A Strategy Taxonomy for Foreign Direct Investment in China

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Taxonomies explaining internationalisation strategy are effective in relating connected variables to the decision-making process and entry mode strategies of organisations. Almost no taxonomies for entry modes into China exist, where the local conditions affecting entry are significantly different to those in other countries have been developed. The taxonomy developed in this paper from research into 40 Australian companies which had successfully and unsuccessfully internationalised into China identified resource transferability and international experience as connected variables that can categorise the factors of entry choice. High levels of resource transferability lead to contracting partnerships or wholly-owned foreign enterprises. Low levels led to importing or joint ventures. High levels of international experience led to wholly-owned foreign enterprises or joint ventures. Low levels led to contracting partnerships or importing. The factors that drive these decisions were developed using a framework of resource-based view constructs, supporting the application of the resource-based view to internationalisation strategy.

Field of Research: international strategy, entry modes

1. Introduction

Very little research has been conducted in the area of strategic management for specific countries or economic groupings of businesses, despite the demonstrated impact of strategic management on business performance (Rumelt 1991) and its consequent contribution to the development of the economies of many developed nations (such as the US and Britain) and its vital economic contribution to developing countries (such as China and India). This paper proposes a taxonomy of strategy in the Chinese business context, based on constructs from the Resource-Based View (RBV). The RBV is one of the cornerstones of modern strategic management (Fahy 2000; Barney 2001), however, its examination in the Chinese context is virtually non-existent. Given the focus of development of new management theories for strategy and operations in China, the resource based view is an appropriate foundation for the development of new China business taxonomies.

The RBV contains elements of the structure and cost (economics) theories of the determinants of performance in an industry (Barney 2001a). It also contains components of Industrial Organisation (IO) theories, such as the economic models of perfect competition and transaction cost theory, but rejects other elements making it independent of existing IO theories (Conner 1991). Its development was also strongly influenced by the work of Penrose, representing a further departure from mainstream IO theory (Lockett and Thompson 2004).

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The contribution of the RBV to explaining variations in organisational performance is considerable compared to the explanatory value of other models, such as Porter's 1980's perspective on the role of industry in explaining organisational profitability. In the mid-1990s, a four-year longitudinal study of 2800 US businesses determined that, whilst industry conditions explained 4% of profitability variation, individual company resources could explain 44% of profitability variation across companies (Rumelt 1991). A more recent study in Spain, involving 1642 organisations found that industry conditions explained 3% and company resources explained 36% of performance variation (Lopez 2001).

2. Literature review

2.1. Taxonomies for strategy and operations in China

Whilst most taxonomies for strategy refer to internal characteristics (Bolden, Waterson, Warr, Clegg and Wall 1997), other taxonomies consider external factors, such as Miller and Roth's (1994) strategy taxonomy. Miller et al. identified three groups: caretakers, marketeers and innovators. Many taxonomies are based on local data, such as that used for Miller et al. (1994) and Frohlich and Dixon's (2001) American and European home country based research and cannot be expected to be the same as for a Chinese strategy taxonomy (Zhao, Sum, Qi, Zhang and Lee 2006). These categories have also been shown to have evolved over time (Frohlich and Dixon 2001). Thus, comparisons with this research must be treated with caution. Zhao et al.'s study found that, in China, resources were much more strongly linked with performance, as predicted by the resources-based view.

Despite the impact of country differences taxonomy development, other studies considering entry mode have produced collaborating results. For example, Li and Rugman (2007) determined that the high equity entry mode was more popular when there were more concerns about valuable internal resources. A study of Swedish company entry found that a high attractiveness of internal resources lead towards a wholly-owned foreign subsidiary (WOFE) (Pehrsson 2008).

The literature has also identified the fact that, from a sales perspective, international businesses are seeking to move an increasing percentage of their sales from their home market by leveraging their internal resources (Osegowitsch and Sammartino 2008). Technology focus has been observed in the literature to be a defining factor of the entry modes and equity levels (Dikova and Van Witteloostuijn 2007).

In comparing business level strategy with operations strategy, Ward et al. (1996) identified four categories in their configuration model; niche differentiator, broad differentiator, cost leader and lean competitor. Both cost leader and lean competitor are associated with low equity entry modes (as high equity entry modes also exposed the organisation to a range of other business operating expenses). Broad differentiation can only be achieved through a high equity Joint Venture (JV) or WOFE. A niche differentiator is likely to be an organisation for whom the attractiveness of resources is important and so could either be a low equity JV or WOFE.

