# THE INTERNATIONALIZATION PROCESS OF HIGH-END INSULATION PRODUCTS FOR THE CHINESE MARKET

## Abstract

This master thesis aims towards a more effective internationalization approach for the existing business plan of Rockwool Technical Insulation for improving their market share in China.

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# Management Summary

**Purpose of this research report**

This research aims to obtain more insight into the most suitable post-market entry mode for RTI in the internationalization process in China and to determine which factors based on the internationalisation process of Multinational Enterprises towards in China. China is an emerging market, as we see in the increasing GNP, and FDI in China. The Chinese government stimulus Western companies to enter the Chinese market with their products. This political shift occurred by the introduction of Special Economic Zones three decades ago. More specific, a shift in the international Marine & Offshore market towards the local Chinese Marine & Offshore market. Because of shipping costs towards China, the attractiveness in reducing these costs by enter the Chinese market permanent is a considerable option. Western companies within this market such as Rockwool needs to decide in which market mode type they can benefit the most in terms of effectiveness and profit margins.

**Design/methodology/approach**

The central questions in this research is: _What is the most suitable (post) market mode for RTI with regards to internationalization into China?_ The first step in the research was to find answers for this main research question by developing a theoretical framework based on the internationalization process for MNE. In the literature study many concepts have been studies in the academic field of international business. The viewpoint in this thesis is from Multinational Enterprises perspective because RTI is classified as a division of a Multinational Enterprise. Based on the literature study the concept of internationalization was researched and how this process is influenced by different factors in order to derive a market (entry) mode at best. Based on a semi structure interview and a PEST-analyse we attempt to connect primary and secondary data to the theoretical framework.

**Findings/discussion/conclusion**

# CLASSIFIED

# Preface

This master thesis consummates my Master of Science degree in Business Administration at the University of Twente. In the process of writing my master thesis several challenges for its practical and theoretical contribution had to be overcome. Nonetheless, I enjoyed writing this thesis because the subject of interest is the future direction I want to develop myself in during my working carrier. I would like to thank a number of people from my surroundings which gave me advice, assistants and encouragement to complete my Master education.

First of all, I would like to thank my supervisors Drs. A.H. van Reekum and M.R. Stienstra MSc for their feedback, advice and constructive comments in order to improve the master thesis. I also would like to thank my uncle H. Voortman for giving me the opportunity for conducting my research at Rockwool. Additionally, J. Ebus for his practical feedback and his knowledge sharing from Rockwool.

My sincere appreciation to my former classmate and friend S. Winkelhuis MSc for here support and advice in finishing my master thesis.

And last but not least, I would like to thank my parents and sister for always being supportive, reliable and encouraging towards me.

Enschede, August 2015

Rutger de Vries

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# Abbreviations

CA: Competitive Advantage

EAP: East Asia and Pacific

EJV's: Equity Joint Ventures

FDI: Foreign Direct Investment

GNP: Global National Product

I: Internationalization advantages

L: Location advantages

MNE: Multinational Enterprise

O: ownership advantages

OPD: Open Door Policies

RTI: Rockwool Technical Insulation

SEZ: Special Economic Zones

SOE: State Owned Enterprise

TCA: Transaction Cost Analysis

WOS: Wholly Owned Subsidiary

WTO: World Trade Organization

# CHAPTER I

# INTRODUCTION

The introduction of this thesis give the reader information about certain concepts and its definitions in regards to the subject at matter. The company involved in the internationalization process is outlined and its reasons are mentioned to internationalize towards China. Based on the reasons to internationalize this research can identify the research goals and the derived main and sub questions. Moreover this introduction consist of the background information in order to construct a systematic approach to the other chapters.

## 1.1 Background

The term *"new industrialized country"* has been replaced by the concept of *"emerging market economies"*. According to Hoskisson, Eden, Lau and Wright (2000) (…) *"Emerging Economies are low income, rapid-growth countries using economic liberalization as their primary engine of growth" (p. 249).* China is seen as an economy in transition. More specifically, as mentioned by Hoskisson et al. (2002) in order to apply the term emerging market economy to China, two conditions must be met. The first condition is a rapid pace of economic development. The second is that the policies of the government are less strict towards economic liberalization and the adaptation of a free market system (Cavusgil, 1976; Peng and Heath, 1996). Khanna and Palepu (1997) identified that whether a country is an emerging economy, it is important to look at how well buyers and sellers come together. In an optimal situation, every country would provide a range of institutions that would help facilitate the functioning of the markets. China should be seen as an emerging economy.

Surveys among managers reveal that globalization is among the most pressing concerns of today's business executives. In its annual questionnaire to managers Mckinsey (2009) investigated the top trends within the broad field of globalization. Thereby 64 % of all participants replied a growing customer base in emerging countries will have a positive impact of their daily business (Dye & Stephenson, 2010). This result shows that globalization and the trend of Multinational Enterprise (MNE) to internationalize themselves is steering business strategy and even influences the daily operations to a great extent

China is one of the fastest growing economies in the world, which has attracted the attention of many MNEs. These MNEs are looking for opportunities to expand their businesses. Especially after the accession of the WTO in 2001, whereby legal regulations and constraints were removed. However, despite optimism about China's emerging economy, succeeding in China has proven to be more difficult than many MNEs initially perceived it to be. Looking at the macro-economic stability of an emerging country, external finance is a pre-condition. In an emerging economy, and specifically China has faced economic and political shocks that have led to uncertainty and risk for a MNE entering the Chinese market. According to Hoskisson et al. (2002) this uncertainty and risk stems from missing institutional features, such as skilled labour, thin capital markets, an under-developed infrastructure and political and economic instability. Furthermore, the lack of strong legal frameworks for government policies leads to bribery and corruption.

The Chinese economy has experienced significant changes due to the Open Door Policies ODP that was established in 1977. The open door policies began when China opened its four coastal cities as Special Economic Zones (SEZs) for foreign investment in manufacturing and technology.

This continued when fourteen coastal cities were opened to attract FDI in the 1980s, which divided China into two broad economic regions. *Figure 1: Market segmentation of China based on geographic location (Liu, 2007*) shows the geographic segmentation of China based on the economic environment. Coastal China and Western China are divided based on their economic prosperity.



*Figure 1: Market segmentation of China based on geographic location (Liu, 2007)*

The Rockwool Group is the world's leading supplier of innovative products and systems that are based on stone wool. These products and systems help to improve the environment by minimising carbon emission which also results in lower, more manageable energy bills. The Rockwool Group consists of several different divisions. The East-Division, the Systems Division and the Europe Division. These divisions operate in various markets such as building insulation, acoustic ceilings and walls, façade panels, process and marine industry, sandwich panels and substrate solutions (Products & Solutions, 2012).

Founded in 1937, the Rockwool Group was originally a Danish company. Over the years it has grown significantly and to date has twenty factories in Europe, Asia and North-America. The Rockwool Group employs more than 9,300 workers and in 2011, the company had a realized turnover of € 1.8 billion. The Headquarters are located in Hedehusene (Denmark). The Rockwool Group is listed on the Copenhagen Stock Exchange under the name of Rockwool International A / S. The Rockwool Benelux headquarters are located in Roermond, the Netherlands the company employs approximately 1,200 people in the Benelux region (Products & Solutions, 2012) In order to apply the concept of a MNE to Rockwool Technical Insulation (RTI), which is a division of the Rockwool Group, the concept of MNE must be explained and discussed. Furthermore, obstacles that a MNE faces when growing in international markets will be outlined, with specific attention given to growth in China.

According to Hoskisson et al. (2000) the general definition of a MNE:

*" the MNE is a specific organizational form that comprises entities in two or more countries, regardless of legal forms and fields of activity of those entities, which operate under a system of decision-making permitting coherent policies and common strategy through one or more decision-making centres, in which the entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the activities of the others, and in particular, to share knowledge, resources, and responsibilities with others" (p.249)*

RTI is an independent subsidiary of the international Rockwool Group and a sub-division of the system division. RTI offers two product lines, consisting of ProRox and SeaRox. The two product lines cover the entire industrial market within the Marine and Offshore industry.

This includes a full range of products and systems for the thermal and fire safe insulation for technical applications. RTI's goal is to add value throughout the whole value chain process, from specified, through dealer to contractor and installer (Products & Solutions, 2012)

RTI is motivated to enter the Chinese market because of profit and growth goals, Technology competence/unique product and foreign market opportunities. Reactive motives in the initial export mode are competitive pressure, unsolicited foreign orders, proximity to international customers and psychological distance. The Rockwool Group can therefore be seen as a MNE with an independent division, RTI. RTI has its own decision-making centre, but must be accountable to The Rockwool Group for their decisions. RTI operates in several markets worldwide; for instance in China, Russia and the United States.

A MNE will have to overcome certain obstacles while exploiting and building to international markets. RTI would like to exploit and increase market share in China for various reasons. A MNE that is moving into a foreign market such as China should expect to encounter obstacles such as environmental and organizational factors. Research done by Luo (2002) suggests that MNE's that aim to exploit and build capability in China are associated with environmental complexity and industrial uncertainty. This is also the problem among different decisions makers in international markets towards the Chinese market.

More specifically, some products are produced in China, further assembled in Europe and eventually delivered in Brazil. As an example, the Shell Company may want to purchase an oil platform. That platform might be built in China and designed in the Netherlands, and eventually used in the Gulf of Mexico. The production of large ships and oil platforms has been steadily increasing in China (Business plan China, 2014)

Table 1: shows a shift in the value chain whereby the international value chain (Existing business) narrows to China (Target Business). This means that international engineer's decreases and local engineers rises in China within local shipyard whereby the end user is also located in China.

| | International Engineers | Local Engineers | Local Shipyard | International end user outside China | Local end user in China |
|---|---|---|---|---|---|
| **Existing Business** | RTI | | RTI | RTI | |
| **Target Business** | | New | New | New | New |

*Table 1: Major decision makers in the Chinese market (Business plan China, 2014)*

