The Internationalization of Chinese Firms: Entry Mode Choice

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2010

A Dissertation presented in part consideration for the degree of

MSc International Business

Abstract

Chinese firms and other emerging markets firms aim to select a favourable entry mode to start or expand their international business, thus this is significant issue for research. This study demonstrates that the Chinese firms' choice of entry mode is determined by internal-factors, external-factors and transaction cost factors. This is illustrated through the investigation of a case study of the Haier Group's choice of entry mode and internationalization. Therefore, four processes of choice of entry mode and an extended framework are presented to evaluate the determinants of Chinese firms' choices of entry mode, which are highly recommended for other emerging market companies.

Acknowledgement

I would like to convey my deepest thanks to the following people who have assisted me in the writing and completion of this dissertation:

- Dr Chengqi Wang, for his continuous support and guidance in the researching, writing and compilation of this dissertation.

- My family and friends for supporting and encouraging me throughout the whole process.

CONTENT

3. Research Methodology

4. Research Findings

5. Discussion

6. Conclusion

1 Introduction

1.1 Introduction

The choice of entry mode has become one of the most important topics in area of the international business, as a growing number of firms start or try to start their internationalization process, the choice of entry mode is the crucial in the process of internationalization (Akhter and Robles, 2004; Chiao, Lo and Yu, 2010). In addition, the choice of entry mode directly determines the result of the internationalization process. The research around the choice of entry mode is frequently addressed in international marketing and management literatures (Forlani, Parthasaratht and Keaveney, 2008; Park and Sternquist, 2008; Whitelock and Jobber, 2004). Many researchers attempt to analyse the determinants of the choice of entry mode and try to seek out the best entry mode. This involves considering factors such as country aspect, cultural distance aspect, management aspect, internal-factors aspect, external-factors aspect and transaction cost aspect.

With the development of emerging markets firms, a growing number of firms from developing countries are playing a significant role in international business, and huge foreign investments which are operated by emerging markets firms incessantly flow within international business (Mulok and Ainuddin, 2010). In emerging market firms, Chinese firms are prominent due to their strength and success in operating in international marketing. However, previous research on the choice of entry mode has focused mainly on firms from developed countries, and has overlooked Chinese firms or other emerging market firms due to lack of information and experience. As a consequence, this dissertation will focus on the emerging firms' choice of entry mode by examining the case of Chinese Multinational Enterprises (MNEs).

1.2 Research Question and Objectives

This study is aimed at examining the issue of emerging market firms' choice of entry mode according to the case of Chinese MNEs. However, there is currently little research specifically focusing on Chinese firms or emerging market firms to analyze their choice of entry mode. In order to fill the gap between the choice of entry mode and Chinese MNEs, the research question proposed for this study is: **which is the most advantageous choice of entry mode for Chinese companies to internationalize?**

More specifically:

1. To investigate the influence factors of Chinese firms' choice of entry mode in several aspects.
2. To examine the process of Chinese firms' choice of entry mode
3. To provide an extended framework to examine the most useful process of choice of entry mode for Chinese firms.

1.3 Structure of the Study

In order to provide a well-structured dissertation, this paper is divided into six chapters:

The first chapter provides some brief introductions of the research background, the research question, the research objective and the research structure.

The second chapter includes the empirical literature on entry modes, together with relevant theories which are used to examine the determinants of choice of entry mode, relevant studies of choice of entry mode and relevant research into Chinese firms' internationalization.

The third chapter considers the methodology, and it includes analysis of the methodology, the reason for choosing the case study method and the Haier Group specifically.

The fourth chapter focuses on the research finding, and it introduces the Haier Group and outlines its process of choice of entry mode. This dissertation will present the research findings from the analysis of the Haier Group's choice of entry mode in this chapter.

The fifth chapter examines the process of choice of entry mode, and the reasons and conditions of choosing different processes of choice of entry mode. It also provides an extended framework and considers the strategic implications for Chinese firms and other emerging market firms.

The sixth chapter provides the conclusion of the research findings and analysis of this dissertation. The limitations of the research and the recommendations for further research are also presented in this chapter.

2 Literature Review

2.1 Theories on Entry Mode

Hill (2009) said that 'there are five different modes for firms to enter foreign markets: exporting, licensing, franchising, joint ventures, and wholly-owned subsidiary'. In the following paragraphs, this dissertation will discuss the advantages and disadvantages of the five entry modes according to the empirical studies.

2.1.1 Exporting

Daniels, Radebaugh and Sullivan (2009) said that 'Exporting refers to the sale of goods or services produced by a firm based in one country to customers that reside in a different country'. Exporting avoids the often substantial costs and risks of establishing manufacturing operations in the host country (Khemakhem, 2010; Leonidou, 2002). If a firm wants to establish its business in a foreign country, the investment, costs and risks may be too high, however, exporting can help a company to achieve experience curve and location economies (Leonidou, 2002; McNaughton, 2001; Young, 1995). Location advantages of a particular market are a combination of market potential and investment risk (Leonidou, 2002). Situating a value creation activity in the optimal location for that activity can lower the costs of value creation and help the firm to realize a low-cost position, it can also allow a company to differentiate its product offering from those of competitors (Hill, 2009).

Exporting has a number of shortcomings. Firstly, it may not be suitable when a lower-cost location can be found abroad (Young, 1995). For example, the Haier Group has moved some of its manufacturing centres to the Middle East or America, because the manufacturing cost is lower than exporting goods from Mainland China. Secondly, transport cost may be too high to realise benefits in some industries and products, especially when considering bulk products (Darling and Seristo, 2004). For example, Coca-Cola and Pepsi produce soft drinks in several countries, because the transport costs are too high for drinks. Thirdly, exporting may be uneconomical if there are tariff barriers. Similarly, the host-government can limit the exporting activity through imposing a high tariff (Hill, 2009).

2.1.2 Licensing

Hill (2009) said that ‘Licensing agreement is an arrangement whereby a licensor grants the rights to intangible property to the licensee for a specified period, and in return, the licensor receives a royalty fee from the licensee’. The most popular example is ‘Xerox-Fuji’. In order to enter the Japanese market, Xerox cooperated with Fuji, and licensed its technology know-how to the new company called Fuji Xerox. Fuji Xerox paid Xerox a royalty fee in return which Fuji Xerox earned from the sale of Xerox’s technology. In this case, the license was granted for more than 10 years (Hill, 2009; Umemoto, Endo and Machado, 2004). A lot of firms establish international operating through the advantages of a licensing deal. The first advantage is that the firms do not have to bear the development risks and costs when operating the business in a foreign market (Daniels, Radebaugh and Sullivan, 2009; Hill, 2009). Under the licensing, the licensee needs to invest in assets or technology instead of financial resources. In addition, licensing can be attractive if a company feels disinclined to commit considerable financial resources to an unpredictable firm or market (Hill, 2009). Licensing is also often used where there are barriers to investment. Secondly, licensing is regularly used when firms need to find a partner for developing the applications of intangible property (Hill, 2009). For example, Coca-Cola has licensed its brand mark to clothing companies to design clothing.

Licensing has three main disadvantages. Firstly, it does not offer the tight control of marketing and manufacturing to firms, when firms’ strategy is required for realizing location economies and experience curve (Doherty, 2007; Hill, 2009). Typically, licensing offers the possibility that the licensee might establish its own business. Therefore, licensing may not be the best way to expand a business, when the experience curve and location economies are very important. Secondly, licensing limits a company's ability to coordinate strategic moves across markets by using profits earned in other markets which is a requirement of international business (Doherty, 2007). More specifically, the licensee is unwilling to permit an international company to use its benefits to support a different licensee business in another country. Thirdly, licensing limits a company's ability to control the technological know-how (Hill, 2009). Most companies will lose control of how their technology is used, where their technology is used, and who uses their technology by licensing it. However, technology is often the most important intangible property, and is valued more than other production factors. Therefore, licensing may affect firms' control of technology and their long-term development.

2.1.3 Franchising

Hill (2009) said that 'Franchising is basically a specialized form of licensing in which the franchiser not only sells intangible property to the franchisee, but also insists that the franchise agree to abide by strict rules as to how it does business'. In other word, franchising is more stringent than licensing. McDonald's and KFC are excellent examples. They have both grown by using the franchising mode. Their rules as to how franchisees should operate the fast-food business extend to control over the cooking methods, menu, design, raw materials, price and service standard (Doherty, 2007; Sun, 1999). They also offer the supply chain for their franchisees and provide financial assistance and management training. However, the franchising will be cancelled immediately if a franchisee breaks the strict rules. The advantages of franchising are similar to licensing- lower costs and risks, and increased profit. But franchising is less pronounced than licensing. Even though the franchisor may impose strict rules, it still impossible to directly implement continuous quality control. Different countries have different variances, which will lead to different quality and service, especially in service industries, such as hotels and the telecommunications industry (Doherty, 2007; Sun, 1999). Also, there is no guarantee that the brand name of the franchisor will be protected by the franchisee.

2.1.4 Joint Ventures

Daniels, Radebaugh and Sullivan (2009) said that ‘A type of ownership sharing popular among international companies is the joint venture, in which more than one organization owns a company’. There are two kinds of joint ventures (JV), equity JV and contractual JV. Equity JV is a business arrangement in which participants commit assets, managerial resources and technological property for a stake in the control and ownership of a new enterprise (Trafford and Proctor, 2006). Contractual JV is a collaborative agreement whereby profits and other responsibilities are distributed to each party according to the contract (Hill, 2009). There are three main advantages associated with joint ventures. Firstly, the foreign company can benefits from the local partner’s knowledge of the host country’s language, cultural differences, competitive conditions, business and political systems, or other economic factors (Trafford and Proctor, 2006; Zhang and Goffin, 1999). For example, in order to handle these issues, Tesco engaged in a joint venture with the Ting Hsin International Group to operate its business in China. Secondly, a joint venture can help the foreign company to share the costs and/or risks of operating with a local company, when these costs and risks are high (Julian and Cass, 2002; Lin, 2004). In a joint venture, both parent firms should take the responsibility for the new firm. Thirdly, according to many countries’ political regulations, joint ventures are the only practicable mode (Hill, 2009; Lin, 2004). For example, given that the Chinese government does not allow foreign companies to do business in the telecommunications industry by themselves, the joint venture is the only choice for foreign telecommunication companies.

Although there are three advantages, there are also some disadvantages associated with the JV. Firstly, it can lead to battles and conflicts for control between parent firms

(Hill, 2009; Julian and Cass, 2002; Kodama, 1999; Zhang and Goffin, 1999). For example, when the parent firms both hold 50% of the new company, then the management, control and power over decision making may be problematic. Conflicts tend to be triggered by changes in the relative bargaining power of venture partners (Kodama, 1999; Teagarden, 1998; Lin, 2004; Trafford and Proctor, 2006; Hill, 2009). Secondly, a company engaged in a JV risks giving control of its capital and technology to its partner (Teagarden, 1998; Trafford and Proctor, 2006). Under the JV, parent firms should invest some capital or other property into the new company, there is no guarantee that technology or other property will be perfectly protected by the local partner within the arrangements. Thirdly, the JV does not offer the tight control to firms that they might need to gain and understanding location economies and experience curve (Bartley and Minor, 1994; Hill, 2009; Lin, 2004; Teagarden, 1998; Trafford and Proctor, 2006).

2.1.5 Wholly-Owned Subsidiary

A wholly owned subsidiary is a parent company which owns and controls 100% of a new firms' stock, the headquarters of which are usually in a foreign country (Hill, 2009). It can be done in two ways, the firm either can set up a new company in a foreign country by itself, often called a greenfield venture, or it can obtain an established firm in a foreign country, this is often called acquisition (Daniels, Radebaugh and Sullivan, 2009; Hill, 2009). There are three main advantages with wholly owned subsidiaries. Firstly, it can reduce the risk of losing control over technology competence, because no other foreign company will be sharing and using the technology (Koch, 2001a; Okoroafo, 1997; Wu and Zhao, 2007). Secondly, the wholly owned subsidiary can give the parent firm tight control over operations in the foreign country, which is necessary for engaging in international strategic coordination (Okoroafo, 1997). Thirdly, consistency of policy, product, quality strategy and marketing programmes between the subsidiary and the headquarters can be maintained, which is useful for both companies to achieve their collective goals (Whitelock and Jobber, 2004).

Following the research by Desai et al (2004), ‘a growing number of American transnational corporations are opting to operate international businesses by themselves through the wholly-owned subsidiary strategy’. The reason is that the wholly-owned subsidiary mode can help foreign companies to avoid the problems of control and technology outflow. The main problem associated with the wholly owned subsidiary is high costs and risks (Hill, 2009; Okoroafo, 1997; White and Jobber, 2003; Wu and Zhao, 2007). Under wholly owned subsidiaries, the parent firm will take all the risks associated with cultural distance and the management costs of establishing a new company in foreign country.

