The impact of political behaviours on internationalisation
The case of Australian companies internationalising to China
Jane L. Menzies and Stuart Orr
Deakin Business School, Deakin University, Burwood, Australia

Abstract
Purpose – The purpose of this paper is to test a model of cooperation between internationalising businesses and local and host country governments in the context of Australian companies internationalising to China.
Design/methodology/approach – The paper presents a model for the political dimensions of internationalising based on corporate political theory and the cooperative view of management. Data were collected from personal interviews with representatives from 40 Australian organisations with businesses or operations in China. The data were analysed using NVivo.
Findings – Assistance provided by the Australian government was often sought and was perceived to be beneficial. Most participants experienced policies and regulations which affected their entry modes. In ten cases they acted as barriers and significantly influenced entry mode choice. The majority of participants viewed the development of relationships with the Chinese government as important and employed a variety of relationship behaviours. Over half of the participants identified the need to understand and deal with the psychologically distant government structures of the Chinese government, namely government intervention in business.
Practical implications – The model links the organisational objectives of businesses internationalising to China, understanding the political/regulatory environment, selecting an entry mode and developing/maintaining a successful business. To achieve these objectives corporate political behaviour must reflect the sovereign powers in place at the time.
Originality/value – The paper presents a model which develops the literature for the political dimensions of internationalisation. It also presents empirical data on the political dimensions of internationalising into China. These findings will assist businesses in understanding political factors when internationalising to China.

Keywords Australia, China, Politics, Economic cooperation, International business
Paper type Research paper

1. Introduction
Developed countries are increasingly interested in trade relationships with China because China is a significant factor in the global economy. In the case of Australia, Australia-China business relationships are important to the growth of Australia’s economy which is significantly affected by China’s economic growth, which has averaged around 10 per cent per annum (Austrade, 2007). A large population and growing middle class (Farrell et al., 2006) also makes China an attractive market. Despite the attraction, China is not straightforward to invest in (Chung, 2006). Among many influencing factors, the political environment has been a challenging area for foreign investors. This dimension cannot be under-estimated, especially in relation to China, because of its one-party dominated central administration system and its ‘socialist market economy’ (Hu, 2008). China’s economic development and entry into the global economy in 1979 has also resulted in considerable foreign direct investment (FDI) (Yeung, 2000). Over 2005 and 2006, China received US$70 billion in FDI (Davies, 2007) and is becoming one of the world’s principal destinations for FDI (Bellabona and Spigarelli, 2007). At this stage, trade outweighs investments. For example, although China is Australia’s number one trading partner, it is only its 21st largest investment destination. This is changing rapidly, however, and in 2006 Australian businesses invested A$3 billion in China (DFAT, 2007).
Despite the level of FDI that occurs, research explaining the corporate political behaviour of developed companies internationalising into economically important, high growth rate developing countries, such as China, is very limited. The approach that multinational corporations (MNCs) use to integrate their entry strategies with their political activities is particularly poorly understood (Baron, 1995; Bonardi, 2004)
and is an important area of future research in relation to China.

1.1 Frameworks for the MNC political environment experiences
The political environment is one of the critical factors in the selection of entry modes when internationalising (Sundaram and Black, 1992; Baysinger, 1984). Government policies and regulations create opportunities and barriers for companies internationalising into China. Environments can also be categorised as stable, unstable or uncertain, placid, disturbed, turbulent, simple-complex or static-dynamic (Lawrence and Lorsch, 1967; Emery and Trist, 1965). The Chinese political environment is transitional and changing, but not uncertain. One of the reasons for this is that the Chinese government discriminates between foreign investors on the basis of the fit of the proposed investment with their economic goals (Lenway and Murtha, 1994) and desire to protect certain industries. The multiple sources of sovereignity in China, which includes the various levels of Chinese government, as well as influences from the company’s home country government (Ring et al., 1990) further complicates the political environment for MNCs.

The discipline of political economy provides a number of theoretical perspectives which are relevant to this study. These include corporate political strategy (Hillman and Keim, 1995) and the cooperative view of managing government relations. Two other perspectives, statism and globalism can also be used to consider the political environment of international business. Statism considers the role of the host country government (and possibly home country government) in determining aspects of the international business environment (Easton and Walker, 1997). From the statism perspective, the greatest impact in the Chinese international business environment is on Chinese businesses, particularly state-owned enterprises (SOEs). In this regard, the state-control level is extremely high and will determine the internationalisation behaviours of these organisations directly. The impact upon companies internationalising into China, however, was weaker, being limited to regulatory constraints and support for selected industries. Indeed, it is even argued that China no longer operates with a statism political philosophy (Goldstein, 1994). The regulatory constraint component is included in this research by focusing on the direct impact of government policy on companies internationalising into China, rather than the impact of state-control plans.