Miles et al. (1978) identified three desirable strategy modes in their configuration model; defenders, analyzers and prospectors and one undesirable category, reactor,
in which there is inconsistency in strategy, technology structure and process. They identified technology and internal resources as important differentiating factors for each of these categories.

2.2. RBV and Chinese Business Strategies

Considerable empirical research was found to exist examining the differences between the management styles of Chinese and Western organisations. This literature confirms that traditionally East and West companies have been divergent in managerial styles (Guillen 2000; Hoskisson, Eden, Lau and Wright 2000; Li, Lam and Qian 2001; Yiu, Bruton and Lu 2005; Hoffman 2006; Zyglidopoulos and McHardy Reid 2006; Haley and Haley 2006a; Haley and Haley 2006b). This literature indicated that Western Managers micro manage, are tactically slow to respond and adapt to changing situations and are dependent on high quality information to make strategic decisions (Haley and Haley 2006a; Haley and Haley 2006b). Conversely, it found that Chinese Managers macro manage, which often minimises competitiveness in unexplored, foreign markets (Haley and Haley 2006a; Haley and Haley 2006b). In contrast to Western managers, who primarily base decisions and strategies on the business environment, the Chinese adhere to cultural tenets based on Confucianism; keeping face and the development of trust (Ralston, Gustafson, Cheung and Terpstra 1993; Li et al. 2001; Zyglidopoulos and McHardy Reid 2006; Acquaah 2007). Interestingly, this underlying Confucian philosophy was found to lead to success in certain countries where Western organisations and strategic decision making had been unsuccessful (Guillen 2000; Hoskisson et al. 2000; Li et al. 2001; Yiu et al. 2005; Haley and Haley 2006a; Haley and Haley 2006b; Newbert 2007).

A good range of empirically based literature examining the strategic basis for success in China was found to exist. For example, one study found that 29 of the most successful Chinese and foreign organisations operating in China utilised a convergence of East and Western strategies (Haley and Haley 2006a; Haley and Haley 2006b). Their strategies were based around the use of both traditional objective Western and subjective Eastern market-research, data gathering and processing; the building of broad-based, deeply intuitive understandings of their markets, strategic directions and postures; building a core of market experienced managers who provide understanding and open communication between staff and line managers; looking at strategic situations from both a holistic and particularistic viewpoint; and basing strategic and tactical decision making on diverse sources of knowledge.

2.3. RBV Constructs

The strong relationship between competitive advantage (CA) and resources identified in the previous literature supports the use of RBV constructs for the evaluation and categorisation of strategic approaches for internationalising into China. A review of the literature identified the following constructs which have been found to have theoretically or empirically applied to Western companies. These will be used to provide a framework for the presentation of the research findings and to identify common themes that can be used to define the strategic dimensions of a taxonomy of international strategy for entry into China.
1. The CA predicted by the RBV should be measurable (Arend 2006).
2. RBV empirical data should be generalisable (Gibbert 2006).
3. Contextual constructs should influence the development of resources (Levitas 2006).
4. Resources should be treated as an input to advantage to avoid the circular definition of advantage in identifying the resources that created it as valuable (Fahy 2000).
5. The process of the development of the resources (time compression diseconomies, interconnectedness, scales of mass efficiency, casual ambiguity and the resource development trajectory relative to industry conditions) can affect the value of resources (Fahy 2000; Mathews 2002).
6. Management control can affect the customer's perceived value of the CA the resource creates (Fahy 2000).
7. Complimentary resources should be integrated with core resources when multiple resources are utilised (Teng and Cummings 2002).
8. Management, process, regional and scale effects influence the capability for utilising resources to create a CA (Riahi-Belkaoui 2003).
9. The use of internal development versus external acquisition is a measure of the maturity of resource development (Mathews 2003).
10. Different resources require different criteria evaluation techniques (Mathews 2003).
11. Performance differences between organisations can be explained on the basis of asset differences (Conner 1991).
12. The causal structure of resources influences the CA they create (capability is difficult to copy because it takes time, even if the resource is acquired).
13. Resources can be used to create competitive heterogeneity (Miller 2003a).