Different entry modes have different advantages and disadvantages, different modes are used in different industries and situations. We cannot determine which mode is the best mode, unless we discuss it under different practical situations. There is no universally ‘right’ decision, only the most suitable decision based on judgement of different levels of risk and reward (Wu and Zhao, 2007). Companies need to choose their entry mode before they start to operate their business abroad. The choice should consider an analysis of the market situation and characteristics, such as cultural differences, the country’s policies and legislation, the target market size, the strengths of local resources and the potential sales (Bartley and Minor, 1994; Wu and Zhao, 2007). The companies’ products, characteristics and capabilities should also be included in the analysis. Depending on the firm’s objectives and market characteristics, any one of these entry modes may be profitable (Wu and Zhao, 2007).

2.2 Empirical Literature on Entry Mode Factors

There are many factors that influence the choice of entry mode. This dissertation draws attention to three theories: Root’s Theory, Koch’s Theory and the Transaction Cost Analysis.

2.2.1 Root’s Theory

Root (1994) develops a factors model that may be useful in determining the choice of entry mode. The factors for consideration include internal factors and external factors. He states that the choice of entry mode for a target country or product is the result of several factors.

2.2.1.1 External Factors:

Root (1994) concludes four external determinants affecting the choice of entry mode: target country environment factors, target country marketing factors, target country production factors and home country factors.

Target country environment factors include social-cultural difference, economic dimensions and political regulation. Social-cultural difference can be the foundations of cultural distance and conflict, and therefore firms often prefer to choose foreign countries that are culturally similar to the home country (Brown, Dev and Zhou, 2003). In particular, the economic dimensions can influence the choice of entry mode. For example, in some centrally planned socialist countries, equity entry mode is impossible, and therefore companies should depend on non-equity entry modes such as exporting, licensing, and franchising. Root (1994) said that ‘other important factors are the size of economy (gross national product), relative importance of its economic sectors (percentage of gross national product devoted to the particular sector), and absolute level of performance (gross national product per capita)’. The size of the economy provides a detailed statement about the situation of the foreign country’s economy and consumption (Whitelock and Jobber, 2004). In particular, political regulation can be the determining factor in choosing the entry mode. The Chinese telecommunication market is the most prominent example. Finally, another relevant factor is geographical distance. If there is a great distance between the home country and foreign country, it is possible that transportation costs will be high, thereby the exporting strategy will not be favourable (Brown, Dev and Zhou, 2003).

Target country marketing factors mainly refers the size of the target country. In some small markets, companies use entry modes such as exporting and licensing with low breakeven trade volumes. But in high potential sales market, firms use entry modes with high breakeven trade quantity (Root, 1994). Root (1994) states that 'competitive structure of the market is an important factor in considering the foreign factors'. When the competitive structure tends towards monopoly, the favourable entry modes are high resource commitments to compete with competitors (Akhter and Robles, 2004; Khemakhem, 2010; Koch, 2001b; Whitelock and Jobber, 2004). Otherwise, if the competitive structure tends towards perfect competition, entry modes such as exporting and licensing may be suitable for low resource commitments.

The target country productions factors include the quantity, quality and cost of resource, as well as the cost and quality of the economic infrastructure (Root, 1994). When the costs of production are low in the foreign country, local production is preferred, especially in physical material intensive industry or labour intensive industry (Ekeledo and Sivakumar, 2004; Koch, 2001b; Root, 1994). On the other hand, if production costs are high in the target country, the firm tends to choose exporting or licensing modes (Forlani, Parthasarathy and Keaveney, 2008; Okoroafo, 1997; Root, 1994). There are several home country factors to be considered, such as the home market size and environmental and production factors which can all influence the choice of entry mode. If the home country has a big market, then it may be possible for a firm to grow to become sizeable in its home country before going to a foreign country. A large size company has the ability and capital to internationalize its business (Blomstermo, Sharma and Sallis, 2006; Okoroafo, 1997). The home country's policies and/or regulations will influence the choice of entry mode. For example, due to policies and legislation, it is impossible to invest high technology such as car and airplane technology into some foreign countries. Another factor is the competitive structure. The relative production costs of the home country versus the foreign country will influence entry mode decisions (Blomstermo, Sharma and Sallis, 2006; Forlani, Parthasarathy and Keaveney, 2008;). A company may choose licensing and/or foreign direct investment, if the home country has high production costs.

2.2.1.2 Internal Factors:

Root (1994) stated two internal factors which can affect the choice of entry mode: resource commitment factors and product factors.

If a company has a huge amount of resources, such as capital, management, management skills, production acquirement and technology, the company will have more options when choosing an entry mode. However, a company which owns limited resources is constrained to choose an entry mode with small resource commitment (Root, 1994). In addition, Khemakhem (2010) said that 'when products are highly differentiated over those offered by their competitors; there is a degree of pricing discretion'. As a result company's making these products can withstand higher transportation costs, and high import duties and still remain highly competitive in the target market. Otherwise, if they do not have a visible difference, they need to use the pricing competition basis. Accordingly, a company with high product differentiation may incline towards export entry, whereas a company with low differentiation may tend to use entry modes such as the JV or franchising (Khemakhem, 2010; Root, 1994; Whitelock and Jobber, 2004). But the company cannot export its business, if the product is a service such as banking. In order to provide the service in target countries, the company needs to train its local partner as in franchising or distribute its services directly to the foreign customers through construction contracts and technical agreements (Akhter and Robles, 2004; Forlani, Parthasarathy and Keaveney, 2008; Khemakhem, 2010; Root, 1994; Whitelock and Jobber, 2004). Companies with products using concentrated technology often choose to license. For the purpose of internationalizing the product, it is often necessary for an international company to make considerable adaptations. The company may establishe its foreign business through branch and/or subsidiary exporting or investing into a foreign market (Ekeledo and Sivakumar, 2004; Khemakhem, 2010; Whitelock and Jobber, 2004).

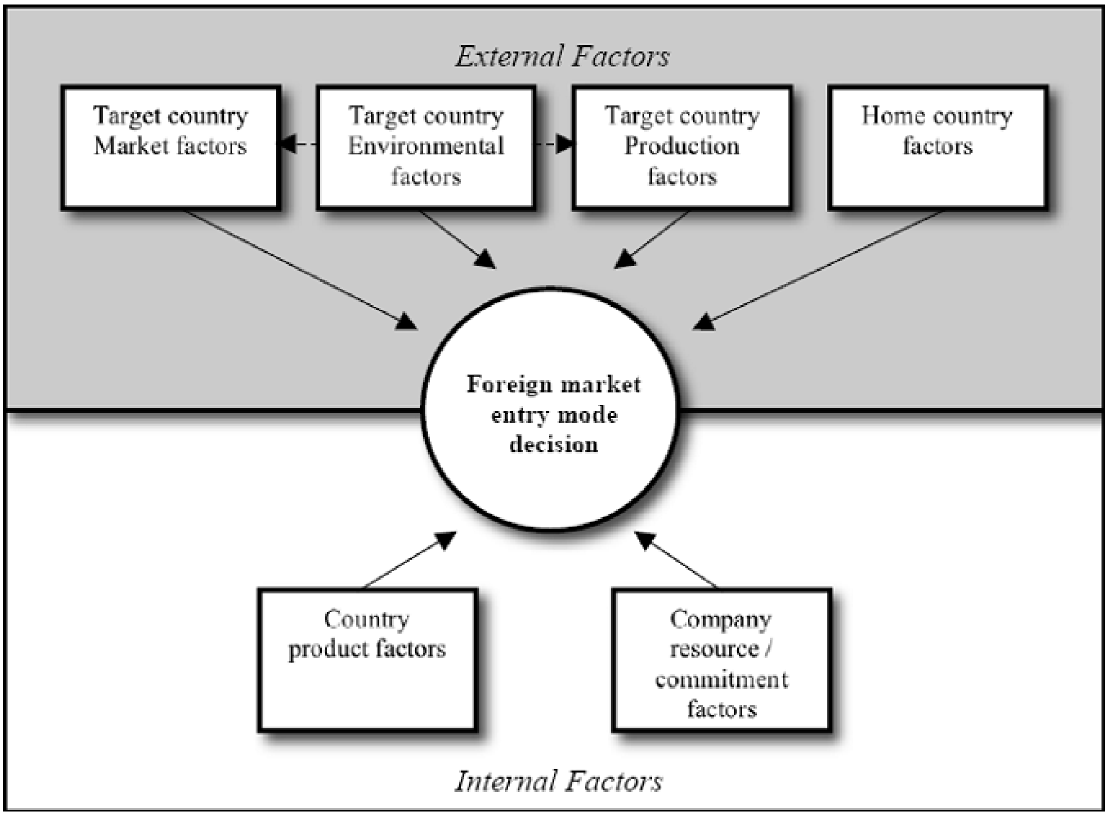


Figure 1: Influential factors in the entry mode decision   Source: Root (1994)

2.2.2 Koch's Theory

Koch (2001b) states that influential factors can be sorted into three groups: external, internal, and mixture of internal and external, however, this dissertation will only mention the external factors and internal factors. It is an evolution of Root's theory, but it is more specific.

2.2.2.1 External Factors

Koch (2001b) posits that there are seven external factors which can influence the choice of entry mode, there are: characteristics of the overseas country business environment, industry feasibility/viability of MNE, global management efficiency requirements, popularity of individual MNEs in the overseas market, market barriers, market growth rate and image support requirements. Koch (2001a) points that 'it is easy to gain the characteristics of target market, but it is more difficult to acquire the information about industry and company-specific'. In the last category, Koch considers aspects such as business infrastructure, and the levels of industrial development, the volatility of general business regulations/practices, forms, the scope and intensity of competition, customer sophistication and customer protection legislation. Knowledge of this information will influence the choice of entry mode (Koch, 2001a; Whitelock and Jobber, 2004). Furthermore, the second factor is industry feasibility/viability of MNE. Koch argues some entry modes such as the JV and wholly-owned subsidiary may be excluded by the foreign country's regulation in particular industries (Whitelock and Jobber, 2004). For example, South Africa not allow foreign wholly-owned subsidiaries to operate in its telecommunications industry. This factor also refers to the cost of labour, the level of labour skill, labour regulation, know-how dissemination risk and tax policy. The global management efficiency requirement is another external factor. Koch (2001b) posits that 'company's resources start being limited when the involvement of internationalization is high, and then the company need to redefine its internationalization strategy or change the entry mode'. Sometimes, companies choose a diversified mode of operation in this case, which means companies need to change their entry mode during different periods of operation.

Koch (2001a) states that 'the special nature of individual country markets can be referred to the popularity factor of individual MNEs in the foreign market'. Country markets prefer to have more popularity MNEs which with some confident entry modes than others. On the other hand, more popularity MNEs are easier to choose the entry mode (Whitelock and Jobber, 2004). In this kind of market, previous entrants can influence the new entrants by the degree and experience of success, as well as the current market situation. Koch (2001b) states that 'market barriers such as distribution access, governmental regulations, tariff barriers and natural barriers can influence the choice of entry mode'. The market growth rate is another factor which can influence the choice of entry mode. The company searches for opportunities to exploit when the target market has a fast growth rate. Otherwise, the company will tend to choose the

JV or wholly-owned subsidiary if the market demand is likely to increase dramatically over a long time (Koch, 2001a; Koch, 2001b). Finally, supporting the brand image plays an important role in the choice of entry mode. In order to expand the influence of their brand, companies may export or license their products to promote their brand equity.

2.2.2.2 Internal Factors

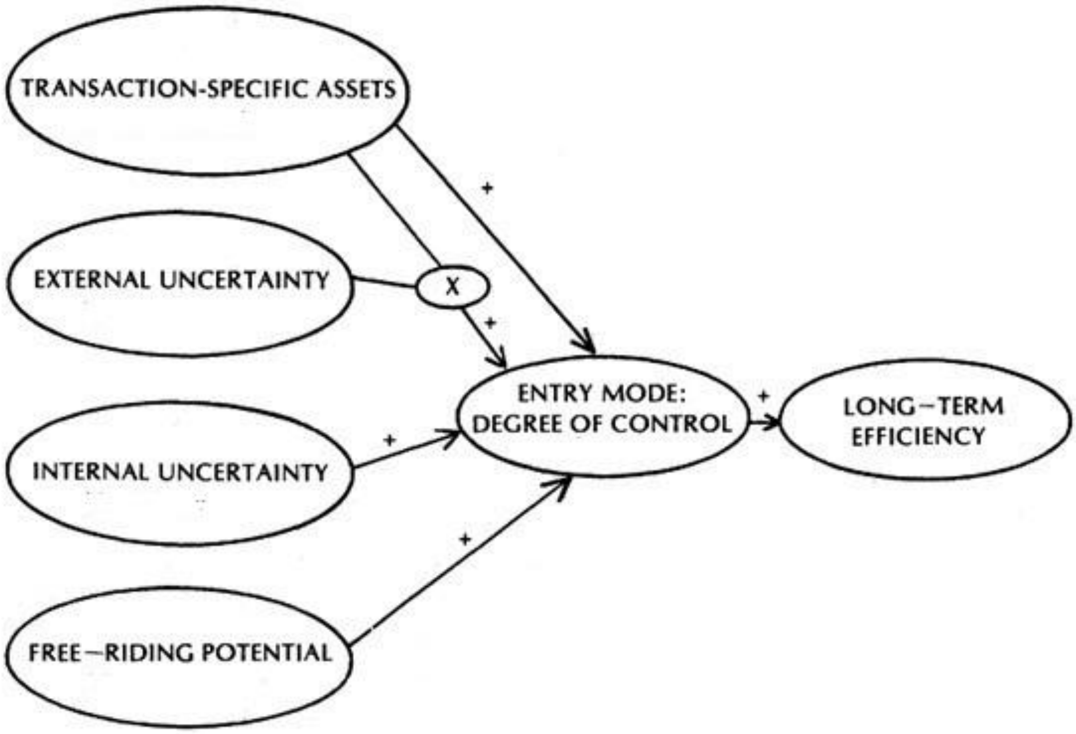
Koch (2001b) points out that there are several internal factors which can influence the entry mode choice, these are: company size/resources, the management locus of control, experience in using MNEs, management risk attitudes, the calculation methods applied, and the profit target.

