GOAL SEQUENCING IN FOREIGN COUNTRY ENTRY DECISIONS: A PROPOSED REFINEMENT TO THE MARKET ENTRY MODEL-ENTERING CHINESE MARKETS

Joel Haire Swinburne University 1 John St Hawthorn Australia 613 9214 5290 jhaire@swin.edu.au
Mona Chung (White) Monash College Clayton Victoria 613 99055507
mona.chung@monint.monash.edu.au
Marie Trigg Deakin University Glenferrie Rd Toorak 92445345 mtrigg@deakin.edu.au

ABSTRACT

The increasing pressures both internally and externally have been the primary driver for companies to seek opportunities in foreign countries. This paper focuses on the differences in entry behaviour where these pressures drive companies into foreign country forays to seek the goal of better or lower priced resources or to seek the goal of greater revenue. Although comprehensively covered in the literature on foreign investments, there is little on the impact of the different goals on entry modes. Where little literature was found, they appear only to be on the superficial level. .Exploratory research was undertaken to identify companies that see their goal in the simplistic terms of resource seeking. Then a review of their entry modes and the sequencing of the mode were carried out.

This review identifies five companies who have entered or are entering China have followed a resource seeking goal as a predecessor to a demand seeking entry goal. The approaches used by the companies suggest that at least for some foreign investors dealing with specific markets using sequenced goals may be an effective entry strategy when entering the Chinese market.

INTRODUCTION

Companies undertake foreign country entry as a result of external and internal forces. These are competitive pressures in their environments and internal pressures for objectives such as growth. During the past 30 years these pressures have been increasing and successful foreign country entries have become increasingly important to competitive business performance. Thus companies are seeking competitive advantages through foreign market entry.

These pressures have been identified and classified in the literature. Mahoney and colleagues (Mahoney, Trigg et al. 2001), (Mahoney, Trigg et al. 2001)suggest ownership advantages, location advantages and internationalisation advantages are the drivers forcing foreign entry. The expectations of improving profitability (Driffield 1999) has also been mentioned as a reason for entry into a foreign market.

This paper focuses on the differences in entry behaviour where these pressures drive companies into foreign country forays to seek the goal of better or lower priced resources or to seek the goal of greater revenue. As Chang (1995p. 383) says “firms become multinational enterprises by building manufacturing or marketing subsidiaries overseas”. The distinction between and the impacts of the goals of resources or markets and particularly the impact of these goals on entry mode adoption, although made in the literature, have not been widely represented.

Thus exploratory research was proposed on companies that see their goals in the simplistic terms of either demand seeking or resource seeking. It is true both of these goals may be sought at the same time on entry and companies may enter foreign countries for other reasons but in order to understand the impact of the goals on entry behaviour it was decided to start with their identification and to undertake exploratory research on these goal archetypes if they exist.

Organisations, will consider, during or after the decision to enter a foreign market, the appropriate entry mode to use. The literature dealing with foreign entry modes in both marketing and international business is extensive and there is a strong agreement across the literature on the possible modes. The proposed modes range from export mode approaches such as agencies to hierarchical based modes such as Foreign Direct Investment (FDI) (Barale 1990; Woodcock, Beamish et al. 1994; Pan 1995; Johansson 2000; Mahoney, Trigg et al. 2001; Deresky 2002; Bruton and Ahlstrom 2003; Hollensen 2004) (Barale 1990; Woodcock, Beamish et al. 1994; Pan, Vanhonacker et al. 1995; Breth and White 2002; Bruton and Ahlstrom 2003). There has been, however, considerable divergence on the factors which need to be considered in the entry mode selection process. Authors suggest seeking the following: market size, cultural distance and regulation, comparative advantages, market characteristics and firm's size and growth opportunities (Li and Guisinger 1991) cited in (Alavarez-Gil, Cardone-Riportella et al. 2003). So numerous are the factors that classifications have been developed. Tallman and Shenkar (1994) classify these mode of entry factors as bargaining power theories and transaction cost theories, Ekeledo and Sivakumar (2003) propose a neoclassical economics, organisational behaviour and eclectic classification Others include resource based theories and economic and non-economic factors.