Globalism considers the impact of global pressures on the political environment. In the case of China, it is quite clear that China is experiencing globalisation pressures, for example, as a result of its accession to the world trade organization (WTO) (Lee et al., 2009). At this stage, the impact on the political environment does not appear to extend as far as international business – except for the beginnings of change in regards to work conditions and standards (Funabashi, 1992). As with statism, the principal impact of globalisation on the political environment in China for international business appears to be in the formation of local regulation (such as the construction of free-trade zones) and some relaxation of trade conditions. These aspects of globalisation have been included in this research as the impact of trade and investment policies on businesses internationalising to China.

1.2 Corporate political strategies and behaviours
A popular approach MNCs take to create an attractive environment in a host country is to politically influence that country’s government to create favourable conditions (Vernon, 1971; Baysinger, 1984). The types of political approaches used to influence the local government vary between countries (Luo, 2001). The principal factors causing these variations are the nature of the government (for example, democratic, authoritarian or dictatorship) and the differences between the home country and host country government. Approaches to influencing the host country government can include: policy formation (i.e. policy development and lobbying), relationship management, the management of organisation and government interactions (Chen, 2007), communication techniques, knowledge of issues management and the establishment of organisation government and organisation-employee relationships (Grunig and Hunt, 1984).

1.3 Cooperative view of organisation and government relations
In addition, the cooperative view of MNC and government relations considers the relationships established between each and the resultant outcome to explain cooperation between the two parties (Baysinger, 1984). The view suggests that businesses develop relationships with host country governments to:
- gain support and approval for entry arrangements;
- gain special monetary and anti-competitive favours from government; and
- manage the environmental turbulence created by governmental threats to organisational goals such as changes in FDI rules (Baysinger, 1984).

A home country government may assist an organisation with its internationalisation by providing support (including diplomatic), information (such as political risk assessments and advice), introductions, contacts and
may negotiate on behalf of organisations and industries (for example, free-trade negotiations to provide better access to markets in the host country). International businesses usually seek to influence the local government at the initial point of their entry into a country (Vernon, 1971; Fage and Wells, 1982; Kim, 1988; Grosse, 1996). The most common mechanism involves negotiations and relies on the bargaining power of each party (Boddewyn and Brewer, 1994). This suggests that the cooperative view of political behaviour is important in establishing entry mode conditions.

Although the approach is well identified, little is known about how the cooperative behaviour of MNCs in the political arena operates. Networking with local officials has been shown to be an important part (Rosenzweig and Singh, 1991; Lenway and Murtha, 1994). In addition, MNCs most frequently engage in cooperative political behaviour specifically to maximise economic returns from their international expansion, mitigate the liabilities of foreignness and minimise transaction costs (Rosenzweig and Singh, 1991; Lenway and Murtha, 1994). Personal relationships between MNC staff and government officials have been shown to be valuable in suppressing opportunism in the host country government (risk of the host country government taking advantage of the MNC’s commitment to that country by introducing regulations and costs) and boosting trust (Luo, 2002).

Personal relationships are particularly effective in China because of the preference given to them over contractual relationships, which is often referred to as Guanxi. Guanxi reflects the Confucian values of social relations and dealing with personal behaviours (Linong, 2006). Guanxi is more complex than the western concepts of networking and business favouritism and provides an alternative path to formal, regulatory or contractual processes to enable organisations to identify and take up opportunities which they would otherwise miss (Linong, 2006). For example, Foster’s Brewing Company’s joint venture (JV) in the Chinese city of Tianjin had a much better relationship with the local government than the JV in Shanghai (Chung, 2006). As a result, Foster’s were more successful in Tianjin than in Shanghai.

It has been argued that the initial role of Guanxi in Chinese businesses originally resulted from the need for mechanisms to establish trust in an environment with an absence of market institutions developed for this purpose. It is now less important because these market institutions are in place in the political environment (Tan et al., 2009). The impact on the success of the internationalisation of Chinese companies is still, however, directly linked to their ability to manage the relationships around them and to use information provided from the relationships for more effective decision-making (Xie and Amine, 2009). Because Guanxi shapes the establishment of systems of trust in the Chinese political environment as they relate to international business, Guanxi has been incorporated into this research by considering relationships with key political actors. MNCs frequently employ staff whose role is to span the organisation and the host country government to assist with establishing cooperative political relationships. Over time, the managerial ties that form between these staff can evolve into interorganisational relations (Oliver, 1996). In emerging markets such as China, personal level trust is frequently institutionalised. This creates an opportunity to establish interorganisational relational capital between the MNC and host country government, which cannot be achieved through market or hierarchical mechanisms. As a result, the focus of political relationship management is to reduce the uncertainty associated with dependence on the host country government, rather than to reduce dependence on the host country government (Getz, 2002). This uncertainty can be described as psychic distance — “an organisation’s degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there” (O’Grady and Lane, 1996, p. 330).

2. Developing a theory for investing in China

Although the research considered above provides a good framework for explaining the features of political impact and company actions in the international business environment, this literature does not adequately address either:

- the case of companies internationalising into China from developed countries (such as Australia); or
- the specific impact on entry mode selection.