In the current Marine market of China, there has been a shift from international value-added products towards local value-added products in China. This means that recently, the construction of Ships (Marine) and Oil platforms (Offshore) has been occurring more in China and less internationally (See figure 2).
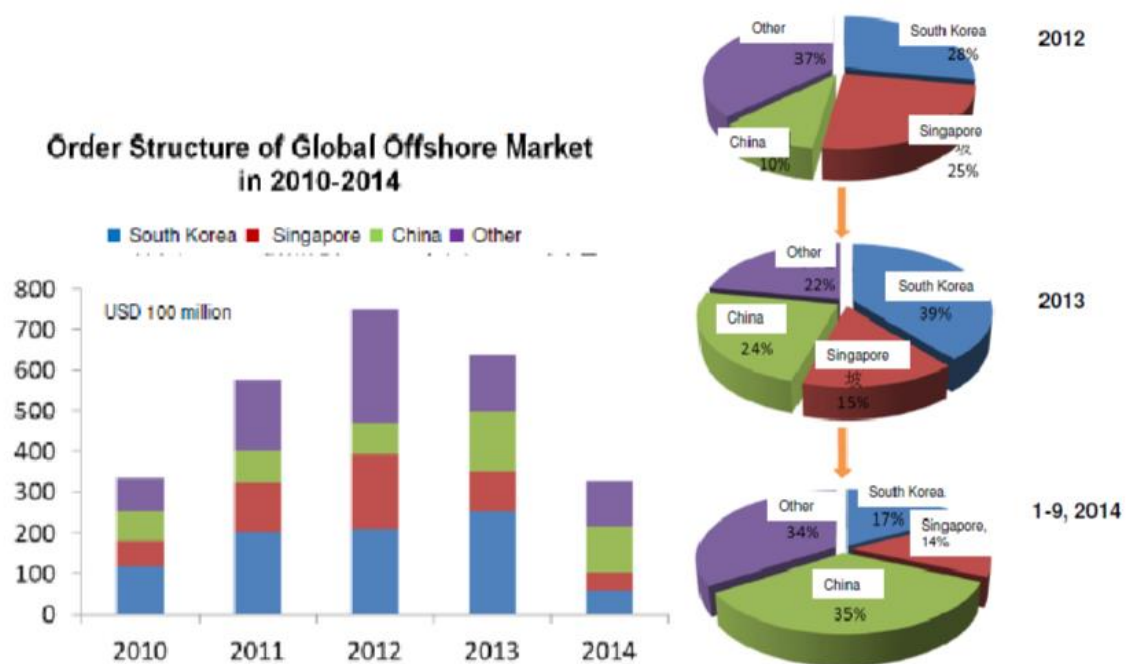
*Figure 2: Order structure of Global Offshore Market (Business plan China, 2014)*

## 1.2 Drawbacks in the internationalization process

According to Johanson and Vahlne (1977) the process of internationalization is described as: "the internationalization of the firms is a process in which the firms gradually increase their international environment" (p. 24). Internationalization is imbedded as an incremental decision making process. In other words, the decision making process is directly related to the internationalization process. *(See Appendix A: Current internationalization Challenges of RTI)*

RTI would like to internationalize RTI in the local Chinese market effectively but in order to do so, there are several obstacles that must be overcome before they can execute an effective expansion in the Chinese market. The vision of RTI was to develop a market for and ultimately sell insulation products in China. As mentioned previously, internationalization is unlikely to be successful unless the firm prepares in advance. The RTI corporate strategy is focused on the Marine and Offshore segment which is a market with high potential.

To exploit the Chinese market, expressed in market share and market margin, RTI would like to make decisions based on a clear overview of the internationalization process, taking into account the pros and cons of the different types of post-market entry modes and their effectiveness in order to overcome the problem drivers.

## 1.3 Overview of the internationalization studies

The term "*internationalization*" denotes firm expansion across national border into different global regions or markets (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 2009). Traditional internationalization theories have been developed by observing the historical experience of exporting firms (See Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977), early empirical internationalization research focused on manufacturing and exporting firm's internationalization (See Anderson & Gatignon, 1986; Kim & Hwang, 1992).

A traditional internationalization model, the Uppsala model conceptualizes internationalization activities as occurring sequentially and influenced by increased market knowledge and market commitment (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977, 1990). Lack of experiential knowledge and knowledge between a home country and a host country is a major obstacle to international operations. A firm learns by operating its business in a domestic market and gradually increases the level of involvement in foreign markets (Johanson & Vahlne, 1977) The Uppsala model proposes that the levels of knowledge about and commitment to foreign markets influence commitment decisions on internationalization and business activities (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). The notion of sequential expansion has been widely accepted across a range of countries and industries (See Hook & Czinkota, 1988; Johanson & Vahlne, 1990). Previous studies based on the Uppsala model have examined firm's entry mode (Hook & Czikota, 1988). Current research such as the literature review on internationalization by Liesch, Middleton, Steen (2011) emphasises the importance of this research field and its given actuality. Furthermore further research is necessary to discover all connected risks to this topic and to learn more about the correlations behind the phenomena of internationalization. (Liesch, 2011; Welch & Buckley 2011)

## 1.4 Contribution to the field of international management

Many economic models for the internationalization process have been recorded. The internationalization theory of Johanson & Wiedersheim – Paul (1975) which is related to behaviour paradigm. These different types of theories are outlined and chosen to examine in this thesis because the internationalization process. The fundamental assumptions and support, applicability of the models, and their contribution to international business knowledge are originality from developed countries. As mentioned, this thesis is focused on the China, which is classified as an emerging country. Moreover, this thesis contributes on the international business literature by applying the original internationalization process models towards an emerging economy, China. The practical contribution for MNE's is to gain more insight in the internationalization process towards emerging markets. Furthermore, managers of MNE's gain more insight in the factors which influences the internationalization process, the relationships between factors influencing the most suitable entry in an emerging country, and to gain more insight in how profitability and survivability in an emerging markets depends on the most appropriate entry mode derived from the current state of internationalization process. The theoretical considerations of this thesis are to compare recent, and the most acknowledged scholar's thought and frameworks within the field of interest, and apply these theories on RTI in order to advice the future of the internationalization process of RTI in China.

## 1.5 Objectives

This research aims to obtain more insight into the most suitable post-market entry mode for RTI in the internationalization process in China and to determine which factors based on the internationalisation theory of Johanson & Vahlne (1977) influence the progress of internationalization in China. Therefore, the international market involvement antecedents selected for analysis include firm size, firm age, market knowledge, market commitment. Studies have operationalized market commitment as the extent of resource commitment as measured by the Choice of entry modes. (Johanson & Wiedersheim and Paul, 1975). Therefore the characteristics of the desired market mode (control, flexibility and risk) (Anderson & Gatignon, 1986; Pan & Tse, 2000) are examined as well to identify the relationship with the degree of market commitment. With this analysis, we can confirm not only the current stage within the internationalization process of RTI, but also suggestion and further direction in the internalization process can be in order to increase survivability and profitability in the Chinese market. Furthermore, more insight can be obtained based on the behaviour approach of internationalization which will help other MNE's in the internationalization process in the Chinese market.

## 1.6 Research Questions

***What is the most suitable (post) market mode for RTI with regards to internationalization into China?***

In order to answer this central question, three different themes will be distinguished: the historical internationalization development of a MNE as described in the literature, different types of entry modes for internationalization and the factors that influence the development and speed of the internationalization process.

Six sub-questions have been prepared because the main research question is too complex to answer without doing so. The first three sub questions are:

A. What types of entry modes are outlined in the internationalization literature?
B. Which factors influence the desired market entry modes for the (post) entry mode decision?
C. Which factors influence the (post) market entry mode of internationalization?

**The last three sub-questions are:**

D. How does the desired market entry mode characteristics influence the internationalization?
   process in China?
E. How do the internal factors influence the mode of entry when internationalizing in China?
F. How do the external factors influence the mode of entry when internationalizing in China?

These three sub questions will be answered by analyzing the quantitative and qualitative data that was gathered for this study. To answer the above sub-questions, secondary data from China was initially gathered in order to collect primary data by conducting a semi structured interview with managers of RTI. The primary data was collected based on the secondary data. The secondary data was collected by the PEST analyse and from the RTI business plan whereby the factors that influence the market entry modes in the internationalization process are operationalized.

## 1.7 Outline of the master thesis

Chapter I has outlined the research study: it presents an introduction and background, contribution in the field of international management, the purpose of the study and the research question derived from the goals of the study. Chapter II outlines the theoretical framework consisting of prior literature on the internationalization process. Chapter III will describe the methodology of this thesis by discussing data collection, the construction of the interview and the validity of the different dimensions, variables and their derivative indicators. Chapter IV the collected data is analysed whereby attempts are made to link the findings with the statements made in the theoretical framework. Chapter V will discuss the results in terms of relevance. Conclusions are made based on the sub-questions in order to answer the central research question. Also limitations and suggestions for future research are mentioned.

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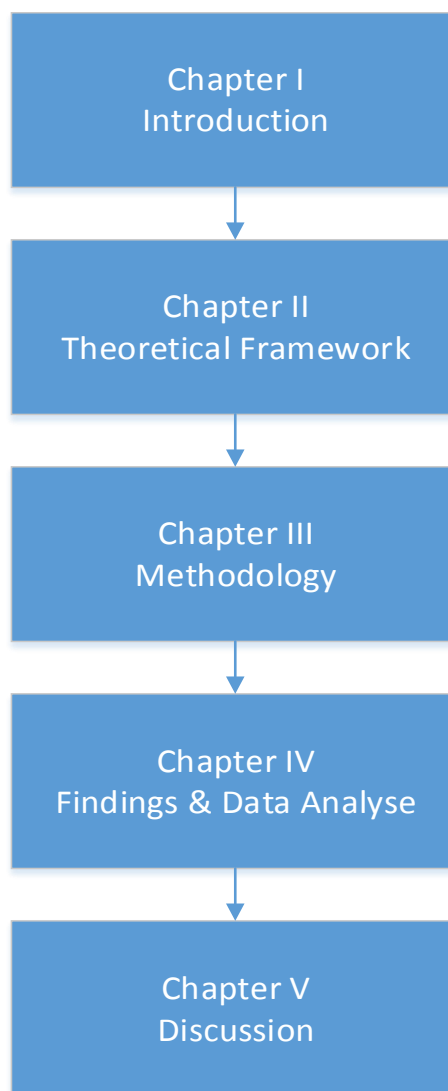
*Figure 3: Research structure of the Thesis (Verschuren & Doorewaard, 2007)*

# CHAPTER II

# LITERATURE REVIEW

The second chapter outlines the theory which fits best in relation to the introduction chapter. In this chapter we explore and describe certain internationalization theories can answer the research questions. Besides the theoretical framework consists of a step by step guide in order to be the building block for the next chapters. We want to know which market mode is suitable for RTI in China, we chose certain internationalization theories which fits the purpose as described in the first of the master thesis at best.

## 2.1 Internationalization theories

The term internationalization denotes that the firm's expansion across national borders into different global regions or markets (Johanson & Wiedersheim-Paul, 1975). Traditional internationalization theories have developed by observing the historical experience of exporting firms. (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). Early empirical internationalization research focused on manufacturing and exporting firm's internationalization. (Gatignon & Anderson, 1988; Hook & Czinoka, 1988; Kim & Hwang, 1992)

The internationalization theory is the result based on the behaviour theory of Cyert & March (1963) and Aharoni (1966). Wiedersheim & Paul (1975) introduced the theory of internationalization to explain the process of international expansion made by the individual firm over time. Moreover, the attitude of the firm is affected by experience that firms gain from international activities.

When the market knowledge of the MNE is low or faces greater physical distance, the MNE perceives more uncertainty. According to Wiedersheim & Paul (1975) to reduce the investment risk the MNE should enter familiar markets with less physical distance from its home country. In order to reduce physical distance, the MNE should enter the foreign market in different stages:

Stage 1: no regular export activities (sporadic export)
Stage 2: export via independent representatives (export modes)
Stage 3: establishment of a foreign sales subsidiary
Stage 4: foreign production/manufacturing units

In the first stage, MNEs which are active in the foreign market have no ordinary export activities. In the second stage, MNEs export their products by the use of agents or intermediaries in the foreign country. In the third stage, the MNE establish a foreign sales subsidiary. In the fourth and last stage, MNEs establish their own production lines or manufacturing units abroad. To be more specific, according to the theory of (see Wiedersheim and Paul, 1975; Johanson & Vahlne 1977, 1990) MNE enter a foreign market using (in)direct exporting as a low control entry mode and gradually switch towards exporting and wholly owned subsidiaries as high control modes.

