



**Why are Chinese Companies attracted by  
the Showroom Concept?**

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**Culture's Impact on the Choice of Entry  
Mode**

**Kristianstad University**

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# Chapter 1

## Introduction

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*In the first chapter, the background to the dissertation is introduced. Further, the research problem and the aim of the dissertation are discussed. Finally, the research questions, limitations and outline are presented.*

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### **1.1. Background**

As globalization has become the word on everyone's lips companies all over the world have to adapt to an ever-changing business climate. To stay isolated from the world is almost impossible with modern techniques and will most likely be disastrous for a modern company. The question to answer is no longer, *if* one should internationalize, but rather, *how* to internationalize.

In the late summer of 2006, news about the Fanerdun project reached the Swedish newspapers. The essence of the project is to set up a showroom<sup>1</sup> in the southeast of Sweden, more precisely in Kalmar. The showroom is intended for approximately 1000 Chinese companies that want to be present on the Swedish/European market. The amplitude of the project has drawn a lot of attention. However, this project is not first of its kind. In fact, similar projects have been planned, where some have failed and others have succeeded, all in differing scale and at different locations both in Sweden and in other parts of the world. What they all have in common is their intended clients, Chinese companies, and usually with the major investor being Chinese too.

Chinese global expansion is still in its infancy, but Chinese foreign investments have increased at an enormous rate over the last couple of years. The country has for a long time attracted investors due to its low-wages and its market size. However, the combination of strengthened financial position of Chinese companies and governmental encouragements, Chinese companies have started to invest abroad. Evidence of this can be seen in the Chinese trade surplus compared to the United states; since 2001 the trade surplus has gone from 83 billion dollars to the double,

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<sup>1</sup> A showroom or Mart is a facility where several companies have the possibility to display and sell their products in a foreign market. It is similar to a local sales office, where the company invest in the facility, but with the difference of sharing a large facility with other companies.

162 billion in year 2005 (Dagens Industri, 2006). In Sweden, the number of Chinese foreign investments has increased from 4 to 50 investments in three years according to ISA, Invest in Sweden (Sydsvenskan, 2006). Due to the increased competitiveness from the East, many Western trade organizations, like the EU, have tried to establish trade quotas on products from the Eastern countries, especially China, in order to limit the in-flow of products. However, it seems to be an inevitable fact that Chinese companies are entering the Western world, and with the help of entry modes like the showroom thousand of companies can enter the market simultaneously.

## **1.2. Problem Discussion**

As the Chinese global expansion continuous, many companies will be faced with the question how to enter new markets. The showroom has received great acceptance among Chinese companies and enables many companies to enter foreign markets simultaneously; thus, speeding up the internationalization process even more. Interestingly, one can notice a difference in preference. Where Swedish or other Western countries almost never employ a showroom, whereas, Chinese companies seem to prefer it.<sup>2</sup> Furthermore, the Western countries seem to adapt a gradual commitment to new market entries to a greater extent than Chinese companies do. The gradual commitment to market entries has been distinguished by for example the Uppsala Internationalization Model (Johanson & Widensheim-Paul, 1987; Johanson & Vahlne, 1987). This model was further modified into the Stages-of-development model (*ibid.*) where the choice of entry mode was seen as an incremental or evolutionary process where firms gradually develops a greater commitment to foreign markets as a consequence of increasing international experience. The Chinese companies on the other hand, that in most instances have low previous international experience enter geographically distant markets with relatively high commitment already from the start with help from the showroom.

Based on the above-mentioned differences, the Swedish/Western versus the Chinese internationalization process and Chinese companies' proneness to partake in showrooms, one can distinguish a cultural difference in the choice of entry mode and

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<sup>2</sup> There is little statistics on which entry mode is employed the most and information about the export modes are especially difficult to find. However, we made this assumption based on information from employees at Swedish organizations dealing with trade, like Swedish Trade and ISA, Invest in Sweden.

internationalization process. However, the research on cultures' impact on choice of entry mode is scarce, and the ones that exist focus on so-called equity modes, including joint venture, wholly owned greenfield investment and acquisition, and lends little support on the choice of export mode. Consequently, previous research cannot explain why Chinese companies prefer the showroom, since it is an export mode and a non-equity mode and the overall contribution to culture's impact on choice of entry mode is scarce. The following questions emerge; 1) how does a firm's culture of origin influence the choice of entry mode; and 2) why are Chinese companies attracted by the showroom concept when entering new markets?

### **1.3. Research Aim**

The aim with this dissertation is twofold, firstly, to investigate a firm's culture of origin and its impact on choice of entry mode, and secondly, to seek the rationale behind Chinese companies' proneness to partake in a showroom.

### **1.4. Limitations**

Given the extensive literature on internationalization and entry mode choice, we had to focus our research on the ones that could explain the internationalization in terms of culture. Further, since we wanted to understand the culture of origin's impact on choice of entry mode we had to contrast two different cultures, and given our starting point in Chinese companies' choice of entry mode, it became self-evident that we were going to investigate the Chinese culture. The second culture we chose was the Swedish one, mainly because of the knowledge that Swedish companies never use the showroom as an entry mode and in that aspect Swedish culture is different from the Chinese culture. Another reason is the fact that the authors of this dissertation are all Swedish. There are many entry modes to choose from but we decided to focus on export modes, and more specifically the direct export modes since the showroom belongs to this group. In order to carry out a questionnaire to verify if our developed hypotheses were relevant, we decided to include only Chinese companies that at the present are partaking in a showroom. It could have been fruitful to test the hypotheses on Swedish companies too, but as the access and information to relevant companies were restricted, we found it more relevant to focus on the Chinese companies where we had the relevant contact information. Finally, when comparing

the two countries and their preferences in entry mode, we decided to only include the most common entry mode for each country. However, we do acknowledge that Swedish companies normally employ several entry modes, when increasing their international commitment. Therefore, the entry mode that was comparable with the showroom was chosen.

## **1.5. Research Questions**

- *What makes Chinese companies more prone to choose a showroom as an entry mode compared to other export modes?*
- *What makes a company with no or low previous international experience to engage in high-commitment export modes?*
- *Which are the pros and cons with a showroom compared to other export strategies?*
- *Which are the cultural traits that promote the choice of a certain entry mode over another?*

## **1.6. Outline**

The outline has the following outline.

Chapter 2: The method, research approach and philosophy, and strategy are presented.

Chapter 3: The theoretical framework is introduced. Further, the existing theories are applied and evaluated according to their explanatory power for the research topic.

Chapter 4: A new variable is identified to explain the rational behind Chinese companies' proneness to participate in showroom. Further, why they skip stages in the internationalization process. Finally, our hypotheses are presented.

Chapter 5: The empirical method is presented. The research strategy, sample and limitations are described. We also present the response rate and discuss the validity and reliability of the employed method.

Chapter 6: The questionnaire is presented and analyzed. The results are displayed and the hypotheses are evaluated.

Chapter 7: The conclusions are presented. Finally, the dissertation is summarized. Finally, modifications, future research and practical implications are presented.

# Chapter 2

## Methodology

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*The research approach and scientific approach are described, along with the data collection. Finally, a critical review of the used sources is put forward.*

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### **2.1. Introduction**

Our aim was to investigate the correlation between a firm's culture of origin and its choice of entry mode. After some critical revision of previous work we found the need to develop a new dimension to previous entry mode theories that could explain the culture of origin variable. Consequently, we studied previous research on the topic of entry mode choice in order to understand the up to date theories on what the most important factors are when choosing an entry mode. In addition, we also studied a few of the most influential researchers' work on culture. As a result, we found a gap in previous research where little attention had been paid to culture's impact on choice of entry mode. The few contributions that have been made are either highly quantitative in nature and lack a deeper explanation, or do not deal with export modes but rather the equity modes joint ventures, wholly owned greenfield investments or acquisitions. In addition, even the tools that so far have been employed to explain culture's impact on choice of entry mode still have weaknesses and cannot fully explain the rational behind entry mode choice preferences based on culture of origin.

### **2.2. Research Approach**

As we attempted to verify the correlation between a firm's culture of origin and the choice of entry mode, and to see if it was possible to explain a firm's entry mode choice in terms of cultural factors, we first had to look at previous research and models. Based on this research we created our own hypotheses and developed further cultural dimensions that so far have not been investigated in this context. This led us to initially employ a deductive approach when looking at previous research and, therefore, formulated our own hypotheses. However, our research was not purely deductive, but rather a combination of deductive and inductive, since our findings

generated a new, yet unexplored dimension. In order to investigate the explanatory power of the cultural factor we had identified as important in the understanding of culture's impact on entry mode choice, our hypotheses were tested in a survey.

### **2.3. Scientific Approach**

The development of knowledge and its nature is interdependent with the research philosophy of a research. There are three different philosophies that can be distinguished, positivism, interpretivism and realism (Saunders, Lewis & Thornhill, 2007). As we attempted to be as non-intrusive as possible and tried to put aside our own preconceptions about the subject our research philosophy mostly resembles positivism. The positivism is an epistemological position characterized by objectiveness and collection of data in a value-free manner. This standpoint makes it easier to generalize the findings in a law-like manner, which would not have been the case if taking a realistic or interpretivistic standpoint.

There are two types of data that can be collected, regardless of the chosen research philosophy, quantitative and qualitative. Quantitative data is normally seen as data you can count and that can be expressed in numbers. Whereas qualitative data is used to interpret and analyze a phenomenon but not necessarily in a quantifiable manner (Christensen, Andersson, Engdahl & Haglund, 2001). Our research is based on quantitative data as we operationalized our questions so they became quantifiable. Furthermore, research can be categorized according to their duration; our research is a cross-sectional study, where a phenomenon is studied at a specific time, which means that we looked at cultural attitudes at the present, in combination with the current entry mode. This, as opposed to longitudinal studies that are normally employed to observe change spanning over a longer time horizon (Saunders & al., 2007). Finally, research can be classified according to its purpose; our research is explanatory in nature, where we attempted to establish the casual relationships between a firm's culture of origin and choice of entry mode (Saunders & al., 2007).

## **2.4. Data Collection**

### **2.4.1. Secondary Data**

Given that entry mode choice is considered to be one of the most important decisions for companies that decide to internationalize their operations, the amount of literature on the topic is immense. However, as mentioned above there has been scarce attention paid to the correlation between a firm's culture of origin and entry mode, which made it difficult to be highly selective when looking for previous research. The few criteria we had were that the researches had to be as contemporary as possible, and focus on entry mode choice, and preferably, in relation to culture. Further, the researches had to be in English or Swedish. In the area of culture, the criteria were more outspoken, it had to be widely acknowledged research. Thus, we focused on Hofstede's work in combination with the Uppsala school's (Johanson & Wiedersheim-Paul, 1987; Johanson & Vahlne, 1987) findings, which both are well-known works. Concerning the entry mode choice in relation to culture, we decided to focus on the work of Kogut and Singh (1988) that is frequently cited in research on the topic of culture's impact on entry mode choice. The work of Cho and Padmanabhan (1996) was also considered since it is partly based on Kogut and Singh's research and contributed with new findings. Together these researches were the most relevant for our research topic. Furthermore, the Uppsala Internationalization model, the Network model, the Transaction Cost model and the Born Global theory were employed as framework when identifying the rationale behind firm's internationalization process. These models are mainly based on research on western oriented firms, and lend explanation to typical western firms' internationalization. However, the involvement in high commitment entry modes without previous international experience, which seems common in the Chinese culture, could only partially be explained with these models. The models were chosen based partly on the great recognition they have received within the research of internationalization; and partly because we found them valid when exploring the rationale behind the internationalization process of companies from the West.

We also needed to collect information on other export entry modes. The work of Hollensen, (2004); Young, Hamill, Wheeler & Richard Davies (1989) were especially helpful when contrasting the showroom as an entry mode with other export modes.

### **2.4.2. Primary Data**

We conducted an e-mail based survey. We sought to evaluate our hypotheses, and to find out if the distinguished cultural variable could explain the Chinese companies' internationalization pattern, more specifically the proneness to choose the showroom as an entry mode. The target group for our survey was Chinese companies partaking in showrooms, more precisely we chose those companies that are partaking in a Chinese showroom in Dubai, in the United Arab Emirate. This showroom opened in 2004, and includes approximately 4000 companies.

### **2.5. Critical Review of Used Sources**

When reviewing the previous research it becomes clear that it has limited explanatory power on culture's impact on choice of entry mode, where none of them lends any reasonable answer to why Chinese companies prefer showroom as an entry mode. Further, the research that have dealt with the subject, like Kogut and Singh (1988); do not have sufficient explanatory power since the export modes are not included in their research. In addition, their research is mainly based on secondary data and does not give any deeper understanding of culture's impact on the choice of entry mode. Even if the work of Cho and Padmanabhan (1996) investigates the phenomenon from a different angle, they also focus on the ownership modes and not the export modes. Furthermore, seen from a cultural perspective, Kogut and Singh's research is limited to two cultural dimensions, which might not be sufficient in explaining cultural variance. The Uppsala Internationalization model (Johanson & Wiedersheim-Paul, 1975), the Network approach (Johanson and Mattson, 1988) and the Transaction Cost model (Coase, 1937; cited by Hollensen 2004) are all widely recognized models in the internationalization literature. The Uppsala model has been claimed to be too deterministic, while the Network approach is said to ignore the role of the decision-maker. The Transaction cost model is very pessimistic about the human nature and believes it has to be controlled. The Born Global theory is a new contribution in the internationalization literature and is rather limited to certain industries and companies of small size. However, we believe that, jointly, the models complement each other and can explain the traditional internationalization process of Western firms. Partly they also lend insight to why firms tend to follow another internationalization pattern, when skipping some phases that are identified in the

traditional internationalization theory. The overall critique is that most of our sources are relatively old, with the exception of the work of Cho and Padmanabhan, and the theory on Born Globals. However, we found them useful and valid to attain the purpose of this dissertation.

# Chapter 3

## Theoretical Framework

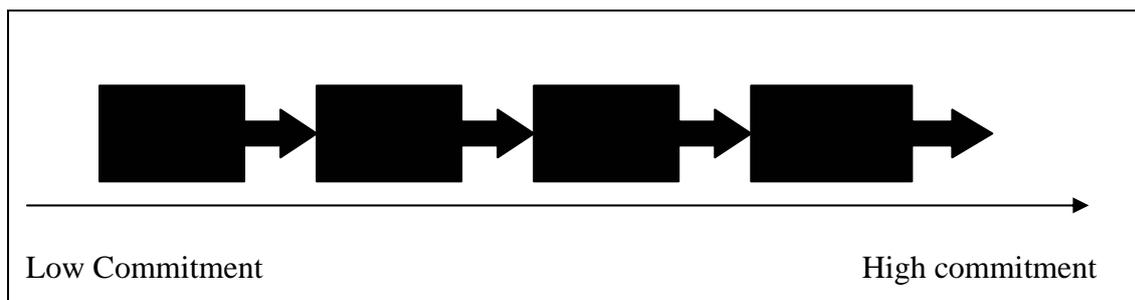
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*The theoretical framework is presented. First, acknowledged internationalization theories are described, to give a rational to the traditional internationalization process. In addition, contributions to so-called stage skipping are displayed. Second, the existing contributions to culture's impact on choice of entry mode are discussed. Finally, these contributions are applied to evaluate their explanatory power on Chinese companies' proneness to partake in showrooms.*

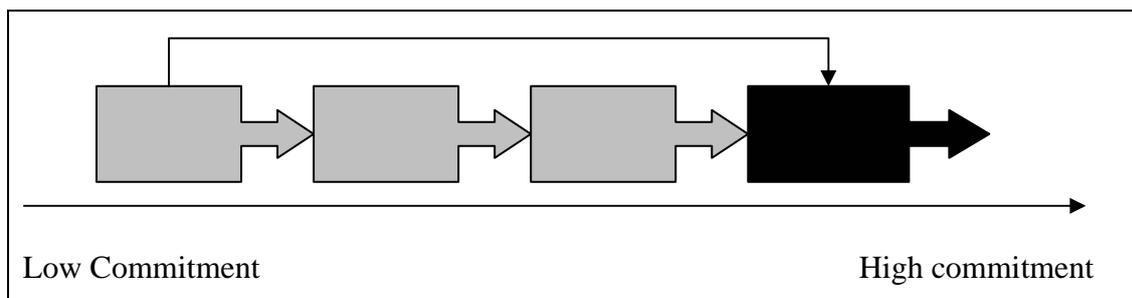
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### 3.1. Introduction

When comparing the typical Swedish company's internationalization process, with the typical Chinese, the differences become evident. Normally Swedish companies adapt a gradual commitment to foreign markets (figure 1), whereas the Chinese pattern is less evident (figure 2). Many of the Chinese companies partaking in showrooms seem to have low previous international experience. However, this does not seem to influence their level of commitment to a foreign market, which is rather high when participating in a showroom. In order to distinguish the different patterns and the rational behind it, we found it necessary to start with a revision of the most important theories on internationalization.



