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ANALYSIS OF MARKET ENTRY STRATEGIES BY NEW ZEALAND COMPANIES DOING BUSINESS WITH TAIWAN

A thesis submitted for the degree of Doctoral of Philosophy at the

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ABSTRACT

Many issues need to be considered when firms decide to internationalise their operations. One key issue is to decide the best way to service a particular foreign market. Because of its central role in international operations, entry mode is described as a "frontier issue". The choice of market entry mode is considered as one of the most critical decisions facing international firms because it has a decisive impact on the success of a firm's international operations.

Findings on New Zealand firms' choice of market entry modes are either incomplete or far from comprehensive. This study is designed to examine the choice of market entry mode of New Zealand companies conducting business with Taiwan. Unlike previous research, this study is the first of its type to include international distribution system and business system theories as part of the market entry mode choice framework.

This study, by examining selected factors influencing the choice of market entry mode of 124 New Zealand firms conducting business with Taiwan, had generated a number of interesting findings. Empirical results suggested that the choice of market entry modes was significantly influenced by the host market's business system, product type, ownership of the company, market size of the industry, market portfolio, international business experience, and host market retailing system. Immigrant links also proved to be a factor influencing a firm's choice of market entry mode. Firms established by immigrants originating from the host country did not follow the traditional incremental internationalisation theory. Factors such as firm size, before-after sales service, product differentiation, competitors' choice, home market position, and market potential of the industry were not found to be related to firms' choice of market entry mode behaviour.

The key statistical analysis tool employed in the study was binary logistic regression analysis. As a result of the logistic regression analysis testing, a research framework on which future inquiries might be based was established.

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TABLE OF CONTENTS

CHAPTER 3: LITERATURE REVIEW

CHAPTER 4: RESEARCH VARIABLES AND CONCEPTUAL MODEL

CHAPTER 5: RESEARCH DESIGN AND METHODOLOGY

LIST OF TABLES

LIST OF EXHIBITS

LIST OF FIGURES

CHAPTER 1: INTRODUCTION

1.1 RESEARCH BACKGROUND

The internationalisation of business has been one of the most significant business transformations in recent decades. For many firms around the world, especially those whose domestic market size is relatively small (e.g. New Zealand), marketing internationally becomes an imperative of a firm's future growth and survival (Harrison, 1990; Louter et al, 1991 cited in Hoang, 1995, p.1).

Many issues need to be considered when firms decide to internationalise their operations (Ross, 1990; Hoang, 1995). These issues include the number of markets that a firm intends to serve, the level of resources it decides to commit, and the methods that it uses to serve the market (Hoang, 1995). Once a firm decides the number of markets to serve, the next key issue is to decide the best way to service a particular foreign market (Terpstra and Sarathy, 1997). Root (1987) described international market entry mode as an institutional arrangement that enables a firm to enter a foreign market with its products. The choice of market entry mode involves the firm's technology, human skills, and management resources (cited in Sarkar and Cavusgil, 1996). Because of its central role in international operations, entry mode has been described as a "frontier issue" (Anderson and Gatignon, 1986, Kogut and Singh, 1988, Hill et al, 1990 cited in Sarkar and Cavusgil, 1996). The choice of market entry mode has been considered as one of the most critical decisions facing international firms (Terpstra and Sarathy, 1997) because it has a decisive impact on the success of a firm's international operations (Anderson and Coughlan, 1987 cited in Sarkar and Cavusgil, 1996).

Market entry mode decisions have been well researched in a number of countries (e.g. Johanson and Vahlne, 1977; Anderson and Coughlan, 1987; Klein, et al, 1990; Agarwal and Ramaswami, 1992). However, little attention has been paid to the choice of market entry mode of New Zealand firms. New Zealand studies which have examined the issues of market entry mode can be divided into two groups. The first group of studies focused on examining the particular entry mode used by individual New Zealand firms (Cockroft, 1990; Ross, 1990; Au and Enderwick, 1994). This group of studies were either theoretical or empirical in their focus but both used small samples. By focusing on the internationalisation behaviour of seven of the largest New Zealand multinational corporations, Ross (1990) provided some partial explanations of market entry mode choice by New Zealand firms. The entry mode used by his respondents was foreign direct investment. Key reasons for New Zealand firms' foreign direct investment included diversification of their operational risks, to gain access to natural resources and larger markets, and the small domestic market size. The theoretical work by Cockroft (1990) was mainly designed to identify a number of critical elements in the implementation of international joint ventures. The study of Au and Enderwick (1994) examined the experience of a sample of small and inexperienced New Zealand investors' operations in China. The entry mode entry strategy used by their respondents was joint ventures. This study found that the two major motivations for New Zealand joint ventures in China were long-term profitability and local market penetration.