Koch (2001b) states that ‘the freedom of choice of appropriate preference and entry mode should in accord with the company size and its resources’. Management locus of control ability is another internal factor which refers to manager discernment, perception and supervision style. The term experience in using MNEs refers to the management culture which will affect the behaviour of decision markers. For example, if there are negative personal consequences for proponents, managers will reject to use ineffective and untested modes. Efficiency and effectiveness depend on the amount of experience grouped by individual investor, and on sharing popular ideas within the firm (Koch, 2001a; Koch, 2001b; Whitelock and Jobber, 2004). The degree of management risks that the firm takes in its entry mode choice depends on the company’s environment competitiveness, financial situation, and strategic options. Koch (2001b) states that ‘there are calculation methods of risks and benefits to evaluate the market entry choice’, and the choice of entry mode also depends on the profit target that the company desires to achieve. The Haier Group has built up its own manufacturing subsidiary in the USA, simply because the Haier Group wants to attain more benefits from North America.

2.2.3 Transaction Cost Analysis

The transaction cost analysis (TCA) was developed by Anderson and Gatignon (1986), and it is based on an underlying theory: transaction cost economics which is originated from Williamson (1985). The underlying theory is used to explain economic problems where asset specificity plays an important role. Transaction cost theory postulates that companies will evaluate and compare the costs of integrating an operation internally, which means that organizational design and structure are determined by minimizing transaction costs (Chiao, Lo and Yu, 2010; Davies, Kenny and Trick, 1996; Meyer, Wright and Pruthi, 2009; Peng, 2001). The entry mode choice depends on four factors: transaction specific asset, external uncertainty, internal uncertainty and free riding potential. Transaction-specific asset means that investments are focused on one or a few use or uses (Anderson and Gatignon, 1986; Chiao, Lo and Yu, 2010). External uncertainty refers to the unpredictability of the entrant's external surroundings. Internal uncertainty suggests that the entrant's is unable to decide its agents' performance by observing production measures (Ekeledo and Sivakumar, 2004; Khemakhem, 2010; Wu and Zhao, 2007). The entrant's capability to examine its partners' performance refers to the internal uncertainty (Anderson and Gatignon, 1986; Chiao, Lo and Yu, 2010). Free-riding potential is the possibility of partners obtaining benefits without bearing the related costs (Anderson and Gatignon, 1986; Blomstermo, Sharma and Sallis, 2006; Chen and Mujtaba, 2007; Chiao, Lo and Yu, 2010).

Figure 2: The Transaction Cost Analysis Framework for Analyzing the Efficiency of Entry Mode



Source: Anderson and Gatignon (1986)

2.2.3.1 Transaction-Specific Assets

According to research undertaken by Anderson and Gatignon in 1986, they state that 'companies can have high returns and low risk – and when the target market is highly competitive, it is wise for companies to avoid combination'. By not integrating, a company avoids the disadvantages of a company division, as the company politics will minimize the overhead (Chen and Mujtaba, 2007; Peng, 2001). In addition, Chiao, Lo and Yu (2010) state that 'there is the possibility that an inside division may becomes obsolete if it is shielded from the pressure of daily competition for contracts'. Anderson and Gatignon (1986) state four propositions to apply to the relationship between transaction-specific assets and entry mode, and also to offer different solutions in different situations.

First Transaction-specific Assets Proposition:

It is more efficient to offer greater control for highly proprietary processes or products (Anderson and Gatignon, 1986).

Proprietary experience is a significant type of specialized asset. On the surface, it is valuable to choose licensing or other low-control modes, because proprietary processes and products do not necessitate a large research and development (R&D) expenditure (Chiao, Lo and Yu, 2010; Ekeledo and Sivakumar, 2004). However, most foreign companies invest in foreign countries by using their high quality products and/or technology. Therefore, in order to protect these assets, companies need to choose high-control modes such as the JV or wholly-owned subsidiary. The knowledge of products and processes is often ill codified and difficult to spread across organization limits (Akhter and Robles, 2004; Chiao, Lo and Yu, 2010; Park and Sternquist, 2008). By using these high-control modes, partners or local competitors will not obtain this knowledge, even if they can receive it, they will not know what the knowledge is worth.

Second Transaction-specific Assets Proposition:

> Entry modes offering higher degrees of control are more efficient for unstructured, poorly-understood processes and products (Anderson and Gatignon, 1986).

Peng (2001) states that 'the costs of the entrant's first transfer across national boundaries are much higher than the costs of subsequent transfers, because most of the first transfer is poorly understood'. Also, this problem will affect the firm's holistic operation (Quer, Claver and Rienda, 2007; Wu and Zhao, 2007; Yiu and Makino, 2002). Thus, this problem will move down the firm's learning curve when the firm tries to solve the problem. Being poorly-understood often applies to complex products, because these products need more processes. The high-control entry modes (such as the JV and wholly-owned subsidiary) are more preferable for complex products (Blomstermo, Sharma and Sallis, 2006; Chiao, Lo and Yu, 2010). On the other hand, low-control entry modes (exporting or licensing) are more useful for simpler products.

Third Transaction-specific Assets Proposition:

High-control entry modes are more useful to offer customized products to the customers (Anderson and Gatignon, 1986).

In order to customize products for local customers, entrants need to obtain more considerable local knowledge such as an understanding of consumption behaviour and customer needs from a local company. However, the relationship between the entrant and the local entity often faces some problems about what to expect and how to communicate (Chiao, Lo and Yu, 2010; Koch, 2001a; McNaughton, 2001). So the entrants may prefer to use high-control modes such as the JV and wholly-owned subsidiary to preserve the cooperation and local entities, it is also useful to have a long-term development plans relating to the target market.

Fourth Transaction-specific Assets Proposition:

The more mature the product class, the less control firms should demand of a foreign business entity (Anderson and Gatignon, 1986).

Mature products have high quality produce processes and management systems, which mean that all things turn in a regular way. Khemakhem (2010) states that 'technology transfer costs decline sharply in the mature product classes, because the necessary knowledge is well codified and widely available in the target market, thus the entrants do not need the normal high-control mechanisms'. The product class can affect the choice of entry mode for various reasons. The first reason is that mature products lower the gains, it is not necessary for entrants to be highly protective of their products or knowledge, because such technology has already been distributed widely (Chen and Mujtaba, 2007; Chiao, Lo and Yu, 2010; Park and Sternquist, 2008), thus it is better to choose exporting or licensing. However, immature products are consistent with high technology transfer costs, so in these situations, it may be preferable for the entrants to use the high-control entry modes such as the wholly-owned subsidiary mode (Chen and Mujtaba, 2007).

2.2.3.2 External Uncertainty

External uncertainty refers to the volatility of the firm's environment. Forlani, Parthasarathy and Keaveney (2008) analyze whether companies should respond to volatility by avoiding ownership, since it commits them to one operation which may not be suitable when the next environmental change happens (Meyer, Wright and Pruthi, 2009; Peng, 2001; Quer, Claver and Rienda, 2007; Wu and Zhao, 2007). Alternatively, the company could maintain flexibility and transfer the risk to foreigners. Anderson and Gatignon (1986) recommend that 'in the absence of transaction-specific assets, the default option, market contracting, is unchanged by volatility'. Sometimes, higher-control entry modes will more inefficient than lower-control modes in volatile situations. In international business, external uncertainty is typically described as 'country risk', which may take many forms such as currency changes, economic fluctuations and political instability (Akhter and Robles, 2004; Chiao, Lo and Yu, 2010; Davies, Kenny and Trick, 1996). Furthermore, in volatile environments, a product or technology may be superseded by a high-control administrative system. Hence, companies will obtain their returns from a fast-changing industry before they disappear (Chiao, Lo and Yu, 2010; McNaughton, 2001; Meyer, Wright and Pruthi, 2009; Peng, 2001). Under the transaction cost analysis, the entrant should choose a low-control entry mode in a volatile environment (Anderson and Gatignon, 1986). This not only avoids resource commitment, it can also free entrants to change associates or renegotiate agreement terms and working arrangements comparatively easily as conditions change and develop.

Hence, Anderson and Gatignon (1986) state a proposition:

> The greater the combination of country risk (such as economic fluctuations and political instability) and transaction-specificity of assets (such as customization, product class immaturity, poorly understood products and proprietary content), the higher the appropriate degree of control.

This is an interaction which means that each foundation of unpredictability should interact to amplify the separate crash of each basis of transaction-specific assets:

customizing products to user, ill-understood products and processes, the immaturity of product category, and the proprietary character of products and processes (expressed as an X in Figure 2. Chiao, Lo and Yu, 2010). This proposition advises that environmental unpredictability plays an important role when asset specificity is high, and increases the need for control that specificity forms (Anderson and Gatignon, 1986). Unpredictability will not change the default choice when specificity is low, however the firm can deal with unpredictability by changing partners (Anderson and Gatignon, 1986; Chen and Mujtaba, 2007). In addition, the entrant can maintain plasticity and allow the competitive market system activate to produce profits.

2.2.3.3 Internal Uncertainty

Internal uncertainty occurs when the company cannot accurately value its partner's achievement by objective, and readily available methods. It may exist when high-quality measures are unavailable, or when entrants cannot value the relationship between input and output, or when it is difficult for entrants to identify what performance stage should be expected (Chen and Mujtaba, 2007; Chiao, Lo and Yu, 2010). Companies will control inputs rather than value outputs when performance cannot be measured or specified simply. Companies can use different delicate inducements to improve congruence and faithfulness, and then staff may perform in the company's best interest even if a firm cannot accurately detail what to do. When internal uncertainty is high, the company needs more control to enforce subjective judgement and to supervise inputs (Anderson and Gatignon, 1986; Chiao, Lo and Yu, 2010; Park and Sternquist, 2008; Peng, 2001). This suggests that the company or manager should know how to judge results and how employees should behave. This is likely to be a case in the domestic setting, however it is different in international business, because it is more difficult for entrants to understand the foreign internal uncertainty. So, Anderson and Gatignon (1986) state three propositions to help entrants to address the problems of internal uncertainty.

First Internal Uncertainty proposition:

> The entrant's degree of control of a foreign business individual should be positively related to the company's cumulative international knowledge (Anderson and Gatignon, 1986).

This proposition suggests that managers should possess an understanding and experience of the local market and the international market, especially the target market (Chiao, Lo and Yu, 2010). Without such experience, the entrant may wish to avoid setting up a foreign business entity using the JV or wholly-owned subsidiary, and it may prefer to utilise exporting or licensing. Chiao, Lo and Yu (2010) state that 'with the limited experience of exporting or licensing, the company will be more aggressive in foreign markets, moving toward to the FDI such as the JV and wholly-owned subsidiary than non-FDI such as exporting or licensing'. This proposition also suggests that more experience leads to more control, and more control leads to more efficient outcomes (Blomstermo, Sharma and Sallis, 2006; Chen and Mujtaba, 2007; Yiu and Makino, 2002). With the development of experience, the company should change its entry mode from exporting to the JV, and finally choose the wholly-owned subsidiary. However, in non-competitive industries, a firm's degree of control is negatively associated with its international experience (Chiao, Lo and Yu, 2010; Koch, 2001a).

Another internal uncertainty is created by social cultural distance. It is difficult to measure the difference between home and host cultures. Greater social cultural distance can lower the degree of control, which the entrant should pay attention to. In addition, social cultural distance may also cause managers to underrate foreign investment. However, it is difficult to transfer home management techniques whilst also valuing a dissimilar operating environment (Chiao, Lo and Yu, 2010). Lastly, high information costs may be incurred as a result of the social cultural differences, which companies may avoid by shifting management and operation to its partners. Alternatively, entrants may need to give up the benefits of employing its own way, and relinquish some control and use local methods (Chen and Mujtaba, 2007;

McNaughton, 2001; Park and Sternquist, 2008). With this particular design, the problems of social cultural distance can be managed by shifting risk to external partners, thereby decreasing flexibility.