**Figure 1** The Swedish gradual internationalization process



**Figure 2** The Chinese internationalization process with stage-skipping

## **3.2. Internationalization theories**

### **3.2.1. The Uppsala Internationalization Model**

The Uppsala Internationalization model (Johanson & Wiedersheim-Paul, 1975), or the stages-of-development model, based on a study of Swedish manufacturing firms, takes an overall rational approach towards the internationalization process and choice of entry mode. Their overarching theme is the *psychic distance*, which is explained by the level of uncertainty a company experiences towards a foreign market. With incremental learning, the psychic distance will decrease, thus enabling the company to expand their operations from neighboring countries to more distant markets. A similar rational is employed in the stages-of-development model, which is directly applicable to choice of entry mode, where a company will start the internationalization process with low-commitment exports and gradually engage into higher-commitment modes, as the uncertainty level is reduced. However, the model acknowledges an exception, leap-frogging. This is when a company skips several of the stages set out by the Uppsala model. The rational behind this exception is, according to the authors, if the company resources are sufficiently large, this makes the different level of resources commitment less evident, thus enables the company to skip certain intermediary levels. Alternatively, if the market conditions are stable enough and that necessary market information could be gained in other ways than from first hand experience. Further, if the company has sufficient experience from markets with similar conditions, then it can generalize this knowledge to the new market.

One of this model's main strengths is its contribution of psychic distance, which explains the gradual commitment that is related to level of uncertainty of the other culture, thus making a first attempt to explain culture's impact. However, critique has been put forward. Firstly, the model has been claimed to be too deterministic (Reid, 1983; Turnbull, 1987; cited by Hollensen, 2004). Before acknowledging the exceptions, the model was criticized due to evidence of companies not following the sequential steps, and tended to skip or leapfrog, this was confirmed by Nordström (1990; cited by Hollensen, 2004). Others have claimed that as the world becomes more homogenous, which makes the concept of psychic distance less relevant. The identified prerequisites for leap-frogging also fail to explain how a completely inexperienced company can enter a geographic and psychic distant market, with a

high commitment level like in the case of Chinese companies partaking in a showroom.

### **3.2.2. The Transaction Cost Analysis Model**

The foundation in the Transaction cost analysis model (Coase, 1937; cited by Hollensen, 2004) is the company's trade-off whether to carry out operations itself or outsource it, and to choose the most cost-efficient option. Activities will be carried out internally as long as the cost is lower than to externalize the operation. The transaction cost that emerges is explained by opportunistic behavior, and to avoid this control mechanisms are necessary. This in order to achieve fairness and smooth exchange, which will minimize cost, establish control, and trust (Hollensen, 2004). Williamson (1975; cited by Hollensen, 2004) distinguished two categories of entry modes; the external and internal. Agents and distributors belong to the former category, which means that these carry out the export, whilst the latter implies that the internationalizing firm creates an "internal market" to carry out its exports through employing its own sales representative or setting up its own sales office. The Economic Approach (Anderson & Gatignon, 1988) is an adoption of the Transaction cost analysis model that is direct applicable to foreign market entry. The research pinpoint control as the most important factor and that will determine a company's level of risk and return. Both models can be criticized for its negative assumption about the human being, when it assumes that everyone looks out for himself or herself, and will act opportunistically. Furthermore, it is important not to underestimate the internal costs that arise when carrying out operations internally; this is something that the model overlooks. Another factor that the models fail to take into account is that the level of knowledge a firm possesses will determine whether it will externalize or not. In addition, the clear-cut distinction between internal market and external market can be questioned given the many networks and collaborations between companies. Finally, the models do not give much guidance on how to calculate and weight the factors control, risk and return, and omits that it might even be impossible to calculate the return before the entry mode is chosen. Consequently, this decreases its usefulness.

### **3.2.3 The Network Approach**

The Network Approach based on Johanson and Mattson (1988) work, focused on a firm's network and its interrelatedness with other firms, something that the Transaction cost analysis model overlooks. The main idea with this approach is that as being a part of a network the firm has to adapt accordingly to the others in the network. The model explains internationalization as networks across geographical borders. If a company's customer or supplier move or internationalize the firm might inevitably have to internationalize too, regardless of high psychic distance (Majkgård & Sharma, 1998; cited by Sharma & Blomstermo, 2003). Consequently, the firm might not rationally choose an entry mode, but rather choose it based on the demands from its network. Research has confirmed that the firm internationalization is correlated with the nature of its network ties (Majkgård & Sharma, 1998; Sharma & Johanson, 1987; cited by Sharma and Blomerstermo, 2003). The approach can be criticized for not acknowledging the decision-maker, which is the facilitator or the obstacle for a company's internationalization process. Furthermore, the approach does not mention how the network can have a negative impact on a firm's internationalization process, given that the company is tied up in a network. The ties can be hard to break, but even harder to establish new ones (Sharma & Blomstermo, 2003).

### **3.2.4. Born Global**

The phenomenon of Born Global is a relatively new area within the internationalization theory. What characterizes this theory is that the time factor might not be as important as suggested in theories like the Uppsala Internationalization model. Instead, researchers have found that recently established companies have already from the start engaged in international operations. Typically, a so-called Born Global belongs to high technology and knowledge intensive sectors and the size of the home market is relatively small. In addition, they lack domestic operations and referrals and experience a high level of uncertainty (Sharma & Blomstermo, 2003). The rational behind this behavior is suggested to be that a company nowadays can manufacture low-scale, adapted products due to more advanced technology, this create the possibility to cater niche markets. Companies can also more easily get access to necessary market information, knowledge of

customer preferences through improved technology, further the improved transports, and information technology facilitates the access to foreign markets. Furthermore, the limited size of the company makes it easier for it to adapt to a changing environment. However, its main strength is that it knows how to utilize weak but important ties with existing and potential customers, and partners in foreign markets and can easily switch partner if a better opportunity comes along (Hollensen, 2004). The theory of Born Globals gives a good explanation to why certain inexperienced companies manage to enter a foreign market without previous international experience. However, most of the Born Global belongs to a certain industry or caters niche markets, which is a weakness since it does not account for more standardized industries or at least not those that have a low level of adaptation in production.

### 3.2.5 Summary of Factors that Promotes Stage Skipping

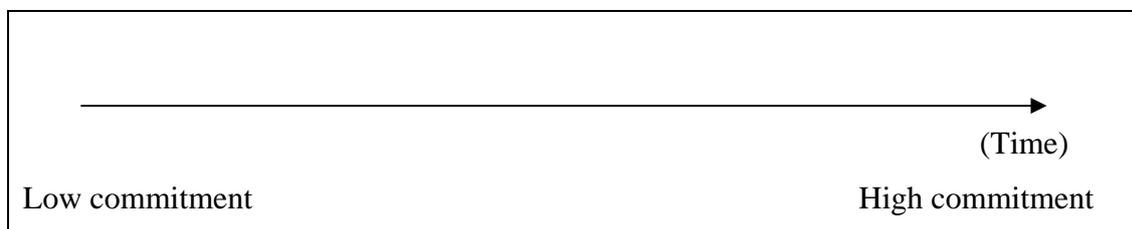
The rationale for skipping stages in the internationalization process can be found in all above-mentioned theories. Each model's contribution to the rationale behind stage skipping is here summarized in a model:

<b>The Uppsala Internationalization theory</b>	<b>The Transaction Cost Analysis Model</b>	<b>The Network Approach</b>	<b>Born Global</b>
Large company resources	Lower production cost in foreign market	The position in the network	Niche markets
Knowledge gained from other sources			Technology and transport cost reduced
Experience in one market can be generalized			The network ties
			Small home market

**Table 1 Summary of factors explaining stage skipping in the internationalization process**

Our assumption is that the Chinese companies and Swedish companies have similar traits apart from their culture of origin. However, when looking at table 1 here above it becomes evident that these factors cannot alone explain why Chinese companies have a different approach to internationalization. Based on the summarized factors, there are only two possible reasons to why the two countries' internationalization processes are different. The Transaction Cost Analysis model has identified one of the factors and the Born Global theory the other. The first one is, if the cost is lower in the foreign market (see table 1). Further, this could motivate stage skipping if the company could benefit from low cost production in another country. The second one is the size of the home market, which could force a company to go international since the home market is saturated. Nevertheless, the factors would rather give a rational to why Swedish companies would skip stages. This reasoning is based on that the Swedish market is undoubtedly smaller than the Chinese is, and that the Chinese labor cost, thus production cost is far lower than the Swedish one.

To conclude, the above-mentioned models' main contribution in terms of culture's impact on entry mode choice is the *psychic distance* and *gradual commitment*, which were both identified by the Uppsala Internationalization model. The other identified factors deal with individual companies and not the cultural impact. As can be seen in the figure 3 here below, a company will increase its commitment to the foreign market with time. However, the reviewed internationalization theories fail to explain why Chinese companies do not follow the gradual commitment to internationalization, in the same way as Swedish companies do.



**Figure 3 Time's impact on commitment level in international business**

### **3.3. Choice of Entry Mode**

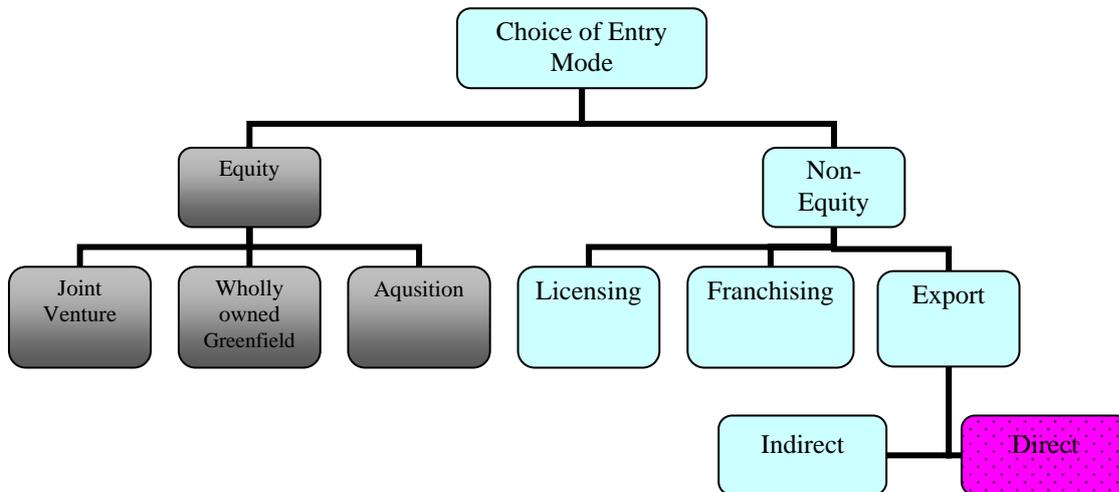
In the previous section, we discussed the theories to why companies internationalize and the traditional internationalization process, which is typically seen as a gradual commitment. In addition, the exceptions with leap-frogging were also mentioned. However, in order to understand how the different levels of commitment can be achieved, we have to explore the different entry modes a company can choose from, starting with a brief review of the models on how to choose an entry mode.

#### **3.3.1. Entry Mode Models**

The choice of entry mode is said to be a “frontier issue” in international marketing (Wind & Perlmutter, 1977). Further, Root (1994) argues that the entry mode choice is one of the most important strategic decisions for a MNE, and will have a major impact on the success overseas. Managers will be faced with a wide array of possible choices, and there are different theories on how they should be chosen. Many of these theories take a deliberately rational standpoint, meaning that the entry mode choice will be weighted carefully; several factors are measured and this necessitates plenty of planning.

Well-known entry mode choice models are the Stage-of-development model (Johanson & Wiedersheim-Paul, 1975), the Economic approach based on the Transaction Cost analysis model (Anderson & Gatignon, 1986) and the Business Strategy approach based on the Ownership, Location, and Internalization model (Dunning, 2000). However, the limitations with these models are their great emphasis on the foreign market, thus ignores the home market and its impact, and assumes a highly rational approach to the decision-making. Furthermore, they all focus on the optimal or the “right” mode and only parts of the models explains a less rational behavior. Opposed to this idea is that the entry modes choice is based on intuition rather than on well-grounded reasons according to McNaughton (2001) who found empirical support for this. In fact, several studies have found that relatively few companies make comprehensive, deliberate evaluations of their entry mode alternatives (Anderson & Gatignon, 1986).

### 3.4. The Entry Modes



**Figure 4** An overview of the choice of entry mode

The entry mode choices that managers will be faced with can be divided into ownership modes or control modes, also known as equity modes and non-equity modes (see figure 4). The equity modes are joint venture, wholly own greenfield investment and acquisition, whereas the non-equity modes are exports, licensing and franchising. Given the area of investigation for this research, Chinese companies partaking in a showroom, which is one of the export modes, our focus will be placed on the export modes. These modes can further be divided into *indirect*, *direct* and *cooperative* exports. Typical for indirect exporting companies is that they do not internally engage in any activities to promote the exports, meaning that the export can actually occur without the manufacturing company's knowledge (Young et al., 1989). Instead, another domestic company, such as an export house, performs these activities. Traditionally, indirect modes have been the starting point for firms' internationalization; the modes include a low level of risk, resulting in low level of control over overseas operations. Direct exporting on the other hand is when a firm take care of the export activities itself and has direct contact with the first intermediary in the foreign target market. The activities that the company normally deals with internally are documentation, physical delivery and pricing policy. The cooperative export mode is similar to direct exports, with the only difference that the company makes agreements with other firms on how to perform the export activities. Due to this similarity most of the entry mode literature deals only with indirect and

direct entry modes since the cooperative ones are by definition the same as the direct modes when it comes to company commitment, which is higher than in the indirect export modes, consequently so is the risk and control level.

As just mentioned, the showroom is a cooperative mode and belongs to the direct export modes, the other direct export modes are agent, distributor, sales representative and local sales office, which will be described here.

### **3.4.1. Agent**

An agent works on the behalf of the manufacturing company in the overseas market, but without taking title to the products sold. In addition, the agent possesses in-dept market information about the target market, something that the manufacturing company lacks. There is a certain level of control but yet low, where the company can receive some feedback from customers and foreign market through the agent. The resource commitment is low, since the agent is paid on a commission basis, resulting in non-existing termination cost (Young et al., 1989). To conclude, the agent entry mode is a low-commitment and low-financial risk mode, with limited control.