3. Methodology

The data to be collected involved developing an understanding of phenomenon from the perspective of the research participant and understanding the meanings participants gave to their experience (Yin 1994). Constantly, a qualitative research methodology was chosen to provide rich (Yin 1994) and in-depth data about how service firms internationalise. This is information that cannot be meaningfully incorporated into a traditional survey protocol because the processes by which the decision-making occurs are not yet clearly understood.

A structured interview guide (available from the authors) was developed based on the literature review above. A written invitation to participate was sent to a random selection of 500 companies operating in Australia which had either successfully or unsuccessfully established operations in China. The participants were identified from the membership list of the China Business Council of Australia and companies which have identified themselves as being involved with China in recent public domain media. Follow-up phone contact was used to organise interview agreements with the CEO or director of international operations of 25 of these companies, on a random basis. The acceptance rate was in excess of 50%, however, many acceptances were conditional on availability and the availability of the participants in the interview timeframe effectively reduced this. The first 25 participants who could be available in the interview timeframe were selected to meet the planned sample size of 25 participants. Participants who could not be accommodated in the interview schedule were then replaced in a second and third round of interview follow-ups. The data collection was completed for 23 of the 25 participants.
The interviews were conducted with the CEO because they were intimately involved in or actually chaired the process of strategy setting. This means that the interviewees had an extensive understanding of the organisation's internationalisation, the factors that affect it and its strengths and weaknesses. The interviewees were intentionally selected from a range of industries so that the research could identify the effects of the constructs across industries. Prior research has found that a broader interpretation of results and the investigation or development of grounded theories is possible when the research spreads across several industries (Baird, Lyles and B. 1994).

The interview transcripts were then reviewed by the interviewer and questions referred back to the interviewee where necessary. The data was coded using NVivo (version 7.0). NVivo is a categorising tool which enables segments (nodes) of larger blocks of data to be ‘tagged’ and linked into hierarchical patterns (trees) on the basis of a presumptive model (developed using the literature above) and thematic linkages appearing in the data. NVivo data interrogation (search) tools were used to facilitate the tagging process. The data was also simultaneously categorised under different headings, including interviewee, industry and theme to create a multidimensional perspective. The patterns of the linkages were then represented visually as a model (see Figure 1) using NVivo and the findings reverse interrogated to identify consistent and predominant themes.

The reverse interrogation of the tree nodes resulted in considerable consolidation of nodes in which the differences in the data groups were found to be minimal, confirmed the direction of linkages between nodes and identified the most suitable title for each node. The data from the nodes relating to the constructs was extracted and is presented in the following section.

3.1. The Sample

The industries (and number of participating companies) involved in the study were Business and Property Services (5), Building, Construction and Engineering (3), Education (4), Finance and Insurance (4), Agriculture, Forestry and Fishing (2) and Government, Administration and Defence (1), Accommodation, Restaurants and Cafes (1), Legal (1), Transport and Logistics (1) and Information Technology (1). A variety of entry modes were represented in the sample, whilst some firms engaged in multiple modes. The modes represented in the study include being Project/Client Based (9) and some with representative offices (2 out of the 9). Other modes included JVs (5), WOFEs (4), others had a representative office (1) and Agency Agreements and Partnerships (4).

In terms of location, the popular areas for location included Shanghai (13), Beijing (9), Guangzhou (5), Hong Kong (4), Shenzhen (3) and Tianjin (2). In addition, in terms of size, there were large (over 5000 employees) (8), medium 50 – 1000 (7) and small firms (1-49 employees) (9).
4. Findings

The participant organisations entered China according to the following modes. Project/Client Based (9), and some with representative offices. Other modes included Joint Ventures (9), using agents to source customers, Wholly Owned Foreign Entity (WOFE) (9), others had a representative office (1), Agency Agreements and Partnerships (3), Supplier Relationships (2), others did Exporting (2), or provided Exporting Assistance (1), Memorandum of Understanding (MOU) (1), and a strategic alliances (partnership) (1).