Johanson & Vahlne (1977, 1990) introduced the Uppsala internationalization stages model of U-model whereby the MNE utilizes high control modes when its knowledge of foreign markets is low and in order to gain more experience and maturity. Physical distance consist of factors such as language, education, culture, business practices and industrial development. The MNE should obtain experiential knowledge in order to minimize market uncertainty and to exploit market opportunities.

## 2.2 Basic mechanism of internationalization

A traditional internationalization theory, the Uppsala model conceptualizes internationalization activities as occurring sequentially and this model is influenced by increased market knowledge and market commitment (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977, 1990). Lack of experiential knowledge between homes a home country and a host country is a major obstacle to international operations. A firm learns by operations its business in a domestic market and gradually increases its level of involvement in foreign markets (Johanson and Vahlne, 1977). Melin (1992) stated that progressive learning is acquired through resource commitment which helps the MNE to make strategic decisions. The Uppsala model proposes that the levels of knowledge influences the degree of commitment to foreign markets (Johanson & Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977).

The more specialized resources are in respect of the specific international marketing endeavour, the greater is the firm's commitment to international marketing. The degree of commitment is higher the more the resources are integrated with other parts of the firm. Their value is derived from these integrated activities. An example of resources which cannot easily be directed to another market or used for other purposes is marketing organization which is specialized around the products of the firm in which an integrated system for maintaining good customer relations in various international markets has been established. Commitment to international markets requires that the firm devotes financial and human resources, as well as management attention, to carrying out new tasks and for building the infrastructure required for international marketing.

The Uppsala model consist of four concepts *Figure 4: The Basic Mechanism of Internationalization (Johanson & Vahlne, 1977)*. First, the concept of market commitment is assumed to contain two factors, the amount of resource commitment and the degree of commitment. The amount of resource could be operationalized to the size of investment in the market, which may include marketing, organization, personnel and other areas. While the degree of commitment refers to the difficulty of finding an alternative use for the resources and transferring them to the alternative use. The concept of market knowledge is defined as the firm's knowledge about foreign market and operations. It can be split into general knowledge about marketing methods and customer tastes, and market specific knowledge about business environment, market structure and cultural patterns. The third concept, current activities refers to the current business operations of firms which help them to gain experience, identify opportunities, desired outcomes and start new business more effectively. The fourth concept, commitment decisions, consist of decisions which are made to commit resources to foreign operations. Moreover, these decisions are made in response to market opportunities and threats.
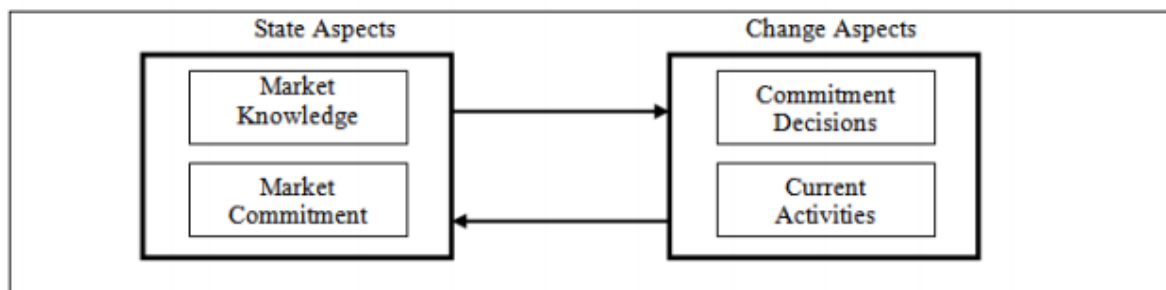


*Figure 4: The Basic Mechanism of Internationalization (Johanson & Vahlne, 1977)*

According to Johanson and Vahlne (2009), three expectations for taking the incremental steps are mentioned. First, MNEs which have large resources experience faces less consequences of their commitments and can take larger internationalization steps. Second, when market conditions are stable and homogenous, relevant market knowledge can be gained in ways other than experience. Third, when the firm has considerable experience from markets with similar conditions, it may be able to generalize this experience to any specific market. The internationalization theory provides a dynamic view of entry mode strategy and the importance of management in the choice of entry mode. Furthermore, Chetty and Erikkson (2002) supported the mutual relationship between experiential knowledge and market commitment. (Hadley & Wilson, 2003)
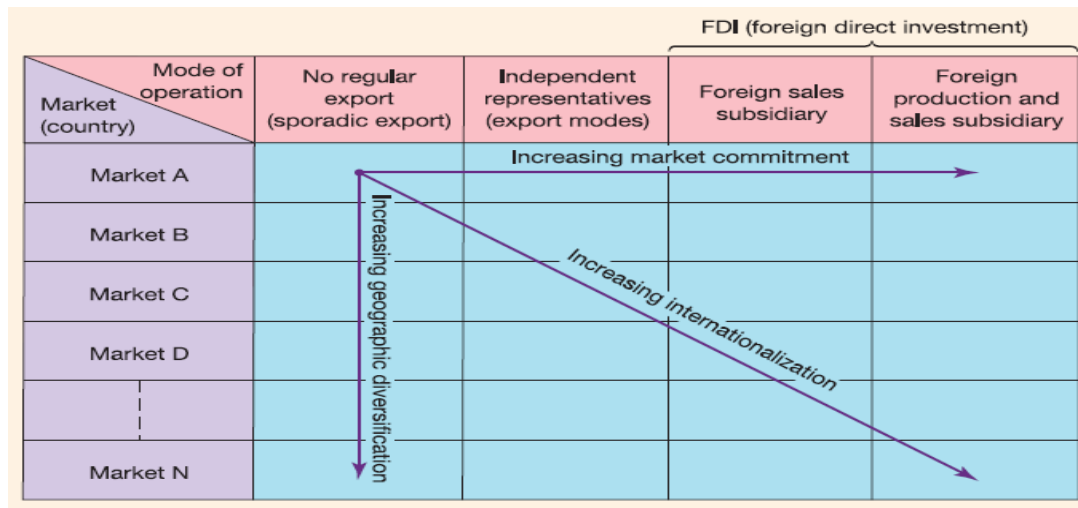


*Figure 5: Internationalization of the MNE: an incremental approach (Hollenson, 2012)*

*Figure 5: Internationalization of the MNE: an incremental approach (Hollenson, 2012*) implies that additional market commitment as a rule will be made in small incremental steps, both in the market commitment dimension and in the geographic dimension. Johanson and Vahlne (2009) modified the Uppsala model and replaced market commitment with business networks. Whereby learning, building trust and opportunity creation instead of current activities to the model as a process variables. According to Johanson and Vahlne (2011) markets are seen as networks whereby MNEs use their relationship and strengthen their ties with firms within the network.

## 2.3 Criticism on the Uppsala model

Criticism of the Uppsala model of internationalization stated that the chronological steps seems to be too deterministic and sequential. It is also been argued by Johanson and Mattson (1986) that the model does not take into account interdependencies between different country markets. According to Turnball (1987), it was concluded that MNEs with substantial international experience and commitment do not use the chronological guidelines of the Uppsala model. Moreover MNEs uses a mix of marketing approaches abroad of physical distance at an early stage, and the pace of the internationalization process generally seems to have increased. Melin (1992) stated that the applicability of the Uppsala model of internationalization is too deterministic in the second, third and fourth stage. On the contrary, the model is applicable among different industries and countries because of its generalizability (; Pedersen & Petersen, 2003; Andersen, Ahmad and Chan, 2014).

A disadvantage, which is important to mention is that the original model of Johanson and Vahlne (1977) ignored contractual entry modes and joint ventures which have been developed over time (Root 1987; Sharma and Erramalli 2004). As a reaction towards the criticism, Johanson and Vahlne (2011) mentioned the role of networks in facilitating international expansion in their latest publication. The model is applicable among different industries and countries because of its generalizability.

In general, the criticism on the Uppsala model of internationalization is useful among many different industries and markets because of it theoretical conceptualization, generalizability and explains learning behaviour. (Anderson, 1993; Forsgren, 2002). Following the initial case studies of Swedish Firms, substantial effort has been made to test the models validity using many firms and situations. (See Hook & Czinkota, 1988; Hashai & Almor, 2004; Lopez & Fan. 2009)

## 2.4 OLI paradigm

In his ownership-location-internationalization (OLI) framework of Dunning discussed the importance of locational variables in foreign investments decisions (See Dunning, 1980, 1988, 2000). Some scholar refer to the OLI paradigm as an eclectic paradigm. The word eclectic represents the idea that a full explanation of the transnational activities of MNEs needs to draw on several strands of economic theory, such as the transaction cost views of Buckley and Casson (1976). According to Dunning (1988) the propensity of a firm to engage itself in international production increases if the following three conditions are being satisfied. The eclectic theory, whereby MNEs decide to investment in the foreign market and exert control over its resources is also known as the OLI model (Agarwi & Ramaswami 1992) *See Figure 6: OLI Framework (Straker, 2006)* .The OLI model is based on the experience of large MNEs from the U.S. and other developed countries. These large MNEs are different in their advantages and international strategies and are latecomers to the foreign markets. MNE from developed countries can suffer from location disadvantages such as weak infrastructure and undeveloped institution (Dunning, 2000). Moreover, MNE from developed countries entering a foreign market use FDI in order to build advantages and obtain resources (Li, 2007). MNEs from developing countries can access resources required for international expansion fast and are seen as early movers. Because MNEs from developing countries have high accessibility from resources, they can compete on costs and offer lower costs outputs. On the contrary, MNEs from developed countries offer high quality and differentiated products (Petrou, 2007).
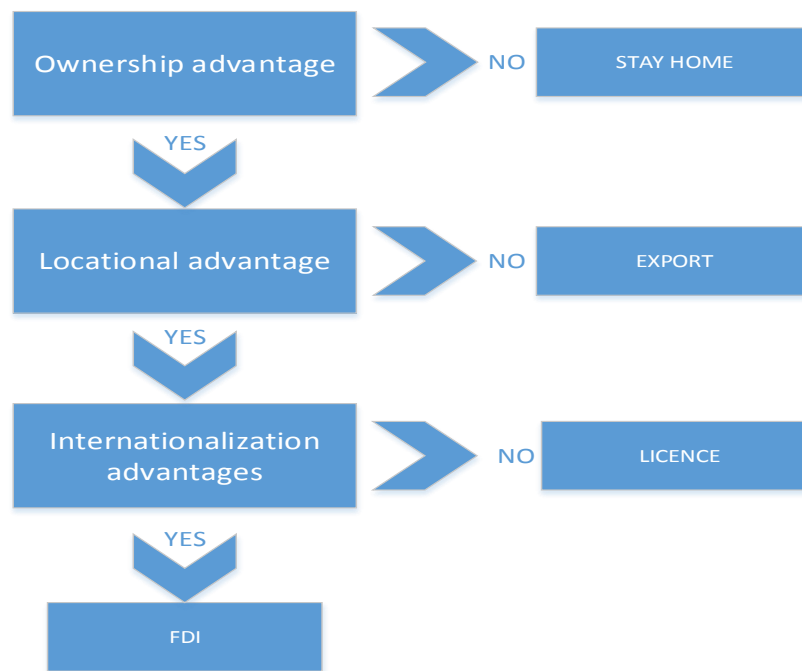
*Figure 6: OLI Framework (Straker, 2006)*