### **3.4.2. Distributor**

A distributor also works on the behalf of the manufacturing company, but takes title to the goods sold. As in the case with agent, the distributor possesses valuable market information that the manufacturing company needs. This mode is especially suitable if the goods sold need much after-sales service, since the distributor will take care of it, especially since he or she will have the full responsibility over the product. Seen from a control perspective, the incitement for the distributor to give the company feedback is slightly higher than in the case of the agent because of the personal investment that is at stake. If customers give negative feedback this could help both the manufacturer and the distributor to improve. The resource commitment is higher compared with the agent in terms of finance because of the larger quantities sold, thus making it more expensive to end the contract (Young et al., 1989). Therefore, the entry mode includes a slightly higher level of commitment and a higher financial risk, but will generate more control compared to the agent mode.

### **3.4.3. Direct Selling-Sales Representative**

Compared to the above-mentioned entry modes, direct selling is conducted by one of the company's own sales staff. The downside with this is that the company itself has to generate the necessary market information, which is time consuming. However, the company will both save salary expenses; since the sales representative will be paid on a fixed basis, and it will get a representative that have in-dept information of the company, and unique product knowledge. In addition, the feedback and communication will be more extensive and comprehensible between the parties. Nevertheless, a sales representative can become indispensable, thus will be difficult to replace. For example new relationships have to be established which is time consuming and costly. Further, the representative has to travel a lot. As a conclusion, this mode enables better control over the target market in terms of market information and feedback, and is less dependent on an outsider. Initially, it will take time and money to establish the necessary network and knowledge, and to educate continuously more sales representatives (Young et al., 1989). The commitment level is consequently increased further.

### **3.4.4. Local Sales Office**

A local sales office entry mode involves the largest amount of financial-risk, since large-scale investment has to be made. Through, setting up a sales office the company has reached the highest commitment level among the export modes. Further, the company can employ both their own sales staff and hire locals, and then automatically receive important market and language skills. However, necessary market information has to be gained and plenty of marketing efforts has to be carried out in order to attract customers. The feedback and control will be immediate (Young et al., 1989).

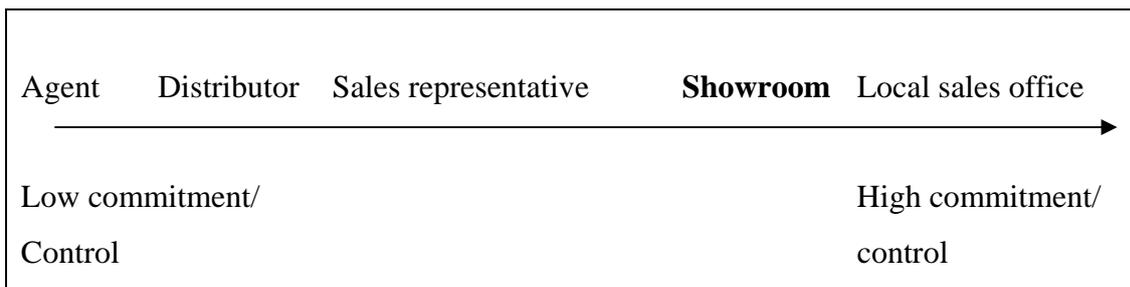
### **3.4.5. Export Marketing Groups-Showroom**

The showroom belongs to the cooperative entry modes, meaning that several companies jointly enter a new market. When exporting jointly the companies will share the marketing expenses, office space and other mutual costs, leading to a cheaper and more powerful market entry than if the companies would have done it individually. Furthermore, the companies can draw on and learn from the other companies' experience thus facilitating the market entry. As a result, the showroom has the benefits of a local sales office, where the company is highly committed to its

market and can receive beneficial feedback, but at a lower cost. If one of the participating companies attracts a customer, the other companies can also get the opportunity to show their product lines. Nevertheless, there are drawbacks, if the showroom does not succeed in its marketing efforts, all companies will suffer. It also necessitates similar objectives and that the participating companies do not have competing products. The overall advantage is that the size of the investment normally generates public financial support and help with legal matters, which facilitates the market entry (Young et al., 1989).

### 3.4.6. Summary of the Direct Export Modes

It is evident that the direct entry modes enables different level of commitment and control depending on which mode is chosen. The entry modes can be ranged as follows.



**Figure 5 The Direct export modes ranged according to level of commitment and control**

Seen from the figure above, the local sales office is the entry mode that enables the highest level of control based on the company's high level of commitment among the direct export modes. Further, it can be seen that the showroom mode has the second to highest commitment and control level, this is due to the shared operations, which means that the company will share the operation cost with the other participating companies, at the expense of shared control. To conclude, the showroom mode includes a relatively high level of commitment and control, compared to the other export modes.

### **3.5. Previous work on culture's impact on choice of entry mode**

There has been some research on culture's impact on choice of entry mode. However, all of them almost exclusively deal with the equity modes. Nevertheless, in

order to get an understanding of how the culture of origin influences the choice of entry mode, the previous researches that have contributed to the topic is here revised.

### **3.5.1. Kogut and Singh**

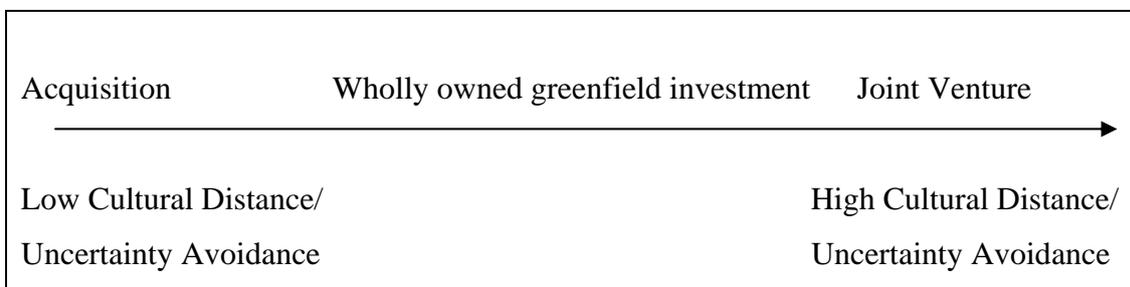
One of the most cited works on culture's impact on choice of entry mode is Kogut and Singh's article "The Effect of National Culture on the Choice of Entry Mode" (1988). They found a relation between cultural distance and the use of shared-control (joint venture) modes of entry. The objects for the research were 228 foreign entrants into the U.S. market, which meant that the target market was held constant. Further, the research was based on the proposition that managers will choose an entry mode that they perceive will have the lowest cost, including management cost of the subsidiary. Concerning the latter, the management cost was thought to be greater if the countries were culturally distant. The cultural variables that were employed were *Uncertainty avoidance* and *Cultural distance*. Both variables are based on Geert Hofstede's work, where uncertainty avoidance is one of the dimensions that the Hofstede identified, whereas, the cultural distance variable is a composition of all Hofstede's dimensions, in order to operationalize cultural distance. The uncertainty variable was then employed as a measure of organizational and managerial preferences. Based on this, a company that came from an uncertainty avoidant culture was thought to rather engage in a joint venture, than a wholly own greenfield investment or an acquisition. This rationale was based on that the organizational modifications would be limited if partaking in a joint venture, whilst if acquisition was chosen, the buying company and the target company would have to adapt and merge their organizations. In addition, if the target company and the purchasing company were to be culturally distant, then the adaptations and included risk would increase, thus becoming an unattractive choice for an uncertainty adverse culture.

The advantages with Kogut and Singh's research are their findings of the statistically significant influence of uncertainty avoidance upon the investment decision and their operationalization of cultural distance, which have been largely employed by later researchers. They make sound use of Hofstede's dimensions and they are particularly suitable since Hofstede based his research on attitudes in the work place. The sample size, 228 companies, contributes to a relatively high reliability to the results.

Nevertheless, there are several points of critique that can be put forward. Firstly, there is a heavy reliance on Hofstede's work, especially in the cultural distance

variable, that merges all of his work into one single variable as a measure for cultural distance, which could create bias if this work was not reliable. Secondly, when only measuring uncertainty avoidance in terms of management perception and how to merge two organizations, this excludes the overall and external influences on risk. Thirdly, when only looking at entrants into the U.S. market this could bias the results since there might be traits of the U.S. market that indirectly favor a certain type of ownership mode. In addition, even if some cultures are culturally distant according to Hofstede's work, there might have been an evolutionary process, where for example European firms have learned how to cope with the U.S. market and then favors a certain entry mode. Whereas, more culturally distant companies, like Japanese, have limited previous experience of the U.S. market which affects the choice of entry mode. Finally, most of the data collected was secondary data, which limits the research and lacks deeper insight on how a firm was influenced by its culture of origin when choosing an entry mode.

Figure 6 here below illustrates Kogut and Singh's findings. Entrants that had a high cultural distance to the U.S. market, and originated from an uncertainty avoiding culture preferred joint venture.



**Figure 6 The cultural distance and uncertainty avoidance's impact on the choice of equity-modes according to Kogut and Singh**

In contrast to Kogut and Singh, Anand and Delios (1997), and Cho and Padmanabhan (1996) found that high levels of cultural distance were associated with high control (wholly owned) entry modes. Cho and Padmanabhan's work is revised here.

### **3.5.2. Cho and Padmanabhan**

The article "Ownership strategy for a foreign affiliate: an empirical investigation of Japanese firms" (Cho & Padmanabhan, 1996) is inspired by Kogut and Singh's work. The research was based on Japanese companies' market entries into 36

different countries between the years 1961 and 1991. The research focuses on the choice between full ownership (wholly owned subsidiary) and shared ownership (equity joint venture). The study finds that the mother company's familiarity with the host country and the cultural distance between the home and host country is positively correlated with Japanese firm's choice of full ownership structure for their foreign affiliates, whereas restrictiveness of host country is negatively correlated with the choice of full ownership. This means that the more familiar or culturally similar a Japanese firm is with the host country, it will aim for full ownership. Furthermore, Cho and Padmanabhan found that if a company had a low level of necessary expertise of the target market; it increased the likelihood to aim for a joint venture to learn from the partner firm. Concerning previous international experience and host country experience, the researchers acknowledge two different rationales

...a firm with greater international/host country experience is more likely to be able to bear the risks and management responsibility associated with full ownership of foreign operations and, thus, may find it less compelling to form a joint venture to share the risks. On the other hand, greater international business/host country experience may enable the firm to effectively deal with the costs and uncertainty associated with accepting equity partners and to become more willing to choose shared ownership.

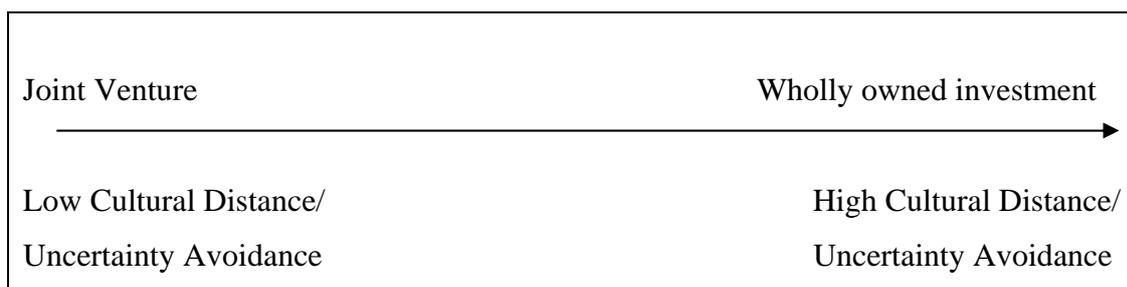
(Cho & Padmanabhan, 1996, p. 47)

Empirical evidence in the literature seems to support the former scenario. For example, Gatignon and Anderson (1988) found that experienced companies were less likely to establish joint ventures in foreign markets. Furthermore, Cho and Padmanabhan suggest that if the investing Japanese company enters a market that is culturally dissimilar (distant) a joint venture would include more risk and uncertainty than if the company would engage in wholly owned activities, since the company does not have to adapt to anyone. To conclude, their research found support for these propositions:

1. The more experienced in international business an investing firm, the more likely it will choose a full ownership structure for its foreign affiliate.
2. The more familiar with a host country an investing firm, the more likely it will choose a full ownership structure for its affiliate in the host country.
3. An investing firm will be more likely to choose a full ownership structure for its foreign operation in a culturally distant host country than a culturally similar one.

(Cho & Padmanabhan, 1996, p. 62)

The advantages with Cho and Padmanabhan's work are the following: Firstly, they acknowledge the impact of previous international experience and familiarity with the host country, which is supported by Johanson & Wiedersheim-Paul (1975). Secondly, Kogut and Singh's work could be criticized on their focus on one single target market, whilst Cho and Padmanabhan's research, which is inspired by the former, is carried out with the entrants originating from the same country, whilst the target markets were different. This change in approach is a good way to change the perspective on the research topic. In addition, in this research, there is a cleared distinction, when wholly owned and shared operations are the only two alternatives included something that can be confusing in Kogut and Singh's work. Nevertheless, the research can be criticized for the same reasons as Kogut and Singh when compounding all Hofstede's dimension into one measure for cultural distance which could seem like an over reliance on Hofstede's work. Since this work does not cover all countries, the researchers substituted the indices from one country that had been investigated to another that they personally thought were culturally similar. Consequently, this could create even greater biases. Finally, the sample size is not as large as in the case of Kogut and Singh's work, which could question the validity of their findings. Figure 6 illustrates Cho and Padmanabhan's findings. Companies that experience a low cultural distance and low uncertainty avoidance will prefer a joint venture.



**Figure 7 The cultural distance and uncertainty avoidance's impact on the choice of equity-modes according to Cho and Padmanabhan**

In order to understand the reason why Kogut and Singh, and Cho and Padmanabhan ended up with different conclusions, one has to look closer at company commitment and level of ownership. Ownership is the key word for the equity modes, whereas the non-equity modes are the so-called control modes. In the case of Kogut and Singh, the authors conclude that a joint venture is a pooling of two companies competencies and the operations are normally managed by a separate manager or unit, thus avoiding organizational adaptations that can create uncertainty. The acquisition is on the other

side of the spectra where a take-over will result in organizational merging, possibly creating organizational culture clashes. Lastly, the wholly owned greenfield investment is when the company by its own runs its business. Given that the researchers contrasted joint venture and wholly owned greenfield investment with the acquisition, both modes were favored compared to the acquisition. Cho and Padmanabhan on the other hand, utilized only two variables, the joint venture and the wholly owned investment and when choosing among the two, joint venture is the mode that necessitates organizational adaptation.

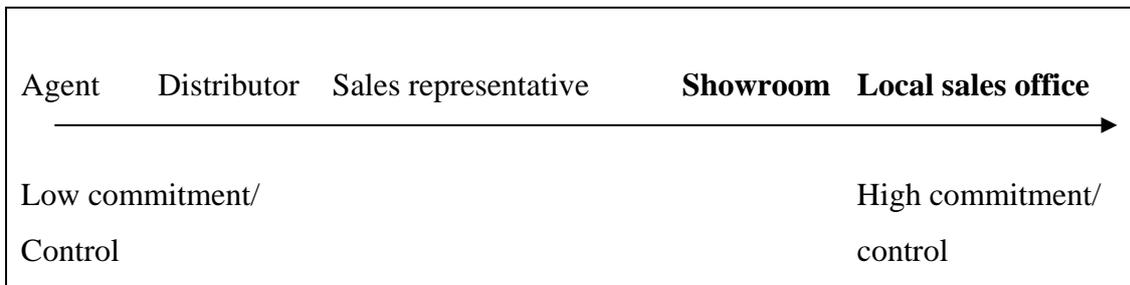
### **3.5.3. Summary of Major Contributions to Culture's Impact on Choice of Entry Mode**

To conclude Kogut and Singh's, and Cho and Padmanabhan's work and their major contributions there are a couple of variables that are of importance. Firstly, *uncertainty avoidance* is considered to be one of the cultural factor's that have an impact on choice of entry mode. The more uncertainty avoidant the culture a company originates from, the less likely it is that it will aim for a shared equity ownership mode. Furthermore, the *cultural distance* and its impact are employed in both researches and are interrelated with uncertainty avoidance. The more culturally distant two companies are the greater is the perceived risk and cost of merging two companies. Consequently, a company from an uncertainty avoidant culture would try to eliminate the risk. Cho and Padmanabhan also identified *international business experience* and *familiarity with host country* as two factors being positively correlated with the choice of a wholly owned entry mode, thus being important factors in the choice of entry mode.