The findings will be considered in relation to the resource constructs developed at the end of the literature review. Evidence was not found to support four resource constructs and these were not included in this discussion. These constructs were:
1. RBV empirical data should be generalisable.
2. Management control can affect the customer's perceived value of the CA the resource creates.
3. Performance differences between organisations can be explained on the basis of asset differences.
4. Resources can be used to create competitive heterogeneity.

The following presents the evidence supporting the remaining resource constructs.

1. The CA predicted by the RBV should be measurable

The companies interviewed undertook very little measurement of the success of the internationalisation to China. One finance industry participant noted, “very few companies are even aware of the financial success of their Chinese operations”. No measurement at all of the CA achieved by the resources was undertaken although participants licensing technology anticipated a result from this transferred resource. Some participants were aware of the mechanisms that created the CA, particularly when they relate to discrete resources or capabilities. For example, a manufacturing participant said that, “it would be easy for competitors to steal their designs for their product, but said that part of their competitive advantage, was their quality, and the way they manufactured their goods, which would be difficult for (Chinese) competitors to replicate”.

2. Contextual constructs should influence the development of resources

Participants that possessed high levels of international experience (whether it was gained in China or in other countries) displayed the ability to develop resources in the home country or internationally for the Chinese context. For example, a building industry noted that their international experience commenced through their clients “It came about with one of our clients that we worked for in Australia. One of our international clients had a project in China that they asked us if we could help them with. So that was in the mid-’90s. So ’93 we did some design work for them on their new investment, a new facility that they were setting up.” Similarly, another building industry participant stated that, “I can’t say what would have happened 30 years ago but I know that if we were an Australian company who had never operated overseas, it wouldn’t be the first place I’d necessarily go to, so we were able to go there because we feel very comfortable working in that part of the world. Australia now represents less than 20 per cent of our work for our business, and 80 per cent comes from overseas. Out of 2800 staff, there are only 230 in Australian offices.”
comparison, a finance and insurance industry participant that did not have any international experience noted, "No, I didn't have any international – certainly no experience in China. And the first time I went there I was just gob smacked, blown away by the joint, and completely useless basically."

In addition, the cultural context was identified to be critical for the development of resources. A government funded participant stated that, "When you are dealing with China, I don't think there is as much attention placed on those things (cultural issues) as there should be. In an Australian business context, you will find a lot of Australian trading companies and others who might think they understand a bit of the language, but they don't really go out of their way to understand some of the deeper issues. I think there is a lot more that needs to be done about that."

3. Resources should be treated as an input to advantage to avoid the circular definition of advantage in identifying the resources that created it as valuable.

One of the most dominant themes from the interviews was the importance of taking into account the organisational resources required for success when operating in China. As one participant indicated, "the better the market is for Australian industry, the more resources we will put to China. I think that was one of the catalysts for our timing to enter."

Resources such as design capabilities, systems, local contacts and knowledge and manufacturing capabilities were used as inputs for the establishment of JV and in dealing with local government to establish WOFEs. This even applied to institutions, for example, one local government participant indicated, "Both NSW and Victoria had established sister state relationships. Back in 1980, the then Lord Mayor I think had visited China and felt that we needed to do something and connect with them. There was a relationship between the Port of Tianjin and the Port of Melbourne through some collaboration or cooperation. And it was on the basis of that that the Foreign Affairs Ministry of China suggested that Tianjin would be an appropriate city." In a similar vein, an agricultural association participant indicated that, "If they (Chinese) have a project, especially if it's in an area that needs developing, the local governments want to attract foreign businesses and things like that. You've got a good chance of getting good support from the government."

Human resources were the most critical input resource identified, despite the enormous workforce available in China. Significant issues were identified around recruitment of adequately skilled local staff and the difficulty in retaining the staff after their skills had been increased. Generally, the participants limited the use of expatriate staff because of cultural factors, preferring Chinese nationals with Western experience.

In addition, possessing inadequate resources was identified as a barrier to successful operations in China. For example, complex finance and banking regulations in China represented barriers to the successful use of banking and repatriation of funds for organisations with insufficient finance capabilities. In addition, the relatively higher risk resulting from these factors, frequently made it difficult for participants to attract external capital for internationalisation into China and caused them to rely on internal cash resources.
4. The process of the development of the resources (time compression diseconomies, interconnectedness, scales of mass efficiency, casual ambiguity and the resource development trajectory relative to industry conditions) can affect the value of resources.