This paper will attempt to fill this gap by extending the existing literature considering the political negotiation aspects of internationalising to China from a developed home country. To achieve this, a model describing political impacts on entry mode selection was developed on the basis of the literature and the specific contextual issues associated with internationalising to China from a developed country like Australia examined through empirical research. The contextual elements were considered using a set of research questions based on the components of a model. The model and empirical research focused on the impact of political negotiation on entry modes (into China). The paper will present this model and discuss the findings relating to
the research questions using evidence from MNCs internationalising from Australia to China. Both the model and the consideration of its contextual features provide a unique contribution to the literature. The contextual international business issues experienced in China will now be considered to provide a background for the description of the model that follows.

2.1 Influence of the political system in China
The political system in the host country is the major factor affecting political negotiations between the host country and an MNC interested in establishing a subsidiary in that country. China operates with a socialist market economy in which capitalism is generally encouraged, though the Chinese government oversees and influences the economic development at the macrolevel (Gregory and Stuart, 1995; The State Council, 2004). The political system is an authoritarian system and the emerging economy is a socialist market economy (Linong, 2006). The Chinese government exercises great power in every aspect of the country’s activities, including business policy formulation (Gregory and Stuart, 1995). Political reforms have been occurring gradually but less dramatically than China’s economic reforms, which are still considered to be in the transitional stage (Linong, 2006). Given the psychic distance that would be perceived between China and a developed country, it is likely that many MNCs from developed home countries would choose entry modes that require less equity. In addition, these MNCs would place particular emphasis on understanding the state of the Chinese political system and develop approaches to accommodate the differences between the political systems with which they are familiar and the Chinese political system— as has been observed above.

On the basis of these political conditions in China, the following research question was developed: “Do Australian businesses need to understand the Chinese environment to identify the correct entry mode?”

2.2 Home country support for internationalising into China
The actual support MNCs receive from their home country government when internationalising is becoming better understood. Kotabe and Czinkota (1993) suggest that assistance from the home country government comprises export service programs (such as seminars for potential exporters, export counselling, how-to-export handbooks and export financing) as well as market development programs (helping to generate sales leads, participation in trade shows, market analyses and export newsletters). Providing this assistance, and allowing for free-trade agreements and trade bloc memberships for rapidly developing and integrating countries such as China, represent particular challenges for home country governments. For example, the Australian government has increased its emphasis on assisting two-way trade with China (DFAT, 2005) by negotiating a free-trade agreement with China (DFAT, 2007), which was a response to pressure from Australian MNCs on the Australian government to provide more political support, using economic means.

From an institutional perspective, home country governments establish structures designed to provide political support for their international businesses. In the context of Australia, various federal bodies, such as the Department of Foreign Affairs and Trade (DFAT) and Austrade, promote Australian businesses in host countries (DFAT, Austrade, 2007). Local state level institutional structures may also exist to support small businesses internationalising from specific regions of the home country. For example, the state level investment support agency, Invest Victoria, operates an office in Shanghai and provides Victorian-based international businesses with free office facilities and services in China (Austrade, 2007). Institutional arrangements may even exist at the municipal government level. For example, the Australian City of Melbourne has a sister city relationship with the Chinese city of Tianjin and a representative office there.

These grassroots institutional bodies are particularly effective in providing contacts and introductions which are specifically for businesses internationalising to China (O’Toole, 2001). Chung and Mascitelli (2008) confirm that sister city relationships are important for developing economic relationships between Chinese and foreign cities. On the basis of the institutional support available from the Australian government for internationalising to China, the following research question was developed: “Do Australian businesses obtain assistance from the Australian Government and in what forms?”

2.3 Impact of host country’s trade and investment policies and regulations
There is considerable variation between countries in the regulations that they apply to FDI and trade. These regulations can function either as obstacles or incentives to FDI and trade. This situation reflects a hierarchical-authority view of business-government relations by emphasising the formal source of governmental power as something that is inherent in official positions (Astley and Sachdeva, 1984). The government possesses legitimate power, while foreign MNCs in that country possess only delegated power resulting from their political negotiations (Boddeywn and Brewer, 1994) and home country support in the host country.
One of the most important of these host country regulations are trade barriers, which have a significant effect on the entry mode chosen (Ekeledo and Sivakumar, 1998). International trade agreements, on the other hand, support the activities of MNCs in host countries (Merritt, 1986). Both of these policy types significantly influence the entry modes chosen. The main impact of trade barriers is to limit the entry mode options of foreign MNCs, especially those of manufacturers (Osland and Cavusgil, 1996). For example, high tariff barriers will make imported goods and services more expensive than their local counterparts and, therefore, manufacturers will favour local production under those conditions. In addition, non-tariff barriers may force foreign MNCs to enter partnerships with local providers, thus favouring contractual agreements as a mode of entry (Douglas and Craig, 1995). This literature suggests the research question in relation to entering China: “Do Chinese government trade and investment regulations influence entry modes?”