### **3.6. Attempt to Apply Previous Research**

To conclude the previous research the most important factors that can explain culture's impact on the choice of entry mode are uncertainty avoidance and cultural distance. However, it still has to be established if these factors can explain why Chinese companies are prone to partake in showrooms. In order to do so we are going to compare the Chinese culture in relation to the showroom and Swedish culture in relation to local sales office.

When comparing the control and commitment levels included in the two entry modes it looks like something in figure 8. Firstly, the local sales office is the entry mode that includes the highest level and control among the direct export modes, whilst the showroom includes a slightly lower level of commitment and control due to cooperation.



**Figure 8 The Direct export modes ranged according to level of commitment and control**

### **3.6.1. Uncertainty Avoidance and Control**

In terms of uncertainty, the showroom and local sales office can be compared with a joint venture and a wholly owned greenfield investment. The joint venture and showroom both include sharing of control and high level of cooperation. Whereas, a wholly owned greenfield investment and a local sales office include complete independence with full control. Cho and Padmanabhan’s research suggested that if a company originated from an uncertainty avoidant culture it would aim for a wholly owned greenfield investment. Given the similarities between the wholly owned greenfield investment and local sales office in terms of independence and control one could make the assumption that the company with the highest uncertainty would aim for a local sales office. This is while the less uncertainty avoidant company would prefer the showroom since it resembles the joint venture. Therefore, one can make the following proposition:

**P            A company originating from an uncertainty avoidant culture would prefer to employ a local sales office rather than a showroom.**

In order to evaluate this proposition one has to contrast the Chinese and Swedish cultures to distinguish which one is the most uncertainty avoidant. Hofstede’s cultural index is the most suitable, given that the uncertainty dimension originates from his work

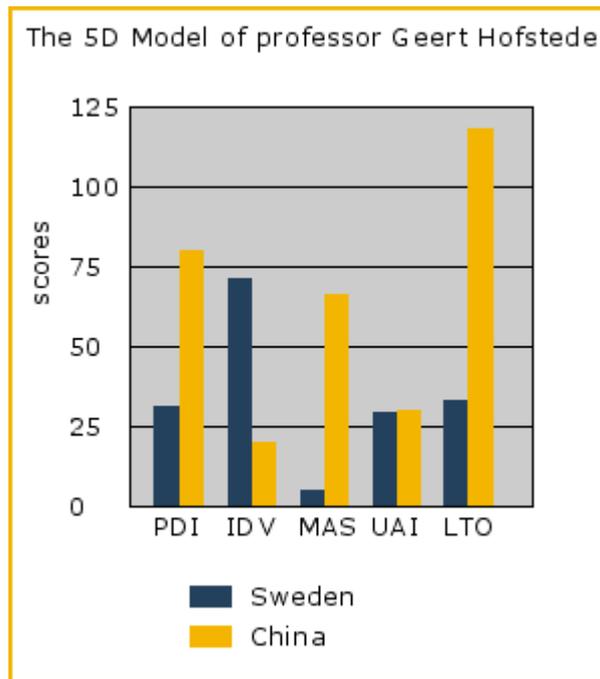


Figure 9 The 5D Model of Professor Geert Hofstede<sup>3</sup>

PDI	Power Distance Index
IDV	Individualism
MAS	Masculinity
UAI	<b>Uncertainty Avoidance Index</b>
LTO	Long-Term Orientation

Based on Hofstede's index (see figure 9) one can draw the conclusion that the Chinese culture is slightly more uncertainty avoidant than the Swedish one. According to the proposition, this would mean that Chinese companies would aim for a local sales office rather than a showroom (see figure 10) or at least would choose the same entry mode as Swedish companies since the uncertainty level is almost the same. However, the reality looks different, which means that the proposition has to be rejected. Chinese companies prefer the showroom (see figure 11), despite shared control, which according to previous research would be avoided by uncertainty adverse cultures. Furthermore, they do not prefer the same entry mode as the Swedish companies, which prefer local sales office.

<sup>3</sup> Source: <URL: [http://www.geert-hofstede.com/hofstede\\_dimensions.php?culture1=86&culture2=18](http://www.geert-hofstede.com/hofstede_dimensions.php?culture1=86&culture2=18). Retrieved 9 November, 2006.

### Proposition

Showroom/Sweden	Local sales office/China
Low uncertainty avoidance	High uncertainty avoidance

**Figure 10 Proposition of the variable uncertainty avoidance's impact on choice of entry mode based on previous research**

### Reality

<b>Local sales office/Sweden</b>	<b>Showroom/China</b>
Low uncertainty avoidance	High uncertainty avoidance

**Figure 11 Reality of the variable uncertainty avoidance's impact on choice of entry mode**

### 3.6.2. Cultural distance

Both Kogut and Singh, and Cho and Padmanabhan found proof that the more culturally distant the investing company was to the target market, the more likely it was that the company would aim for wholly owned activities, to avoid the possible risk and uncertainty of merging two different cultures. The local sales office would be similar to the wholly owned investment, where the company would act independently and would not risk confronting any cultural clashes, at least not internally. Concerning the showroom the scenario becomes a little bit more intricate. On the one hand, the showroom includes companies from the same culture and would mean that the company would be exposed to a low or no cultural distance. On the other hand, one can look at it from the perspective that host governments are often involved in the showroom and its operations, which means that the Chinese companies would need to cooperate with a foreign culture that could create uncertainty. We decided to apply the latter thought, which would mean that Chinese companies are exposed to a varying degree of cultural difference dependent on the host country. To measure the cultural distance the previous research has held either the target market or the country of origin constant. Kogut and Singh looked at foreign entries into the U.S. market, while Cho compared Japanese companies entering different markets. We decided to do it in another way; the cultural distance is always constant between China and Sweden, regardless if you are Chinese or Swedish. To conclude, these countries have the same cultural distance. Based on previous findings that suggest that the more culturally distant the investing company is to the target market, the more likely it is that the company aims for wholly owned

activities. However, since China and Sweden always have the same cultural distance, this would imply that they would choose the same entry mode when entering Swedish and Chinese market, respectively. Consequently, the following propositions can be made:

**P            The more culturally distant the investing company is to the target market, the more likely it is that would choose a local sales office.**

**-Consequently-**

**P            If two companies have the same cultural distance to the target market, they would choose the same entry mode.**

However, the proposition has to be rejected, since Swedish companies employ local sales offices when entering the Chinese market, whilst Chinese companies employ showrooms.

### **3.6.3. International Business Experience and Familiarity with Host Country**

Cho also identified international business experience and familiarity with host country as being positively correlated with the choice of wholly owned activities. Johanson and Vahlne's concept of incremental learning and gradual commitment support this thought. The more experienced a company is the more committed it will be to its international operations, thus advocating a high-commitment entry mode. One could argue that these factors explain the reason to why Chinese companies participate in showrooms when only contrasting showroom with local sales office. However, Cho and Padmanabhan's main argument to why joint ventures are favorable for an inexperienced company is that it would receive complementary knowledge and experience from the partner originating from the target market. When participating in a showroom, the Chinese companies will receive little input from domestic companies, since it is mainly cooperating with Chinese partners that might be in the same situation with low international experience and little familiarity with the host market. Furthermore, one has to remember that the concept of gradual learning means that the company has to start its international process somewhere and

suggestively with a low level of commitment and nearby market. However as mentioned earlier, the Chinese companies seem to go from no international commitment to a relatively high commitment level when choosing among the export modes. Therefore, it is possible to say that international business experience and familiarity with host country lends a partial explanation to why inexperienced Chinese companies choose to participate in a showroom rather than setting up a local sales office. However, the explanatory power is limited and does not explain why Chinese companies start their internationalization with a relatively high level of commitment with no previous experience, or “skip stages”.

#### **3.6.4. Summary of Applicability of Previous Research**

To conclude this evaluation of the factors that so far have been utilized to explain culture’s impact on the choice of entry mode, neither the uncertainty avoidant factor nor the cultural distance could explain the rational behind Chinese companies’ proneness to participate in showrooms. The factors international business experience and host country familiarity gives a limited explanation and cannot fully explain the rational behind stage skipping.

### **3.7. Culture Variables**

In order to understand if there is another cultural variable that could explain this phenomenon we found the need to revise works on culture. Given that the variables cultural distance and uncertainty avoidance both originates from Hofstede, we decided to revise his work. We here explore Hofstede’s contribution and his five cultural dimensions

#### **3.7.1. Hofstede’s Cultural Dimensions**

Geert Hofstede’s work is most likely one of the most famous study of how culture relates to values in the workplace. Hofstede conducted his work among IBM employees in 40 countries from 1967 to 1973. The data collected on employee values and attitudes resulted in four dimensions that was said to summarize different cultures. After some revision of his work, he identified a fifth dimension. The five dimensions are power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity and lastly long-term orientation.

### **3.7.2. Power Distance**

This refers to the level of inequality that people accepts. In high power distance societies, the power is shared among a few people, and the decision-making is centralised. This power concentration is widely accepted in these cultures. Whereas, in low power cultures the power is decentralized and more equally shared (Hofstede, 2006).

### **3.7.3. Uncertainty Avoidance**

This includes the extent people prefer to have written and outspoken rules on how to behave. Further, it also deals with people's risk-willingness. There is a positive correlation between high uncertainty avoidance and risk aversion. Uncertainty avoidant cultures try to minimize the uncertainty of the new, novel and unknown through employing strict laws and control measures (Hofstede, 2006).

### **3.7.4 Individualism vs. Collectivism**

This dimension is characterized by the degree to which people act as individuals rather than in groups. In individualistic countries, people are interconnected with weak ties, and are supposed to look after themselves and their close family. The opposing collectivistic countries are group-oriented, with high in-group loyalty (Hofstede, 2006).

### **3.7.5. Masculinity vs. Femininity**

The masculinity dimension refers to how "masculine" the values are in a country. Hofstede has identified achievement, performance, success, money and competition as masculine values. Whilst quality of life, service, care for the weak and solidarity are seen as feminine values (Hofstede, 2006).

### **3.7.6. Long-term Orientation**

This dimension is seen as the way people perceive time and their outlook on the future. Long-term oriented cultures are guided by thrift and perseverance, and short-term oriented cultures are on the other hand concerned with respect for tradition, fulfilling social obligations and "saving one's face" (Hofstede, 2006)

### **3.7.7. Criticism of Hofstede's work**

Hofstede's work has several strengths, for example, its large-scale sample, codification of cultural traits along numerical index, its focus on attitudes in the workplace and its general description of cultural differences, which might give guidance to managers and other researchers. Nevertheless, his work can be criticized on a number of points. First, Hofstede makes the assumption of national culture being homogenous, thus generalizing the results from a small population to the whole nation. Second, the research might have been culturally biased, since it was carried out in a Western organization. Third, the research was not only conducted within one single industry but also within one single company; therefore, this sample might not be representative for a whole nation. Finally, the research was conducted a couple of decades ago, and given culture's evolution Hofstede's work might already be out of date. However, revisions have been made and researches have been conducted on other populations. Furthermore, other researchers have employed the dimensions and have found strong support for their reliability. The revisions have shown that many of Hofstede's dimensions overlap, which sometimes makes it hard to investigate the different dimensions. Further, later studies have shown that the Individualism versus Collectivism dimension can alone explain approximately 80% of cultural variance (Hofstede, 1991).

### **3.7.8. Conclusion of Cultural Variables**

After revision of Hofstede's work, it becomes clear that he has managed to summarize the most important cultural traits into five dimensions. However, the variables that so far have been employed to explain culture's impact on choice of entry mode are rather narrow measures of culture. Nevertheless, Hofstede's ability to summarize several cultural traits into these dimensions, make them easy to employ and compare. Further, they can be powerful when trying to get an overall picture of a cultural traits' importance. In order to avoid the narrowness of only employing one of Hofstede's dimensions, more dimensions could be explored. To conclude, to avoid the oversimplified view of culture impact of choice of entry mode, more cultural dimensions should be explored.

### **3.8. Summary**

After the revision of the existing literature, it becomes evident that it cannot completely explain why Chinese companies prefer showrooms. Neither can it explain the rationale behind Chinese companies' internationalization process. The widely acknowledged internationalization theories give some insight to why some companies do not follow the traditional pattern. However, the identified factors almost exclusively deal with factors on individual company level. Whereas, there are few factors dependent on culture or country. Moreover, the direct export modes were evaluated, mainly according to control and commitment level. The showroom included the second to highest control and commitment level after the local sales office. In addition, the previous contributions to culture's impact on entry mode choice were reviewed. The most important variables that had been identified were uncertainty avoidance and cultural distance. Finally, an attempt was made to apply the existing cultural variables. Two groups were contrasted, Chinese companies preferring showrooms and Swedish companies preferring local sales offices. However, the attempt failed where none of the variables could explain why Chinese companies prefer showrooms.

# Chapter 4

## Identification of a New Cultural Variable

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*A new cultural variable is presented. The purpose of the variable is to explain why Chinese companies are prone to partake in showroom. Furthermore, to give an additional rational to stage skipping. Lastly, 9 hypotheses are formulated.*

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### **4.1. Introduction**

After our review of the up to date literature on choice of entry mode, and specifically the contributions to culture of origin's impact on choice of entry mode, it became evident that there is a gap in previous research. With the existing literature we could not explain why Chinese companies prefer showrooms to a greater extent than Western or Swedish companies do, and why Chinese companies do not follow the identified internationalization pattern in the same way. Therefore, we found the need to identify a new variable that could potentially better explain these tendencies.

### **4.2. New Variable**

Previous research on the culture's impact on choice of entry mode has been based on Hofstede's work. However, there is one dimension that is said to explain approximately 80% of cultural variance, namely the Individualism versus Collectivism dimension. Other researches and Hofstede have claimed this after revisions of his work. The dimension has never been employed to explain culture's impact on choice of entry mode. Hofstede defined the dimension as follows:

..Individualism pertains to societies in which the ties between individuals are loose; everyone is supposed to look out for himself or herself and his or her immediate family. Collectivism as its opposite pertains to societies in which people from birth and onwards are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty.

(Hofstede, 1994, p. 51)

### ***4.3. Individualism versus Collectivism in Organizations***

If looking at organizational structures and collaboration behavior, there are some evident differences between individualistic and collectivistic cultures. Normally, a worker originating from an individualistic culture tries to merge company interest with personal interest. The collectivistic person, on the other hand, puts the interest of the company or group in the first place, even if it does not coincide with his or her own self-interest (The Economist, 2006; Hofstede, 1994). Further, the loyalty is strong within the group. Many researchers have found that this loyalty towards the group, common in collective societies, has created pressure for self-help and collective action. Further, if a person places the groups performance in front of personal achievement this will be a strong incentive for teamwork and work for the common good; Whereas, individualistic countries favors entrepreneurship and individual thinking. Nevertheless, while the Individualistic countries might be entrepreneurial and individualistic, many people will find it hard to build teams to perform collective tasks. This lack of collaboration skills in individualistic countries like the U.S. has been argued to be an impediment for its economy. This problem occurs both within organizations and between different companies (Hill, 2005). Consequently, the entrepreneurial individualism creates instability and high costs for collaboration. Companies in collectivistic countries are not faced with the same problems like the ones in individualistic countries. To collaborate is the foundation of the collectivistic societies. Moreover, this creates stability and trust within organizations, which can be beneficial for product improvements. Nevertheless, many companies in collective countries are said to lack the dynamism and entrepreneurial spirit found in individualistic countries.