Generally, the rate of development of local resources in China was affected by three factors; availability of sufficient skilled staff to match the resource development (particularly in the scale of operations), the different attitudes to management controls prevalent in China which influenced the company’s ability to develop typically western resources and the difficulty in protecting more easily imitated resources (such as technology and design). Resource development in areas more affected by changes in the Chinese business environment (such as the Free Trade Agreement negotiations between China and Australia) were usually delayed by more limited knowledge about those changes. For example, looking back at recent history, a manufacturing participant commented on the influencers of local resource development, “What drove it was when they finally started managing their economy sensibly and growth started to happen in China ... until the economy actually developed to have steam, no one was interested in investing there. But by the time we got to the early ‘90s, it was evident that that was genuinely happening. The only question was, was it sustainable?”

A number of the participants suggested that resource development in China should be preceded by significant planning (interestingly few of the participants had extensively planned the initial entry to China). For example, a law firm participant suggested, “I think a very clear strategic plan – a business plan that they stick to, rather than just going up there and talking to everybody in an optimistic way and everything they hear is optimistic and they come back and they put a good spin on everything for a board of directors – it probably needs to be a bit more realistic about what’s achievable. And the timeframe, often I think boards of directors don’t understand or are not properly briefed to understand that really. There might not be a return on investment for five years and that’s quite a long time in Australian business”.

Resource development was also linked to other organisations development. For example, an automotive industry participant stated that, “When we went to China in early 2005, we did a very rapid funnelling of business development opportunities there. There are more than a hundred vehicle manufacturers. We have four here in Australia if you include Mitsubishi. And very quickly we realised that the opportunities for us were probably not going to be in Shanghai or Beijing where a lot of Western companies already existed.”

5. Complimentary resources should be integrated with core resources when multiple resources are utilised.

The most common form of complimentary resource integration identified by the participants was backward integration. Backward integration involves the acquisition or partnering in two immediate suppliers of the business. In the research, this frequently involved the establishment of significant complimentary resources that supported core resources, such as the construction of upstream manufacturing facilities or entering into supply partnerships.
6. Management, process, regional and scale effects influence the capability for utilising resources to create a CA.

A characteristic of the Chinese business environment frequently identified in the research that influenced the decision to enter China was the overall size of the Chinese market. Over half of the participants entered China because of the scale of the potential local market there.

The size of the Chinese market also influenced the way in which resources were developed. For example, a biotech participant chose locations in which to establish Chinese operations based on whether the size of the hospitals in that location most suited their resource development capabilities.

7. The use of internal development versus external acquisition is a measure of the maturity of resource development.

The interview participants confirmed that external acquisition of resources is a challenging exercise and requires maturity of experience and capability in development of resources in that environment. For example, an IT industry participant stated that, “Manufacturing licenses, all this sort of stuff, are just so hard to get. So you need to buy a company, even if you buy the company just for that and basic machinery - which is probably worth nothing because our machinery is state-of-the-art. But you might get a manufacturing license for a particular province, and you’ve got something to work with. We’ve now got a warehouse colour-making facility and we’re looking for sales staff now for our operation in Shenzhen who will start going to market and trying to develop it on a local level, at this point selling imported paint. However, we’ve been looking now for three years for a suitable joint venture partner.”

8. Different resources require different criteria evaluation.

One of the most important criteria affected by the type of resource to be developed was location in to which a business established itself in China. For example, an automotive industry participant noted that “Inside China, we compare province to province. So why did we pick Dalian versus Tianjin, Nanjing, Guangzhou? Why Dalian? Dalian was narrowed down to 3. We had Suzhou, Tianjin and Dalian. And of those three, you could have picked any one of them and it would have met all our criteria. But when you get down the specifics in China, it’s new and the provinces can influence businesses. Dalian is a new generation area. So when we went up there 5 years ago, the first thing I noticed is yes, I met a communist party member who was the figurehead, but straight behind that is a new generation: young managers.”

Publishing industry participants develop very specific criteria for partners to help in the development of local resources, including in their culture and long-term orientation, “We looked at about 25 different publishers who may be interested in this sort of product, and then had quite an exhaustive partner selection process by which we sent out a bit of a quite a long letter about who we were and what we wanted to do in China.”