The first condition is Ownership advantages (O) and is defined as a firm that owns foreign production facilities has more ownership advantages compared to firms of other nationalities. These 'advantages' may consist of intangible assets, such as know-how. According to Agarwal and Ramaswami (1992) the direct measurement of location advantages are obtained by evaluating managerial perceptions about market potential and investment risks. Indicators of ownership advantages consist of Firm size, Multinational Experience and Product differentiation. A MNE asset power is reflected by its size and multinational experience and its ability to develop differentiated products (Agarwal & Ramaswami 1992). Previous research suggest MNEs with high variation of product differentiation choose a higher control of entry mode. Because resources are needed to absorb the high cost of marketing, contracts and achieving economies of scale. Therefore the size of the firm reflects its capability for absorption of these costs (Agarwal & Ramaswami 1992). Moreover, the size of the firm is expected to be positively correlated with its propensity to enter foreign markets in general, and to choose joint venture as the most suitable entry mode. The second condition is Locational advantages (L) and is defined as the profitable for the firm to continue these assets with factor endowments. These factor endowments consist of labour, energy, materials, components, transport and communication channels in the foreign markets, If not this foreign markets would be served by exports. Market potential and (size and growth) is according to the literature a critical factor of overseas investment (Agarwal & Ramaswami 1992). In the host market with high potential, investment modes are expected to provide higher profitability over the long term, in comparison with non-investment modes. This is due to the fact that MNEs can achieve economies of scale and lower marginal cost of production (Sabi, 1988; Dunning, 1988). The investment risk of locational advantages are measured by cost of writing and enforcing contracts, risk of deterioration in the quality of service, and risk of dissipation of knowledge. Economic and political conditions can create uncertainty in the investment towards the host country. Therefore government policies of the host country are critical to the survival and profitability of a MNE operations in the host country. More specific, restrictive policies of a host country governments leads to inward foreign investment (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986).

The third and last condition is Internationalization advantages and is defined as it must be more profitable for the firm to use its advantages rather than selling them, or the right to use them, to a foreign firm. Low control entry modes are favourably for many transactions because the MNE can benefit from the scale economies of the market place. Contrary, low market entry modes can also leads to higher costs, if managers are unable to predict future contingencies (external uncertainty). External uncertainty can lead towards inefficient in finding an oversea partner which leads to the enforcement of contracts meaningless. Therefore exporting and solo venture modes provide better control because of retaining of the assets and skill within the MNE (Agarwal & Ramaswami, 1992). Direct measurement has not been identified consistently in existing literature about market entry modes and internationalization. Previous research measured locational advantages by the perceptions of managers. More specificity, past experience in the host market and level of knowledge about the market (Agarwal & Ramaswami, 1992).

## 2.5 Criticism on the OLI paradigm

From the methodological perspective, the OLI paradigm has some internal and external validity problems (Li, 2007). Some critics are related to the model, whereby the model cannot be seen as a comprehensive model (Gannon, 1993; Hunt 2010). Also the application of the model in practical contribution is criticized. The model is does not explain the reasons when two MNEs with the same three key advantages (OLI) adopt a similar entry mode in the same targeted market. (Gannon, 1993). According to Meyer (2000) transaction costs always occur and transaction cost is not stabile but fluctuates over time. In addition, the OLI paradigm is not applicable for the MNE which wants to expand their activities international, if foreign market perfection consists where FDI is not applicable.

## 2.6 Market Entry modes and desired modes characteristics

An international market entry mode is an institutional arrangement that makes possible the entry of a firm products, technology, human skills, management, or other resources into the foreign country. (See Root, 1994). For domestic firm already located in the country that contains its market, the question of entry mode as distinguished from market entry simply does not arise. In contrast, the MNE initially stands outside both the foreign country and the market it contains, and it must find a way to enter the country as well as a way to enter the market.

## 2.7 Classifications of entry modes

Studies have heavily operationalized market commitment as the extent of resource commitment as measured by the choice of entry mode. (Johanson & Wiedersheim-Paul; 1975; Anderson & Gatignon, 1986; Root, 1987; Hill, Hwang and Kim, 1990; Pan & Tse, 2000).

From an economic perspective, a MNE can arrange entry into a foreign country in only two ways. First, it can export its products to the targeted country from a production based outside that country. Second, it can transfer it resources in technology, capital, human skills, and enterprise to the foreign country, where they may be sold directly to users or combined with local resources to manufacture products for sale in local markets. Firms whose end products are services cannot produce them at home for sale abroad and must, therefore, use this second way to enter a foreign country. From a management/operations perspective, these two forms of entry break down into several distinctive entry modes which offer different benefits and costs to the MNE. The classification of entry modes are further divided in the next three sections.

In the literature of international business different modes of market entry have been hierarchically distinguished. Market entry modes can be divided into export modes, intermediate modes and hierarchical modes. Root, 1987; Sharma & Erramili, 2004; Pan & Tse 2000; Hollenson, 2011).

Each type of market entry mode has its own characteristics which influences the internationalization process towards FDI in an emerging economy, such as China. Characteristics consist of three dimensions, namely control, resource commitment and dissemination risk. (Anderson & Gatignon, 1986: Root, 1987; Hill et al., 1990; Pan & Tse, 2000). For instance, a less-control mode (license agreement) has been operationalized as a low level of commitment. In order to measure the degree of control Anderson & Gatignon (1986) distinguish four dimensions which influences the degree of control on the entry mode. Namely, transaction specific assets (products and processes), external uncertainty (the unpredictability of the entrant's external environment), internal uncertainty (the entrant's inability to determine its agent's performance by observing output measures and free riding potential (agent's ability to receive benefits without bearing the associated costs.

Export modes are non-equity investment modes. (Pan & Tse, 2000). Within non-equity modes no FDI takes places in the foreign market (Johanson & Vahlne 1977; Dunning 1988; Root 1987, 1994). Moreover, with export entry modes a MNE products are manufactured in the domestic market and then transferred either directly or indirectly to the host market thus exporting is confined to physical products (Root 1994). According to Johanson & Vahlne (1977) Exporting is typically used in initial entry and gradually evolves towards foreign-based operations. Export modes can be divided in three sub categories. The first category is indirect export methods. Indirect export methods consist of: export buying agent, broker, export Management Company & export house, trading company and piggybacking operations. Furthermore, the manufacturing firm does not take direct care of exporting activities. Instead another domestic company, such as an export house or trading company, perform these activities, often without the manufacturing firm's involvement in the foreign sales of its products. The second category consist of direct export modes, consisting of: fixed export task, independent export department, distributors and agents. The last category consist of: cooperative export modes & export marketing groups. Furthermore, direct export usually occurs when the producing firm takes care of exporting activities and is in direct contact with the first intermediary in the foreign target market. According to the internationalization theories we discussed MNEs entering a foreign market using indirect exporting as a low control entry mode. (See Wiedersheim and Paul, 1975; Johanson and Vahlne 1977, 1990)

| EXPORT MODE | ADVANTAGE | DISADVANTAGES |
|---|---|---|
| INDIRECT EXPORTING | Limited commitment and investment required<br>High degree of market diversification | No control over marketing mix element other than the product<br>Lack of contact with the market |
| DIRECT EXPORTING | Access to local market experience<br>Shorter distribution chain<br>More control over marketing mix | Low control over market price<br>Some investments in sales organizations required<br>Cultural difference |
| EXPORT MARKETING GROUPS | Shared costs and risks of internationalization<br>Provide a complete product line or system sales to the customer | Risk of unbalanced relationship<br>Participating firms are reluctant to give up their complete interdependence |

*Table 2: Advantages and disadvantages of the different export modes (Hollenson, 2012)*

Intermediate modes can be divided in one category, consisting of: contract manufacturing, licensing, franchising, strategic alliance & JVs and management contracting. Contractual entry modes are long-term non-equity associations between an international company and an entity in a foreign target country that involve the transfer of technology or human skills from the former to the latter (Root, 1994). According to Johanson & Vahlne (1977, 2009) intermediate entry modes are distinguished from export modes because they primarily vehicles for the transfer of knowledge and skills between

partners, in order to create foreign sales (Root, 1994). According to Root (1994) contractual entry modes are distinguished from investment entry mode because there is no equity investment by the MNE. Generally, contractual arrangements take place when MNEs possessing some sort of competitive advantage are unable to exploit this advantages because of resource constraints but are able to transfer the advantages to another party (Dunning 2000). The arrangements often entail long term relationships between partner firms and are typically designed to transfer intermediate goods such as knowledge and/ or skills between firms in different countries.

In a licensing arrangement, a MNE transfer to a foreign entity (another firm) for a defined period of time the right to use its industrial property (patents, know-how, or trademarks) in return for loyalty or other compensation. Franchising differs from licensing in motivation, services and duration. In addition to granting the right to use the company name, trademarks, and technology, the franchisor also assist the franchisee in organization, marketing, and general management under an arrangement intended to be permanent.

| INTERMEDIARE MODE | ADVANTAGE | DISADVANTAGES |
|---|---|---|
| **CONTRACT MANUFACTERING** | Permits low-risk market entry Avoids currency risks and financial problems | Transfer of production know-how is difficult Control over manufacturing quality is difficult |
| **LICENSING** | Increase the income on product already developed as a result of expensive research | When the licensing agreements expires, the licensor may find they have established a competitor in the former licensee |
| **FRANCHISING** | Greater degree of control compared to licensing Low-risk-low cost entry mode Local market knowledge and experience | Lack of full control over franchisee's operations Costs of protecting goodwill and brand name |
| **JOINT VENTURE** | Access to expertise and contacts in local markets Shared risk of failure Less costly than acquisitions Reduce market and political risk Shared knowledge and resources | Objectives of the respective partners may be incompatible, resulting in conflicts Loss of control over foreign operations Large investments of financial, technical or managerial resources favour great control that is possible in a Joint Venture |
| **MANAGEMENT CONTRACTING** | If direct investment or export is considered too risky Organizational learning: if a company is in its early development stages of internationalization | Training future competitors: the management transfer package may in the end create a competitor for the contractor Little control, which also limits the ability of a contractor to develop the capacity of the venture. |

*Table 3: Advantages and disadvantages of different intermediate modes (Hollenson, 2012)*

Viewed from a macro perspective, China has various government regulations, local market protectionism and business networks which are seen as barriers for MNEs to enter the Chinese market. Therefore Pan and Chi (1999) suggest an intermediary market entry mode to enter the Chinese market. A JV has some advantages for entering the Chinese market. According to Pan and Chi (1999) JVs gains faster approval and entry into the local market, wider and quicker market access and advantages in the investment mode which are explained by various kind of support from the local government. Furthermore, according to Luo (1997) the importance of personal relationship (Guanxi) should not be underestimated by MNEs which enter the Chinese markets (Gleason, Lee and Mathur, 2002). Moreover, the JV mode of market entry is preferred above the hierarchical entry mode of wholly owned subsidiary based (WOS) on a well-established Guanxi network (See Gleason et al. 2002).