Interesting to notice is that researchers have suggested that the Japanese economical success and entrance into the global scene in the 1970s and 1980s was mainly due to this collectivistic spirit and loyalty to the group. Worth to remember is that the Japanese international success was initiated by local production, and despite limited overseas exposure, the companies succeeded to reach overseas markets with help of Japanese trading companies that exported the products. The Japanese trading companies took care of the domestic firms' export. Consequently, the trading companies handled several companies' products at the same time and were specialized on how to carry out the export. This structure was enabled by strong links

built up over time, which enabled the manufacturing companies to hand over the operations. The strong links were shaped of the existing culture and organizational structure that favored collective actions and in-group trust.

Japan was the first collective economy to challenge the world economies in the West, the European and U.S. market. Due to this cultural heritage of group thinking and collectivism, it chose to employ an export mode that was built on trust and where several Japanese companies got their products sold from the same trader. Compared to if every individual company would have had their own representative, which would have lead to a fragmented and less powerful threat from the East. Furthermore, this method enabled companies with no previous international experience to reach overseas markets with their products. To summarize, one could argue that as Japan is a collective culture, Japanese companies prefer to collaborate within close networks, and emphasizes in-group behavior. Further, as the trading companies were familiar to the companies, they were appealed to employ them, which was in line with the collective thinking. The collective thought could be applied to entire organizations, where the internal group thinking is also evident in companies' way of dealing with its environment. As mentioned before, U.S. companies have a hard time to create strong relationships with other companies, due to their inability to collaborate and trust others. However, Chinese companies have a different approach towards collaboration. Instead of doing business based on legal contract like in the U.S., almost all business deals in China are based on trust. In order to make an agreement a relationship first has to be established and can later be followed by an agreement. Due to this relationship orientation, also known as Guanxi (Communicaid, 2006), Chinese companies tend to establish close and long-term relationships.

Seen from an internationalization perspective, the in-group behavior can be likened with a network, which was identified by the Network approach (Johanson & Mattson, 1988) and the Born Global theory. Both of these disciplines acknowledged the network as a rational for stage skipping. According to the Network approach, the internationalization process is a result of company's ties with other companies. If one company internationalize its operations, companies in its network are likely to follow. All companies are a part of a greater network the only difference is that some

networks are more strongly linked than others are. As Sharma and Blomerstermo (2003) and other researchers have suggested, strong ties enables a stronger trust base and will eliminate the risk of opportunistic behavior, which otherwise can be common if the ties are weak. This elimination of risk of opportunistic behavior might reduce the uncertainty for an investing firm; therefore, companies dare to engage in a higher commitment due to a higher trust level. Given the nature of the collectivistic cultures, companies that originate from these cultures are likely to belong to strong networks since strong ties are the foundation of these societies. Therefore, these companies might be more willing to engage in larger commitments since they trust their partners. Therefore, when initiating international operations these companies might prefer to do so through collaboration. Whereas, companies originating from form individualistic countries might not have the same strong ties to companies in its network, thus prefers to internationalize on its own. Researches like Stopford and Haberich (1978; cited by Kogut and Singh 1988) found that U.S. firms seldom employed joint ventures when entering new markets, which might be explained by the individualistic mindset. The collaboration required in a joint venture might not be appealing for an individualistic company.

If taking this reasoning further, the collective spirit or network idea could potentially be applied to the choice of entry mode. As said before, some companies internationalize because another firm in its network do so. It is obvious that there are several entry modes to use, but if the relationship is strong enough and collaboration is preferred, it would be more beneficial to enter the market together rather than individually. Therefore, the following proposition can be made:

**P        A company originating from a collective culture prefers to internationalize its operations with an entry mode that enables collaboration with other companies.**

**P        A company originating from an individualistic culture prefers to internationalize its operations with an entry mode where it individually enters the new market without collaboration with other companies.**

#### **4.4. Individualistic versus Collectivistic Entry Modes**

The most common way to separate one entry mode from another is to range it according to level of commitment and control. Among the export modes, the line is drawn between the indirect and direct entry modes. However, when comparing the showroom mode with the other direct export modes it becomes evident that its structure is different from the others. The main difference is the collaborative element, as a participating company in a showroom the company will enter a new market together with other companies. An alternative way could be to range the entry modes according level of collectiveness, where the opposite would be the individualistic entry modes. One should notice that previous literature has distinguished the collaborative entry modes (Hollensen, 2004). However, this division rarely used when, since time most focus is placed on the indirect and direct distinction.

##### **4.4.1. Individualistic entry modes**

The main characteristic for an individualistic entry mode is that the company would individually, without collaborating with another company, try to enter a foreign market. Among the direct export entry modes the agent and distributor modes mean that the company leaves the responsibility to them in exchange for a fee to carry out the exports. Therefore, there is no real collaboration where more than one company enters a new market. The same holds for a sales representative, who already works for the company when starting the sales overseas, thus does not include any collaboration with other partners or companies. The local sales office includes an individualistic market entry. The company carries out its operations in the foreign market alone, and will have full control over the operations at the expense of higher risk.

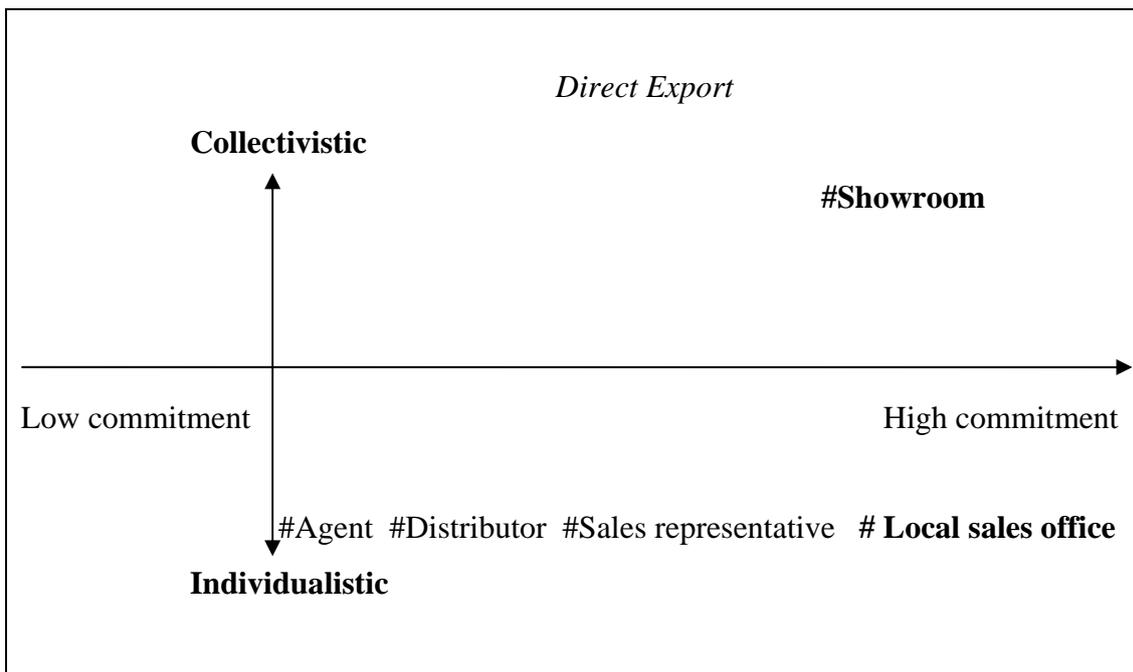
##### **4.4.2. Collectivistic entry modes**

The prerequisite for the collective entry modes is that a company collaborate with other companies in order to internationalize, this does not include when a company is hiring someone to carry out the operations. A showroom fulfills this criteria, the companies participating in the showroom jointly enters a new market and share cost and risk. Furthermore, this entry mode will enable companies from the same country to collaborate in the foreign market, thus creating a strong ties and in-group identification.



**Figure 12 The direct export modes divided according to collectiveness**

When dividing the direct export modes according to collectiveness, it is clear from figure 12 that the showroom is the only entry mode that is collective, whereas the rest belongs to the individualistic entry modes. If looking at the collective/individualistic dimension in relation to the different level of commitment and control levels, it would look something like this.



**Figure 13 The direct export modes listed according to collectiveness and level of commitment**

If looking at figure 13 it becomes clear that the showroom is the only direct export mode that is collective, and it includes a relatively high level of commitment compared to the other in direct entry modes. The only entry mode that has a higher commitment level is the local sales office, which belongs to the individualistic entry modes.

## Evaluation of the propositions

The showroom is the only collectivistic entry mode as shown in the above figure, whereas the rest belong to the individualistic entry modes. If returning to our propositions we stated that collective cultures would prefer to collaborate in their internationalization process, thus would prefer collective entry modes. As opposed to this the individualistic countries, which would prefer to internationalize on its own, thus would prefer an individualistic entry modes. If looking at previous sections discussion, where Chinese companies prefer showroom and Swedish companies prefer local sales offices, one has to look at each country's level of collectiveness versus individualism to evaluate the validity of such a proposition. Therefore, we once again turn to Hofstede's cultural index (see figure 14).

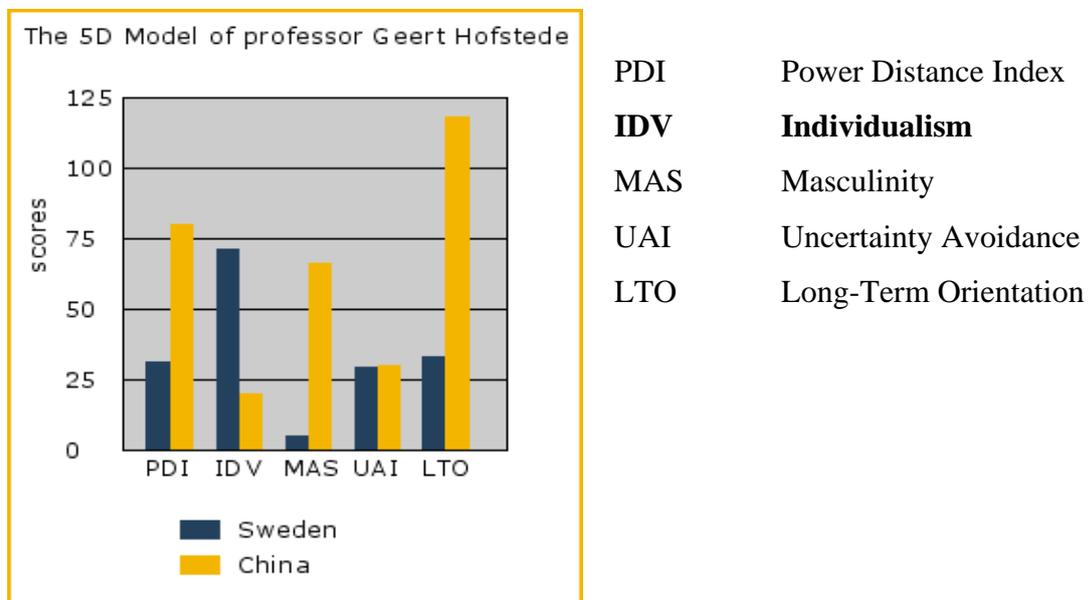


Figure 14 The 5D Model of Professor Geert Hofstede<sup>4</sup>

From figure 14, it is possible to see that the Swedish culture scores the highest on the individualism dimension, whereas the Chinese culture scores far lower, thus is a collective culture. This would indicate that the relationship between collective cultures and collective entry modes, and individualistic cultures and individualistic entry modes could have some support in reality.

<sup>4</sup> Source: <URL: [http://www.geert-hofstede.com/hofstede\\_dimensions.php?culture1=86&culture2=18](http://www.geert-hofstede.com/hofstede_dimensions.php?culture1=86&culture2=18). Retrieved 9 November, 2006.

## **4.5. The Individualistic versus the Collectivistic Internationalization process**

### **4.5.1. Availability**

When evaluating the collectivistic and individualistic entry modes it became clear that there are far more individualistic entry modes available. If looking at the export modes, one can only distinguish two collective modes, piggybacking among the indirect entry modes and showroom among the direct ones. As an inexperienced company it would make more sense to choose an indirect entry mode like the piggybacking since the level of commitment is lower. This incremental commitment was advocated by the Uppsala school (Johanson & Widensheim-Paul, 1987; Johanson & Vahlne, 1987). Not only are the collective entry modes few in number, but they are also limitations due to restricted *availability*. In the case of piggybacking, a company is able to sell its products through an already established company's facilities in a foreign market. Normally, the international company usually initiates the collaboration. The reasons for this can be for example that the international company wants to complement its product line or is unable to meet customer's demands with its own products. Further, this could be an opportunity to lower unit distribution cost (Hamill, Wheeler & Richard Davies, 1989). However, the probability of receiving such an invitation is low, since there are many companies competing for such an offer and the company has to have the suitable products. The second collective entry mode is the showroom, which has become more frequent nowadays, thus creating a greater availability of this entry mode. Furthermore, the showroom enables several companies to internationalize at the same time due to its construction. Consequently, this might be the reason to why Chinese companies choose a high-commitment entry mode already from the start since there are no other collective entry modes available. Put in other words, the limited availability of collective entry modes might be the rational for Chinese companies to skip stages in the internationalization process. After our review of the traditional internationalization process, Swedish or western firms' internationalization pattern was more congruent with the traditional internationalization pattern. Whereas, Chinese companies partaking in showrooms did not follow the gradual pattern with increased commitment set out by the Uppsala school. The reason to why the stage-skipping have not been as acknowledged as the gradual commitment could be that

many of the researches have been carried out on companies originating from individualistic countries. Furthermore, the Uppsala school was a study of four Swedish manufacturing firms. Given this, the Swedish or other individualistic countries had several entry modes to choose from, and that as an inexperienced firm, it could choose the one with the lowest commitment level. Moreover, it could later incrementally engage in high-commitment modes. On the other hand, Chinese companies or others originating from collectivistic cultures have less options to choose from since there is just a few collective entry modes. Therefore, the internationalization process cannot start with as low commitment as in the case for individualistic firms.