2.4 Chinese government support for companies internationalising there
The cooperative view of political relations with the host country government explains the importance of the provision of Chinese government assistance for internationalising into China. This reduces the perceived level of risk and affects the entry mode decisions as well as the overall value of the investment. The 2006 changes to Chinese Joint Venture Law have opened up the range of entry mode possibilities to foreign MNCs. The increased level of investment opportunity, together with the variety of local government, province and special administration regions that impose local level policy and regulations on foreign MNCs, make host country government support in China particularly critical. To examine this area, the following research question was developed: “Do Australian businesses form relationships with the Chinese government and in what form?”

2.5 Host country government intervention
The nature of the Chinese government means that it is more likely to intervene in the operations of foreign MNCs. This government intervention is due to the fact that China has only recently moved out of a command economy and a political environment in which all enterprises were 100 per cent controlled by the government. The Chinese government political bias still leans strongly towards maintaining control over businesses — especially foreign organisations — through both policy and direct influence on company processes (El Kahal, 2005). In addition, although a large number of Chinese SOEs have now been privatised and other private enterprises established (El Kahal, 2005), institutional controls and structures are still in place to influence the entry behaviours of foreign MNCs. Foreign MNCs considering JVs as an entry mode find that the only partners they are allowed to access are SOEs or government bodies (El Kahal, 2005). An interesting side-effect of control is that JV agreements in China frequently lead to direct relationships with the Chinese government (Chung, 2006). The research question developed to examine host country government intervention was: “Do Australian businesses face intervention issues from the Chinese government when operating in China?”

2.6 Entry modes
A number of entry modes are considered and include exporting, agency and partnerships, wholly owned foreign entity (WOFE), JV, licensing and client/project based (Table I).

2.7 A political negotiation structure for MNCs internationalising to China
To investigate the research questions, a framework for the political activities of MNCs internationalising was required. Table II presents a typology of political activities, developed from the literature above, which represents the political activities MNCs will undertake when internationalising. It incorporates three principal objectives — understanding the political and institutional environment in the host country, negotiating political opportunities that create and define the entry mode, and political negotiations to create long-term conditions that will support the success of the local subsidiary. The typology identifies two principal inputs that affect the three main political objectives — the local and the host country government. The typology has been developed for the specific case of an Australian-based MNC internationalising to China, and includes the contribution of both the Australian and Chinese governments. The typology structure is based on the structure of Baysinger’s (1984) typology for international political activities.

This paper will now present an examination of this model using empirical data collected from Australian organisations which have internationalised to China.
Table I. Various entry modes

<table>
<thead>
<tr>
<th>Mode</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting Agency and partnerships</td>
<td>Sale of products to one country to residents of another country or overseas</td>
</tr>
<tr>
<td>Wholly owned foreign entity (WFOE)</td>
<td>Supplies of goods or services who appoint agents in a foreign country to promote sales</td>
</tr>
<tr>
<td>Joint venture (JV)</td>
<td>A cooperative undertaking between two or more firms</td>
</tr>
<tr>
<td>Leasing</td>
<td>One organisation leases the right to another organisation to produce their product, or use their trade mark or brand name</td>
</tr>
<tr>
<td>Client/project based</td>
<td>Staff fly from the home country to the host, and perform services on a client/project basis</td>
</tr>
</tbody>
</table>

Table II. A typology of political activities

<table>
<thead>
<tr>
<th>Organisational objectives</th>
<th>Australian government input</th>
<th>Chinese government input</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understand political/regulatory environment</td>
<td>Gain advice on political system, regulations and contact</td>
<td>None</td>
</tr>
<tr>
<td>Identify entry mode</td>
<td>Facilitate and support contact with relevant Chinese government officials</td>
<td>Develop relationships with relevant government officials</td>
</tr>
<tr>
<td>Develop/maintain successful business</td>
<td>Obtain ongoing advice</td>
<td>Maintain relationships with China government for an ongoing successful business</td>
</tr>
</tbody>
</table>

3. Methodology

The data collection method involved developing an understanding of political negotiation phenomena amongst MNCs in China from the perspective of the research participant and understanding the meanings participants gave to their experience (Yin, 2009). This is information that could not be meaningfully incorporated into a traditional survey protocol because the processes by which the political negotiation occurred are not yet well understood. Consequently, a qualitative research approach was adopted utilising in-depth interviews to examine the phenomena.

The empirical data were collected in 2007, which was prior to the Global Financial Crisis in 2008 and does not incorporate issues relating to a critical credit shortage. However, the impact on Australia’s investment relationship with China has been minimal, and therefore the data presented in this paper is still relevant for other businesses wishing to invest in China. A variety of sources were used to identify potential participants, including the Australia China Business Council (ACBC) Victoria membership list and public domain databases, including the media. The ACBC supported the project which facilitated the participation rate. Invitations to participate were emailed to randomly selected representatives of organisations until 40 had agreed to participate. Non-respondents to the initial contact were followed up with phone calls.

After individuals had agreed to participate in the study, its aims and background were explained, together with the process for ensuring confidentiality and anonymity. Interviews mainly took place at the interviewee’s office. They were recorded and transcribed, and typically lasted 60 mins. Three participants did not agree to recorded interviews and detailed notes were taken instead.