Second Internal Uncertainty Proposition:

> When social cultural distance is great, low-control and high-control are more efficient than intermediate modes, but high-control are more efficient when there is a substantial advantage to doing business in partner's methods (Anderson and Gatignon, 1986).

This proposition suggests that when a company enters a very dissimilar country or market, both 'mix way' and 'local way' is more efficient than 'our way'. Intermediate levels of control are disagreeable because they offer the worst of both possibilities -neither freedom to be unconventional nor low commitment to be flexible (Anderson and Gatignon, 1986; Chiao, Lo and Yu, 2010; Meyer, Wright and Pruthi, 2009). According to this proposition, companies should choose the entry mode depending on their own management ability and their partner's capability. When companies' own management abilities are less useful than their partner's, they should choose a low-control entry mode such as exporting and licensing, otherwise they should choose the JV mode (Yiu and Makino, 2002), however, this proposition recommends against choosing the JV, especially the 50/50 JV, because it is an intermediate levels of control.

With the passage of time, social cultural distance can diminish even if the culture is stable (Park and Sternquist, 2008). Not only can the company train managers or staff, but the company's presence in a foreign country enables them to obtain business knowledge abroad. Eventually, the entrant may become large enough to find enough local partners available to constitute an open market in management skills, however, these management skills have then become diffused and readily available rather than narrowly available and specific to the some companies using them.

Third Internal Uncertainty Proposition:

> The larger the foreign business community in the target country, the lower the level of control an entrant should demand (Anderson and Gatignon, 1986).

The diffused management skills eliminate a major barrier to exporting or licensing (Chiao, Lo and Yu, 2010; Park and Sternquist, 2008). So the low-control entry modes (such as licensing and franchising) are more useful than high-control modes (such as the JV and wholly-owned subsidiary) as a country's technological ability increases.

2.2.3.4 Free-Riding Potential

A potential control problem refers to the partners/contractors can receive benefit without bearing costs on the entrant's efforts, especially for a high value brand.

The Free-riding Potential Proposition:

> High-control entry modes are more efficient for high value brand (Anderson and Gatignon, 1986).

According to cultural value research, a company's brand name is a most important feature of company culture and should be highly protected (Chiao, Lo and Yu, 2010). Sometimes, the local partner presents dangers, because a corrupt local brand has less to lose than the entrants (Blomstermo, Sharma and Sallis, 2006; Wu and Zhao, 2007). In order to protect its brand from degradation, KFC uses a high-control franchising mode. This franchising mode includes strict guidelines, which mean the franchisees need to abide by these requests. Moreover, the franchising cooperation will be cancelled immediately if the franchisees fail to meet these requests. This proposition states that more controls should be added as a brand's value increases (Park and Sternquist, 2008). However, high control modes are not always suitable, because heavily advertised products are more unsophisticated, and most local partners can operate or manage the products by using capable low-control methods.

2.3 Empirical Literature on Choice of Entry Mode

The entry mode choice has been a topic of considerable investigation in the international business and marketing literature. All the studies depend on different resources and data for their research. This paper classifies the empirical literature into four sorts: factor analysis, industry analysis, entry mode theory analysis, and country analysis.

Some relativity studies address the relationship between the entry mode and one single factor such as culture, control or trade barriers. Tihanyi, Griffith and Russell (2005) stated that ‘the social cultural distance can affect the choice of entry mode’. They were using a meta-analysis system to measure the bivariate association of cultural differences with 66 independent variables from 55 published articles. In their study, they suggested that ‘cultural distance is a positive and significant factors, which related to international diversification’. Firstly, MNEs prefer to locate their manufacturing base and gain a market share in some countries which with similar culture. Secondly, most managers of MNEs are more aware of cultural differences than before. Moreover, Mulok and Ainuddin (2010) points out that ‘there is no difference for MNES to choose different entry mode in lower cultural distance countries’. However, most MNEs choose the high-control entry modes in high cultural distance countries. Thus, they suggest that a wholly-owned subsidiary mode is more effectual than the JV in high cultural markets, such as China and Middle East.

Brown, Dev and Zhou (2003) argued that there is a relationship between entry mode and control. High-control entry modes and low-control entry modes can be used in both lower-competitive and high-competitive markets. However, low-control entry modes are better suited to high-competitive markets to low-competitive markets when three requirements are met. Firstly, that the entrants hold strong ability of transfer competitive advantages. Secondly, that the entrants are cooperating with practised and responsible local partners. Thirdly, that the local partners can effectually manage those advantages. Kouznetsov (2009) argued that there is a relationship between technological leadership and entry mode. In high R&D sectors, entrants may prefer exporting or wholly-owned subsidiary to licensing or the JV. Zimmerman (1999) argued the service trade barriers and countries' political regulations may determine the choice of entry mode. All the entry modes can be applied to low barrier market. However, for some high barrier markets or industries such as China and India, only offer few acceptable entry modes are offered, such as the JV.

Additionally, some studies focus on one industry to analyse which is the most suitable entry mode. Blomstermo, Sharma and Sallis (2006) examine the relationship between entry modes and hard/soft service firms, and also investigate which entry modes service firms opt for. They point out that 'in general, soft service companies are more suited than hard service companies to choose a high control entry mode such as the wholly-owned subsidiary'. Park and Sternquist (2008) focus on the retail industry to value the choice of entry mode. They state that the retailers' entry mode should depend on seven factors: government resources, retail concept, retail capability, retail experience, internationalization advantages, pioneering advantages, and private brands effect (Doherty, 2007). Ekeledo and Sivakumar (2004) were using the resource-based framework to value the choice of entry mode for manufacturing firms and service firms. Entrants make an entry mode choice based on considerations of firm-specific resources that provide their firm competitive advantage in the target market. In order to acquire resources, companies may choose the JV or wholly-owned subsidiary in a high resource market (Ekeledo and Sivakumar, 2004). Wu and Zhao (2007) discuss the entry mode for technology enterprise. In their paper, they build up a new entry mode process based on the Uppsala model. With the development of companies' strength, technological enterprises need to change their entry mode through four stages: exporting, exporting via dependent or independent agent, sales subsidiary, the JV or wholly-owned subsidiary is the final stage.

Some relativity studies value the advantages and disadvantages between different entry modes in a designated situation. The choosing between the JV and wholly-owned subsidiary has become an international topic, and lots of researchers try to examine which is the most useful entry mode for MNEs. Most researchers agree that ‘there is no best entry mode between the JV and wholly-owned subsidiary, just a most acceptable one’ (Shenkar, 2009). Chiao, Lo and Yu (2010) value the choice between the JV and wholly-owned subsidiary based on three variables- transaction cost, resource-based view, and institutional environment. From the empirical studies, MNEs with more firm-specific assets, greater parental R&D capability, more international business and management experience, highly customized products, and less need for complementary assets are more likely to choose the wholly-owned subsidiary mode to a enter foreign market (Forlani, Parthasarathy and Keaveney, 2008). However, the institutional environments influence the choice of entry mode. The JV is more acceptable when the institutional environments are more complicated and uncertain.

Moreover, Wang and Wong (2009) examine the choice between M&A and Greenfield investment. Firms should choose an acquisition mode to enter a foreign market which is already well-established by incumbent companies, and where international competition has already established a presence. When a company is considering entering a foreign market where there is no current competitor, greenfield investment may be the only acceptable entry mode. Doherty (2007) states that ‘the franchising may only suitable for strong brand, because the brand image is used to guide the partner to operate in a correct way’. However, the selection of a dependable partner is a challenging mission for the entrant. Das and Teng (2000) were using a resource-based view to evaluate alliance. An alliance is formed to attain better resource combinations than a single company can achieve. A local firm will be highly in demand as an alliance partner, when it has three resource characteristics: imitability, imperfection, and substitutability (Shenkar, 2009). However, the alliance manager must realize that the resource can change the alliance structure, formation, and performance. Most researchers believe that there is no single best entry mode for MNEs, and different entry modes can be applied in different situations. However, firms need to evaluate the different situations and markets when they try to decide on their entry mode. Sometimes, one small neglected factor determines the success or failure of an entry mode (Chiao, Lo and Yu, 2010).

The internationalization process is topic relevant to both developed and developing countries, but most of the studies are focused on developed countries. Therefore, most of the entry mode topics discuss the entry mode for developed countries' firms entering into developing countries simply, because some researchers have prejudice against developing countries, some even believe that developing countries' firms do not have enough ability to internationalize (Mulok and Ainuddin, 2010). Alavarez-Gil, etc (2003) examine how Spanish financial service firms choose the entry mode to enter Latin America. Ruckman (2004) analyzes the entry mode for U.S companies to invest in Canada. Nevertheless, studies started to focus on MNEs from developing countries, such as India, China and Malaysia, by the end of the 1970s and 1980s (Mulok and Ainuddin, 2010; Sim and Pandian 2007; Yiu & Makino, 2002). Because of the increase in developing countries' economic strength, a growing number of companies from developing countries have started their internationalization process, and some companies are playing an important role in the international market. The issue of entry mode of companies from developing counties is more prominent in international marketing. Wu and Zhao (2007) were using a case study of Huawei (A Chinese technological company) to examine the entry modes of Chinese firms' internationalization process. There are three main factors that influence the entry mode choice of Huawei: industry feature, home country, and target market situation. Accordingly, Huawei was applying the exporting mode in most developing countries such as Africa and South America. However, the joint venture has been used in Russia, because of the Russian social system and its weak telecommunication infrastructure. In order to enter developed countries' markets, Huawei applied a variety of entry modes such as franchising or other cooperation entry modes. Shenkar (2009) examines the concept that the FDI is more suitable for Chinese firms as compared to those of other countries. On a national level, FDI is more acceptable to Chinese firms who hold vast assets and competitiveness.

2.4 Empirical Literature on Chinese Internationalization

Although MNEs from developed countries still control international business, MNEs from emerging markets are proving to be viable, if not strong competitors. A lot of Chinese firms try to process their internationalization, and a growing number of Chinese firms are playing an important role in international business. Consequently, the internationalization process, and the choice of entry mode of Chinese firms has been a topic of considerable investigation in international business and marketing literature. Zeng et al., (2009) were using the empirical study of China to examine the internationalization of an emerging market. They stated that 'the internationalization process will be more difficult for companies who come from developing countries'. However, because the internationalization in the developed countries is associated with opportunity seeking and asset seeking, most of these companies will face more inconvenience than companies who come from developing countries (Child and Rodrigues, 2005; Luo and Tung, 2007). Most articles focus on aspects of the internationalization process such as challenge and cultural distance, but only a few papers focus on entry mode. Wu and Zhao (2007) were using a case study of Huawei to examine the choice of entry modes for Chinese enterprises. They pointed out that 'the Chinese firms should choose the entry mode depending on the characteristic of their products and ability'. In addition, firms need to consider changing their modes in the period of development, as the economic situation will change during different periods of foreign operations.

Accordingly, most studies of entry modes focus on one or two aspects of the process to evaluate which is the most suitable mode. This method limits the choice between different modes and situations, because the economic environment includes many factors such as resources, country distance and company characteristics. Each factor can directly affect or decide the choice of entry mode. In addition, most studies of entry mode focus on companies who come from developed countries. They are overlooking the significant role played by companies from developing countries such as China. For example, the Haier Group is the fourth largest white goods producer in the world, and has 5.1% of the global market share (http://www.haier.cn). There are few studies focusing on choice of entry mode for Chinese firms, even though there are numerous studies about Chinese internationalization. This may limit the development of Chinese companies and the Chinese economy as well as the world economy. Research regarding the choice of entry mode could offer most valuable information and choices to Chinese companies. Without this information, it is difficult for Chinese companies to analyze situations and make the correct decision. Sometimes, bad investments or the collapse of enterprises' are the result of a choice of a defective entry mode.

This paper will use a case study of the Haier Group to examine the choice of entry mode for Chinese enterprise. Firstly, this paper can address the gap between the choice of entry mode and Chinese internationalization. According to the empirical studies above, the existing research about choice of entry mode and Chinese internationalization has some weaknesses, and this paper will bridge the gap between these two kinds of studies. Secondly, this paper can draw on some analysis methods and results from those empirical studies, and then apply them to this topic. Thirdly, this paper will apply some useful information and methods to examine Chinese enterprises' choice of entry modes. This information could be used by Chinese companies to support their evaluation and decision making.