### The Individualistic internationalization process

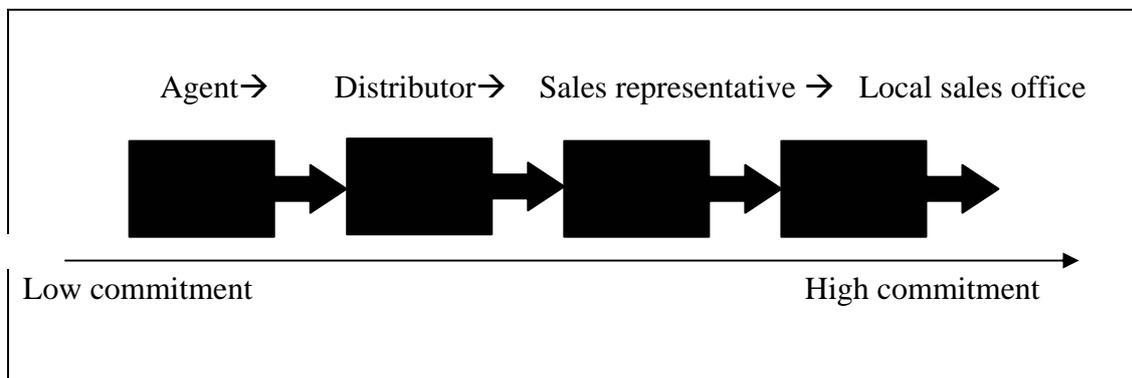


Figure 15 The individualistic internationalization process

### The Collectivistic Internationalization process

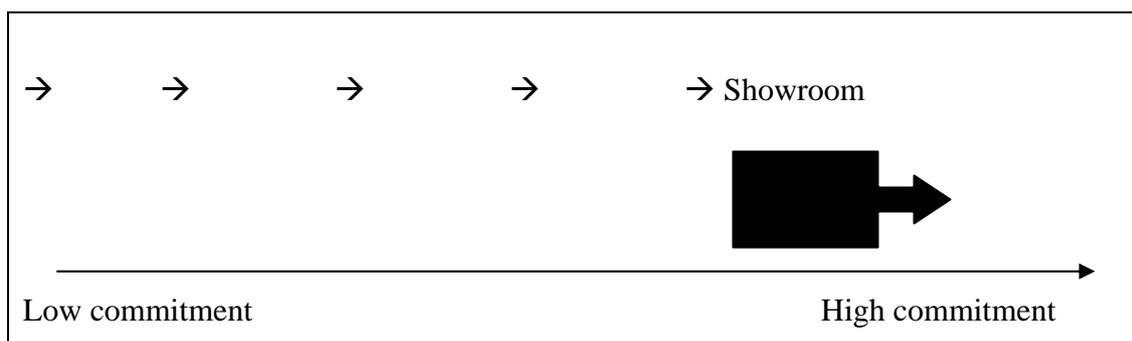


Figure 16 The collectivistic internationalization process

If comparing figure 15 and 16, one could argue that the Uppsala model is correct in that sense that it suggests that a company choose an entry mode with a relatively low commitment level. However, since the choices are limited from a collective company's perspective, showroom might be the only available entry mode, and from a collective perspective have a relatively low level of commitment.

### **4.5.2. New pattern**

The Uppsala model has received criticism that not all companies follow the gradual commitment to internationalization. Therefore, there has been contributions to explain stage-skipping also known as leap-frogging. However, as mentioned before none of these has really given any insight why companies from different cultures act differently from each other. One of the reasons to why this pattern have not been identified before in terms of culture might be that there are a few collectivistic countries that have companies that have started to internationalize in a large scale. Hofstede (1994) and others found a statistical relationship between individualistic societies and national wealth measured in GNP. One way of looking at it, is that wealthy individualistic countries have been the forerunners in internationalization. Therefore, their way of internationalize is what is depicted in the internationalization literature, thus creating a western oriented bias. This idea is supported by the fact that the founders of the economic discipline, such as Adam Smith advocated an individualistic mindset, where a person's self-interest would be the force behind the *Invisible hand*, thus create perfect market conditions (Eklund, 2003). Later contributions have been made in the same spirit, with important contributions from individualistic countries like the U.K. and the U.S. This makes the existing economic theories including the internationalization theories less applicable on collectivistic societies and companies. However, as many of collective countries start to catch up with the traditional economical powers form the West, the collectivistic discipline might become more frequent. Furthermore, this might create a larger demand for collectivistic entry modes, which might become more available with time.

### **4.5.3. Criticism of the new variable**

One could argue that the criticism towards other researchers' overemphasis on Hofstede's work can be applied here as well. However, there are several advantages with employing Hofstede's individual dimension. First, Hofstede and others have identified this variable as the most important. Second, it is said to explain approximately 80% of cultural variance, which makes it highly interesting. Third, the variable has never been employed individually as an explanatory factor to the choice of entry mode. Fourth, the concept is widely employed among culture and behavior researches. There are several adaptations that have been made, but they all follow Hofstede's main concept. It could have been possible to employ some other

researchers work, but since Hofstede's dimensions are widely acknowledged and pinpoint the most essential in each cultural trait it becomes easy to handle. We acknowledge that Hofstede's work is rather old and that cultures are constantly changing. However, the main idea still exists since researchers still confirm societies like China as being a collectivistic culture. Since the previous research on culture's impact on choice of entry mode has employed Hofstede's work, the uncertainty avoidance dimension and the compounded variable Cultural distance it would make the comparison of their findings easier. Further, the research has found some statistical support for these variables. However, since the cultural distance variable actually includes the individualistic dimension, this might be the reason to why it has been proven to be statistically significant. When Kogut and Singh removed the only collectivistic country from their data, namely the Japanese, the significance of the cultural distance variable decreased. Therefore, it could be interesting to see the variables explanatory power on its own.

#### **4.6. Hypotheses**

Based on our identified variable, Collectivism versus Individualism, we set out the following hypotheses, which were later tested in an empirical study. We wanted to understand how important it was for Chinese companies that the showroom had collective traits. First, our main hypothesis was set out, followed by sub-hypotheses to support the main one.

##### **Main Hypothesis**

H1 *A company originating from a collective culture prefers a collective entry mode.*

##### **Previous experience/Cultural distance, Uncertainty avoidance**

H2 *A showroom participant has low previous international experience.*

H3 *A showroom participant will despite of large cultural distance engage in a collective entry mode.*

H4 *A company from a collective culture will engage in a collective entry mode, and share operations despite that it is uncertainty avoidant.*

## **Availability**

- H5 *The limited availability of collective entry modes makes an inexperienced company to engage in high commitment modes, like the showroom.*
- H6 *The availability of a collective entry mode is a prerequisite for internationalization of a company originating from a collective culture.*

## **Collectivism**

- H7 *It is important for a company originating from a collective culture to have the possibility to learn from others.*
- H8 *A company originating from a collective culture prefers to collaborate with companies with similar background.*
- H9 *A company originating from a collective culture values strong relationships with other companies.*

# Chapter 5

## Empirical Method

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*The empirical method is presented. The research strategy, limitations and sample selection are evaluated. Lastly, the reliability, validity and generalizability are explored.*

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### **5.1. Research Strategy**

The purpose of this dissertation was to find the rational behind Chinese companies' proneness to choose showroom as an entry mode. Further, this was enlarged to how the choice of entry mode is influenced by the culture of origin. Consequently, the reason to why Chinese companies internationalize differently from firms from the west was included. In order to explain this, we developed a new dimension since previous contributions on the topic were not sufficient. Consequently, our intention was to test empirically our proposition that we based on our cultural dimension, and to see if it existed support for this variable in reality.

There is a variety of research strategies to chose from, and one have to evaluate their suitability carefully. There are several kinds of research strategies in the literature such as experiment, survey, case study and grounded theory (Saunders et al., 2007).

Given the nature and aim of this dissertation, where we wanted to explore the factors behind a certain entry mode choice based on cultural preferences, we could have employed different research strategies. One option could have been a case study that could have given us a deep insight on the topic. However, since we wanted to investigate if any statistical correlation existed between the identified variable and the choice of entry mode, we found that a survey was most suitable. In addition, a case study could on the one hand give more insight of one specific company, but on the other hand, this would have made it difficult to investigate the culture. Especially since culture is something highly subjective, thus making it hard to put in a perspective. To test our propositions for generalization a large amount of data from a relatively large-sized population was required.

#### **5.4. Questionnaire**

The advantages with employing a questionnaire are several. Firstly, a questionnaire enables geographical reach, which makes it possible to get information from a geographically distant location. Further due to its standardized format it becomes easier to compare the participating companies. Moreover, researchers do not influence the participants, thus avoiding biases. The participants are not negatively influenced by an unfamiliar environment and could individually ponder about their response. Thirdly, the data collection is cost and time efficient, especially when carrying out an e-mail based survey. Finally, the usage of a survey could enable us to get more data to investigate, thus potentially improving the validity of the research.

The disadvantages with employing a questionnaire are the limited amount of space, where the number of questions has to be limited. This since the response rate will be dependent on the required time to fill in the questionnaire. In addition, this limits us to receive a deeper insight on how a firm's culture of origin influenced the choice of entry mode, since the questions are already pre-decided. Other disadvantages are the risk of not receiving enough responses and not knowing who the respondent is.

Further disadvantages emerge from low control over who the respondent is, this might create bias in our research. Another being that the respondent might not know the correct answer or might lie to protect sensitive information. In addition, since the feedback is nonexistent there might be great misinterpretations of the questions, which might affect the outcome. Finally, there is also a risk of a low response rate.

The questionnaire was a self-administered e-mail based questionnaire. This method was chosen in order to reach participants in a foreign country in a short period of time. The questionnaire was written in English, since the target group is an international company and ought to master the English language. Together with the questionnaires we attached a cover letter, informing the respondent about the background and purpose of our research. In addition, full confidentiality and anonymity was promised. Instead of making an attachment of our questionnaire, we chose to create a website that the respondent could access. Through doing this we hoped to receive more respondents since attachments easily can be filtered and the respondent might avoid reading attachments from unknown senders. Five days after

we had sent out our questionnaire we sent a reminder to those companies that had not yet answered, this in order to further improve the response rate.

Our questionnaire included 13 questions. The questions concerned areas like previous international experience and knowledge of the Emirati market, control, uncertainty, attitudes toward entry mode choice, and collectivistic behavior. Question 1 was the only *Closed question* (see appendix 2), which means that the respondent was asked to choose among already provided response alternatives. Question 2 was an opened follow up question to question 1. We thought that instead of listing all the possible entry modes available it would be more convenient to ask the respondent to fill it in himself or herself. Question numbers 3-12 were rating questions, where the respondent was asked how strongly he or she agrees or disagrees with a statement (Saunders et al., 2007). These technique is also known as Likert-style rating scale (Christensen et al., 2001), with seven alternatives. The last question number 13 was also an opened question, this order to find out if there were something we had not thought of. Consequently, it could give us some new insights.

## **5.2. Sample Selection**

In order to attain the purpose of our study, it was necessary to collect data from the target group, namely Chinese companies partaking in a showroom. We chose to focus on the Dragon mart, which is a showroom in Dubai, in the United Arab Emirate, as the Swedish showrooms are not fully established yet. The Dragon Mart was established in 2004 and includes approximately 4000 Chinese companies. More specifically, we chose 150 companies to be included in our sample. Our questionnaire was an e-mail based survey. Therefore, we needed e-mail addresses, which we found online on the Dragon Marts' official homepage, [www.chinamexmart.com](http://www.chinamexmart.com). When employing an e-mail list found online we were aware of the possibility of using old e-mail addresses. However, we considered the homepage to be sufficiently reliable. Given our procedure, the sample could be said to be a self-selecting sample, since the company that received the notification about the survey could decide to participate or not (Christensen et al., 2001)

### **5.3. Limitations**

Our empirical method has some limitations. Firstly, our sample only included Chinese showroom participants in the United Arab Emirate. It could have been desirable to include Chinese companies from different showrooms. However, all showroom participants are Chinese companies; this makes it difficult in general to motivate these companies to participate in a questionnaire from Swedish students. It might have been easier to motivate the Chinese companies if the investigated showroom would have been operating in Sweden. Our initial thought was to conduct our survey on the companies participating in the Swedish showroom. Unfortunately, we were unable to do so, since it is not completely established yet. We thought it would be easier to receive a higher response rate from companies operating in Sweden. We also intended to have a Swedish reference group employing local sales office in order to verify our proposition as thorough as possible. However, due to difficulties to get important contact information about this group, we decided to focus on the main group, Chinese companies participating in a showroom.

Other limitations are the focus on one collective culture, namely the Chinese. This limits our ability to say anything about other collective cultures. Furthermore, we limited our research sample when we only included companies that had a registered e-mail address on the showrooms official homepage. Finally, language barriers can create limitations. This since our questionnaire was in English and our target group was Chinese. The possible misinterpretations might especially arise when theoretical words are used, which our target group might be unfamiliar with.

### **5.5. Response Rate**

Out of 150 e-mails that were sent out 48 e-mails were returned because the e-mail address was either no longer in use or invalid. There were 72 respondents that were unreachable since 72 e-mails were never read by the respondent. Together this makes 120 respondents unreachable (72+48). While 30 e-mails were registered as read. From the 30 e-mails that had been read, we received 7 responses (see table 2 here below).

The active response rate is the number of responses (7) divided by the total sample group (150), subtracted by the number of ineligible and unreachable (120) (Saunders et al., 2007). The active response rate in our research was 23.3%.

	No. of Firms	Percent
Respondents with invalid e-mail address	48	32%
Respondents that were unreachable	72	48%
Respondents contacted but no answer	23	15%
Participants	7	5%
<b>Total</b>	<b>150</b>	<b>100%</b>

**Table 2 Questionnaire response**

Our active response rate was low. However, we were aware of the fact the e-mail surveys normally receive a low response rate. Nevertheless, certain thing could have improved this number, one being longer response time.

### **5.6. Validity**

The validity of our questionnaire depends on its ability to measure our intended variables. Questions might be misleading or wrongly formulated. Further, if the questions are not relevant or suitable for the investigated variables, this might create systematic errors. Systematic errors will persist if the research is repeated. Many of our questions were focused on attitudes, which had to be operationalized in order to be measurable. For example, to measure the importance of control and how centralized the organization was, we made the statement *In our company important decisions are made by the top management*. However, if the operationalization is not correctly done it will influence the validity. Lastly, it is always suggested to carry out a pilot test of the survey in order to make sure that the questions are relevant and easy to understand. However, we did not find the time to carry out a pilot test. Therefore, the validity of our questionnaire could be questioned.

### **5.7. Reliability**

Reliability is about the ability to attain consistency in the research findings. One should be able to reproduce the research and reach similar results (Saunders et al., 2007). Participant errors can influence the reliability of the research. Firstly, the time when the questionnaire is sent our might affect the respondent. It is advisable to choose a neutral time and not for example a Monday or a Friday when the worker might have another state of mind compared to other days. However, due to time

limitation our questionnaire was sent out on a Friday, which consequently might have affected the reliability of our responses. Secondly, the respondent might not want to be completely honest when answering the questions, for example he or she wants to portray the participation in the showroom as better than it actually is. Another possible reason could be ignorance, that we simply sent the questionnaire to the wrong person. Lastly, the respondent might not remember everything, which might influence the reliability of the findings. All these elements could be difficult to avoid, one way of eliminating dishonest responses is to assure the respondent of full anonymity, which we did.

### ***5.8. Generalizability***

The generalizability of a research is whether the findings may be equally applicable to other research settings (Saunders et al., 2007, p. 151). In order to generalize research findings it is important that data is collected from a sufficiently sized population. However, we focused on Chinese companies partaking in a showroom in the United Arab Emirate, and did not receive a sufficiently large response rate, which makes it impossible to generalize our finding on a larger population. Our aim was only to see if there existed any support for our new variable in reality.

# Chapter 6

## Analysis of the Questionnaire

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*The questionnaire is analysed. The results are presented and the hypotheses are evaluated.*

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### **6.1. Introduction**

The intention with the questionnaire was to verify the importance of the identified variable Collectivism. We wanted to verify the importance of the collective traits of the showroom, when the Chinese companies decided to partake in the showroom, Dragon Mart. Further, we also wanted to test the applicability of the previously distinguished variables Uncertainty avoidance and Cultural distance. Moreover, we wanted to evaluate their importance in relation to the export entry modes. Overall, it is an attempt to verify our hypotheses.

The means and the mode values were calculated for most questions. These values were mainly chosen to display the result in the most representative manner, with the low response rate in mind.