A structured interview guide (available from the authors on request) was developed for the interviews which included the constructs identified in the literature reviewed above. The interviews were conducted with the CEO or International Operations Director because of their intimate involvement in the entry mode and political approach decisions. The interviewees were intentionally selected from a range of industries so that the research could identify the political negotiation approaches and their effect on entry mode, independent of the bias that specific industries would have for particular negotiation and entry mode approaches (Baird et al., 1994).

The data were 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 multi-dimensional perspective.

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 industry and entry mode types were then extracted and are presented in the following sections.

3.1 The sample
The sample consisted of participants in the Manufacturing Industry (ten), Business and Property Services (five), Building, Construction and Engineering (three), Education (four), Finance and Insurance (four), Agriculture, Forestry and Fishing (three), and Government, Administration and Defence (three). The remainder of the participants came from the following industries: Mining (two), Legal (one), Publishing (one), Accommodation, Restaurants and Cafe’s (one), Information Technology (one), Medical (one), Transportation and Logistics (one). The participants engaged in one or more of the entry modes: JVs (ten), WOFE (eight), client/project (nine), Agency and Partnerships (five), Exporting (three), Supplier Partnerships (two), Memorandum of Understanding (MOU) (one) and licensing (one). More than one of the participants established operations in the following locations: Shanghai (23), Beijing (15), Guangzhou (10), Shenzhen (five) and Tianjin (four).

4. Understanding the Chinese government
The first research question for this project was: “Do Australian businesses need to understand the Chinese environment to identify the correct entry mode?” Six participants actively sought to gain information about the Chinese environment before making a decision as to the best approach for entering China. For example, a services participant said:

We would negotiate and find out information and then try and get a favourable interpretation of regulations. So that’s a major part of the job which we do through the Shanghai office

Another participant noted:

I actually went on a professional development program with the City of Melbourne and I spent time there and what I was there for was to learn about the . . . [to] formulate how could I implement business development parts for Australian biotechnology companies.

The process of collecting this information from government sources, however, was not always successful, for example, one participant stated that, when dealing with the government advisory service:

I was trying to find out some information about wage rates and all those sort of things. And luckily I had one of my friends there, but they weren’t sort of telling me. They certainly weren’t forthcoming with the information . . .

Government sources were quite frequently used as a starting point to gain more information before selecting entry mode and leading on to organising meetings to provide more detailed information. For example, one participant stated:

I used Austrade because it’s a good starting point and then you talk to Chinese people that you know and you look up the internet. I mean, you ask around, it’s the same thing as you do here . . . So if you’re starting up and you’re green and you say, oh gee, I’d be interested in getting the source . . . or doing a joint venture, then you can ring up VECCI, Austrade, you can ring up the Australia China Business Council, a number of the universities have short courses. There are lots of places you can tap into, apart from consultants.

This information is also available from the Chinese government. One participant noted:

We had that connection with that one particular guy who was able to give us the introductions that we needed and he facilitated a lot of the meetings. This fellow was . . . I’m not sure how he went about doing it, it was over a long period of time but it was obvious to us in that early phase that he was well regarded by these people.

4.1 Australian government assistance
The research question regarding Australian government assistance was: “Do Australian businesses obtain assistance from the Australian government and in what forms?” It was found that the Australian government
did provide assistance in the forms of access to networks through city-to-city relationships, market information, specific contacts and providing local representation.

Twenty-three participants obtained some form of assistance from the Australian government when establishing their operations in China. The level of assistance varied depending upon the size, location and nature of the internationalisation activity. For example, one participant noted that:

Austrade can help once you get in by directing business in your direction and we always had a close relationship because we’re one of the few[ sic] that operates in China so there’s a mutuality there and, as I said, the Ambassadors in all the countries we operate in the world, not just China, go out of their way to be helpful. . .

A participant from the banking industry found that the city level relationships between the City of Melbourne and City of Tianjin were helpful in setting up their investment:

The Melbourne and Tianjin sister city relationship helped, because there is a direct relationship between our mayor and their mayor. Our mayor speaks Chinese, Mandarin, so that helped. But I think at the end of the day, we were very certain about what we were looking for in a partner and they were very certain about what they were looking for in a partner. And so it just came together quite well.

Other participants were more critical about the support provided by the Australian Government. For example, an Australian university participant found the support provided to universities from the various relevant Australian government departments contradictory, and was unable to identify any marketing support for them, despite education being the third largest Australian export by value after iron ore and coal (IDP, 2009).

There is great confusion between what Australian Education International (AEI) does, what IDP Education does, what Austrade does and, to some extent, these State Government business offices. They are all out there doing their own thing. We have been talking about this for ages. And the Australian government just can’t get its act together on this.

A participant from the agricultural industry suggested that government services could be useful for identifying partners, but their performance and contacts varied considerably with location and industry in an unpredictable manner:

So we went looking and, with the help of Austrade and I’m not always the greatest rap for Austrade, but, in Kunmin they have a very good, small but very good, office with some very good people and he introduced us to a Horticultural Research Institute.