3 Research Methodology

3.1 Research Method

The research question proposed for this study is which is the most advantageous entry mode for Chinese companies to choose in order to internationalize, thus this study is aimed at examining the influence factors of the choice of entry mode and the determinants of Chinese firms' choice of entry mode and then to determine the most useful entry mode for Chinese firms. In order to reach a useful conclusion to the research question and purpose, it is vital to choose a suitable research method. A high quality research method plays an important role in this study. Not only does it help the author choose better strategies and tactics, but high quality research can be effectively scrutinized for its contribution (Cooper and Schindler, 2008). As Hansel et al (1998) state, 'the choice of research method is decided by the research purpose and the quantity of effective resources'. Accordingly, the most appropriate research method for this study is one of the qualitative research methods: case study. The following few chapters explain the reasons for choosing case study methodology and the reasons for using the Haier Group as an example.

The reasons for choosing a case study approach as the research method rather than other quantitative methods are as follows. Thorpe and Holt (2008) explain that 'case study is especially effective in approaching and understanding phenomena', and it can be used 'when research purpose require to systematically investigate individuals, groups, organizations or events' (Wimmer and Dominick, 2000). Using the case study method not only provides more real and well-known evidence to illustrate the findings, but it also has the potential to enable exploration of complex issues, as it enables analysis of more detailed examples and data than the quantitative method. Accordingly, for the purpose of this dissertation the case study is the most effective appropriate method.

More specifically, the research question of which is the most acceptable entry mode for Chinese firms leads to consideration of ‘what factors’ are important and ‘which mode’ do these factors exert their effect on the choice of entry mode. Examining ‘how useful’ will lead to a better understanding of the research question. Consequently, detailed qualitative research information obtained from the analysis of a case study will enable an exploration of the foundations underlying the choice of entry mode Chinese firms have made. Tthe superficial statistics collected from some databases would not provide answers for the questions of ‘what factors’ and ‘which mode’ have been utilised within specific conditions. It is thus believed that by using a case study approach the issues of influence factors of entry mode and the assessment of the choice of entry mode for Chinese enterprises can be researched in depth (Thorpe and Holt, 2008).

3.2 Case Choice

This research analyzes one case: the Haier Group, which is a Chinese white goods producer. The design of choosing one case is actually based on two reasons: Firstly, the consideration of the research question. Secondly, the particular characteristics of the Haier Group

Even though the choice of entry mode is decided by many factors, one simple case will provide detailed information from which to analyze this topic. Because every company will face similar issues and influence factors when they decides to choose a entry mode to enter a foreign market. However, investigating more detailed cases does not always lead to ‘perfect’ research findings. Sometimes, the analysis will be more complex and confused when the research is based on more cases. As a consequence, it seems that a detailed exploration of one case of choice of entry mode is obviously an efficient way to represent the whole research purpose. Also, by focusing on one case, it is expected that the study can investigate this individual case more deeply, and the descriptions will more specific.

The reasons for choosing the Haier Group as the case to research are based on the characteristics of the Haier Group and its successful investment history. Wu and Zhao (2007) state that ‘three kinds of Chinese companies are more feasible to internationalize: manufacturing enterprise, resource-based enterprise and technology enterprises. Most of these companies are state-owned firms such as China Mobile, PetroChina and Lenovo’. The Haier Group is the Chinese state-owned company which also is the biggest Chinese household appliance manufacturer (http://www.haier.cn). Accordingly, the Haier Group is a typical case used to examine the Chinese firms’ internationalization process as well as the choice of entry mode. In addition, the Haier Group has a successful history in investing in foreign markets by using different entry modes since 1990s. Due to the Haier Group’s successful choices of entry mode, it is regarded as the best model for other Chinese firms today, thus it is valuable to analyze their approach on some depth.

Moreover, the Haier Group is also an interesting example of a Chinese firm due to its specific choices of entry mode- the Haier Group has applied different entry mode in varying foreign markets, and it has changed its entry modes during different period of internationalization. For example, the Haier Group has applied both the exporting mode and the wholly-owned subsidiary mode in the USA. More importantly, with the Haier Group’s success, a growing number of Chinese companies intend to increasingly emulate the Haier group to expand international business based on their impressive development in competitive strength. As a consequence, the Haier Group is a typical example to examine and to identify the fundamental factors of choice of entry mode for Chinese firms. Although many studies have investigated the internationalization of the Haier Group, there is little research focussing on the Haier Group’s choice of entry mode, thus the in depth research of the Haier Group is imperative.

3.3 Research Process

Questions regarding how to collect and analyze qualitative data from a case study will be answered in this paragraph. Wimmer and Dominick (2000) state that there are 'five steps for case study to follow: design, prior study, data collection, data analysis and reporting'. The first two steps require researchers to plan a research construction and consider what to analyze. According to the particular research purpose and research method, the research data is collected from observation and documentary sources (Lee and Lings, 2008). More specifically, documentary sources can be collected from 'agendas, brochures, historical records, letters, memos, pamphlets, posters, and so on' (Wimmer and Dominick, 2000). In this dissertation, the research data of the Haier Group is mainly collected from its company documents, the company web page, other official organizations research results, and relevant information drawn from popular journals and newspapers. Research findings include company data, internationalization strategy and the empirical analysis of choice of entry mode. These provide a rich source of information and data to explore in this study.

The introduction to the Haier Group provides general information about the Haier Group and serves as a research background. The entry mode section provides some fundamental information about the company's choice of different entry modes in foreign countries as well as its internationalization strategy. The determinants part explains the different influencing factors of Haier Group's choice of entry mode based on the description of its choice and explanation of different situations in the company, products, the industry, the host country and the foreign country. The final section examines the choice of entry mode and the applied strategies of the Haier Group. By following this construction, the research findings are expected to offer a complete investigation of the Haier Group's choice of entry mode. According to the research findings, the research analysis focuses the main discussion on the determinants of the Haier Group's choice of entry mode by associating this with three relevant theories in the literature review part. The research analysis will appraise the existing theories of choice of entry mode and provide some evidence to support a new process of choice of entry mode. Consequentially, the introduction of Haier Group's profile, and the explanation of its choice of entry mode will be provided in the next chapter. The next chapter also offers some general answers to the research question of this study.

4 Research Findings

4.1 The Introduction of Haier Group

The Haier Group is the second largest white goods producer in the world, and its products include air conditioners, computers, mobile phones, televisions, refrigerators, water heaters, washing machines and home appliances integration. The Haier Group's headquarter is situated in Qingdao, China (http://www.haiereurope.com). Guided by the branding strategy and diversification strategy developed by its Chairman Zhang Ruimin, Haier has become one of the leading brands of white goods globally and the most valuable brand in China. The Haier Group was selected as one of the 'China's Top 10 Global Brands' by Financial Times in March 2008 (http://www.haier.com.au). In the same year, Haier Group ranked 1st amongst Chinese companies on the list of 'World 600 Most Reputable Companies' by Forbes. In 2009, the brand value of the Haier Group amounted to 80.3 billion Chinese Yuan (http://www.haier.cn). In addition, the Haier Group emphasizes the importance of independent innovation and satisfying the global consumer needs, and has achieved great success in technology and R&D ability. For example, the Haier Group (China) is the first Chinese appliance firm to have applied for 9738 technology certificates and 2799 invention patents before 2009 (http://www.haier.cn).

In 2009, the annual sales volume of the Haier Group achieved 33 billion Chinese Yuan representing an increase rate of 8.46% compare with 2008, and the net benefit of the Haier Group was 1.74 billion Chinese Yuan representing an increase rate of 53.03% compared with 2008 (http://www.haier.cn). In addition, the total assets of the Haier Group were 17.5 Billion Chinese Yuan representing an increase rate of 43.06% compare with 2008. In the domestic market, the Haier Group is the largest household supplier with its 26.2% market share in 2008 (http://www.haier.cn). The Haier Group is also the leading manufacturer of four products categories in China: refrigerators, washing machines, air conditioners and televisions. During the first three quarters of 2009, the sales volume of Haier Group's (China) refrigerators accounted for 32% of the total sales volume of refrigerator brands in rural areas (Haier Group Annual Report 2009). In the domestic market, Haier Group builds up its manufacture, transportation, commercial and service network through franchising, acquisition and wholly-owned subsidiary modes. Normally, franchising is used for commercial and service network, franchisees should comply with the Haier Group's regulations when they sell products and provide services for customers. For example, the Haier Group is using franchising to cooperate with Gome and Suning Appliance (The Gome and Suning Appliance are two leading companies in household appliance in China). In order to increase its sales, the Haier Group purchased a 60% stock share of Wuhan Lanboxidao Ltd to produce washing machines and refrigerators in 1995 (http://news.sina.com.cn/c/221541.html). The Haier Group has also established some wholly-owned subsidiaries in China such as Zaozhuang Haier Ltd and Hefei Haier Transportation Ltd. Currently, guided by its internationalization strategy, the Haier Group is playing a particularly important role in the domestic market.

With its 29 manufacturing plants, 8 comprehensive research and development centres, 19 overseas trading companies around the world and more than 60,000 global employees, the Haier Group has evolved into a giant multinational corporation (http://www.haier.cn. Appendix: 1). According to World Brand Lab 2009 the World's 500 most influential brands' report: the Haier Group was 110th, and the brand value was 80 billion Chinese Yuan. According to the world market research data released by Euromonitor International in 2010, the Haier Group is the largest brand and holds a 5.1% global market share of the white goods industry. More specifically, the Haier Group holds a 10.4% global market share in refrigeration and an 8.4% global market share of washing machines (http://www.haier.cn). Haier has become an international brand, and its prestige is rising fast with its expansion into the international market. The reason for the Haier Group's success in international business is not only that it provides high-quality products and services, but also that it chooses the most effective entry mode to enter foreign markets. In the following several paragraph, the choice of entry mode applied by Haier Group to enter foreign markets will be analyzed.

4.2 International Business and Entry Mode

America is an important foreign market for the Haier Group. The Haier Group has operated business in America since the end of the 1990s. The Haier Group used the exporting mode in the beginning. The Haier Group exported its products to America and these were sold by a local partner. The only role for the Haier Group was the export management. However, the Haier Group established its first industry park in South California in 1999 (http://www.haieramerica.com). Furthermore, the Haier American Trading Company, Haier Real Estate Ltd and Haier Holding Company have since been established in New York. The sales total was only 30 million U.S. dollar in American before Haier built up its manufacturing centre. However, the current sales total now approaches 200 million as a result of the wholly-owned subsidiary (http://www.haieramerica.com). Generally speaking, the Haier Group changed its entry mode from exporting to wholly-owned subsidiary.

Showing some similarities with their inroads into the American market, the Haier Group has been operating its business in the European market since the first export of 20 thousand refrigerators to Germany in the 1990. At present, the Haier Group has design centre in both France and Holland which were established at the end of the 1990s. The Haier Group built up its European marketing centre and manufacturing centre in Italy, by the acquisition of the Italian refrigerator firm Meneghetti in 2001. Since then the real 'three-in-one' operation framework has been set up (http://www.haiereurope.com). The Haier Group can service the entire European market through its headquarter in Italy and three distribution centres located in Holland, Spain and United Kingdom. The Haier Group has not only developed a manufacturing base in Europe, but also obtained the channels to join with the local manufacturers' organization and to access information. Generally speaking, the choice of entry mode for the Haier Group to enter Europe has changed during different periods. First, the Haier Group was using exporting mode to open the market. Secondly, the Haier Group built up its own design centres and distribution centres after several years' development. Finally, they built up a wholly-owned subsidiary through acquisition.

According to country geographical and economic situation, the Asian-Pacific market is separated into four parts: the South Asian Market, ASEAN Market, Australia-New Zealand Market and Far East Market. In the South Asian market, the JV between the Haier Group and Pakistan Ruba Group brought the Haier Group into the Pakistan market for the first time towards the end of the 1990s. The Haier Group built up its second overseas industry park in Pakistan in 2000 (http://www.haier.com.pk). Haier Group was using the exporting mode in the beginning to enter the Indian market. After more than 10 years' development, the Haier Group purchased an Indian refrigerator firm to set up its wholly-owned subsidiary in India in 2007. Finally, the Haier Group established its whole network of design, manufacture and marketing in South Asian.

Inside the ASEAN market, the Haier Group has sold its products in Indonesia, Malaysia, Thailand and Vietnam. In order to acquire a share of the Thai market, the Haier Group initiated a joint venture with a local manufacturer called Distar Electric Corporation in 2002. In 2007, Haier Group purchased a Thai refrigerator company from Sanyo and all the stock share of Distar Electric Corporation, therefore, Haier Group built up two wholly-owned subsidiaries in Thailand (http://www.haier.co.th). In order to expand into the Asia-Pacific market, Haier Group built up a Trade Company located in Singapore. For the purpose of entering the Australia-New Zealand market, the Haier Group was initially exporting its products to Australia and New-Zealand. However, the Haier Group then built up two wholly-owned trading centres in Australia and New-Zealand. Even though it purchased a 20% stake in Fisher & Paykel which is the largest white goods producer in New-Zealand (http://www.haier.com.au), the exporting mode is still the primary mode in relation to the Australia-New Zealand market.