For example, it has been consistently argued that economic factors are the reasons for Foreign Direct Investment (FDI) (Kelly 1982; Ehrman and Hamburg 1986; Zhang 2000). These factors may be the availability of land, existence and/or costs of raw material, cost and quality of labour, availability and cost of capital, efficiency of production, access to supporting industries, availability and access to technology, closeness to potential or additional market and tax incentives and/or benefits. These factors may be used as criteria to group countries into homogeneous clusters in order to assist the decision making for the final selection (Ehrman and Hamburg 1986). Other theories such as the "market imperfections paradigm" by Calvet (1981 citied in (Sethi 1971) (Terpstra and Yu 1988) suggest that the disequilibrium, which is caused by factors such as labour, currency, government interference, market structure imperfections and market failure imperfections, is the major driver of FDI. Others simply refer to FDI entry as a 'strategic necessity'(Zhang 2000).

For entering the Chinese market, Breth and White (2002) suggest factors influencing entry mode selection should be:

1. The amount of capital a company is prepared to commit to the China market;
2. The degree of control a company wishes to have over its China operations; and
3. The company's attitude towards risk taking and its assessment of risk in China.

In addition, some form of sequencing of the modes to create an entry process is recommended by some researchers. Thus companies, it is suggested in the literature, have the option of an export entry mode, agency, to a joint venture and then through to a fully owned operation. This sequence involves the steps of exporting, international licensing, international franchising, specialised modes and foreign direct investment. In reality very few organisations have followed this sequence of market entry.

In spite of the comprehensive nature of the literature there appears to be a gap. This gap involves the relationship between the selected entry goal, resources or markets, and the entry modes. Although the resource seeking goal entry is mentioned in the literature the focus is on the demand seeking goal and its associated entry modes. Thus the literature does not appear to cover the range of entry modes available for the resource seeking goal. In addition to this lack of consideration of resource seeking entry modes there is an apparent lack of consideration of the strategic sequencing of the goals. For example, can achieving the goal of resource acquisition for supply to the home market be a predecessor to the real goal of foreign market demand seeking? This is important because the goals of entry and their sequencing will impact on the modes of entry available.

ENTRY STRATEGIES FOR CHINA

A review of five companies operating in China has identified their modes of entry which appear to have followed a resource seeking goal as a predecessor to a demand seeking entry goal. Two of these companies are in the textile industry and three are in the retail industry.

Macquarie Textiles is a privately owned Australian company that began its joint venture in China with a state owed mill in 1979. Twenty five years on Beijing Jingao Wool Co. Ltd is continuing to operate as a joint venture. It was established to utilise the advantage of lower labour costs to manufacture for Australian and European textile markets. This approach has seen the development of efficient and effective production operation by engaging modern technology and design from Australia and Europe. It has proceeded by training a younger workforce for the company's method of operation and the establishment of new facilities. Their entry intention appeared to be to enter the Chinese market as a low cost producer of high quality textiles for export. This was stipulated by the JV law at the time which suited Macquarie's objective of setting up operation in China. However, this offered the opportunity for Macquarie to commence supplying the Chinese market at an appropriate time when the local market demanded higher quality products. Having been in China for twenty five years, the management has been established and the operational structure is well tested. Together with their knowledge of the Chinese market and Chinese consumers, Macquarie is now in a better position to supply the local market. It has given Macquarie a competitive edge in the Chinese market.

Having identified the potential, Macquarie is now after the opportunities for further demand growth in China. The Australian and European markets are mature and there is little room for growth and expansion. As an emerging market, Chinese consumers not only have an increasing purchasing capacity but also demand for quality and variety of products. These demands are not capable of being satisfied by existing Chinese companies.

In order to ensure they can deliver into the Chinese market Macquarie has also identified the opportunity of an alliance with one of their European distributors. This alliance will provide Macquarie with further access to capital as well as modern designs for the Chinese market. Negotiations on establishing an additional joint venture with the existing state partner and the potential French partner have been carried out for the past two years. A new proposed green field site has been selected and the knowledge and ability of dealing with government issues of the Chinese partner has been largely utilised in this process. The decision to use a Greenfield site will allow the new joint venture to be equipped with the latest technology which will sustain its existence for a long period before further capital expenditure is needed.

Macquarie Textiles' approach appears to be being emulated by Charles Parsons, another Australia textile company, which has established an initial resource seeking presence in Shanghai through a procurement office. Similarly Three global retailers Wal-Mart, OBI (a large German building materials supermarket) and Carrefours (an Anglo/French supermarket chain) were operating in China with a purchasing presence, through an agent, prior to demand side market entry.