4.2 Government policies and regulations on trade and FDI
The research question regarding Chinese government policies and regulations was: “Do Chinese government trade and investment regulations influence entry modes?” It was found that policies for FDI directly influenced the China entry modes adopted by the participants. Twenty-two of the participants claimed that their organisations were not affected by any Chinese policies or regulations, leaving them open to adopt any entry mode and scale of entry that they chose. The remaining 18 participants, however, experienced some impact from policies and regulations on their final entry mode choice and approach. Ten of the participants found that their entry modes were significantly influenced by Chinese government policies and regulations. The impact of Chinese policies and regulations on the entry modes of the 18 participants who were affected is summarised, by industry, in Table III:

The restrictions identified which did not influence the entry mode included:

Australian government restrictions on Chinese tourists to Australia (hotel industry).
Regulations at provincial level in China (manufacturing industry).
Building design regulatory approval requirement that building designs are locally designed (construction industry).
Content limitations (publishing industry).

Even when the policies and regulations did not affect entry modes, some impact on business operations was identified by most of the participants. A participant from the education industry noted that:
If not for all of the universities in China and mainly because of all the regulatory restrictions, there is only so much that foreigners can do on their own. So in that regard, we are restricted to using representatives over there who have got licenses issued by the Chinese government.

Table III. Barriers/restrictions and influences on entry modes

<table>
<thead>
<tr>
<th>Industry</th>
<th>Barrier/restrictions</th>
<th>Entry mode adopted</th>
<th>Level of impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking and finance</td>
<td>Restrictions on ownership</td>
<td>Limited equity ownership</td>
<td>High</td>
</tr>
<tr>
<td>Transport and logistics</td>
<td>Restricted to joint-ventures</td>
<td>JV, WOFE</td>
<td>High</td>
</tr>
<tr>
<td>Mining</td>
<td>Restrictions on mineral exploration, owning of utilities and mines, Tariffs on exports</td>
<td></td>
<td>Medium</td>
</tr>
<tr>
<td>Government office</td>
<td>Australian Government regulation that only embassies can set up offices in foreign countries</td>
<td>Representative office</td>
<td>Low</td>
</tr>
<tr>
<td>Education</td>
<td>Restricted to local agency and partnerships</td>
<td>Agency and partnerships</td>
<td>High</td>
</tr>
<tr>
<td>Gambling</td>
<td>Licenses required</td>
<td>JV</td>
<td>Low</td>
</tr>
</tbody>
</table>

A few participants found that fundamental product characteristics were also influenced by local regulation and this had a secondary impact on choice of entry mode. For example, a participant from the publishing industry experienced government policy impact on the content of books they published. They had established a partnership as an initial entry mode; the government policy impact that they experienced (through the partnership) caused them to consider moving to a WOFE:

The key thing is our editorial independence and line in our books, which is often contrary to what the Chinese government prefers to have us say. I have been pulled into a session with the organisation which owns our partner. It’s owned by the Ministry of Propaganda, as all state publishers are, and asked to explain our position on China and why we see Taiwan as independent and that’s no good. It’s all issues around Taiwan, Tibet, Tiananmen Square, which we are obviously very open in our books about . . . so they asked if we could change our views because they were perceived to be incorrect. And they were also putting pressure on us, saying, “You’re dealing with one of the key publishing brands in China”.

Another respondent who provides legal services in Shanghai also found government policy restricted the range of services they could provide. They were only allowed to provide legal advice (not representation services) and only to foreign organisations (not to local Chinese organisations). In addition, they were not allowed to employ Chinese lawyers. This form of service control did not directly influence the entry mode selected, however, it did significantly influence the size and scope of the business activities and future development opportunities. One participant suggested that Chinese regulations and policies were still strongly protectionist:

... it’s natural, they are looking for investment in newer fields. But they don’t want foreigners just to come in and replicate what Chinese institutions are already doing and taking business away from Chinese institutions. So there is a bit of protection going on there.

4.3 Relationships with the government and Chinese government assistance
The research question regarding Chinese government support for internationalisation was “Do Australian businesses form relationships with the Chinese government and in what form?” In line with Rosenzweig and Singh (1991) and Lenway and Murtha’s (1994) findings, the research determined that the participants did form relationships with the Chinese government as part of their internationalisation. Furthermore, they found that doing this provides significant benefits when establishing foreign businesses in China. A total of 22 participants claimed that relationships with local government facilitated establishing their businesses. Table IV shows the different relationship behaviours and entry modes that these participants adopted.

