that firms will consider the political environment, and make decisions according to how stable they perceive the
environment to be. In politically unstable environments a firm will wish to reduce their risk (Buckley, Clegg et al. 2007). The Chinese government is often described as having three levels of government, being central government, provincial and local levels of government (Tse, Pan et al. 1997). Depending on the type of business, and strategies that firms want to follow, different levels of government may need to be influenced to get in motion business strategies that a firm will want to achieve.

In terms of political attitudes towards FDI, the Chinese government is strongly aware that FDI makes a significant contribution to economic growth and development. Currently, Chinese economic policy is based on pragmatism and social stability. China's government is stable because there is still only one party in control, hence the chances of government being overthrown or severe changes in policy are low. Previous research has found that when country risks, such as political risks, are low, resource commitments will be high (Anderson and Gatignon 1986). Despite the rapid improvement in its investment environment, China is still going through transition, and is controlled heavily by the government (Child and Tse 2001). Some regions are more open to competition than others, in order to attract foreign direct investment. In addition, the government is being decentralised and also privatised, giving more power to local politics, to make decisions in regard to FDI. An invitation to participate in China by the government is seen as important, so is the connection with the government, so as to facilitate business relationships (Lin, 2000).

Infrastructure is also considered as having an impact on the strategy type a firm pursues, as the availability of cheap and easy to use infrastructure, would impact whether a firm choose to export, or to setup operations to service the Chinese market. Better quality infrastructure such as good quality roads, constant supply of electricity, would motivate firms to setup operations, rather than just exporting to China. In terms of infrastructure, some cities have economic and technological development zones (ETDZs), which have been created to attract foreign investment (Lin 2000). A prominent piece of legislation was created called "22 articles", which was initiated by the China's state council, so that local governments could create areas that would attract investment. ETDZs would impact on the type of strategy that a firm could pursue. If these firms did receive tax benefits, custom duties and land benefits, to use foreign direct investment, they would be motivated to it and would influence the type of strategy a business pursues.
Similarly to attracting foreign investment, China has sought to improve infrastructure, such as energy, transportation, energy, water and telecommunications (Lin 2000). Again this would attract businesses to setup operations in China, rather than just exporting.

Regional Area

The specific section of China under consideration may be an important fact that in the China FDI in positions of Australian businesses because of the economic incentives that are offered by the government to locate in one area as opposed to another. Sun (1995) found that particular areas vary in economic conditions and policy environments, for example in Guangdong, Fujian and Hainan, a special policy package was granted by the central government, which has moved these provinces from a centrally planned system to a market economy. Sun (1999) reports that special economic zones (SEZ), located in these areas attract a special preferential tax rate, of 15 percent as opposed to 33 percent normally being applied to foreign investments. Therefore, southeast coastal regions tend to be more attractive regions for foreign investment. Other important impacts may be where suppliers are located, or where a business finds a partner to do business with and is encouraged to setup in a particular location. These regions are more economically liberalised and market orientated than other regions. International businesses have less inclination to form (Equity Joint Ventures) EJVs for minimising business risks. Hence, liberalisation, lower business uncertainty and less risk in the Southeast coastal region encourage investors to form Wholly Owned Foreign Enterprises (WOFEs) here. These are locations that enjoys low cost labour, tax exemptions, and duty free importation of raw materials and technology (Tse, Pan et al. 1997). These researchers find that SEZs will influence entry modes, with more firms located in this area choosing an equity based entry mode (Tse, Pan et al. 1997).

WTO accession

China’s accession to the World Trade Organisation (WTO) has significantly lowered tariffs and certain trade barriers to allow foreign exports to steadily increase since the early 1990s (Teng 2004). High tariff barriers would have the effect of encouraging firms to setup production, rather than export, because of the costs of exporting with tariff trade barriers. The reduction of trade barriers would hence have the effect of encouraging exports from Australia to China,
because of the reduction in costs. Before China’s accession to the WTO, various industries have been classified as ‘encouraged’, ‘restricted’ or ‘prohibited’ (McDaniels 1998). China’s accession to the World Trade Organization in 2001 represents a commitment to economic reform. Integration into the global economy, will require fundamental readjustment of China’s economy, and will increase pressure on it to become much more open, and much more in line with western economies (Teng 2004). In terms of the benefits, WTO membership means that foreign owned firms can set up their own wholesale, distribution, and after sales networks in China (Teng, 2004). Scholars would believe that the Chinese business environment should become more predictable because of WTO membership (Teng, 2004). WTO membership means that China as a country needs to focus on intellectual property problems that it faces, so business practice becomes more predictable. It also makes China a more attractive and foreign direct investment target for Australian companies.