There are two foreign markets in the Far East market: Korea and Japan. In 2003, The Haier Group established a liaison office in Korea for the purpose of exporting products, and then built up its wholly-owned manufacturing centre in Seoul in 2004. In order to export products to Japan, the Haier Group built up a partnership with Sanyo in 2002. In 2006, Haier Group built up a contractual company with Sanyo through joint venture (http://www.haierjapan.com/). This deal qualifies the Haier Group to use Sanyo's design capability, production line and commercial network to provide customized products for the Japanese. As a consequence, exporting was the first entry mode used by the Haier Group when it entered the Asian-Pacific market, with the exception of Pakistan. Afterwards, the final objective was to set up a manufacturing company through the JV mode and wholly-owned subsidiary mode. The Haier Group used the JV mode to enter Pakistan, and then built up its wholly-owned subsidiary in this country.

West Asia, Middle East and Africa are essential markets for the Haier Group, because most are developing countries. Similar to their approaches in other markets, the Haier Group initially operated its business through exporting at the end of the 1990s. In 2000, the Haier Group cooperated with Thermocool to build a joint venture to produce its products for Nigeria (http://www.haier.cn). An equity joint venture has been established through joint venture with Hachicha which is a local manufacturer to produce a wide range of goods in Tunis in 2001(http://www.haier.cn). Before the Haier Group established its third overseas industry park in Jordan in 2005, it was exporting products to this market.

4.3 Analysis of Haier Group's Choice of Entry Mode

It is evident that the Haier Group chooses various entry modes such as exporting and the JV, and that it changes its entry mode during a period of development. To summarize, the main process of choice of entry mode can be divided into four categories: exporting is changed to the JV, exporting is changed to wholly-owned subsidiary, the JV is changed to wholly-owned subsidiary mode after exporting is changed to the JV, and the JV is changed to wholly-owned subsidiary. With regard to the question of which factor influence the Haier Group's choice of entry mode, it can be generalized that internal factors, external factors and transaction cost are key.

The first process is exporting, which is later changed to the JV, which means Haier Group used the exporting mode to enter a foreign market, and then built up a joint venture with a local company after a few years' development. This process was used by Haier Group when it entered Australia-New Zealand and Japan. According to the empirical literature on entry mode and the influence factors of choice of entry mode, exporting is the base entry mode used for initial period of internationalization (Khemakhem, 2010). The reason for the Haier Group to use the exporting mode is that this mode can help a company to achieve experience curve and location economies with low uncertainty and risk. When the Haier Group attempts to operate its business in foreign market, it needs to appreciate the importance of each factor such as the target marketing environment, the industry viability of MNE and the external uncertainty, which may be problematic for the Haier Group. Without experience of operating in the target market, the exporting mode is the most acceptable mode (Doherty, 2007; Khemakhem, 2010).

Whilst utilising the exporting mode, the company only needs to identify a convincing local partner to sell products, moreover, the Haier Group can avoid the risk and uncertainty caused by first operating in the target market (Khemakhem, 2010). After a few years' development, the Haier Group attains much information about the target marketing environment, and customer needs and can identify any external uncertainties, moreover, the Haier Group attempts to expand its business in the target market. In addition, the disadvantages of exporting mode are discovered during the period of development. High transportation expenses and less control ability ultimately limit the expansion of the Haier Group, therefore, the Haier Group needs to eventually change its entry mode. However, licensing and franchising are too dangerous for the Haier Group, because of the high external uncertainty and lack of control over quality and technology (Doherty, 2007).

Therefore, the JV mode and wholly-owned subsidiary mode are more acceptable. In addition, companies in the machinery industry are comparatively more like to choose the JV than companies in other industry (Zhang and Goffin, 1999). Moreover, it is illegal to establish a wholly-owned subsidiary in a household industry in some countries. Accordingly, the JV is the only acceptable mode for Haier Group to enter some countries such as Nigeria and Tunis. In addition, when the perception of institutional differences is low, and there are some local firms which can engage in joint work with entrants, firms may be in a better position to choose the JV. Sanyo and Fisher & Paykel are the most popular white goods manufacturers locally, and they also have their own design centre. Most importantly, the Haier Group does not have the ability to completely acquire the local companies. Therefore, by the Haier Group engaging in a joint venture with local firms, it can expand its business in the target market, and it can also support Haier Group in the acquisition of new competitiveness.

The second process is exporting which is later changed to the wholly-owned subsidiary, which means the Haier Group used the exporting mode to enter a foreign market, and then after a few years' development built up one or more wholly-owned subsidiaries through acquisition or other methods. This process is the most popular one used by the Haier Group when it initially started to operate in foreign markets such as America, Europe, India, Korea and Jordan.

The reasons for initially using the exporting mode and then changing were explained in the previous chapter. The reasons for changing the entry mode from exporting to wholly-owned subsidiary are as follows. The first reason is high potential market volume, which is the most influential factor in the choice of entry mode, especially for wholly-owned subsidiary (Chiao, Lo and Yu, 2010). The high population and economic levels of America, Europe and India means high market volume. The Middle East is the largest oil reserve area in the world, and it has a high level of national income, moreover, according to the tariff-free agreement between Jordan and the surrounding countries such as Syria and Egypt, products can be sold freely in these countries, therefore, the market volume of this area cannot be ignored. The second reason is based on an assessment of local competitors. When a company is considered entering a foreign market where is no current competitor, the Greenfield investment mode such as a wholly-owned subsidiary may be the only acceptable entry mode (Wang, 2009). The Haier Group do not have a current competitor in Jordan and India, so the wholly-owned subsidiary mode may be the only acceptable mode. However, GE, LG and Samsung are widely operating in America, Europe and Korea, and the Haier Group may not have the ability to cooperate with them, or these companies may reject cooperation. Accordingly, the wholly-owned subsidiary is the only acceptable mode for these markets.

The third process is the JV which is later changed to the wholly-owned subsidiary mode after exporting is changed to the JV. This process was used to enter Thailand. There are two reasons to select this process: local competitor and market volume. In this country, the household products market has been tightly controlled by local companies, and the Haier Group cannot totally acquire these markets via exporting mode. However, these local companies do not have strong competitiveness and assets in comparison with the Haier Group. In addition, the Thai market does not have enough market benefit to cover the cost of establishing a wholly-owned subsidiary in the beginning. However, the Haier Group can acquire the market and gain more benefits through the JV, and then later the Haier Group could establish a wholly-owned subsidiary in Thailand after long-term development, by which time the acquired benefit can cover the cost of establishing a wholly-owned subsidiary. From this pattern, it is likely that the Haier Group will build up a wholly-owned subsidiary in the Australia-New Zealand market after few years' development of the JV mode.

The fourth process is the prime mode of JV which is later changed to wholly-owned subsidiary, which means Haier Group used the JV mode to enter a foreign market, and then built up one or more wholly-owned subsidiaries through acquisition or other methods after a few years' development. This process was used when the Haier Group entered Pakistan. In fact, the Haier Group operates its business in Pakistan is an aid project as a response to the Chinese and Pakistani governments, because of the requirement of the economic strategic cooperation relationship between China and Pakistan. The joint venture between Ruba and Haier Group is based on delivering uncompromising quality to the Pakistani government and consumer to provide world-class innovative products (http://www.haier.com.pk). Accordingly, the reason for Haier Group using the JV mode to enter Pakistan is the external business environment which includes the relationship between the host and home country, host country's regulation, and the business characteristics. After a few years' development, the Haier Group completed its mission of transferring high quality technology and products, and then the Haier Group aims to expand its business and protect technology. Anderson and Gatignon (1986) suggest that 'the greater control is more efficiently for highly proprietary processes or products as well as the high value brand', moreover, the JV has been established in this market. As a consequence, the wholly-owned subsidiary mode as a strict-control mode is more appropriate for Haier Group in this situation.

Accordingly, due to the successful initial choice and later alteration, the Haier Group has become one of the world largest and most famous household products brand. In summary, Haier's choice of entry is determined and changed by many factors, as the following table generalizes:

	Exporting Mode	The JV mode	The WOS Mode
External Factors	High External Uncertainty	1-Middle External Uncertainty	1-Low External Uncertainty

		2-Appropriate Foreign Company	2-Permission from Host Country
Internal Factors	No or Low Global management skills	1-Middle Global Management ability 2-Appropriate Company Assets	1-Excellent Global Management ability 2-High Company Assets
Transaction Cost	1-High transport cost 2-Low Global Management Cost	1-Middle Global Management cost 2-Middle cost of Cooperation	1-High Global Management cost 2-High Cost of Acquisition or self-establishment

Table 1: The determinants of Haier Group’s choice of entry mode

5 Discussion

5.1 Research Discussion

In accordance with the research above, it can be seen that the choice of entry mode for the Haier Group is determined and changed by internal-factors, external factors and transaction cost factors during different period of development. The research findings are consistent with the analysis of Koch (2001a): ‘the choice of entry mode and trade market selection are treat as two related decisions, and the choice of entry mode should be changed during different periods of development’. Also, another significant finding of this study is that internal-factors, external-factors and the transaction-cost factors play an important role in the Chinese firms’ choice of entry mode as well as emerging market firms’.

According to this research, it is empirically found that:

Normally, the exporting mode is the first choice for the manufacturing industry, licensing and franchising can be used only in few particular situations, and then after few years’ development, the JV mode is more acceptable than exporting, however, the wholly-owned subsidiary is the final stage for manufacture industry to internationalize.

Additionally, the choice of entry mode can be divided into three categories: exporting, licensing and franchising are the initial modes, the JV is more developed, and the final stage is the wholly-owned subsidiary. Moreover, according to research of the Haier Group, this study separates the process of choice of entry mode into four categories. In the first process, the choice of entry mode is changed from exporting/licensing/franchising to the JV. In the second process, the choice of entry mode is directly changed from exporting/licensing/franchising to wholly-owned subsidiary. In the third process, the choice of entry mode is changed from the JV to wholly-owned subsidiary after the first form is completed. In the fourth process, the prime mode is the JV, which is then changed to wholly-owned subsidiary. Furthermore, internal-factors, external-factors and transaction-cost factors play different role in different period of the process. In summary, the three classified entry modes, four processes and three factors are organized into one table as following:

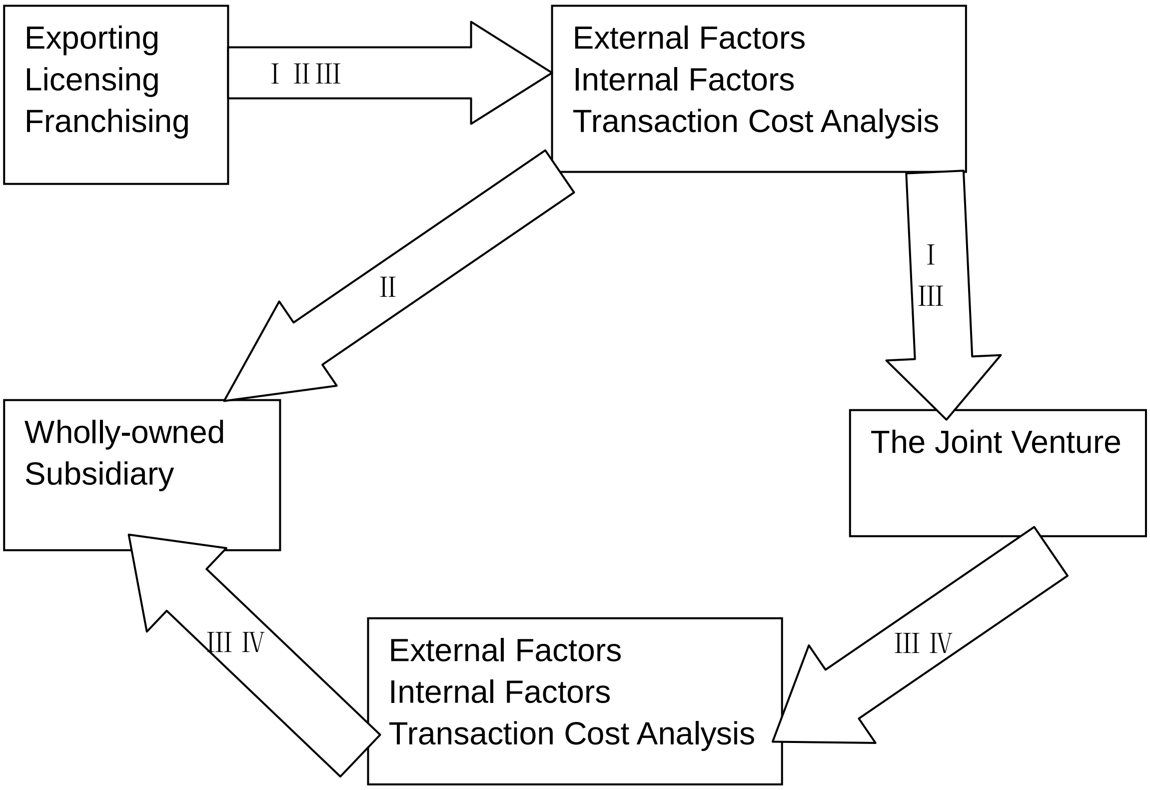


Figure 3: The process of choice of entry mode

'Ⅰ' means the first process of choice of entry mode

'Ⅱ' means the second process

'Ⅲ' means the third process

'Ⅳ' means the fourth process

5.1.1 Direct Changing from the Exporting to the JV

In the first process, the choice of entry mode changes from exporting/licensing/franchising to the JV. Exporting is one of the major entry modes of internationalization for Chinese manufacturing firms such as the Haier Group and

Lenovo (Zeng, Xie,Tam and Wan, 2009). Moreover, Blomstermo, Sharma and Sallis (2006) said that 'in manufacturing industries, the choice of entry mode may be characterized in the initial years by direct and indirect exporting' (Johanson and Wiedersheim-Paul, 1975). Although there are a range of different internationalization strategies and entry modes for Chinese firms, exporting is considered the most universal entry mode due to the minimal capital requirements and business risk (Graves and Thomas, 2006; Leonidou, 2002). Technology and service certificates are the base for using licensing and franchising, however, Chinese manufacturing companies prefer not to choose licensing and franchising for two reasons. Firstly, technology is the most competitive intangible possession for most manufacturing companies, and they do not permit other competitor to compete with them by using their technology. Secondly, some Chinese manufacturing benefits from low price products not high technology which means that some Chinese firms do not own special technology certificates for licensing and franchising.