Hierarchical entry modes are the final step in the internationalization process. A condition in executing a hierarchical mode in the foreign market is according to Johanson & Vahlne (1977, 2009) the large resource commitment for the investment (Pan & Tse, 2000). Within the hierarchical mode, the MNE completely owns and control the foreign entry mode. Hierarchical modes can be divided in two categories. Consisting of "sales representative abroad" which is domestic based or a resident. The other category consist of foreign sales subsidiary, sales and production subsidiary and region centres. Region centres consist of acquisition or Greenfield investment.

| HIERARCHICAL MODE | ADVANTAGE | DISADVANTAGES |
|---|---|---|
| DOMESTIC BASED SALES REPRESENTATIVE | Better control of sales activities compared to independent intermediaries Close contact with large customers in foreign markets close to home country | High travel expenses Too expensive in foreign markets, far away from home country |
| FOREIGN SALES, BRANCH/SALES AND PRODUCTION SUBSIDARY | Full control of operations Market access Acquire market knowledge directly Reduce transport costs Elimination of duties Access to raw materials and labour | High initial capital investment required Loss of flexibility High-risk (market, political and economic) Taxation problems |
| REGION CENTRES/ TRANSNATIONAL ORGANIZATION | Achieve potential synergies on a region/global scale Regional/global scale efficiency | Increasing bureaucracy Limited national-level responsiveness and flexibility |
| ACQUISITION | Rapid entry to new markets: Fast accessibility of distribution channels, qualified labour force, existing management experience, local knowledge, contacts with local market and government, established brand names/ reputation. | Usually an expensive option Threats: lack of integration with existing operation and communication and coordination problems between acquired firm and acquirer |

*Table 4: advantages and disadvantages of different hierarchical entry modes (Hollenson, 2012)*

## 2.8 Factors influencing the degree of internationalization

When summarizing the internationalization process of the firm and the theories that were discussed in the first chapter it is clear that the many variables that influence the decision making process when choosing the market entry mode, will be narrowed to (internal) organizational specific variables and the (external) target country variable which are derived from the concepts of market knowledge and market commitment model *"Figure.* In order to narrow the research, the focus of this thesis will reflect the internationalization process theories of Johanson Vahlne (1977) and Dunning (1980, 1988, and 2001). Original work on the internationalization process will be combined with literature from contemporary times.

Looking at the Organization specific variables, the focus is on the concepts of "market knowledge" and "market commitment" that were researched by Johanson & Vahlne (1977). Market knowledge and market commitment have several ante cedes which influence and determinants the internationalization process of the firm. Internal factors derived from the internationalization theory of Johanson & Vahlne (1977) and the OLI paradigm of Dunning (1980) are translated into factors such as "Firm Size" and "international experience". These factors influences the degree of internationalization and its appropriate market model of entry.

Both "Firm Size" and "Firm Age" has long been used to predict a firm's international activities. (Root, 1987; Hollenson 2012). The Uppsala model, based on learning behaviour, suggest that a firm progress from domestic to international markets in a sequential manner and that substantial growth in firm size and age must occur before internationalization. The OLI paradigm of Dunning (1988) states that "Firm size" is to be considered as indicator of "Ownership advantages" for the MNE entering the foreign market with a certain type of entry mode. Furthermore, according to Root (1994) firm size is linked to the MNE resources. In the international context, the most common argument is that larger companies have a sized-related advantage that enables them to gain simple resources and thus internationalize their operations quickly and broadly (Agarwal & Ramaswami, 1992; Nummela, 2004; Gao et al. 2008). An MNE with limited resources is constrained to use entry modes that call for only a small resource commitment. This aligns with the internationalization theory of Johanson and Vahlne (1977) which stated that in order to increase market commitment, depends on the amount of resources commitment and the degree of resource commitment which can speed up the internationalization process and its appropriate (Post) entry mode.

According to Hollenson (2011) "Size" is an indicator of a firm's resource availability. Increasing resource capability provides the basis for increased international involvement over time. According to Ray, Barney and Muhanna (2004) 'resources' and 'capabilities' are used interchangeably and refer to the tangible and intangible assets firms use to develop and implement their strategies. The size of the foreign subsidiary also has similar resource implications on a firm and its relationship with entry modes. Carter, Toma and Barbera (2009) defined five groups of resource availability; physical and financial resources, which are seen as the two main groups of tangible assets. The other groups are the human and information capital of intangible assets. These resources will be operationalized within the external factors of the Chinese market. In this research, the focus is on tangible assets and physical and financial resources in order to measure the firm size. Large resource requirements of integration have led researchers to believe that firm size is positively related to high control entry modes. For the internal factor "Firm Size" this research is focused on two dimensions of resource availability, namely the financial performance and human resources.

| DIMENSION | SUB DIMENSIONS | TYPES |
|---|---|---|
| **RESOURCE AVAILABILITY** | Financial resources | Retained earnings |
| | Physical resources | Geographic location |
| | | Infrastructure assets |
| | | Access to raw materials |
| | Human resources | Knowledge |
| | | Skills competences |
| | | Commitment |
| | | Motivation |
| | | Loyalty |
| | Information resources | Communication technology |
| | | Physical Networks |

*Table 5: Dimensions of resource availability (Hollenson, 2012)*

The operationalization of financial performance is done through retained earnings. These earnings are internally generated and therefore seen as one of the most important parts of financial resources. A study from Cavusgil (1976) attempted to delineate the differences among exporting firms that have been organized into three categories, namely experimental exporters, active exporters and committed exporters. The operationalization of this study was done by using the criteria regarding firm size and export sales/total sales ratios in order to classify the firms. After classifying the 70 firms into the categories of experimental exports, active exports and committed exporters, the results revealed that there is a tendency for larger-volume companies to have progressed further along in the internationalization process. On the contrary, this relationship is not significantly supported which implies that company internationalization is not as influenced by size, when the operational variable of firm size is done by the number of employees.

From an organizational learning perspective, Chang (1995) stated that organizations learn from a previous experience of entering a foreign market whereby the manager is not only learning to exploit existing specific advantages but also to develop new competitive advantages. Organizational learning is defined according to Levitt and March (1988) as follows: "*organizations encode inferences from history into routines that guide behaviour*" (p. 320). Organizational learning consists of 4 dimensions. These are knowledge acquisition, information distribution, information interpretation and organizational memory. The knowledge of an organization in relation to foreign market entry increases from their own entry experience in the past. In the existing literature on the effect of cumulative international experience, most measurement was done by the number of years of operation or the cumulative number of previous foreign market entries (See Luo & Peng, 1999; Hennart & Reddy, 1997)

In the literature, attempts regarding international experience have been made to learn from an organizational leaning perspective on firm performance in foreign markets. Moreover, cumulative international experience was measured in different settings, such as with competition, long-term survivability and from a subsidiary perspective. The results from a study done by Li (1995) that examined foreign U.S. subsidiaries within the computer industry, found that entrants with previous experience had a higher chance of survival than first-time entrants. Another study of cumulative international experience in foreign subsidiary survivability done by Luo and Peng (1999), concluded that the intensity and diversity of the host country showed that there was a positive effect on the subunit performance of foreign firms.

In his study regarding cumulative experience and the type of entry mode, Li (1995) concluded that firms are capable of accumulating knowledge through entries of the same mode, and that they benefit across different subsidiaries. More specifically, according to Li (1995) *"a firm's additional entry specific experience is positively related to the performance of subsequent subsidiaries because of the risks and uncertainties in foreign markets" (p. 335).* The firm entering a foreign market should take into account previous experience and accumulate knowledge through entry activities and apply it in subsequent entries (Chang, 1995; Kogut & Chang, 1995, Luo & Peng, 1999). Companies entering China are setting up holdings to coordinate and exchange experience among subsidiaries and their entry strategies. According to Hollenson (2012), international experience from similar countries (with low perceived physical distance) is positively associated with the choice of a high control entry mode (i.e. entry by a wholly owned subsidiary). This indicates that exploiting each geographic region in succession may be advisable, instead of jumping from region to region. This would maximize the benefits of a within-cluster experience. In developing their internationalization theory, Johanson and Vahlne (1977) asserted that uncertainty in international markets is reduced through actual operations in foreign markets (experiential knowledge) rather than through the acquisition of objective knowledge. They suggested that it is direct experience with international markets that increases the likelihood of committing extra resources to foreign markets.

In a study done by Gao et al. (2008), cumulative experience in several dimensions was distinguished. These dimensions consist of general entry experience, entry specific experience and export experience which all exert different influences on the performance of MNE subsidiaries. The study was done among 245 subsidiaries of U.S. firms in China. The results showed that there were different dimensions of experience. The results in the study of Gao et al. (2008) suggest that the effect of the exporting experience becomes weaker as a firm accumulates more entry specific experience.

| DIMENSION | SUBDIMENSION |
|---|---|
| EXPERIENCE | General entry experience |
|  | Entry specific experience |
|  | Export experience |

*Table 6: Dimensions of export experience (Gao et al. 2008)*

The socio-cultural component is described in literature with different definitions. The socio-cultural aspect can be understood according to broad definitions and on macro-analyse from Hail (1960) and Hofstede (1991). The distance from the domestic market has been researched in the past decades in conjunction with different themes. Such themes have looked at the term distance from a cultural and also a geographical perspective.

Johanson & Wiedersheim-Paul (1975) researched distance in cultural and psychological terms, and the results showed that what is relevant in one country does not always apply in other country. In addition, a certain type of entry mode for a foreign country should not be seen as an appropriate mode for another country. The focus in this section will be on the cultural/physical distance between the home market and the foreign Chinese market. According to Ellis (2007): "*If the internationalisation process of the firm reflects a pattern of increasing distance to market, the empirical verification should be a relatively straightforward matter" (p. 578).* For research that has been done over the last 50 years related to distance, few conclusions can be made. In the existing literature a distinction has been made between different types of distance, such as cultural and psychological distance from the home market.

Culture is complex to define. In the literature regarding culture, scholars use different definitions to define the concept of "culture". The definition of culture according to Hail (1960): *"Culture is a man's medium; there is not one aspect of human life that is not touched and altered by culture (p. 344). This includes personalities, how people express themselves (including the expression of emotions), the way they think, how they move, how problems are solved, how their cities are planned and laid out, how transportation systems function and are organized, as well as how economic and government systems are put together and function." (p.334)*

In a study done by Kim, Pan and Park (1998) that looked at high versus Low Context Culture, a Comparison of Chinese, Korean and American Cultures suggests that from a cross-cultural perspective, Hall's description of the characteristics of high-low context cultures can indeed be empirically confirmed. To focus on China, Kim et al. (1998) stated that China is more confrontation-avoiding and China has more trouble dealing with new situations. Critic on the phenomenon of internationalization states the lack of results when it comes to the issues of distance to market and foreign expansion (See Dow, 2000; Ellis, 2007). Scholars argue about inconsistent measurement and about testing distance measures. However, some empirical results investigated by Benito and Gripsrud (1992) which suggest that the distance between two consecutive investment locations was correlated. In practice, this suggests that an experience in one foreign market leads to lower levels of uncertainty when entering an attached country and its market. This is called the "near-market" effect. The near-market effect highlights the cost-minimizing role of knowledge that was researched through foreign direct investment and that measured distance solely in terms of culture.