Different political channels will offer different levels of effectiveness in assisting the organisation to establish itself and operate. Knowing which is the right channel and organising access to it will make the local environment more attractive. The level of attractiveness of the local environment will affect the entry mode selected by altering the attractiveness versus risk balance. For example, one participant in the architectural industry noted:
In terms of politically being a bit more aware of relationships that exist . . . it would certainly help.
Table IV. Relationship behaviours as part of the entry mode

<table>
<thead>
<tr>
<th>Industry</th>
<th>Relationship behaviours</th>
<th>Entry mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking and finance</td>
<td>Negotiated with the Mayor of Tianjin to determine the equity level of their investment</td>
<td>JV</td>
</tr>
<tr>
<td>Building and construction</td>
<td>Needed to obtain permissions to know the right people in government to get the business running. Needed to maintain relationships with local/provincial governments.</td>
<td>WOFE</td>
</tr>
<tr>
<td>Mining</td>
<td>Influence the government in pricing negotiations. Need relationships and interaction at a senior level with the Chinese government</td>
<td>JV, WOFE</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Need relationships at local/provincial levels to get approvals, and get their business running. Need to bribe government officials to get things done. Needed to be perceived as long term by the Government.</td>
<td>Representative office; JV, WOFE, acquisition</td>
</tr>
<tr>
<td>Government</td>
<td>Needed political support from Australia to set up their office. Required close relationships with government to access local organisations.</td>
<td>Representative office</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td>JV, WOFE</td>
</tr>
</tbody>
</table>

In a similar vein, a manufacturing participant noted:

I have guys whose companies have been up there for 4 years prior to us and we have some of them coming and asking us how did we get this done quickly. Again, I get back to government relationships, the confidence you have in the people you’re dealing with and, in the end, it’s personal. For us to go up there, we had to have US$29 million – not greater than $30 million because then it has to go back to Central Government. So we had $29.5 million. You have to be above $25 million investment to get a reasonable position in the pecking order in the government structure. There’s no point trying to see the mayor if you’re only putting $5 million in.

Accessing the most effective political channels can also result in the host country government providing direct assistance for the organisation’s entry into China. Twenty-seven of the participants claimed they received entry assistance from the Chinese government. For example, one participant noted that:

The Tianjin municipal government was quite helpful, from my understanding, with our investment there. The people running Suzhou Industrial Park . . . have been very, very helpful.

The assistance provided by the Chinese government to organisations entering China often followed mutually complementary paths. For example, a participant from the agricultural industry observed that:

The Chinese government has realised the importance of dairy in people’s diet. A long time ago, like ten years ago, back in ’95, they realised it’s a real issue. And, of course, the farming side, it’s very important to the rural population. So the government did a lot of work to push the industry to go ahead. And the company did a lot of advertising to educate the consumers to eat more dairy.

4.4 Intervention from government

The research question regarding intervention from the host country government was: “Do Australian businesses face intervention issues from the Chinese government when operating in China?” The participants did experience intervention from the Chinese government in their Chinese operations and the impact was mostly negative. A total of 33 participants claimed that the political system influenced the operations that they could conduct in China. Seven participants identified no influence. Most of the participants who were affected characterised the influence as reflecting the differences between operating in a communist/socialistic system with market characteristics, and operating in a democratic market economy. For example, one participant from the services industry noted that China’s “legacy from the past” was still apparent today and impacted on their operations:

I think it’s just a function of where they’ve come from and their sort of political landscape. And ours – we’re coming from quite different models in terms of communism and democracy.
In addition to influencing the type of operations that could be established in China, Chinese government intervention also influenced the profitability that could be realised. This, in turn, influenced the entry mode adopted by affecting the risk-return balance. A participant from the mining industry observed that Chinese government intervention affected both operations and profitability in that industry:

> There are issues in China, but what do they look like? One is about the desire of the Chinese government to insert itself into the marketplace. . . . the general point is the role of government in markets and pricing in iron-ore negotiations.

Often the intervention was not focused on one specific organisation, but on whole industries or even groups of industries. This created complex and systemic influences with which organisations entering the market had to deal, in addition to the issues endemic to the industry. For example, a manufacturing industry participant noted that the main characteristic of the intervention was a high level of control in all aspects of business operations in China:

> So much of China’s infrastructure and industry is state owned. . . . So for us, ABC Automobile, our main customer is state owned – mainly by the Province, but also by the local government, but ultimately they are answerable through to the state. And in the hierarchy, in the Western world, the guy who is the CEO of General Motors is king. But when you go to Wu Hu, the guy who is the CEO and chairman of ABC Automobile is actually the number 2 or 3 or 4 in the hierarchy. The local mayor is actually his boss. Then the local Communist Party Chairman is actually his boss. . . . and the role of government is far greater there than it is here. . . .

The findings above support the three research questions and also directly support the typology presented in Table II, on which they are based, as described in the discussion following.