According to the research of Root (1994) and Koch (2001b), the external factors such as target market environment and global management efficiency are difficult to assess when Chinese firms first operate their business in foreign market, especially for the manufacturing industry. The cultural distance and conflict directly affects internationalization and foreign business, this is consistent with the research of Anderson and Gatignon (1986) who state that: 'low and high control entry modes are more acceptable if there is a high risk of cultural distance when the firm operates its business in a foreign country for the first time'. The foundation of using the JV and Wholly-owned subsidiary mode successfully is a comprehensive understanding of the foreign market environment. However, it is very difficult for Chinese firms to completely comprehend foreign culture, especially when firms first operate business abroad. Without this comprehensive understanding, exporting is more acceptable than other entry modes, because the exporting can operate without direct management and manufacture. In addition, the exporting mode is useful to establish communication links and contacts with customers from different cultural environments and better understand the customer purchasing behaviour (Leonidou, 2002). Whilst exporting, Chinese firms can learn and obtain valuable information about the target market environment and location economies, which is essential in order to expand their international business via exporting mode in the early stages of internationalization.

Most previous research shows that when firms prefer less risk and cost, the exporting mode is most useful for a company which seeks to maximize foreign benefit growth over short term (Koch, 2001a). When Chinese firms are using the exporting mode to operate their business abroad, they only need undertake the risks and costs of shipping. However, the JV and wholly-owned subsidiary mode both require more ability and assets such as management skill and assets for manufacturing. According to the research of Root (1994) and Koch (2001a), one of the biggest disadvantages for entrants is the global management efficiency, which can directly reduce the activity of internationalization. Therefore, they suggest that entrants need to choose a low-management entry mode such as exporting. Gaining skills in international management is also challenge for Chinese firms, because most Chinese firms have started their internationalization process in the past few years and have not had sufficient experience or opportunities to learn. Choosing the exporting mode is better for Chinese firms when starting their international business, and this enables them to obtain global management experience with low risk during the period of development. From the aspect of transaction cost analysis, Chinese firms will bear more transaction specific asset and external uncertainty when using the JV and wholly-owned subsidiary mode than when exporting in the early stages of internationalization (Anderson and Gatignon, 1986). The JV and wholly-owned subsidiary mode involve the high cost to the Chinese firms of establishing a factory in the target market, and the cost sometimes can outweigh the benefits. In addition, exporting is the most popular entry mode, and it can be used in most countries without concern about foreign political regulation. As a consequence, it is suggested that exporting is more acceptable for Chinese manufacturing firms when starting their business in a foreign market, as it enables firms to obtain more benefit and information with less global management experience and fewer foreign business assets.

After a few years' development, Chinese firms have had the opportunity to attain more information about the target marketing environment, customer needs and external uncertainty, moreover, they may aim to expand their business in the target market. In addition, the disadvantages of the exporting mode are discovered during the period of development. High transportation expenses and less control ability limit the expansion of Chinese firms. Ekeledo and Sivakumar (2004) state that 'barriers to the free flow of products between countries reduce the profitability of exporting, while obstacles to the sale of know-how increase the profitability of FDI relative to exporting and licensing. Therefore, Chinese firms should choose either the JV or wholly-owned subsidiary.

In the following few paragraphs, this dissertation will evaluate the different situations which lead to choosing the JV and wholly-owned subsidiary mode after initially using the exporting mode. The foundations of using the JV are the abilities of the local company and host company. According to the research of Zhang and Goffin (1999), Chinese firms should identify a trustworthy local partner, which means a local company with enough ability and credibility to help the Chinese firms to expand their business without free-riding potential and technology leaks. Moreover, it is better for the Chinese firms to joint venture with a local company, who produces similar products, because Chinese firms can reduce the risk and cost via using the local company's assets or production line, but can also obtain more information about the target market environment, cultural distance, and customers needs through using the local company's sales and management networking. In addition, the selected local company should operate an appropriate size of sales and manufacture, which means Chinese firms need to reject local companies which are too small or too big(Lin 2004; Yang and Lee, 2002). A company which is too small may have limited resources and ability, and this may obstruct Chinese firms' internationalization, because the local company is too small to meet the demands of new sales and development. Moreover, Chinese firms may not have enough assets and ability to engage in a joint venture with a local company which is too big. Frequently, in order to protect the sales and technology, the local company and home country will not allow the foreign company to joint venture with a big local company even if the Chinese firm has the ability to joint venture (Lin 2004).This can also explain why the Haier Group has not engaged in a joint venture with GE in the American market. However, the JV is highly recommend by many researchers and countries in relation to the manufacturing industry. As a consequence, the JV can be used when there is a local company which is trustworthy, competent, and of an appropriate size regarding sales and manufacture.

However, Chinese firms should have two characteristics to enable a successful joint venture with a local company, there are: ability of management and control. Ability of management means that the Chinese firm should have adequate global management skills. The most important challenge faced by foreign companies is the cultural distance when they engage in a joint venture with a local company (Doherty, 2007). As argued earlier in this dissertation, cultural distance can affect both the organizations inside management such as employee relationships, and the outside management such as sales and organizational image, especially in the manufacturing industry (Brown, Dev and Zhou, 2003). Consequently, in order to reduce the potential adverse influence caused by cultural distance and management skills shortage, Chinese firms should have comprehensive skills in global management, including excellent employee management ability, effectual manufacture ability and valuable organization image management ability. The ability of control means that the Chinese firms should have capability to control domestic technology and the ability to legally acquire new technology. According to the transaction cost analysis, high control ability should be applied when there is the risk of technology outflow. When Chinese firms engage in a joint venture with a foreign company, high quality technology or invention patents may be leaked during this period (Chiao, Lo and Yu, 2010; Park and Sternquist, 2008). In order to protect this high value property, Chinese firms should build up a full protective system before they joint venture with a foreign company. On the other hand, Chinese firms may want to legally obtain more technology through the JV, therefore, they need enough negotiation power or control to acquire more high quality technology from the foreign company during the period of the joint venture (Trafford and Proctor, 2006). Accordingly, the JV can be used when Chinese firms have efficacious global management ability such as organization management and brand management, and have a valid technology protection system and legal acquisition power.

5.1.2 Direct Changing from the Exporting to the WOS

In the above few paragraphs, the presupposition of using the exporting mode which is part of the second process has been addressed. In the following two paragraphs, the presupposition and reasons for Chinese firms changing from the exporting mode to wholly-owned subsidiary mode will be evaluated. There are two methods which Chinese firms may use when they decide to change the entry mode from exporting to wholly-owned subsidiary mode: acquisition and greenfield venture. No matter which method is selected, Chinese firms need to evaluate the benefits and costs when evaluating the wholly-owned subsidiary mode. The benefits include potential profit from sales and other benefits created by the wholly-owned subsidiary such as benefit from self-management (Whitelock and Jobber, 2004; Wu and Zhao, 2007). According to the transaction cost analysis, high control ability should be applied when there is the risk of technology outflow, therefore, the wholly-owned subsidiary mode is the most suitable mode used by the manufacturing industry (Chiao, Lo and Yu, 2010). However, there is a special benefit called surrounding benefit, which means that the foreign wholly-owned subsidiary can help the Chinese firm to export products to other neighbouring countries. For example, according to the North American Free Trade Agreement, products can be freely exchanged in the North American Area, therefore, the Haier Group can freely export its products to Canada and Mexico from its wholly-owned subsidiary which is located in South California. By using the wholly-owned subsidiary mode the company can benefit not only from the target country, but also from the neighbouring countries. The cost caused by the process of investment includes the direct and indirect investment and the daily management fee (Okoroafo, 1997; Whitelock and Jobber, 2004; Wu and Zhao, 2007). Direct investment costs are the costs associated with the process of establishing a wholly-owned subsidiary. Money spent by Chinese firms in analyzing the program and negotiating with local companies and government before the process of establishment is called indirect cost. Due to the cultural distance, the daily management fee will be huge. Consequentially, the first presupposition of using wholly-owned subsidiary mode is that the potential profits must be enough to cover the cost.

As argued previously, cultural distance plays a very important role in the process of internationalization as well as the choice of entry mode. However, it is more important in wholly-owned subsidiary than in any other entry modes, because the wholly-owned subsidiary should fully take the responsibility for organization management without any help from the local company (Wu and Zhao, 2007). According to the research of Root (1994) and the First Internal Uncertainty Proposition (Anderson and Gatignon, 1986), the success of the wholly-owned subsidiary mode is positively related to the company's success in global management. It is essential that Chinese firms should have an excellent and comprehensive management system with full understanding of foreign cultural distance before using the wholly-owned subsidiary mode. The management system covers any aspect of the foreign operating: from design to manufacture and then to distribution, and from employee management to organization image management. As a consequence, the second presupposition of using wholly-owned subsidiary mode is that the Chinese firms have an excellent and comprehensive management system.

In addition, according to the host country's political and economic regulations, the wholly-owned subsidiary mode is not permitted in some specific industries (Brown, Dev and Zhou, 2003; Zimmerman, 1999). For example, foreign companies do not have permission to establish a wholly-owned subsidiary in the Chinese telecommunications industry. However, Chinese firms also need to get permission from the home government before they operate a foreign investment, especially for acquisition. For example, Beijing refused to approve the purchase of the Hummer by the Sichuan Tengzhong Heavy Industrial Machinery Company (http://news.bbc.co.uk). Accordingly, gaining permission from the host country is essential if Chinese firms aim to choose the wholly-owned subsidiary mode. According to the research of Root (1994) and Koch (2001b), internal factors such as company resources and ability are the foundation for companies to choose high control mode. After developing the wholly-owned subsidiary, companies still need to reserve enough resources and ability to operate its business abroad, otherwise the company will sink into debt, or even to go bankrupt (Chiao, Lo and Yu, 2010). The irrational expansion is the main reason why Daewoo went bankrupt, this also illustrates that 'the large size of a firm does not always equate to great strength'. Accordingly, it is important for Chinese enterprises to evaluate their capability of acquiring and establishing a wholly-owned subsidiary. Moreover, the assessment of the acquired enterprise plays an important role when the company wants to establish a wholly-owned subsidiary through acquisition. Excessive liability of acquired enterprise increases the cost of operating, it may also encumber the company and then lead to bankruptcy. This dissertation believes that it is acceptable for firms to offer 20%-30% of total asset to establish a wholly-owned subsidiary (Wu and Zhao, 2007; Yiu and Makino, 2002). As a consequence, the third presupposition of using wholly-owned subsidiary mode includes three aspects: the permission of using wholly-owned subsidiary mode, Chinese firms with high ability and abundant assets, and a foreign company with appropriate debt.

5.1.3 Changing from the Exporting to the WOS by the JV

The above few paragraphs of this dissertation discussed the presupposition of using the exporting mode, the JV and the wholly-owned subsidiary mode. In the following two paragraphs, the presupposition and reasons for Chinese firms to change the entry mode from the JV to wholly-owned subsidiary after completion of the initial process will be addressed. The above research findings illustrate that if Chinese firms have the ability of using the JV, they also have the capability to use the wholly-owned subsidiary. Moreover, the research findings suggest that if there is a local company which a Chinese firms can engage in a joint venture with, it is also possible for the Chinese firms to acquire the company. However, there may not be the possibility for the Chinese firms to fill the gap of management skills and foreign business experience between the JV and the wholly-owned subsidiary (Wu and Zhao, 2007). Accordingly, the research findings concerning the Haier Group's choice of entry mode confirm the research of Root (1994) and Koch (2001b), they state that 'resource commitment factors such as experience in using MNEs, global management efficiency and management risk attitudes are the main factors which can directly affect the choice between the JV and wholly-owned subsidiary mode'.