The questionnaire can be divided into four areas. First, the company's previous international experience and knowledge about the Emirati market are explored. This as an attempt to verify the variables cultural distance and familiarity with the host country. Second, the uncertainty avoidance variable is evaluated. The third area concerns the availability of collective entry modes and the impact of it. The last area, deals with the collective traits of the showroom and what importance it had when the participating companies decided to partake in the Dragon Mart.

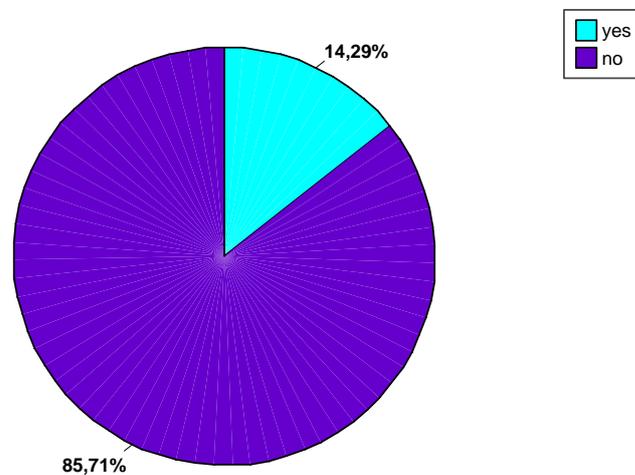
#### **6.1.1. International experience/Cultural Distance**

##### **Question 1 & 2**

*Did your company operate in the United Arab Emirates prior to your participation in the Dragon Mart?*

*If you answered "Yes" in question number one, which entry mode was used? (e.g. Agent, local sales office etc.)*

Question number one was asked in order to understand if any of the participating companies already had experience of the Emirati market, and if they did what entry mode was used. Firstly, this could verify Cho and Padmanabhan's variable Host country familiarity. The researchers argued that previous experience of host country would promote the choice of a wholly owned investment. Secondly, this could give us an indication if the company had increased its level of commitment to the Emirati market. Furthermore, the entry mode employed could tell whether the company had gone from a collectivistic entry mode to another, or if it had gone from an individualistic to a collectivistic.



**Figure 17 Percentage of showroom participants that was operating in the Emirati Market prior to participation in the Dragon Mart.**

**Table 3 Frequency and percent for question 1**

Answer	Frequency	Percent	Cumulative Percent
Yes	1	14.29	14.29
No	6	85.71	100
Total	7		

As can be seen in figure 17 and table 3 that 85.7% of the participant did not operate in the Emirati market prior to participation in the Dragon Mart. Further, this means that only one company out of six had operated in the market before. This company

had employed local sales office as an entry mode. Consequently, this means that this company had gone from an individual entry mode to a collective. Given this change in entry mode, it means that the company decreased its financial commitment, when no longer operating on its own. Moreover, the overall low host country experience somewhat confirms Cho and Padmanabhan's variable. This since many of the companies have no or low previous experience of the Emirati market and as suggested aimed for a collaborative entry mode rather than a wholly owned or individualistic entry mode.

### Question 3

*Our company is a highly internationalized company with extensive international experience*

This question was asked to test our hypothesis that most of the showroom participants have low previous international experience.

**Table 4 Mean and mode value for question 3**

Question	Mean	Scale	Mode
3	3.43	1=Disagree strongly 7=Agree strongly	3

The results in table 4 shows that most of the companies are not highly internationalized with extensive international experience since the mean is 3.43, which means that the companies are closer to disagree strongly than agree strongly. Furthermore, the mode value or the most common response was 3, which shows that the typical company in this sample had limited international experience.

### Question 5

*Prior to our participation in the Dragon Mart, we had several clients in the Emirati market.*

This question first gives an indication to whether the showroom participant was attracted to engage more in the target market due to a big demand from clients in the Emirati market. However, the question could also be seen as a control question to

question number one. If the participant had said that, the company had no operations before the participation in the Dragon Mart it ought not have any clients either.

**Tab ell 5 Mean and mode value for question 5**

Question	Mean	Scale	Mode
5	3.0	1=Disagree strongly 7=Agree strongly	1

The respondent that had answered “Yes” in question one was removed from the results in this question. This was since this company had already been operating in the Emirati market and ought to have customers there already and is therefore not of interest in this question.

The overall conclusion is that most of the companies must have had some clients in the Emirati market prior to participation in the Dragon Mart. However, the mean value 3.0 indicates that the companies did not have several clients but more moderate or low. The mode value 1 indicates that the typical response was that the respondent did not have any previous clients in the market. Despite the response rate in question number one, where only one company had previously operated in the Emirati market, some companies had some clients prior to the market entry to judge from question 5. This could potentially be a result of misinterpretation of the word “operate”. We wanted to see if the companies had any connection with the Emirati market before the showroom, for example if they employed a lower commitment mode. It is unlikely that a Chinese company would have clients in the Emirati market without any engagement in exports. Therefore, one could question the validity of question one.

**Question 1, 2, 3 & 5 combined**

All the questions above could be a general indication of previous international experience. Previous researches have suggested that cultural distance has been a significant factor when choosing among the equity modes. Where a high cultural distance is said to promote the choice of a wholly owned investment. Further, we thought that cultural distance could be operationalized in the same sense as psychic distance, which is the perceived cultural difference a company possesses about the target market. However, as a company gets more international experience, this

perceived distance will be reduced. Therefore, it should be possible to say that a company with a low international experience would have an unchanged cultural distance. Consequently, if the showroom participants have a high level of cultural distance it would not choose to participate in a showroom since that means shared operations. Therefore, it could be argued that the cultural distance variable does not have the same explanatory power in the context of export entry modes.

**Table 6 Mean and mode value of question 3 & 5**

Question	Mean	Scale	Mode
3	3.43	1=Disagree strongly 7=Agree strongly	3
5	3.00		1

The overall picture is that most of the companies have a relatively low level of international experience as seen in question three, table 6 here above. Further, one could see in question five that the company experience of the Emirati market is moderate. Moreover, this is confirmed in question one, where only one company out of six had previously been operating in the Emirati market. Given this limited previous experience, the experimental learning has not occurred, and had neither reduced the psychic distance nor the cultural distance, as suggested in the beginning of this question. The previous researches suggest that a low cultural distance would make a company employ a wholly owned entry mode. Therefore, this could indicate that the cultural distance variable might not be as suitable to employ when evaluating the export entry modes.

### **6.1.2. Uncertainty avoidance**

#### **Question 6**

*In our company important decision are made by the top management*

This question was asked in order to understand the control level of the company, and used this as an indication of uncertainty avoidance. In organizations where decisions are made by the top management are normally seen as centralized organizations or

hierarchical. Further, if placed in a cultural perspective, uncertainty avoidant cultures normally adopts this structure with high control levels in order to reduce risk. However, when participating in a showroom the control level of the individual company will be reduced since it is based on collaboration.

**Table 7 Mean and Mode value of question 6**

Question	Mean	Scale	Mode
6	6.00	1=Disagree strongly 7=Agree strongly	6

If looking at these results, with a mean of 6.00 and a mode value of six, this indicates that most of the respondents have an organization where the top management does the important decision-making. If this reasoning were to be taken further, this would indicate that most of the organizations prefer to have strict control possibly to reduce uncertainty that is typical for the Chinese culture. There are two ways of interpreting this result. One could see it as if the showroom entry mode reduces the level of uncertainty and therefore the management can accept a lower level of control as a result of the collaboration. On the other hand, one could see it as an indication that the uncertainty avoidance variable identified by previous researchers is not as relevant when employing it on the export modes.

## Question 9

*The showroom/mart felt like the safest way to enter the Emirati market*

This statement could either reject or confirm the importance of uncertainty avoidance. If the showroom was not perceived as the safest entry mode but still employed, this reduces the applicability of the uncertainty variable in the context of export modes.

**Table 8 Mean and mode value for question 9**

Question	Mean	Scale	Mode
9	3.71	1=Disagree strongly 7=Agree strongly	4

The results from question nine (table 8 above), with a mean value 3.71, one can tell that showroom was not seen as the safest way to enter the Emirati Market. However, it was not perceived as the most unsafe either since the mean was close to 4 and the mode value or the typical value was 4. This indicates a rather neutral standpoint and it is hard to make any real conclusions. Nevertheless, if placing this question in relation with question 6 it could give a clearer picture of the uncertainty element. Question 9 confirms that the showroom was not seen as the safest entry mode but still employed despite of the high control level and interpreted uncertainty level in question 6. Consequently, one can say that the participating companies did not base their entry mode choice on uncertainty reduction. Therefore, the uncertainty variable might not be as relevant as when explaining the choice between the equity modes.

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### 6.2.3 Availability

#### Question 4

*Prior to our participation in the Dragon Mart, our knowledge about the Emirati market was extensive*

This question was asked to establish if the participant had carried out thorough market research of the Emirati market before the market entry. Our hypothesis was that as there is a few collective entry modes to choose from for company originating from a collective culture, it might internationalize when a collective entry mode is available. Therefore, we presumed that the traditional market research prior to market entry was not as extensive when partaking in a showroom.

**Table 9 Mean and mode value for question 4**

Question	Mean	Scale	Mode
4	3.50	1=Disagree strongly 7=Agree strongly	-

In order to make sure that the knowledge was gained before operations in the Emirati market, the company that responded “yes” in question 1 was excluded from the results in table 9. The results could otherwise have been affected since this company

had the opportunity to gain knowledge of the Emirati market while operating in the market. The mean value 3.5 indicates that the previous knowledge of the Emirati market was moderate. On the other hand, when the looking at the mode value or inexistence of it indicates that the responses were widely spread. The response alternative “strongly agree” was the only alternative that was not chosen. Therefore, the result is rather inconclusive.

### **Question 7**

*Before employing the Dragon Mart as an entry mode to enter the Emirati market, several other entry modes were considered.*

Question number seven was asked to get an indication if the company was evaluating many other entry modes before deciding to choose the showroom. Our hypothesis was based on the thought that a company from a collective culture would have few entry modes to choose from when entering a new market since there are few collective entry modes (limited availability). The hypothesis does not have to be rejected completely if this were to be the case. This based on that the company might have evaluated several alternatives but found the showroom to be the most suitable. Nevertheless, it would indicate that a collective company would not simply initiate its internationalization process due to the availability of a collective entry mode, and not care about other factors. Therefore, it could either accept or reject our hypothesis that the availability of a collective entry mode is the prerequisite for internationalization for a collective company.

**Table 10 Mean and mode value for question 7**

Question	Mean	Scale	Mode
7	4.43	1=Disagree strongly 7=Agree strongly	7

When looking at the results of question 7, one can tell from the mean 4.43 that most of the companies had considered a couple of other alternatives before deciding on the showroom. To judge from the mode value 7, the most typical response was that several other entry modes had been considered. As mentioned in the motivation for the question here above, even if the company have few collective entry modes to

choose from, this does not necessarily mean that other individualistic entry modes cannot be considered. However, it might have been so that when comparing the entry modes, collective and individualistic, the collectivistic showroom was the most appealing to a collective culture. The other hypothesis concerning availability might have to be partly rejected. Companies from collective cultures are not as passive in the choice of entry mode, as suggested. In addition, to judge from the results in question 7 they are actively comparing entry modes. This indicates that the internationalisation of these companies is not dependent on the availability of collective entry modes. However, there were some companies that disagreed strongly, and this could indicate that some companies might actually internationalize because of the availability of a collective entry mode.

### Question 8

*It was important for us that the Dragon Mart existed when we entered the Emirati market*

This question was also employed to understand how important the availability of a collective entry mode was for the company when entering an international market. If it was important, it would partly confirm our hypothesis that the availability was a prerequisite for internationalization. If it was not important, it would suggest that the company would have chosen the market before the entry mode and would have entered the market regardless of the availability of a showroom or other collective entry mode.

**Table 11 Mean and mode value of question 8**

Question	Mean	Scale	Mode
8	5.00	1=Disagree strongly 7=Agree strongly	7

To judge from the mean value 5.0 in table 11, it indicates that the showroom was not unimportant when the companies entered the Emirati market. Actually, the mean indicates that the responses were closer to agree strongly than disagree. Further, the mode value shows that the most typical response was that it was important that the Dragon Mart existed. Based on these results, one could argue that the hypothesis of

collective entry modes being an prerequisite for internationalization might not have to be rejected after all as party suggested in question 8 (see table 11 above).

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## **6.2.4 Collectiveness**

### **Question 10**

*It was important that there were several Chinese companies partaking in the showroom/mart*

This question could indicate the importance of collectivistic traits of the showroom. Collectivistic cultures are said to prefer interacting with people from similar background, thus would make it easier to integrate into a homogenous group.

### **Question 11**

*Our company felt that the Dragon mart would enable us to create strong relationships with other participating companies*

This question was also asked to establish how important it was that the showroom had collective attributes appealing to companies from a collective culture. The essence of collectivism is strong ties and good relationships. Therefore, if the participating company saw great potential in establishing close relationship with the other participant it could be an indication of the importance of the showroom's collectiveness.

### **Question 12**

*It was important that it existed possibilities to learn from other Dragon Mart participants' experience.*

This question was asked to understand how important the learning potential was when participating in the showroom. Hofstede identified learning potential as one of the key goals in the workplace, for a person originating from a collective culture, thus this ought to be similar for the entire organization.

**Table 12 Mean and mode value of questions 10, 11 &12**

Question	Mean	Scale	Mode
10	5.42	1=Disagree strongly 7=Agree strongly	7
11	6.00	1=Disagree strongly 7=Agree strongly	6, 7
12	5.43	1=Disagree strongly 7=Agree strongly	7

If looking at the summarized results of question 10, 11 & 12, one can see that all three factors had a rather important influence on the participating companies. All the mean values are over 5.00. Compared to the other factors, the possibility “to create strong relationships with other participating companies” in question 11 was the one factor that was the most important with a mean of 6.00. All three received a mode value of 7, (question 11 had two mode values 6 and 7). Overall, it seems like all three collective traits of the showroom were important for the participants. This gives a good indication that the collectiveness of the showroom might be one of the contributing factors to participation in the Dragon Mart. To conclude, this would give support for our three hypotheses about the collective traits being important for a collective culture. The importance of group behaviour with strong relationships was seen as the most important. This is not unexpected since collective societies are founded on strong group behaviour and close relationships. Further, to be surrounded by companies from similar background is a result of the in-group mindset. Lastly, the possibility to learn from others, which is also in line with the in-group, collective, thinking.

### **Question 13**

*What is the main advantage to partake in the Dragon Mart*

This question was an open question, giving the respondent the possibility to give additional information about the most important or the main advantage with the showroom. There might have been things that we had overlooked when developing

our theory and questionnaire. It could give a deeper insight and potentially bring new variables to our awareness.

**Table 13 Answer to question 13**

Question	Main advantage to partake in the Dragon Mart
13	<ul style="list-style-type: none"> <li>-Relatively low cost to enter the Emirati Market</li> <li>-Marketing is facilitated</li> <li>-Easy access to information about the Emirati Market and surrounding markets</li> <li>-Exhibition, more attractive for the buyer</li> <li>-Good support from the Dragon Mart’s organization</li> </ul>

One thing that all mentioned factors have in common is that they have little to do with the cultural aspect we have investigated. The only thing could be “good support from the Dragon Mart’s organization” which could be said to resemble the collective aspect. The other factors deal more with efficiency and low cost, which undeniably is the main concern for all companies. The factors “exhibition” and “facilitated marketing” are yet other advantages with the showroom, which partly have been mentioned, in the context of shared costs and marketing efforts. To conclude, there are many advantages with the showroom, not only from a cultural perspective. We could have included other variables as possible determining factors in the choice of entry mode. However, we are aware that many factors have been overlooked when investigating the choice of entry mode. The reason to this is that we wanted to separate the culture of origin’s impact on choice of entry mode from other possible variables.