In the theoretical framework, sub dimensions of social cultural distance have been defined based on the (CAGE) distance framework that was developed by Ghemawat (2001). The distance between two countries can manifest itself along four basic dimensions: cultural, administrative, geographic and economic. The types of distance can influence different businesses in different ways. Geographic distance, for instance, affects the costs of transportation and communications, therefore it is of particular importance to companies that deal with heavy or bulky products, or whose operations require a high degree of coordination. Cultural distance affects consumer's product preferences. It is a crucial consideration for any goods or media company, but is much less important.

| DIMENSION | SUB DIMENSIONS |
|---|---|
| CULTURAL DISTANCE | Language, education level<br>Different ethnicities<br>Different religions<br>Different social norms<br>Hofstede cultural dimension |
| ADMINISTRATIVE DISTANCE | Governance and history<br>Absence of colonial ties<br>Absence of shared monetary or political association<br>Political hostility<br>Government policies<br>Institutional weakness |
| GEOGRAPHIC DISTANCE | Physical remoteness<br>Lack of a common border<br>Lack of sea or river access |
| ECONOMIC DISTANCE | Development and Performance<br>Production strength |

*Table 7: Dimensions of social-cultural distance to foreign market (Ghemawat, 2001)*

The attitude of the Chinese government towards a MNE which is active within the Chinese market reflects its level of commitment to a planned economy (Gleason et al. 2002). Since 1979, four policy phases have occurred. The first policy was enacted in 1979 with the establishment of four SEZ and the JV Law. Foreign investment continued during the second phase from 1985 to 1987 with its Open Door Policies. In 1987, the Chinese doors opened (ODP) to the international business environment after its Economic Reforms. Many foreign investors rushed in to enter the Chinese market. Little was known about 'doing business' in China in relation to the local culture and authoritarian influences from the Chinese government. During the third phase, foreign investment declined because of economic and political downfall, such as during the Tiananmen Square Crisis. During the fourth and most recent phase (1991) Chinese government policies were focused on attracting foreign investment. However, from the last phase to the present MNE phases, there have been several constraints with Foreign Direct Investment in the Chinese market. Some of these constraints affected the operating decisions of management, such as subsidiaries of United States MNEs that were required to hire from government agencies. On the contrary, when a US MNE enters China by a JVs market mode, managers may hire whomever they want (Gleason et al. 2002). Overall, these SEZs have been successful thus far in attracting foreign investments, and MNEs have overcome these operational barriers to the expansion of their exports into China.

Currently, there are three levels of government in China. These are the State (the national government), provincial government and municipal government. The firm linkage to rules from a certain type of government type depends on the nature of its operations, its location and its scale. This is because different types of government create different types of risk to the firm. According to a study from Davies (1998), it is better for the investing firm to work with the Chinese government on a high level because of its influence and high authority. This is with regard to the project, the types of investments, interpreting government policies, coordinating resources, and exercising control from the firm's perspective. On the other hand, firms that are involved with government regulations on a lower level have more flexibility and speed in handling projects. For instance, according to Davies (1998), the bonus systems for workers were faster and more easily approved by lower than higher level of government types.

| DIMENSIONS | SUB-DIMENSIONS |
|---|---|
| SYSTEM | Unstable vs stable |
| | Democratic vs dictatorship |
| | Predictability vs unpredictability |
| LEGISLATION | Developed vs underdeveloped |
| APPLICABLE LAW AND REGULATIONS | Corruption, rules are not applied, Interpretation rules depend on functionary |
| BARRIERS | Tariffs and quotas on foreign goods |
| | Freedom of trade between countries |
| | Freedom in choosing entry mode |
| | Exchange rate manipulation |
| | Buy local legislation, standards and licenses |

*Table 8: Dimensions of political risk (Wood & Robertson, 2000)*

The results of the study from Tse, Pan and Au (1997) note that Western Europe's most favourable operation is export (45% of all operations) with 28.0% as JVs and 1.5% as WOS. This is in relation to the Chinese government. Western European firms prefer to deal with the high-level government (23. 7%) at the state level. The location of operation in SEZ is most favourable (47. 4%) and in coastal cities (4.9%). Regarding to the formation of alliance, as mentioned previously, Western European firms do not prefer to form alliances with other firms in China (1.1%).

## 2.9 Conceptual model
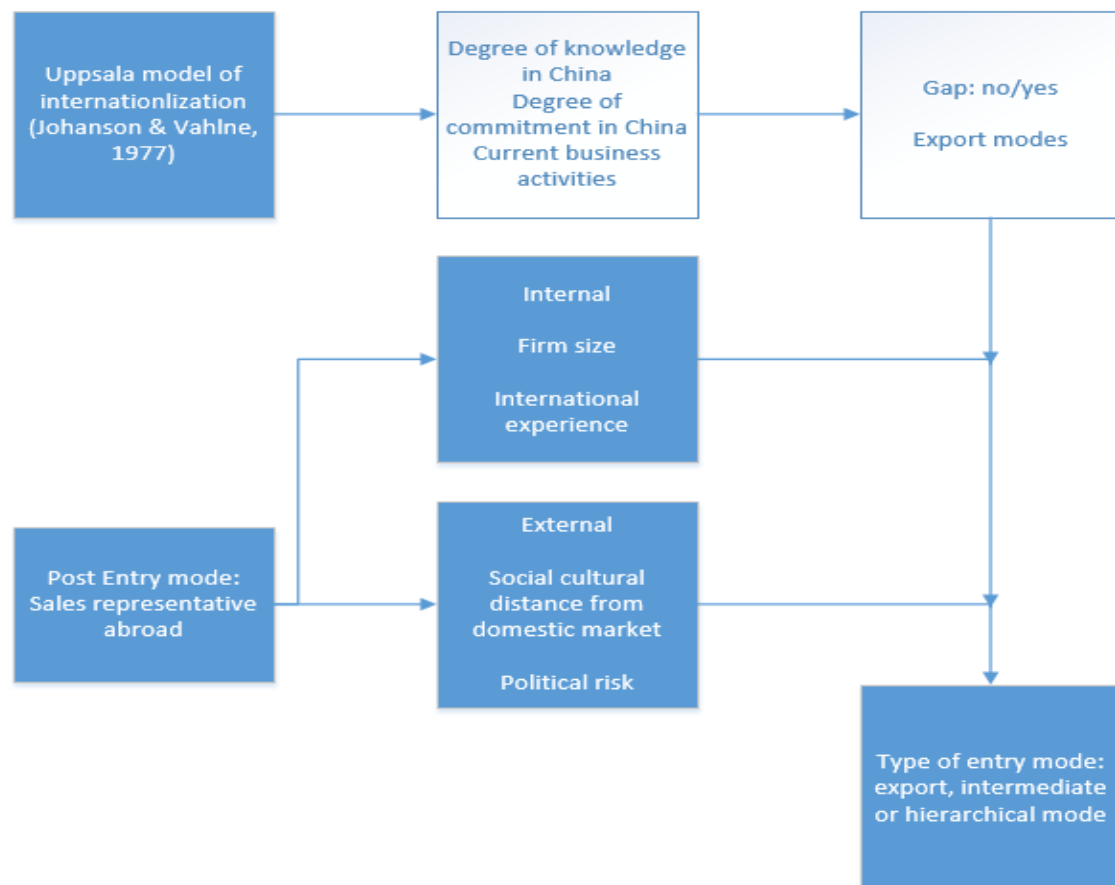


*Figure 7: Conceptual model (derived from Verschuren & Doorewaard, 2012)*

The conceptual model is based on the theory of internationalization of Johanson and Vahle (1977) whereby the mechanism of the current state of internationalization process is reviewed. From the Uppsala model this thesis is trying to get an answer on the degree of knowledge and market commitment of their current business activities in China. The current post-entry mode if RTI is a sales representative abroad whereby different internal factors (*firm size and international experience)* and external factors *(social cultural distance from domestic market and political risk*).

This makes it interesting to research in which manner a MNE enters the Chinese market. Moreover, the current state of internationalization fits with the entry mode in the Chinese market however the influences of the variables suggest to adapt a different form of (post) entry mode. Many variables influence the degree of market commitment based on market knowledge from these factors. Examining these factors results in advising RTI for the next step in the internationalization process and its desired market mode. In this research, the focus is on the variables "firm size", "international

experience", "social-cultural distance" and "political risk "as described in the internationalization theory of Johanson and Vahlne (1977).

Throughout the thesis the focus is on MNEs, therefore the chosen internal and external variables have been researched due to the expectation that these variables will affect the internationalization process the most significantly. Furthermore, the behaviour paradigm of Johanson and Vahlne (1977) states that these explanatory variables affect the development process of internationalization.

In order to conduct the research of this thesis, the variables are operationalized from the theoretical framework. First, secondary data has to be analysed about China in order to gather primary data through a case study. The next section outlines the research methodology and why certain step in the process of conducting the research are taken and which methods are most appropriate

# CHAPTER III

## RESEARCH METHODOLOGY

In this chapter we outlined the research methodology we followed. This is an essential step in conducting the research in order to make find and analyse relevant information which we can connect to the theoretical frameworks and make conclusions in the last chapter. In order the conduct the research we operationalized related dimensions of the internationalization process to make clear validated statements in the next chapter. We discuss the models mentioned in the theoretical framework, based on their explanation power. Overall we tried to operationalize the theoretical model is such way, the validity and explanatory power is at highest possible.

### 3.1 Research approach

The approach in conducting this research van be done in two approaches namely, quantitative and qualitative orientated. Besides, a research can be conducted as a combination of these two approached combined as well. According to Yin (2009) the quantitative research approach emphasizes on transforming data into numbers, quantities and statistical models for the purpose of measurement and analysis. Researchers which conduct this research approach uses questionnaire as a tool to collect data. This approach focuses on preciseness in terms of analysing and measuring the data. Moreover, quantitative research uses statistical analysis to obtain information

With a qualitative research approach a researcher focuses on gaining a better understanding of the research problem through detailed information about the subject in matter. According to Yin (2009) one essential aim of this research approach is to have complete and detailed description of the subject through the application of reasoning Qualitative research often involves interviews and observation without formal measurement. The goal of a qualitative research design is to understand the phenomenon studied and describe the behavioural intention of RTI for internationalization and future development in this process. Moreover, qualitative data consists of descriptions, quotations and observations.  Taken in account the purpose of this which was getting better insight in the internationalisation process of RTI in the Chinese market and advise which market mode is most suitable for RTI, we applied the qualitative research approach.  However, a part of the research approach is quantitative orientated. To measure the degree of control of the market mode of RTI, statistical analysis is preferred in order to increase the validity.

### 3.2 Research purpose

According to Babbie (2007) there are three research types: Exploratory research, descriptive (case study) research and causal research.

Exploratory research is concerned with discovering new ideas or insights. Gaining new insights or having new ideas is important because these could easily create business opportunities. Descriptive research on the other hand describes features of something of interest such as: organizations, variables, individuals or similar features and attempts to represent the given situation. Finally, causal research tries to "identify cause-and-effect relationships" (Babbie, 2007).