Culture

Culture is an important international strategy factor. Sun (1999) suggested that the greater the socio-cultural difference, the lower the degree of equity participation that the MNC should aim for. A large cultural distance creates high information needs for MNCs, and causes greater business uncertainty and unpredictability. Sun (1999) found that the closer the cultural backgrounds of investors to that of China, the higher the equity shares in held by foreign investors. Therefore, it could be possible that cultural distance has an impact on the type of decision making that a manager of a firm makes when entering a foreign market. For example, not understanding cultural idiosyncrasies of China may restrict the amount of investment managers will want to make, until they have a better understanding of this. Hence, firms will use less risky entry strategies, until they know the culture better. This would be consistent with internationalisation theory proposed by Johanson & Vahine (1977), which suggests that as firms gain more international experience they will increase the amount of investment they use. Because cultural distance is high, Australian firms are disadvantaged by their lack of language capability, knowledge of cultural traits, ethnic links and access to Chinese society (Sun, 1999), which may impact what they do in China. In terms of strategic choices, this may mean firms choose a national (home country) strategy, where they service the Australian market, but produce
those goods in that country and export them to Australia, as opposed to servicing the Chinese market, because the firm does not understand the cultural characteristics of the Chinese market. When they do understand the culture, they may feel more comfortable in trying to service the Chinese market with their product, if it is suitable for that marketplace.

Not only are cultural differences important for setting up a business in China, negotiations and perceptions about managing staff are important for businesses to consider. This may mean that Australian businesses use different negotiation styles to get their business done, with Chinese counterparts, or that adaptations are required to meet the tastes, preferences, desires and wants of consumers in that market. That may have an impact on whether an organisation decides to simply manufacture, and export back to Australia, rather than trying to service the Chinese domestic market as well.

**Legal system**

The differences in local legal systems have implications for Australian companies doing business in China. Australian organisations entering China need to interpret their legal position in terms of Chinese legal practices and frameworks. A lack of understanding of the legal system may initially impact on the amount of equity firms would want to invest (Anderson & Gatignon, 1986). A slow and inefficient court system, and lack of intellectual property rights also affect the strategies that Australian businesses choose when doing business there. Businesses may choose to export to China rather than produce there, because of the possibility of having technology or intellectual property appropriated. The legal system may also be influential in terms of strategy choices, as differences between a common law system and a communist legal system, may create complexity in decision making for international businesses. Regulations that permit the setup of businesses, licenses associated with conducting business, the repatriation of profits, patent protection of technology, and enforcement of contracts may be influential for businesses considering entry into China, and the type of strategy that they follow.

**State of the Financial System**
The state of the financial system is likely to have an impact on the aid of an organisation in a foreign environment. For instance, access to capital and/or finance, in either China or in Australia would have an impact on what the extent and nature of an investment in China. The Chinese banking industry has experienced significant changes in recent years, which has opened the market up to foreign investors (Teng 2004). After WTO accession, foreign investment in banking has further opened up, and foreign banks have access to dealing in foreign currency (Deng, 2004). Foreign banks will soon be allowed to trade in government and corporate bonds. China did surprisingly well during the Asian economic crisis as well (Deng, 2004), and was not effected by severe devaluation of currency in other Asian countries. There has also been a gradual reform of stock markets (Rauski 1998), which would have an effect on the ability of firms to access capital for their business ventures. Imperfections in capital markets would hence have an effect on where businesses obtain their finances from. Stock exchanges have also been developed in Shanghai and Shenzhen (Deng, 2004), which suggests that firms have the ability to list on these stock exchanges. The banking system went through major reforms in the 1990s (Deng, 2004), and there are both good functioning domestic and international banks. All of these factors are creating a financial system in China which is much more attractive to sophisticated and extensive FBI in China by Australian organisations.

ORGANISATIONAL FACTORS INFLUENCING STRATEGY CHOICES

Market knowledge

Market knowledge and the international experience of firms will influence their ability and willingness to invest in foreign countries (Johanson and Vahlne 1977). As businesses know more about foreign markets they are likely to become more competitive and aggressive (Lin, 2000), in the entry and operations that they choose to pursue. Market knowledge relates to knowing current demand, competition conditions and marketing infrastructure (Lin, 2000). Having experiential knowledge, which is experience in foreign countries, gives businesses this cognitive mental framework. Experiential knowledge is market specific, and is hard to transfer between firms, and across markets (Lin, 2000). The internal constraints of a firm have an important impact on the decision entry mode. True source of knowledge is not from the visible elements of know how but from the supporting structures, or complimentary activities.
(Dunning, 1988; Madhok, 1997). Hence, we propose the more market knowledge a firm has the more likely that it will develop strategies that will service the Chinese market, rather than just producing in China and sending back to Australia. Knowledge, in regard to internationalisation would also be helpful, in helping businesses navigate through different rules and regulations that it has to understand to get its business setup in China.