Even the criteria for staff involved in resource development are quite specific “we also have a criteria for that person to be a long-term employee and trusted and capable.”
9. The causal structure of resources influences the CA they create (capability is difficult to copy because it takes time, even if the resource is acquired).

Limited evidence regarding the causal structure of resources was provided by the participants, however, they noted the fact that CA was sometimes derived from a causal interrelationship between resources. For example, a manufacturing participant indicated that it would be easy for competitors to copy their product designs, but that their quality control processes, their manufacturing processes and their designs combined to create the competitive advantage and would be difficult to replicate.

From a time-based perspective, forward planning for the development of resources could also be used to create a competitive advantage, although the CA may not actually occur in China, but might occur in the company’s home country. For example, an automotive industry participant indicated that, “We looked at where the global growth was going to take place, it’s nearly all in the Asia-Pacific Region, and of that in the next few years it’s nearly all in China. That, coupled with the fact that we are under extreme pressure in this market with reducing volumes of cars being built, significant pressure on costs, and the threat from the Asia-Pacific competitors to our business, we felt that a defensive strategy (or an offensive-defence strategy if you like) was best to get up to China, get our own position in the market there, and if we then need to bring products out from China we are actually bringing it from our organisation in China and not outsourcing business to another supplier. So for us it was taking advantage of the growth, but also protecting our business here in Australia.”

Nine of the fourteen possible constructs for the RBV were supported by the data from this research. This supports the applicability of the RBV to describing the strategic approaches to internationalising into China and the use of resources as a basis for a taxonomy of strategies driving entry choice. These findings will now be reviewed from the perspective of entry choice (modes) and constructed into a taxonomy demonstrating their relationship.

5. Discussion

The findings will be categorised according to emergent themes, under the four entry modes that were identified in the research and collaborated by the literature—contracting partnerships, importing, joint ventures and wholly-owned foreign entities. These emergent themes represent influencing factors for each of the entry modes.

Contracting Partnerships

In regards to partnerships, the findings suggest that the following influencing factors apply.

1. Transferable resources provide influence in negotiations and lead to long-term relationships [RBV Findings Constructs 2, 3, 6, 7 and 8]

Participants with some bargaining power were often those with high equity modes, or had resources/plans attractive to China such as building pharmaceutical plants or apartment blocks. The organisations that had medium and large amounts of bargaining power were mining companies that were involved in developing China’s economic growth with resources. A manufacturing participant said that they had a
reasonable amount of bargaining power because of the amount of investment they had.

2. Transferred resources are attractive in China and increase local government support. [RBV Findings Constructs 3, 4 and 9]

The participants revealed that technology transfer into China was viewed very positively and that support for the entry of organisations introducing new technology at the government level was greater. Other valuable resources, such as skills, were viewed in less positively but still more positively than market entry where no resources would be transferred.

3. Lower levels of application skills in China make resource transfer difficult to manage. [RBV Findings Constructs 3, 4 and 8]

Although China has now required good/world-class levels of technology and skills in areas such as R&D, the participants indicated that the skills available to apply these technologies and competencies were weak. Furthermore, local staff with these application skills and experience were at a premium.

4. Expatriate managers are not preferred to local staff with western experience. [RBV Findings Construct 3]

The importance of local cultural understanding and possible local contacts was so great that most of the participants strongly preferred to employ local staff with western experience or training for even senior positions. In addition, expatriate managers were found to be both expensive (in terms of support, training and repatriation) and were generally not adequately trained for international positions in China.

**Importing**

1. Labour and raw material costs are low, leading to an advantage in home country markets. [RBV Findings Construct 9]

Whilst the participants generally identified the low salaries in China as a major cost advantage, participants in traditional industries such as footwear manufacturing also claimed that the superior infrastructure in China for those industries also provided a cost benefit. The manufacturing participants found that, although some cost savings could be achieved through purchasing a whole container load directly from Chinese manufacturers, ultimately, an investment partnership in China was required to achieve real cost savings. On the other hand, operations in China presented some challenges around returning profits to Australia. The manufacturing industry participants found it often took three years before profits were generated there.