The main research question is as follows:

***What should be the most suitable entry mode for RTI with regard to internationalization in China?***

Shirani (2009) mentioned that research questions are regarded as the most significant condition for differentiating among different strategies. "What", "who" and "where "questions and their derivatives "how many" and "how much" are most appropriate for survey and archival records. Furthermore "how" and "why questions are most appropriate for case studies, histories and experiment.

Although typically only one of these three research purposes is used as the dominant purpose, occasionally within larger projects all three purposes can be fulfilled. The applications of theoretical models is also considered explorative research because it is seeking to explain the different strategies that are performed and also those that are forecasted by theories. Since the purpose of our study is to gain a better understanding of the Internationalisation process of RTI with regard to the theoretical framework and is no definitive theory that explains the internationalization process of RTI in China particular, the purpose of our research would mainly be explorative and to some extent descriptive

## 3.3 Research Strategy

In order to conduct the explorative research a certain strategy has to be adopted in order to be consisted with the research. As mentioned in the first chapter, the research objective is to obtain more insight into the most suitable post-market entry mode for RTI in the internationalization process in China and to explain the factors derived from the theoretical framework, influences market knowledge and market commitment. As shown in Figure *8: Overview of the research methodology*, the next step is to select the research method. Because this thesis is explorative orientated, a survey or an interview reflects the phenomenon of interest (the internationalization process of RTI) most appropriate. The research objective is leads to the problem definition (derived research questions). With the research method of an open ended interview with RTI, the objective and research questions should give more insights in the internationalization process of RTI. We think that a single open ended interview with employees working within RTI on a daily basis is most appropriate method. It is not an option to conduct more interviews with other MNE because they can be seen as competitors operating in the same market. Suggesting other MNE in the same market are not willing to co-operate with in favour of RTI. A possible bias by conducting an open ended interview is the possibility to give the interviewer social desirable answers. We tried to minimize the bias to interview two employees of Rockwool at once with different function in the organization and background of past experience and knowledge towards entering a foreign market.

In order to conduct the interview, secondary data of the phenomenon of interest needs to be gathered for the specific country (China) in order to link primary data to the secondary data. The PEST analyse is a method to gather secondary data about the subject of interest the other part of the secondary data analyse, consisting of "the business plan China" is analysed. In this analyse we attempt to link numerical and non-numerical data to the theoretical framework.
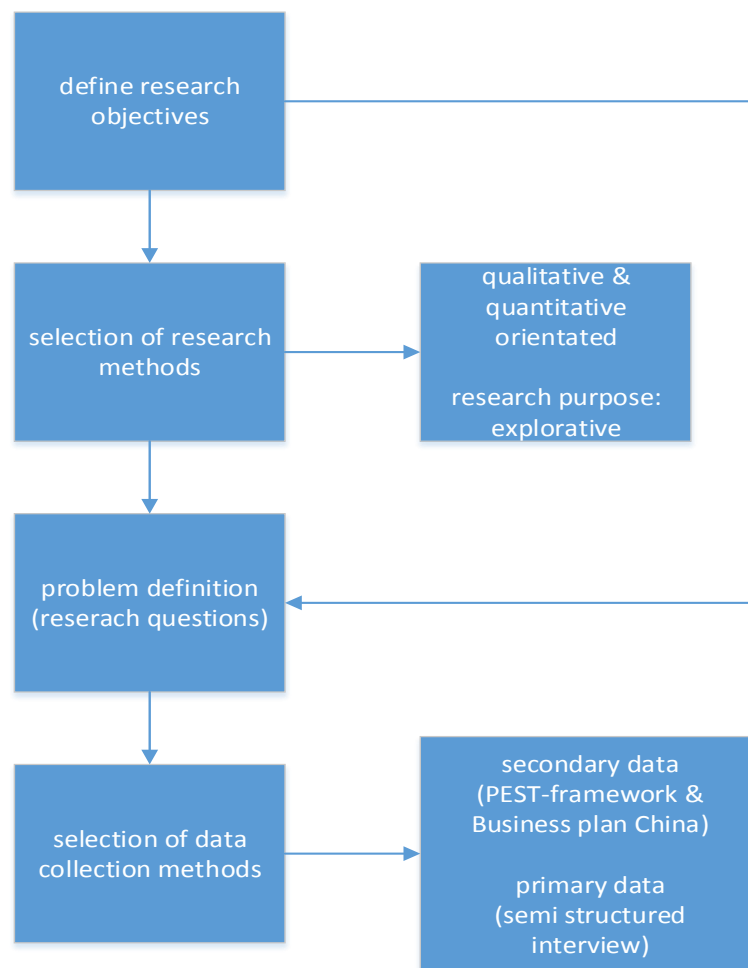
*Figure 8: Overview of the research methodology (derived from Babbie, 2007)*

## 3.4 Data collection method

It is important to choose the appropriate data collection method for a particular study in order to complete the research successfully. The selected method determines how the data are collected. Interviews, questionnaire. Documentation, observations, standardized tests. Archival records are some of the frequently used method for data collection. According to Sekaran (1992), there are two categories of data; primary and secondary. Primary data is collected by the researcher itself for specific purpose or study. Most of the time primary data is collected through observations, surveys and interviews. Secondary data refers to the data which is collected by another researcher for another purpose or study; so it is collected from external sources such as articles. Secondary data is easier to acquire than primary data. Even though primary data is difficult to acquire, they are a lot more trust worthy compared to secondary data; secondary data comes along with a question regarding reliability and therefore, must be treated with caution.

In this study, a combination of primary and secondary data is applied. Primary data is collected by an interview. Secondary data is collected from articles, books and online sources. The first step in collecting secondary data will be done through regional macro screening for the identification of China. Therefore the level of development, cultural similarity of the countries and population comparison are indicators for country identifications. Wood and Robertson (2000) also states different indicators of collecting secondary data.

The first part of gathering data will be done through the PEST analyse. The PEST analysis is according to Clulow (2005) an analysis framework of macro environmental factors. Furthermore the PEST analysis usefulness lies according to Buchanan and Gibb (1998) *"the assumption that the success of a particular organisation or management solution cannot be understood without having the information relevant to the specific business environment'' (p. 34).* The PEST framework analyses macro-environmental factors: "political, economic, socio-cultural and technological" factors (See Hollenson, 2011). The different variables from the conceptual model which influences the internationalization process are translated to different sub dimensions in the theoretical framework. For conducting the PEST analysis and to guide the PEST analyse, these dimensions are operationalized in several indicators mentioned by Wood and Robertson (2000) *See appendix B: operationalization of the variables.* These indicators are examined trough the PEST analyse as secondary data gathering. Besides the secondary data collection though a PEST- analyze, we also collected data which was generated by RTI employees themselves. Therefore we shortly discuss the secondary data we obtained from RTI and in which way the data must be interpreted. The Business plan China consist of numerical data and written data. Therefore we divided the data in two categorizes further outlined in two tables. In order to seek out relevant information from the business plan China which can contribute to this thesis, we try to connect this secondary data to the theoretical framework. In the theoretical framework we discussed two main internationalization approaches namely, the Uppsala model of internationalization referred as the behavior paradigm and the transaction cost theory referred as the OLI paradigm.

Three of the most common type of questions used in questionnaires such as an interview or surveys includes open-ended questions, closed-ended questions and Likert scales. An open-ended question does not provide the participant with a choice of answers. Instead, participants are free to answer the question in the manner they choose. A closed-ended question provides the participant with several answers to choose from. The Likert scale asks participants to provide a response along a continuum of possible responses.

As mentioned, primary data is collected through an open ended interview with RTI. Interviews have its strengths and weaknesses. Conducting an interview is most appropriate for the methodology of this thesis because it focuses directly on case study topics. Yin (2014) mentioned, other advantage for using interviews because it provides explanations as well as personal views (perception, attitudes, and meanings). Weakness of the interviews are the high "reflexivity, which means interviewee gives what interviewer wants to hear. Other weakness from interviewer are bias due to poorly articulated questions and from the interviewee are response bias and inaccuracies due to poor recall. With developing the interview questions we have focused on using questions that will provide us with data related to the main theme of our research which is, to investigate if the internationalization process of MNE and in particular RTI of the suggested theories that we have been discussed in our study. The interview was executed with two managers of Rockwool Technical Insulation. The interview was recorded on tape in order to transcript the interview afterwards. The total time whereby the interview took place consisted about 120 minutes.

## 3.5 Criteria for judging the quality of the research design

Four tests have been commonly used to establish the quality of any empirical social research. Because case study research is part of the total data gathering and analysing, the four tests also are relevant to case study research. The four tests consist of construct, internal, external validity and reliability. According to Yin (2009) these test also have served as a framework for assessing a large group of case studies in the field of strategic management.

According to Babbie (2007) construct validity is defined as "*identifying correct operational measures for the concepts being studied" (p. 234).* In order to gain a high validity on the construct for the concepts which are being studied, several case study tactics are available. These tactics consist of (1) use multiple sources of evidence, (2) establish a chain of evidence, (3) have key informants review draft case study report. (See Yin, 2009). The construct validity of the case study design is moderate. On the one hand we tried to operationalize different dimension based on existing literature. On the other hand different dimensions of the model: "basic mechanism of internationalization" and dimensions which influences the market mode does not consists of clear indicators. Therefore indicators and the derived interview questions are partly based on own interpretation and partly confirmed from other papers. Nonetheless, authors from other papers derived indicators from the dimensions in different settings and research purpose. ( See Reid, 1981; Linn et al, 1993; Luo & Peng, 1999; Navarro et al. 2010)

This second test has been given the greatest attention in experimental and quasi- experimental research. (Babbie, 2007; Yin, 2009). According to Yin (2009) internal validity is described to establish a causal relationship, whereby certain conditions are believed to lead to other conditions internal validity is mainly a concern for explanatory case studies. If the investor incorrectly concludes that there is a causal relationship between x and y without knowing that some third factor -z- may actually have caused y, the research design has failed to deal with some threats to internal validity. Because this thesis is descriptive orientated, this logic is inapplicable to the internal validity of the research strategy.

Second problem of internal validity towards conducting a case study, extends to the broader problem of making inferences. Basically, a case study involves an inference every time an event cannot be directly observed. This means that a particular event resulted from some earlier occurrence, based on interview and documentary evidence collected as a part of the case study. This one of the problems towards internal validity. Therefore to increase the internal validity, the secondary data gathering must be up to date in order to secure the internal validity in relation to the data gathered from the case study.