Product

The type of product will affect the choices a firms makes when entering a foreign market. The more proprietary, and higher the technological content in a product, the greater the amount of control that a firm will wish to exert over its production (Anderson & Gatignon, 1986), thereby implying an equity based entry mode. The type of product will also impact on whether a firm chooses to service the Chinese market or not. For example, there may be products that are not culturally appropriate for the Chinese market. In terms of firms with standardised technology, an equity joint venture is the most suitable mode to invest in China. Sun (1999) suggests that this is particularly true for investments that are directed to the Chinese domestic market. Research suggests that a joint venture will help reduce a lack of knowledge about foreign markets, and facilitates access to markets, that a foreign firm may not be able to negotiate when operating by itself (Sun, 1999). The market distribution system in China was very slow to develop, however in the late 1990s the entry of foreign ventures into China, has far reaching and fundamental effects (Child and Tse 2001). Market variation is significantly high within China, implying that a product may be suitable for sale in one part of the country and not suitable in other parts (Child & Tse, 2001).

Industry effects

The manufacturing, machinery and electronics industries have led other industries to establish WOFEs (Sanchez-Peinado, Pla-Barber et al. 2007). Some industries that have internationalised to China to a greater extent than others and there has been a growing trend to continue to internationalise in particular industries. This industry bias will tend to influence the foreign direct investment practices of companies in specific industries. For example, there has been a trend for manufacturing businesses in Australia to relocate their production in China, because of the lower labour costs there. Industry may influence the type of strategy chosen with some industries having to use more equity based
operations, and produce in China strategies than others. For instance, manufacturing industries, because of their access to cheaper resources, and labour may base their production in China. This may be similar to capital intensive services (hotels, electricity, telecommunications, and energy) as opposed to knowledge intensive services (architectural, management consulting, engineering, or financial services), that may be able to export their services from home (Sanchez-Peinado, Pla-Barber et al. 2007).

Organizational size

Foreign direct investment can be more attractive to large resource rich firms because they are able to negotiate financial and other concessions with national governments (Aldrich, 1979) better than smaller firms. Past research has confirmed that firm size is an important predictor of entry modes, with larger firms choosing equity based modes of entry (Sanchez-Peinado, Pla-Barber et al. 2007). Past research finds that the establishment of WFOEs entails significantly higher resource commitments, and entails higher risks, and therefore larger firms have a greater ability to accommodate risks than smaller firms.

Firm financial factors

the level of organisational resources would affect the perception of the acceptability of the risk of a foreign venture and the decision to use an equity mode of setup. It would also affect whether the organisation chooses to service the Australian market, or Chinese market first, and then other markets. Firms will choose to fund their international expansion strategies internally through their own cash flow, or externally from financial markets (Sanchez-Peinado, Pla-Barber et al. 2007). The greater the revenues and financial capability the firm has, the more resources it has to fund its international activities, and the more likely it is to adopt full control modes. The greater the available resources for a foreign investment project, the more inclined the organisation will be to adopt a more sophisticated entry strategy. If organisational resources for such a project are limited, the organisation will be more likely to select less expensive modes, such as exporting to China, rather than setting a business up in China. Financial capability also refers to the ability of a firm to find debt finance that will fund the project undertaken by the firm. The more financially
capable, the more likely that the firm would be able to afford equity based strategies in the foreign market. The lesser ability to access finance would see that less risky strategies are pursued such as exporting.

A Multi-Dimensional International Strategic Model

Having reviewed a number of theoretical perspectives on internationalisation, and the influences of country and organisational factors associated with market entry, in developing a process model, we propose the following research question for this paper "How do country and organisational factors influence international strategy choices when the primary international focus is on one market, and in particular China?" Based on the above country and organisation factors which influence the decision making of companies' market entry strategy, the following model is proposed as a multi-dimensional strategic model (See Figure 1).