According to the research of Root (1994) and the First Internal Uncertainty Proposition (Anderson and Gatignon, 1986), the wholly-owned subsidiary mode requires more excellent and complete management skills and resources than the JV, simply because the parent company wholly manages the subsidiary without any help, whilst the JV can operate with support from the local partner. As argued before, it is impossible for the foreign company to acquire enough global management skills and resources during the course of development which is performed by the exporting mode. Even if the parent company can employ local professional managers to manage the subsidiary, the parent company still needs usable management skills to administer these managers (Brown, Dev and Zhou, 2003; Tihanyi, Griffith and Russell, 2005). In addition, the host country's political and economic regulations are the other factors which can determine which entry mode is practical. However, there cannot be changed by the parent company or home country. As a consequence, the choice between the JV and wholly-owned subsidiary mode is dependent on firms' global management skills and resource commitment (Shenkar, 2009). Excellent global management skills and high resource commitment favour the wholly-owned subsidiary mode, otherwise the JV mode may be preferable.

5.1.4 Direct Changing from the JV to the WOS

In the following paragraph, the presupposition and reasons for Chinese firms to change the entry mode from the prime mode of the JV to the wholly-owned subsidiary mode will be addressed, which is the fourth process of choice of entry mode. In the above few paragraphs, the presupposition of using the JV and wholly-owned subsidiary mode were examined, which is also a part of the presupposition and reasons for the fourth process. However, this paragraph mainly explains the reason for Chinese firms to choose the JV mode first.

The research findings concerning the Haier Group's choice of entry mode provide the evidences for the existing studies of home country factors (Root, 1994) and Free-riding potential (Anderson and Gatignon, 1986). Actually, the fourth process of choice of entry mode was used by Haier Group only to enter Pakistan. The Haier Group's operation in Pakistan is an aid project, designed as a response to the Chinese and Pakistani government, because of the economic strategic cooperation relationship between China and Pakistan. In order to achieve the demand of transfer technology and help the partner country, the Haier Group chooses to engage in a joint venture with local company. Through this mode, the Haier Group can not only transfer technology and train labour, but can also get support from the local company and the country to acquire the market. Government factors play a most important role in international business, especially when Chinese firms operate in partner countries or developing countries such as Pakistan, Zambia and some African countries. The second reason for Chinese firms to choose the JV or wholly-owned subsidiary as the first entry mode is the existence of high value property such as brand image and technology, which is not relevant to the Haier Group. In order to acquire high value property, a growing number of manufacturing companies are choosing the JV or wholly-acquisition, even though they have not operated business in the target market previously (Shenkar and Luo, 2008). The control of high value brand image and technology are the main reasons for the Chinese Geely's purchase of Volvo for

$1.5bn, even if Geely has not entered Swedish market (http://www.ft.com). As a consequence, the JV and wholly-owned subsidiary mode can be used as a first entry mode by Chinese firms only when the home country requires the company to do that or when there is high value property which is the most attractive asset for Chinese firms.

In summary, referring to the research question of this study, i.e. which factors determine the choice of entry mode, and which is the most acceptable entry mode for Chinese firms, this research certifies that external factors, internal factors and transaction cost factors are the major influences on the Chinese firms' choice of entry mode. Moreover, this dissertation focuses on the case of the Haier Group to evaluate the choice between different entry modes under various situations. In addition, this dissertation outlines four processes of choice of entry mode for Chinese firms. Therefore, the framework used for explaining the Chinese firms' choice of entry mode can be extended, and the following framework can be applied to other emerging market firms.

5.2 The Extended Framework

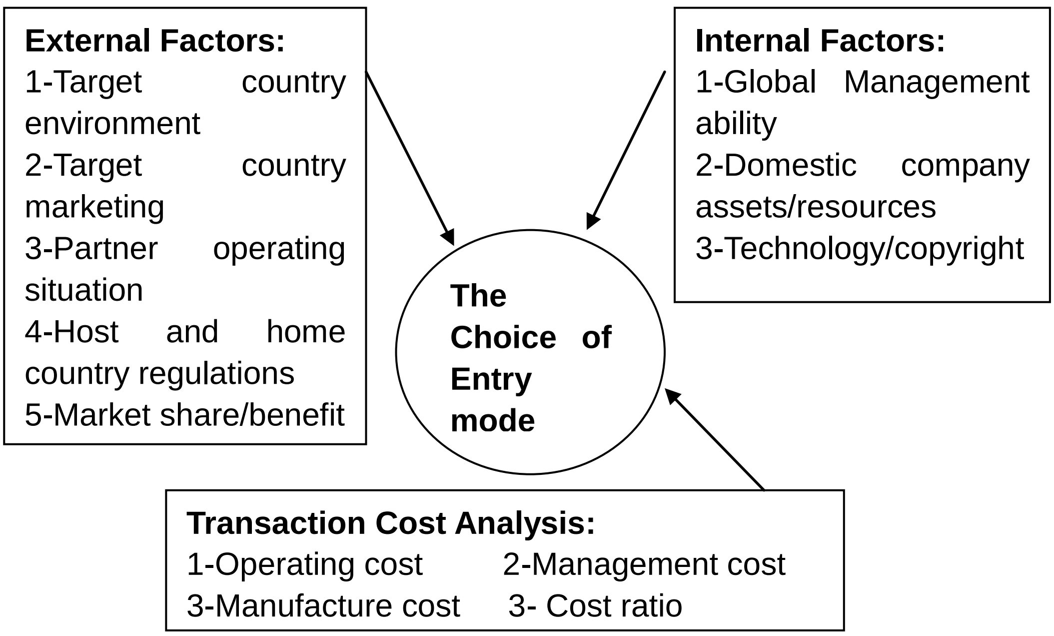


Figure 4: The framework for analysis of Chinese firms' choice of entry mode

5.3 Strategic Implications

By analyzing the case of the Haier Group above, this dissertation outlines some useful information for Chinese or other emerging market firms. Based on this analysis, there are some strategic implications for Chinese firms or other emerging market companies who aim to start or expand their international business.

Most Chinese manufacturing firms and emerging market manufacturing firms can start their international business by choosing the exporting mode, due to the advantages of the exporting mode and the disadvantages of firms. The target market which is selected by the entrants should fit the company's plans for long-term development. This means that the target market should possess enough advantages of development for the entrants to expand their business through changing the entry mode. The experiences of the Haier Group suggest that with the development of the target market situation and the company's capability, the emerging market firms need to change their entry mode. Moreover, in order to acquire more experience of global management which is important before choosing the JV and wholly-owned subsidiary mode, entrants need to change their role in international business, and to be more energetic in operating exporting and other requirement of international business.

After a few years' operation in the exporting mode and international business, firms can change their entry mode to the JV or wholly-owned subsidiary mode. However, it depends on the market situation and the enterprises' capability. Firstly, it is important to examine the target country's regulations to select a realizable entry mode. Secondly, the company's management capability must be assessed. It is better to choose the JV mode, if it is inconvenient for the company to engage in the problem of global management, otherwise the enterprise needs to choose the wholly-owned subsidiary mode. However, employing some local professional managers is the best way for firms who want to establish a wholly-owned subsidiary if they do not have excellent global management skills and experience. Thirdly, the company's assets must be evaluated. It needs to retain enough assets for the firm to operate their other business, otherwise firms need to choose the JV mode. This study suggests that it is acceptable for most firms to establish a wholly-owned subsidiary through using 20%-30% of total assets. Fourthly, it is important to evaluate the partner company when choosing the JV mode or using the wholly-owned subsidiary mode through acquisition. The selected partner company should possess three characteristics: excellent commercial morality, appropriate commercial size, and acceptable liability. It is also vital that emerging market firms have the capability to protect and acquire technology legally. Fifthly, it is important to assess the location where the wholly-owned subsidiary will be established. This means that the new company should be located in a place with convenient transportation, access to various resource and local government support. As a consequence, the choice of entry mode is dependent on the specific environment, the situation and the stage of development. Before emerging market firms decide on an entry mode, they need to consider and evaluate all the surrounding factors.

6 Conclusion

6.1 Conclusion

The research follows one case study of the Haier Group with a focus on the investigation of determinants and process of the choice of entry mode. The paper first examines some theories of entry mode, internal-factors, external-factors and transaction cost factors, it also offers some empirical literature on the choice of entry mode and Chinese internationalization. Secondly, the research findings prove the certain relationship between these three grouped factors and determinants of choice of entry mode by explaining the reality of the Haier Group. Thirdly, this dissertation offers four processes of choice of entry mode for Chinese enterprises as well as other emerging market firms according to the research analysis of the Haier Group. Fourthly, the discussion focuses on each process of the choice of entry mode to examine the research questions of ‘which are the determinants of choice of entry mode?’ and ‘which is the best entry mode for Chinese firms?’.

According to the research findings and discussion, it can be concluded that the Chinese firms’ choice of entry mode is influenced by the target marketing environment, the partner operating situation, host and home regulations, global management capability, domestic companies’ assets, operating costs, manufacturing costs management costs and the cost ratio. In addition, for the purpose of searching for more market share, high technology property and low costs drive Chinese firms to choose and change their entry mode. As a consequence, these factors can be generalized into three groups: internal-factors, external-factors and transaction cost factors. More specifically, Chinese firms’ global operating capabilities and assets strength are the internal factors for their choice of entry mode and internationalization process. The target market environment, marketing situation, host and home country’s regulations, partner operating situation and potential market benefit are the external factors. Operating costs, management costs, manufacturing costs and cost ratio are the transaction cost factors.

Consequently, the four processes of choice of entry mode can be summarized as following: First process, the choice of entry mode is changed from exporting/licensing/franchising to the JV. Second process, the choice of entry mode is directly changed from exporting/licensing/franchising to wholly-owned subsidiary. Third process, the choice of entry mode is changed from the JV to wholly-owned subsidiary after the first process is completed. Fourth process, the prime mode is the JV, and it then changed to wholly-owned subsidiary. The Chinese firms should change their entry mode during different periods of foreign operating. In addition, the decision to change the entry mode is dependent on practical situations and an overall analysis system, which includes internal-factors, external-factors and transaction cost factors.

It is believed that these research findings deriving from the experiences of China can be also applied to other emerging market firms, because the Chinese MNEs are the typical case of choice of entry mode and internationalization. Thereby, according to the extended framework which is presented to examine the driving forces of the Haier Group's choice of entry mode, emerging market firms also can understand their determinants of choice of entry mode. Moreover, those four processes of choice of entry mode can be applied to other emerging market firms for the purposes of choosing and changing entry mode. Additionally, this dissertation suggests that emerging market firms need to pay particular attention to internal-factors, external-factors and transaction cost factors when they decide to choose and change the entry mode. All in all, emerging market firms can expand their international business and their role in international business through these research findings and the four processes of choice of entry mode.

6.2 Limitation

Although this dissertation offers some significant findings and consequences, there are some limitations to this study. Firstly, this research only examines one case study-the large and successful Haier Group to examine the choice of entry mode, however, there are some small and medium sized Chinese firms who seek a satisfactory entry mode to star their international business. Moreover, it seems that choosing only one case to explore Chinese firms' choice of entry mode may not efficiently represent the whole complex conditions of entry mode selection and internationalization. Secondly, the Haier Group is a typical Chinese manufacturing firm, however, it cannot represent other Chinese industries such as the service industry and the energy industry. Thirdly, this dissertation analyzes the choice of entry mode from three aspects: internal-factors, external-factors and transaction cost factors, however the resource-based view and the institution-based view could also be applied to this research effectively. Fourthly, due to the time limit, the article word counts limit, the restrictions on information and data, and the author's individual level of education and understanding, this dissertation may not be definitive.

6.3 Further Research

In general, further research on this topic could consider the research theory, selection of examples and research of determinants. Firstly, other empirical theories such as the resource-based view, the institution-based view and the Uppsala Model could be applied to this kind of research. Secondly, this kind of research could be applied to different type of firms to analyze their choice of entry mode. The example selection could be more comprehensive, for example, small and medium sized firms, other industry firms, developing country firms and developed country enterprises could be considered. Thirdly, further research could focus on a small number of determinants to analyze the choice of entry mode. The research could focus specifically on the management capability or external uncertainty to examine the important role played by different determinants in the choice of entry mode for emerging market firms. Overall, further relevant researches could add to the comprehensive understanding of this issue.

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Appendix

1, Haier Group

From：http://www.haier.com.my/haiers-group