External validity is concerned with defining the domain which a study's findings can be generalized. (Babbie, 2007; Yin, 2014). For case studies, the issue of external validity related to generalization. The theory of generalization has two interpretations namely, analytic and statistical generalization. There is not threat from statistical generalization because the case study is qualitative orientated (See yin et al, 2003). The different dimensions from the mode: "basic mechanism of internationalization" are operationalized by other authors after the initial study of Johanson & Vahlne. (See Anderson & Gatignon, 1986; Hadley & Wilson, 2003; Gao et al. 2008, Gao & Pan 2010). Still from the dimensions of "specific knowledge" no attempts have been made in existing literature to derive possible indicators. Therefore the external validity is low because it is not tested among other scholars. On the contrary, the concept of market commitment is sufficient measured among existing literature. (See Linn et al. 1993; Pedersen & Petersen, 1999; Navarro et al., 2010). From the market entry mode factors, external validity is highest among the factor of "firm size". "Firm size" is tested among previous scholar. (See Nummela, 2004; Li, 2007; Gao et al., 2008)

Another possible threat of external validity is related to the research questions of the study. The form of questions can help or hinder the preference for seeking generalizations. (See Yin, 2014). As mentioned under heading 3.2 Research Design, an explorative research design deals with "how" and "why" questions. The sub-research questions of the thesis consist of these kinds of questions. The threat of external validity is only a possibility when the interview have these question. In this manner, the form of the initial research question(s) can directly influence the strategies used in striving for external validity. (See Yin, 2014)

According to Yin (2014) the objective is to be sure that, if the later researcher follows the same procedures as described by an earlier researcher and conducts the same interview over again, the later investigator should arrive at the same findings and conclusions. According to Yin (2009) in the past, research done through interviews have been poorly documented, making external reviewers suspicious of the reliability of the case study method.

Partly, the threat to reliability is high because unit of analysis RTI, could change its internationalization process in China over time. Therefore when conducting the research again in the future could have a different outcome. The reliability of the Uppsala model is low because the interview question are not empirical tested before by other authors. In Table 9: Summary of the evaluation based on the explanation criteria (Anderson, 1993) there is some overlap in reliability with existing authors (Kogut & Chang, 1996; Pedersen & Petersen 2003; Li, 2007; Gao et al., 2008; Hadley & Wilson, 2010).

The Uppsala internationalization model (U-model) is based on a behavioural approach, regarding internationalization as process. There are some unclear aspects of the U-model. First, the relationship between the concepts of the theoretical model are quite vague; some of them are even no directional (Anderson, 1993). Moreover, vaguely specified relationships make it difficult to test the model.

| Aspects Evaluated | U-Model | I-Models |
|---|---|---|
| Type of scientific explanation | Genetic (historicist) | Genetic (historicist) |
| Boundary assumptions<br>- Space (units of analysis)<br>- Time | No specified restrictions<br>Unbounded | Small- and medium-sized firms<br>Bounded |
| Causality<br>- Model type<br>- Explanatory variables<br>  (process development) | Causal cycles<br>One variable: Firms' knowledge | Explanation chains<br>Many different, most organizational characteristics |
| Utility - scientific<br>- Assumptions about firms' behavior | Based on behavioral theories, incremental decision-making process, with little/no influence from competitive and market factors. | |
| - Variables properly defined | Examples of possible indicators, no operational definitions | Unclear arguments for classification procedures, and for operationalization of explaining variables |
| - Precise statements of the relations between stages | Considerable vagueness | Basically intuitive arguments |
| Utility----intuitive | Logic axiomatic. The usefulness is stressed for management and governments | |

*Table 9: Summary of the evaluation based on the explanation criteria (Anderson, 1993)*

## 3.6 Operationalization of the internal and external factors

The internal variables are operationalized according to different previous studies on theories of internationalization. The internal factor "Experience" and "firm size "is according to the OLI paradigm of Dunning (1988) and the behaviour paradigm of Johanson and Vahlne (1977) one of the variables influencing the internationalization process of an MNE and its associated market entry mode. The external variables are operationalized according to the framework of Wood and Robertson (2000) which identified several (sub)-dimensions of the variables "social cultural distance" and "political risk". The next sub-sections goes deeper into these variables and studies specific on these variables are outlined.

Traditional theories of FDI laid a solid foundation for explaining the rationale and patterns of international expansion of firms. One of the most influential FDI theories is the internationalization

theory that helped to form the central ideas of the transaction cost theory. Li (2007) reviewed the literature on multinationality and performance. Even though they are not always explicit, both internationalization theory and the OLI paradigm tend to argue that the need for leveraging firm-specific intangibles underscores the propensity of a firm's internationalization, which, in turn is positively associated with firm performance.

Based on the literature review done by Li (2007), four dimensions were identified in order to capture the degree of multinationality. (1) Operational performance (ratio of foreign sales to total sales), (2) Operational structure (ratio of foreign to total assets) (3) Attitudinal resource attributes (top management's international orientation) and (4) stock ownership (the percentage of common equity owned by foreign companies). These studies of a firm's performance are focused on the operational performance and structure.

Selecting from alternative international markets, be it for exporting, licensing, joint ventures, strategic alliances or direct investment, requires information. In a study done by Wood and Robertson (2000), international markets are evaluated by the importance of information by industry, by country of destination, and by type of export transaction. The sub-dimensions that are categorized by the distance framework (CAGE) have been further captured and are measurable within the framework from Wood and Robertson (2000). In this framework, the most important aspects of the political, economic, market, culture infrastructure, and legal environments have been operationalized.

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## 3.7 Conclusion

In the II chapter we outlined relevant theoretical frameworks, discussed the advantages and disadvantages of the theories. Furthermore we compared different approaches in the internationalization process towards (post)-entering a foreign market. In this chapter we choose to hold a single interview with RTI in order to analyse in the next chapter the primary and secondary data. Based on the analysing part, we aimed at findings which contributes to the internationalization process of RTI in China. Furthermore this section describes the way how we operationalized the theoretical framework based on different dimensions and attempts have been made to validate the interview questions with articles related to international business and internationalization in foreign markets.

# CHAPTER IV

## Data analysis & Findings

# CLASSIFIED

# CHAPTER V

## Conclusion, Discussion & Recommendations

# CLASSIFIED

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# APPENDIX B. OPERATIONALISATION OF THE VARIABLES

| DIMENSION | SUBDIMENSION | MEASURE |
|---|---|---|
| **ACCOUNTING BASED INDICATORS** | Operational performance | Foreign/total sales ratio (ROS) |
| **ACCOUNTING BASED FINANCIAL INDICATORS** | Operational structure | Foreign/total assets ratio (ROA; before and after tax) |
| **MARKET BASED FINANCIAL INDICATORS** | Attitudinal attributes | Top management international orientation (firm growth; economic profitability) |
| **MARKET BASED FINANCIAL INICATORS** | Stock ownership | % Of common equity owned by foreign companies |
| | | |

*Table 10: operationalization of "firm size" (Li, 2007)*

| DIMENSION | MEASURE |
|---|---|
| **EXPERIENCE** | Number of years of operation in foreign market similar to china |
| | Cumulative number of foreign market entries similar to that of china |
| | Number of years of actual operations in foreign market (experiential knowledge) |

*Table 11: operationalization of "international experience" (Gao et al. 2008)*

| SUB DIMENSIONS | MEASUREMENT |
|---|---|
| language, education level | Number of different cultural groups, such as ethnic, religious, racial, and language groups found in the foreign country |
| different ethnicities | |
| different religions | Extent of harmony or friction between different cultural groups in the foreign country |
| different social norms | Difference in lifestyle and customs of various groups in the foreign country |
| governance and history | Degree of normal diplomatic relations between host and home country |
| absence of colonial ties | |
| absence of shared monetary or political association | Extent of foreign government's use of incentives to encourage private business |
| political hostility | The ability of the foreign government to enforce its diplomatic ties with respect to trade |
| government policies | Actual size of the private sector in relation to the government sector in the foreign country |
| institutional weakness | |
| physical remoteness | Total land area of the foreign country and description |
| lack of a common border | |
| lack of sea or river access | Climate characteristics in the foreign country |
| Development and performance | Gross National Product and per capita income in the foreign country |
| | Education and employment levels in the local foreign population inflation rate over the past five years in the foreign population |
| production strength | The degree of use of modern, efficient methods in the creation of products and services in the foreign country (relative skill labour force) |
| Consumption | Per capita industrial goods consumption (steel, cement, glass etc.) |

*Table 12: operatonalizaion of "social cultural distance to foreign market" (Wood & Robertson, 2000)*

| SUB-DIMENSIONS | MEASUREMENT |
|---|---|
| unstable vs stable<br>democratic vs dictatorship<br>predictability vs unpredictability | Political strength of leadership in the foreign country<br>Degree of freedom of the political opposition in the foreign country<br>Degree of foreign country's domestic instability (rebellion, political kidnapping, riots, wars) |
| developed vs underdeveloped | Visa requirements in the foreign country (restriction on travel imposed by foreign government) |
| corruption, rules are not applied, interpretation rules depends on functionary | Foreign government's law affecting relationship with agent's distributor |
| tariffs and quotas on foreign goods | Exact tariffs, import duties, taxes assessed by the foreign country on your products<br>Common markets or regional trading blocks to which foreign country belongs |
| freedom of trade between countries | The ability of the foreign government to enforce its diplomatic policies with respect to trade |
| freedom in choosing entry mode | Extent of foreign government's use of incentives to encourage private business |
| exchange rate manipulation | |
| buy local legislation, standards and licenses | Required documentation, import procedures, and quotas imposed by the foreign government |
| restrictions on service | |

*Table 13: operationalization of the variable "political risk" (Wood & Robertson, 2000)*

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# APPENDIX F. INTERVIEW QUESTIONS

Market commitment (dit is de afhankelijke van de current activities, de onafhankelijke)
1. Amount of resources committed
   - Waarin is geïnvesteerd: activa, personeel, marketing, organisatie
   - Verdeling van de investering over de verschillende onderdelen.
   - Hoe groot is de investering in China (in Euro, in % tov totale investeringen, in % tov internationale investeringen – investeringen buiten de eigen landsgrenzen)
2. Degree of commitment - the degree of commitment is higher when:
   a) the resources are integrated with other parts of the firm
      - Is the business unit in China/the resources committed part of the supply chain of the company as a whole?
      - Is the business unit in China/the resources committed a foreign investment that is in no way connected to the rest of the organization
      - Does the business unit in China/the resources committed supplies in any way products or services to other parts the organization (is down the supply chain).
      - Is the business unit in China/the resources committed further in the supply chain of the rest of a part of the organization
   b) the resources are allocated are specific to the market
      - in welke mate zijn de resources committed alleen te gebruiken/in te zetten voor China?
      - Welke investeringen die zijn gemaakt voor China kunnen ook ingezet worden in andere delen van de organisatie?

Market knowledge(dit is de onafhankelijke van de commitment decisions, de onafhankelijke)
1. General knowledge about marketing, market segments irrespective of their geografical location (m.a.w., de algemene, theoretische kennis in het bedrijf – deze is makkelijker overdraagbaar dan de volgende component)
   - The following questions all regard the people directly or indirectly involved in internationalization projects:
   - How many years of experience is there cumulative in the organization in regards to marketing, international business.
   - What is the average degree (HBO, master, etc)
   - How many people are in organization with education in economics / business
2. Specific knowledge about the business environment, de market structure, culture in China (experiential knowledge- difficult to transfer – and is critical in this context)
   - How many years of experience is there cumulative in the organization in regards to doing business in China
   - How many years of experience is there cumulative in the organization in regards to doing business in parts of the world that are similar to that of China
   - In the past 15 years, have there been more attempts to enter the China market?
   - How many people are directly involved in the China operation
   - How many of those people have operational experience in China
   - How many have operational experience dealing with Chinese

- How many people in the organization have had a part of their education in China.
- How many people in the organization have lived in China

1 APPENDIX G. INTERVIEW WITH RTI
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