The model suggests that country differences between Australia and China will contribute to the initial decision making process. Together with a range of organisational factors, four categories of strategies will be considered in the following discussion: export market focussed, domestic market focus, host country focussed and other market focussed strategy. This discussion incorporates consideration of entry modes for each of these strategies as each will imply specific entry modes.

Figure 1: A multi-dimensional international strategic model to enter the Chinese market

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<table>
<thead>
<tr>
<th>Country Factors</th>
<th>Organisation Factors</th>
<th>Strategy Model</th>
</tr>
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<tbody>
<tr>
<td>State of the Economy</td>
<td>Market knowledge</td>
<td>Domestic Market focussed (produce in China</td>
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<tr>
<td>Politics and Political System</td>
<td>Product type</td>
<td>export back to Australia)</td>
</tr>
<tr>
<td>Regional Area</td>
<td>Industry effects</td>
<td>Export market focussed (export from</td>
</tr>
<tr>
<td>WTO accession</td>
<td>Organisation Size</td>
<td>Australia to China)</td>
</tr>
<tr>
<td>Culture</td>
<td>Financial Resources and</td>
<td>Host Country focussed (produce in China and</td>
</tr>
<tr>
<td>Legal System</td>
<td>Capability</td>
<td>sell in China)</td>
</tr>
<tr>
<td>State of the Financial System</td>
<td></td>
<td>Other market focussed (produce in China, and</td>
</tr>
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<td></td>
<td></td>
<td>sell in China and other markets)</td>
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The *domestic market focussed* strategy is based on the Australian business producing in China, and then exporting back to Australia. Under this strategy firms entering China are primarily seeking alternative resources (dominated by cheaper labour and manufacturing costs). As the firm seeks to produce in China, the type of entry mode that would be EJV, WFOE, a licensing arrangement, or contract manufacturing. The product would not be sold in the Chinese market, because consumer tastes and preferences, would not be attracted to such a product, hence the product is only sold in the Australian market. Under the theory, this may be more suitable for consumer type products, where consumer tastes and preferences are important.

The *export market focussed* strategy would involve the Australian business exporting from Australia to China. Hence, its entry mode would be simply exporting. They approach may be based on the fact that it is not appropriate to produce in China, because the industry is restricted, or cultural, financial and legal factors make it difficult to do business in this country. When looking at organisational factors, a lack on an ability to get enough financial resources, may limit the ability of firms to setup operations there, and hence they decide to export instead.

The *host country focussed* strategy would involve the Australian firm establishing production in China to service and focus on the Chinese market. This decision would be based upon market research supporting the attractiveness of the product or service from the Chinese market and the fact that production and exporting in Australia is more expensive than in local production, allowing for the extra costs of operating an offshore facilities in China. In other words, labour and manufacturing costs in Australia, the costs of transportation to China, tariff costs, and costs associated with exchange rate fluctuations exceed the cost of setting up an operating a business in China, communication costs and risks. This implies that the entry mode should be an EJV, WFOE, a licensing arrangement, or contract manufacturing. If it is a service or a retail business, then the mode of entry could be a franchising arrangement.

The final strategy is the *other market focussed strategy*. In this strategy, the firm’s sets up production to service the Chinese market and then service other markets, outside of China. In this strategy, the organisation sets up
production in China to achieve a global market position to head off global rivals and potential competitors (Lin, 2000). Basing production in China will enable it to service the Chinese market and other markets, such as the US, the Asia Pacific, and Europe. The types of entry modes from the strategy would include, EJV, WFOE, a licensing arrangement, or contract manufacturing.

FUTURE RESEARCH AND CONCLUSIONS

China is a growth market, and it is an economically important trading partner for Australia. Modelling how Australian firms enter China, the decisions they make, the factors that they consider, and the strategies that they pursue is important if this trading relationship is to be successful for Australia. This would be of benefit to organisations both planning to as well as those already trading in China. This paper identified a number of internationalisation theories, including country and organisational factors which are significant for Australian organisations entering the Chinese market and which affect the type of strategies that an Australian business could follow in this market. These strategies were then found to infer specific entry modes, such as EJV, WFOE, a licensing arrangement, or contract manufacturing.

In future research, the authors will test the model developed in this paper by comparing current practice with the approach is recommended by the model. This research will be based on interviews with 50 managers and secondary data from separate organisations, investigating their internationalisation process, and the decisions they made to internationalise their business to China. This research will confirm the relationships between the strategies and the variables that are based on. Following this, a qualitative data collection will be conducted, allowing structural equation modelling to be used to further define the relationships between the variables. This research should contribute to the success of Australian businesses internationalising to China.
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