### **6.3. Evaluation of Hypotheses**

After the presentation of the questionnaire results we attempt to evaluate the validity of our initial hypotheses. We will start with our sub-hypotheses and finally evaluate our main hypothesis.

H1 *A company originating from a collective culture prefers a collective entry mode.*

**Previous experience/Cultural distance, Uncertainty avoidance**

H2 *A showroom participant has low previous international experience.*

This hypothesis is possible to accept since the results from the questionnaire questions about previous international experience showed that most of the respondents had limited international experience.

H3 *A showroom participant will despite of large cultural distance engage in a collective entry mode.*

The operationalization of cultural distance as psychic distance, made us conclude that as many inexperienced or culturally distant companies engaged in the showroom anyhow. Therefore, we feel like we can accept this hypothesis. Furthermore, the applicability of Cho and Padmanabhan's variable might based on this be questioned in the context of export entry modes.

H4 *A company from a collective culture will engage in a collective entry mode, and share operations despite that it is uncertainty avoidant.*

Most of the companies showed sign of highly centralized organizations. Further, we saw this as a sign of uncertainty avoidance. However, despite of uncertainty avoidance they were willing to compromise their individual control, to share operations with other showroom participants. The hypothesis was finally accepted, when few of the participating companies perceived the showroom as being the least risky entry mode. Consequently, the two variables employed on the equity modes do not have the same explanatory power when applied on the export modes.

## Availability

H5 *The limited availability of collective entry modes makes an inexperienced company engage in high commitment modes, like the showroom.*

It is hard to distinguish from the questions we asked whether the companies experienced that they had few entry modes to choose from. Most of the investigated companies seem to have considered several entry modes before deciding on the showroom. However, one cannot reject the hypothesis based on these grounds. They probably choose the entry mode that was suitable for each individual company. Moreover, since the showroom was a collective entry mode this could potentially confirm the importance of collectivism. Further questions should be asked in order to distinguish whether the companies felt like the other individualistic entry modes were not congruent with the collective culture. The overall conclusion of this hypothesis is that the collective variable and its availability can possibly be one rational to why some companies skip stages in the internationalization process.

H6 *The availability of a collective entry mode is a prerequisite for internationalization of a company originating from a collective culture.*

Since some of the respondent had not considered several entry mode alternatives before choosing to participate in the Dragon Mart, this could be a sign that the availability factor is relevant for some companies. However, since we did not investigate the individual companies further we cannot tell what characterizes these companies.

It seems like most of the respondents found it important that the showroom existed when their company entered the Emirati market. This could be an indication that the companies would not have entered this market if the showroom would not have been available. To conclude the availability of collective entry modes might have an impact for some companies when going international. Therefore, the hypothesis of availability could not be completely rejected.

## Collectivism

H7 *It is important for a company originating from a collective culture to have the possibility to learn from others.*

The learning factor was considered important for most of the respondents. Consequently, this confirms this hypothesis. Further, the showroom was perceived to enable learning. Based on this one could say that the showroom had collective traits that appealed to a company originating from a collective culture.

H8 *A company originating from a collective culture prefers to collaborate with companies with similar background.*

This hypothesis was confirmed with the question if it was important that the other showroom participants also were Chinese. Most of the respondents agreed strongly or close to it.

H9 *A company originating from a collective culture values strong relationships with other companies.*

The possibility to establish strong relationships with other companies was the factor that received the strongest agreement. Therefore, one could argue that this hypothesis should be confirmed.

To conclude, most of our hypotheses set out prior to the questionnaire were confirmed or partly confirmed. Consequently, lends support for our main Hypotheses. The strongest response was received among the collective variables. The previously used variables cultural distance and uncertainty avoidance proved to be less important in our questionnaire. Further, the concept of availability was partly confirmed, mainly based on insufficient questions. Therefore, the availability factor could potentially explain rational behind Chinese companies' stage skipping in the internationalization process. Finally, it seems like the collectiveness of the showroom appealed to most of participating companies in the questionnaire. Therefore, one cannot disregard the collective variable as an explanatory factor in the choice of

entry mode. Further support for the main hypothesis, which stated that a collective culture prefers collective entry modes, could possibly be found in the only respondent that had operated in the Emirati market prior to the showroom. This respondent had before the participation in the Dragon Mart employed a local sales office. On the one hand, this rejects the idea that the availability of collective showrooms is the prerequisite for internationalization. On the other hand, this shows that the company chose to lower its control enabled by the local office in favor for participation in the showroom. Therefore, there must have been drivers for internationalization that made the company enter the Emirati market in the first place. However, as no collectivistic entry modes were available, the company chooses an individualistic. Nevertheless, as soon as a collective entry mode was available, the mode was changed. To conclude, this shows the reverse situation, that the collectiveness is not only preferred in the beginning in the internationalization process, but also later on.

Based on all this, one possible answer to why Chinese companies prefer the showroom as an entry mode could be because the Chinese companies' culture of origin is collective, thus prefers a showroom, since it is a collectivistic entry mode.

#### ***6.4. Criticism of empirical method***

The main point of critique that can be put forward is the sometimes unfortunately formulated questions. Not all of the questions were the most suitable ones or additional questions should have been asked to complement the existing. Furthermore, we acknowledge the risk of wrongly operationalized factors. This can definitely influence the validity of our research since systematic errors might occur. In addition, it could have been desirable to have more background variables. This could have made the results more descriptive. Further, this might have resulted in a more fruitful analysis. Concerning the low response rate, it restricts our possibility to generalize our results to a larger population. It is even questionable if this group is representative for the selected sample, since we do not know anything about the companies that decided not to participate. Some measures could have been taken to improve the response rate and the validity of our research. Firstly, the response time could have been longer, due to time restrictions we did not have enough time to let the respondents take their time. Secondly, a pilot test of our questionnaire would have been advisable. Especially since, it could have reduced wrongly formulated questions or misinterpretations.

## **6.5. Summary**

We had identified the variable Collectivism versus Individualism in terms of entry mode choice. The purpose with the variable was to give a rational for Chinese companies' proneness to partake in Showrooms. Based on our new variable, we set out 9 hypotheses, which we empirically tested in a questionnaire. None of our hypotheses could be completely rejected based on the questionnaire results. The majority of our respondents had not been operating in the target market prior to participating in a showroom. Further, the previous international experience and knowledge of the target market was limited. Despite the cultural heritage of uncertainty avoidance, the Chinese companies willingly participated in the showroom even though the showroom included some risk and control sharing. One variable that previous researchers had identified was confirmed, namely Cho and Padmanabhan's variable Experience of host culture. Concerning the availability, the overall response leaned towards that many entry modes had been considered before choosing the showroom. Nevertheless, it seemed important that the showroom existed when the companies entered the Emirati market. Consequently, giving some support for the importance of availability of collective entry modes. Moreover, the availability variable might be the rational behind the perceived stage skipping Chinese companies engage in. Since there is a restricted availability of collective entry modes, the showroom is one of the modes that included a relatively low level of commitment. Lastly, the potential to establish strong relationships was the statement that received the strongest support among the collective traits. Overall, the collective traits received strong support. To summarize, our identified variable was given some support in the empirical study. Consequently, the reason to why Chinese companies partake in a showroom could potentially be explained with help of our collective variable. However, the low response rate makes it impossible to make any generalizations. Nevertheless, our empirical study did not completely reject our hypotheses, which makes it worth pursuing and investigate further. Therefore, Chinese companies' proneness to participate in a showroom could possibly be explained by its culture of origin. Chinese companies' culture of origin is collective; therefore, they prefer collective entry modes like the showroom.

# Chapter 7

## Conclusion

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*The conclusions are presented. The dissertation is summarized. Modifications, future research and practical implications are explored.*

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### **7.1. Summary of the Dissertation**

As the world is becoming more globalized, companies all over the world have to decide on how to internationalize their operations. In recent years, Chinese companies have started to enter the western world. Interestingly, Chinese companies do not employ the same strategy and entry mode when going international, which contradicts the pattern distinguished by previous internationalization theories. The showroom is an entry mode that has become largely employed by Chinese companies, and it enables several firms to simultaneously enter a new market. However, this entry mode is one of the export modes that include a relatively high level of commitment. This is despite of the fact most researchers have suggested that companies should gradually increase its commitment level when initiating its internationalization process. When comparing Chinese companies' internationalization process and the Swedish companies', it is evident that there are differences. Firstly, Swedish companies seldom use a showroom when entering a new market and normally they follow the traditional internationalization process. Whereas, Chinese companies seem to prefer entry modes like the showroom. Moreover, they do not follow the traditional internationalization pattern, but rather skip stages, and involve in high-commitment modes already from the start. Consequently, one can distinguish a difference in cultural preferences.

The existing internationalization theories on companies' internationalization process mainly take a highly rational approach towards this process. Among the most acknowledged ones are the Uppsala Internationalization model, the Transaction Cost Analysis model and the Network theory. Together with the more recent contribution of Born Globals, jointly these theories lend some explanations to why some companies do not follow the traditional internationalization pattern or skip stages. However, they are unable to explain in terms of culture why Chinese companies act

differently from Swedish companies. This because most of the identified factors focus on individual company factors and not on culture, and its impact.

The research on culture's impact on choice of entry mode is scarce. The ones that exist focus on the equity modes and not the on export modes. When attempting to apply the existing literature it fails to explain the rationale behind Chinese companies' behavior. Consequently, there is no research that explicitly explains why Chinese companies are prone to participate in showrooms.

Based on the previous researches' inability to explain why Chinese companies internationalize differently from the Swedish we developed a new variable. The new variable was called Collectivism versus Individualism, based on the work of Hofstede. Furthermore, we divided the direct export modes according to level of collectiveness. The only collective entry mode we identified was the showroom. Therefore, we developed a theory that companies that originate from collective cultures will prefer entry modes that are collectivistic. In addition, we concluded that since there is a limited availability of collective entry modes, this is the rationale for Chinese companies to start their internationalization with a high level of commitment and skip stages. Therefore, the Chinese internationalization process seems different. Based on this, 9 hypotheses were developed.

In order to evaluate the explanatory power of our variable and our hypotheses, an empirical study was carried out. This was done with an e-mail based questionnaire sent to Chinese companies participating in a showroom in the United Arab Emirates. Our sample consisted of 150 companies, where we were able to reach 30. Finally, the total number of response was 7, which is an active response rate of 23.3%.

Based on the results, we concluded that most of our hypotheses could partly be accepted. Further, most respondents answered that the collective traits of the showroom was important when deciding to participate in the showroom. In addition, the majority of the responding companies had low previous international experience prior to the participation in the showroom. Moreover, most of the companies stated that it was rather important that the showroom existed when entering the new market. Previous researcher's contributions were also tested. However, these variables

turned out to be inapplicable. Nevertheless, some of our operationalizations might not have been correctly formulated, thus affecting the validity of our results based on these systematic errors. Further, some of the questions could have been complemented with additional questions. Finally, our low response rate limits our ability to make generalized about the target group.

## **7.2. Modifications**

Modifications that could have improved our study:

- We could have included more cultural variables, like for example Hofstede's Power distance dimension, which could have been relevant too. When exploring the individualism dimension, it is noticeable that these dimensions are interrelated. Therefore, this could have made our study somewhat more dynamic.
- One could possibly have employed another culture framework, and not only Hofstede, to avoid the over emphasize of his work.
- We could have included more background variables that did not directly have any connection with culture, but rather with other choice of entry mode theories. This could have given us a deeper understanding of the rational behind entry mode choice. Furthermore, these variables could have been contrasted with our variable, to see which factor is really the most important influence in choice of entry mode.
- The operationalizations and questions in the questionnaire could have been formulated differently or complemented with more questions.
- If it would have been possible we should have used another sample group that was located closer to Sweden, this could have increased the response rate.
- The response time for the respondents could have been longer.
- More attention could have been paid to the existing entry mode choice models.

## **7.3. Future Research**

Firstly, our research could be carried out in a larger scale, in order to improve the generalisability of the research. Further, different showrooms could have been investigated in order to see if they would answer differently. Since the collectivistic trait was the main focus for our research, it could be interesting to investigate

individualistic cultures. Consequently, the importance of individualistic traits when choosing an individualistic entry mode would be the research area. Further, other collective countries than China could be investigated to see if the dimension could be applied on these.

The explanatory power of our variable could be tested on other entry modes than the export modes. For example, try to apply it on the equity modes joint venture, wholly owned greenfield investment and acquisition.

Other interesting research could be, to investigate how Chinese companies experience situation when not employing a collectivistic entry mode. How they perceive it, and if they would have preferred more collaboration with other companies or if they did not care.

#### **7.4. Practical Implications**

- Our variable could give valuable insight to people promoting showrooms. Then they could emphasize the collective traits of the showroom.
- Might be used as new rationale to stage-skipping in the internationalization process. Therefore, be used for educational purposes.
- Might give new insight to people observing internationalization processes. This could make them more aware of the cultural biases that up to date exists, which overemphasizes the western internationalization process.

#### **7.5. Final Thoughts**

We acknowledge that our research oversimplifies the choice of entry mode. There are several theories on choice of entry mode. Normally, there are many dimensions to take into consideration, ranging from capital to manager motivation. However, we believed that through focusing on only culture it would give us a cleared picture on culture's impact on choice of entry mode

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## **Appendix 1**

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November 17, 2006

**Dear Recipient,**

We turn to your company based on your participation in the Dragon Mart in Dubai.

We are two international business students at the University of Kristianstad, Sweden. We are at the present working on our bachelor thesis, which is about culture's impact on the choice of entry mode. Furthermore, our main interest is *Chinese companies* partaking in *showrooms/marts* and the rational behind it.

Based on our research we have identified a factor that we hope can explain the rational behind the participation in a showroom/mart. Therefore, we kindly ask your company to partake in a short questionnaire, which will not take more than 5 minutes of you time. All information provided by you company will be kept strictly confidential and we guarantee you full anonymity.

Please click on this link ----- to fill in our questionnaire, we hope to receive your answer before November 23, 2006.

Thank you so much for you time and consideration, and again in advance for your response.

Sincerely yours,

Jenny Dahlén, Victor Mandersson

If you have any question about the survey or its purpose, you are more than welcome to contact us on the following e-mail address: [jenny.dahlen0001@stud.hkr.se](mailto:jenny.dahlen0001@stud.hkr.se)

## *Appendix 2*

### Original Questionnaire

**1** Did your company operate in the United Arab Emirates prior to your participation in the Dragon Mart?  
Yes

No

**2**If you answered "yes" in question number one, which entry mode was used?(e.g. Agent, Local sales office etc.).....

**3** Our company is a highly internationalized company with extensive international experience

**4** Prior to our participation in the Dragon Mart, our knowledge about the Emirati market was extensive

**5** Prior to our participation in the Dragon Mart, we had several clients in the Emirati market.

**6** In our company important decision are made by the top management.

**7** Before employing the Dragon Mart as an entry mode to enter the Emirati market, several other entry modes were considered.

**8** It was important for us that the Dragon Mart existed when we entered the Emirati market.

**9** The showroom/mart felt like the safest way to enter the Emirati market.

**10** It was important that there were several Chinese companies partaking in the showroom/mart.

**11** Our company felt that the Dragon mart would enable us to create strong relationships with other Dragon Mart Participants

**12** It was important that it existed possibilities to learn from other Dragon Mart Participants' experience

**13** What is the main advantage to partake in the in the Dragon Mart?

**Thank you very much for completing this questionnaire.**