Cost factors were identified as being either the cost of maintaining the core business operations in China or the benefits of reduced production costs. Both of these were considered to be management issues. They directly influenced entry mode by driving companies with low levels of transferable technology and international experience to import from Chinese contractors or enter low equity partnerships. Contract importation was generally found to involve facilitators and agents and did not deliver all of the potential cost saving.
2. Imported goods quality control is important and may be supported by non-transferable resources. [RBV Findings Constructs 1 and 9]

The participants indicated that quality control was an issue both in terms of the consistency in supply of raw materials and services, variability in local supply chains and the local perception of the importance of quality control. Reducing costs tended to lead to reduced quality and did not create products suitable for importation back to Australia. Interestingly, technology was not a transferable resource that improved quality control because of the low levels of technology application skills available in China. Use of home country design skills to develop (and transfer) good designs to China tended to result in higher quality, along with sophisticated product sampling techniques for imported product.

3. Local supply chains are complicated [RBV Findings Constructs 5 and 9]

The manufacturing, service and education industry participants found that effective supply chains were formed on the basis of senior management networks and were established over long periods of time. The service industry participants found that local regulations often required them to establish more administrative operations in China than they had expected which resulted in more complicated supply chains. For some participants, supplies of raw materials were no longer available in the home country and companies must move to China to access them, "... in essence, the move to China was sort of to replace local manufacturing." "The Chinese are just sucking up everything they can possibly get [reducing availability in Australia]."

VJ

1. Local partner provides non-transferable resources. [RBV Findings Construct 5]

Resources such as market knowledge, access to supply chains, access to raw materials and government contacts were frequently organised through local agents and partners. Many of the participants indicated that they would have been unable to enter China without a partner who had access to these non-transferable resources. Frequently these resources were built over extended periods of time making even long-term resource transfer difficult. Resource transfer of this nature was most strongly linked to internationalisation experience.

2. Local partner provides leverage with local authorities. [RBV Findings Construct 3]

As noted in point 1 above, local partners frequently provided important leverage with local authorities. For example, local legal representatives had much better knowledge of the current Chinese legal system and local regulations. In addition, they had a strong impact in negotiation than foreign-based legal representatives. In a similar manner, the construction participants claimed that local construction partners were able to negotiate approvals and special allowances much more quickly and easily than they would be able to themselves. Where levels of regulation constraints were unfavourable in the selected regions, the participants favoured JVs in the belief that these business structures would be better able to negotiate favourable regulation conditions.
3. Risk is greater with fewer transferred resources and is shared across partners. [RBV Findings Constructs 5, 7 and 8]

This point is true for all internationalisation, however, the participants noted that entry to China was generally perceived to be a high risk venture both by decision-makers (such as the board) and by funding providers. In the case of entry to China, spreading the risk across partners facilitated the approval of internationalisation projects. For example, the finance industry participants noted that projects were much more likely to attract sufficient capital funding to proceed if partners were involved because of the risk perceptions.

4. Greater dependence on local skilled staff requiring local partner networks. [RBV Findings Constructs 3, 4 and 7]

Local staff understanding of Chinese practices was critical in many areas. For example, the education industry participants found the lack of regulations for education in China made it easier to set up operations, but that regulation implementation was open to corruption and subject to varying interpretations. Another factor supporting joint ventures and involving local staff was that regulations were found by the participants to be different for foreign companies, “China has two standards: if your local competitor is doing one method, then you are not allowed to do it.” Frequently, domestic standards overrode international standards, “...[it] was actually tested to international standards by independent organisations, and whenever there was conflict, there was in fact a tendency to fall back on the domestic standards.”

WOFE

1. Maximum returns are achieved from whole ownership. [RBV Findings Constructs 4 and 7]

Whilst operating costs in China were generally found to be higher than originally expected by the participants, it was also found that the repatriation of profits was more difficult, particularly where partnerships were involved. By comparison, contract partnerships and importation tended to involve a number of intermediate agents which added significant direct and bureaucratic costs to the operation. This left WOFEs as the entry mode offering the greatest potential return, particularly where large scales of activity were planned.