5. Discussion
The findings support the general proposition that understanding host country politics is important when considering entry modes to China (e.g. Gomes-Casseres, 1990). It is also consistent with Dunning’s (1979) eclectic model in that political conditions are part of locational advantages and can facilitate or create a barrier to successful entry. In addition to understanding the local political system using input from both the Australian and Chinese governments, it was found that obtaining assistance from the Australian government, developing local contacts and relationships and dealing with intervention from the Chinese government influenced the entry mode selected. It also affected the ongoing nature of operations there. The majority of participants found that the Australian government assisted by providing advice on the political system, policies or regulations and helped in obtaining contacts. Several participants approached the Australian government directly to gain background information on China before making entry mode decisions. One participant directly approached the Chinese government for this information. This finding confirms the role of export promotion agencies and networks in international business and supports the conclusions in the literature regarding the role of export promotion agencies in international business establishment (e.g. Welch et al., 1998). This finding does deviate slightly from the first section of the model which suggests that the host country government does not provide assistance to companies initially wishing to understand the host country environment. However, only one participant approached the Chinese government, so there was not sufficient evidence to suggest that this was a common practice. This information was found to be important in making entry mode decisions. For example, one participant initially developed strategic plans for establishing their business in China, but then used a government department to assist them to find partners and investigate industry policies and regulations. This is a traditional role for government international business agencies (Crick, 1995; Kotabe and Czinkota, 1993). The research also determined that sister city relationships could facilitate entry, consistent with research by Chung and Mascitelli (2008). One participant from the finance and banking industry found that the relationship between its home city council and the local Chinese host city council aided their entry and, therefore, influenced the entry mode establishment, and indicated the project would not have proceeded without this assistance. These findings support the first section of the typology in Table II, because the home country government provides assistance to the MNC in understanding the local political system and regulations. Table I also includes the impact of the assistance provided by host country governments. This was also supported by the research; more than 50 per cent of the participants claimed that gaining approvals from different levels of government was important for the success of their subsidiaries and, therefore, affected their entry mode choices. For example, the business, industry and amount of investment made influenced government departments responsible for approvals and licences. Access to specific licences directly
determined the viability of specific business entry modes. Further, it was found that the type of industry influences the level of government with which the organisation needs to negotiate. For example, one participant which provided gambling services needed to gain central government level approval. This also suggests that the cooperative view of international business management provides significant explanations for entry mode choice.

In addition to the assistance provided by host country governments, the development of relationships with government officials was found to be important in ensuring business success – consistent with prior research (e.g. Rosenzweig and Singh, 1991; Lenway and Murtha, 1994) and the last stage of the typology in Table II. The participants developed relationships with Chinese officials in line with Guanxi concepts (Linong, 2006) by possessing the right contacts, using local government to help identify appropriate contacts, negotiating with the Chinese government for specific outcomes (e.g. approvals), building relationships through social activities, use of bribes, networks and political alliances they were all important techniques for supporting the local subsidiaries. These findings were also consistent with prior research (Luo, 2002; Rosenzweig and Singh, 1991; Lenway and Murtha, 1994). This indicates that these organisations obtained ongoing advice from their home country government and lobbied to negotiate with the host country government to gain a favourable political environment, as also suggested by Baysinger (1984). The participants indicated that variations existed in local culture and informal constraints across areas of China and, therefore, the approaches necessary for Guanxi varied with the location. Luo (2001) also found that the political approaches used by international businesses in China varied according to political areas.

The findings of the study have important implications for Australian, and also organisations from other countries, internationalising to China. In particular the typology presented in the paper, and supported by the research provides a quality road map for organisations to follow and consider when internationalising and investing in China. In particular, understanding the services and support the home country can provide, and also the activities that the organisation can engage in to build up relationships with host country governments will assist in successful business establishment. Establishing a framework to do this is also an important policy implication for governments wishing to improve their trade and investment support programs to organisations internationalising.

6. Conclusions

The research presented in this paper describes the experiences of 40 organisations based in Australia which had internationalised to China and identified the components of the three stages of internationalising suggested in the typology in Table II – understanding the local political environment, identifying the entry mode, and developing and maintaining successful business operations there.

Each of the stages of this typology requires an international business to understand and establish relationships with a host country government. In this research, the home and host countries possessed a significant psychic distance (O’Grady and Lane, 1996) between their government structures. The psychic distance between the Australian and Chinese governments required them to collect information before identifying the correct entry mode, it affected the entry mode approach adopted for Australian companies entering China, and the manner in which to maintain their business operations.

International businesses seeking to enter China can take steps to reduce the psychic gap and their dependence on external sources of information through use of Chinese culture training, appointing Chinese staff to introduce this knowledge into the organisation and by developing negotiation competencies appropriate to a centrally planned economy undergoing significant change. International businesses operating in China also need to be able to respond to the impact of the higher levels of control and intervention from the local government and political representatives. This requires high control management techniques suitable for a narrow institutional environment.

References


Chung, M. and Mascitelli, B. (2008), “The role of sister city relationships in the enhancement of trade: Latrobe city (Australia) and Taizou (China)”, refereed paper presentation at the Global Business and Technology Association (GBATA), Madrid, 8-12 July.


Further reading


About the authors
Jane L. Menzies is a Lecturer of International Business at Deakin Business School. Her research interests are in the entry modes of international businesses, international human resource management and expatriation. Jane L. Menzies is the corresponding author and can be contacted at: jane.menzies@deakin.edu.au
Stuart Orr is a Professor of Strategic Management, and the Director of the Master of Commerce, at Deakin University. His research interests are in international and strategic management.