2. Labour, raw materials, land and R&D costs are low in China, supporting operations transfer. [RBV Findings Constructs 2, 4, 6 and 8]

As noted in the Importing section above, point 1, labour and raw material costs are low in China. Low land costs in special economic zones and access to technically trained staff also made the transfer of these operations to China attractive for the participants. Predominantly, the participants that chose high equity investments such as WOFEs established operations in China to access local markets (and indirectly supply global markets). These low costs facilitated this development.
3. Quality and purchasing control are important and are supported by transferable resources. [RBV Findings Constructs 1 and 9]

As noted in the Importing section above, point 2, quality and input control for importation was a significant challenge and was supported by transferable resources. Participants choosing high equity investment such as WOFEs increase the opportunities to transfer quality and purchasing controlling resources (such as design and planning capability) to their Chinese subsidiaries, where as the participants importing could only rely on transferring resources through product design and other intangible features.

4. Entry into special development zones is attractive and facilitated by transferable resources. [RBV Findings Constructs 6 and 8]

The participants noted that the special economic zones offered more attractive regulatory conditions, such as fewer constraints, more attractive taxation conditions, as well as better infrastructure and access to local suppliers. This was particularly important for the participants entering through high equity modes as they sought higher returns in exchange for the high-level of risk associated with WOFEs. Transferable resources enabled these organisations to negotiate access to special development and economic zones.

5. Resource transfer is attractive to local authorities. [RBV Findings Constructs 3 and 8]

In addition to the points made in the contracting/partnership section, point 2 above, the participant suggested that local authorities did not prefer WOFEs with transferable resources, probably making JVs with resource transfer more attractive, from this perspective. For example, banking industry participants found that financial regulations required them to enter into joint ventures which were viewed as attractive by local authorities because of the transfer of banking technology and credit facilities.

This discussion has identified resource transfer and international experience as critical variables explaining the strategy of internationalisation to China entry choice. These will now be represented in a taxonomy of entry strategy, along with the emergent themes above which form explanatory features of each entry mode strategy.

6. A Taxonomy of Entry Strategy

The findings section (above) supported the use of resource as an explanatory perspective for internationalisation to China entry choice. The categorisation of the emergent themes (influencing factors for each entry mode, discussed above) identified the level of international experience as a dimension of the strategic decision-making process, which is strongly related to the transfer ability of resources. These two variables will now be used to construct a configuration model of a strategy explaining entry choice.

The taxonomy representing these relationships is shown in Figure 1. This taxonomy relates these findings on the basis of the level of transferability of resources relative to the level of international experience.
This taxonomy is comparable with Miller and Roth's (1994) taxonomy, which identified the categories of marketeers and innovators which require transferable resources and international experience to access international markets. Without resources which can be transferred to the local markets and knowledge of how to operate in international markets, innovation and market share development is not possible. Miles et al (1978) taxonomy also has some consistency with this taxonomy by identifying resources as one of the variables explaining the four strategy modes of defenders, analyses, prospectors and reactors. Ward et al (1996)'s taxonomy includes the categories of niche and broad differentiator which correlates with high levels of resources, according to the RBV. Finally, Zhao et al.'s (2006) taxonomy identifies resources as being strongly linked with business performance in Chinese organisations, supporting the use of transferable resources as a dimension of the internationalisation strategy taxonomy explaining entry choice.

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Figure 1. A Strategic Entry Taxonomy for FDI in China
7. Conclusion

This paper has analysed the experiences of 40 Australian companies which internationalised successfully and unsuccessfully into China to determine whether internationalisation strategy could explain their entry mode choices. Fourteen resource-based view constructs were developed from the literature which could apply to the internationalisation strategy choices of companies entering China. Evidence from the research was found to support nine of these fourteen constructs, supporting the application of the resource-based view to explaining the internationalisation choices of companies entering China.

Four entry modes were identified in the research - contracting partnerships, importing, JVs and WOFEs. Categorising the emergent themes from findings under each of these entry modes identified influencing factors from the Chinese business environment for each of those entry modes. The influencing factors also displayed connected themes of resource transferability and internationalisation experience, suggesting that the influencing factors for entry modes could be categorised by these two variables.

A taxonomy representing the four entry modes, influencing variables, utilising the variables of resource transfer ability and internationalisation experience was reconstructed. The validity of this model is supported by the demonstrated applicability of the RBV for explanation of the entry choice of companies internationalising into China. The content of this model is validated by the emergent themes identified from the research.

Further research is now required to identify whether this taxonomy applies equally to single industries and whether it applies to Chinese companies internationalising into countries such as Australia.
References