The second area of literature which has also provided results on New Zealand firms' choice of market entry mode includes studies on New Zealand firms' internationalisation. These studies provided only limited insight because market entry mode choice was either a small part of their study or was not the major focus of their investigations (Akoorie and Enderwick, 1992; Steiner, 1993). In examining the key characteristics of the international operations of New Zealand firms, Akoorie and Enderwick (1992) pointed out the often used market entry modes by New Zealand international marketers. Similarly, without explaining how market entry modes were selected, Steiner (1993) revealed that the top three distribution channels used by New Zealand firms were agents, overseas marketing subsidiary and distributors. Her study was designed to examine the relationship between New Zealand fishery operators' international marketing strategies and their export performance.

Unfortunately such considerations as market entry strategies are a vital aspect of marketing products in Taiwan. Therefore, it would be advisable to examine the business environment both from an historical and current perspective. Taiwan is a newly industrialised economy (NIE). It is the world's 13th largest trading country and it was New Zealand's eighth most important trading partner in the calendar year of 1997 (Tothill, 1998). To date, only a small amount of research has been devoted to examine this market and foreign companies operations in it (e.g. Hardee and Johns, 1988; DeVos, 1989; Hoadley, 1993). Despite its importance to New Zealand, no empirical research has investigated the operations of New Zealand firms marketing in Taiwan. Although there are a number of New Zealand firms operating in Taiwan, their operations are not well understood. Taiwan is unique because it was occupied by the Spanish, Portuguese, Dutch and Japanese. The two countries which have influenced Taiwan the most are Japan and the USA. Its political situation, economic success and its relationships with its Western trading partners, with Japan, and with the People's Republic of China have always been a source of interest.

Taiwan has been classified as an overseas Chinese economy (Redding, 1993) and its main business system is Chinese Family Business (CFB) (Whitley, 1992). Studies on the CFB have suggested a number of unique characteristics which are likely to influence foreign firms' operations in a CFB country (Whitley, 1992; Redding, 1993; Kao, 1993; Tanzer, 1994; Kraar, 1994b; Kraar, 1995b). These include family orientated business structure, high authority of the owners, and centralised decision structure. Also, similar to the influences of Japan's distribution system on foreign firms' choice of market entry mode (Batzer and Laumer, 1989; Czinkota & Woronoff, 1986; Goodnow and Kosenko, 1992; Kaikati, 1993; Kitson, 1973; Manifold, 1993; Moffitt, 1987), this study proposes that a foreign firm's decision on the choice of market entry mode is likely to be influenced by Taiwan's distribution system. The key reason behind this proposition is that Japan had a direct influence on Taiwan through its 52 years of colonisation. Much of the Taiwanese infrastructure, industries, and business systems (e.g. distribution systems) were inherited from Japan or deeply influenced by it. Also, there is very little literature on the subject of the Taiwanese distribution system. Reviewing the Japanese distribution literature may provide some insights into how the Taiwanese system works.

Overall, it is clear that the findings on New Zealand firms' choice of market entry mode are either incomplete or far from comprehensive. A body of knowledge of New Zealand firms' choice of market entry mode needs to be developed. The operations of New Zealand firms in Taiwan has not been researched. The empirical link between the choice of market entry mode and the business system and distribution system of the host country still awaits exploration. This study is designed to fill these research gaps.

This study is unique because it concentrates on examining New Zealand firms operations in one single foreign market, the Taiwanese market. Also unlike previous research (e.g. Gatignon & Anderson, 1988; Erramilli & Rao, 1993), this study adopts a new approach to include international distribution system and business system theories as part of the market entry mode choice framework. Also in contrast to previous research (e.g. Gatignon & Anderson, 1988; Kim & Hwang, 1992) which focused on examining the choice of certain types of entry modes, the current research is designed to encompass the choice of a variety of market entry modes ranging from exporting to Foreign Direct Investment (FDI).

1.2 RESEARCH QUESTION

Overall, this investigation is designed to answer the following research issue:

To determine the factors which influence the choice of market entry modes of New Zealand based companies conducting business with Taiwan.

1.3 OBJECTIVES OF THE RESEARCH

International market entry modes have been well researched. Prior studies have classified international market entry modes according to level of control (Stopford and Wells, 1972; Anderson and Coughlan, 1987; Gatignon and Anderson, 1988; Erramilli & Rao, 1993), resource commitment (Stopford and Wells, 1972; Johanson & Wiedersheim-Paul, 1975; Erramilli & Rao, 1990; Hill et al (1990) cited in Gannon, 1993, p.46; Kim & Hwang, 1992; Gannon, 1993; Root, 1994), risk involvement (Hill et al, 1990, cited in Hoang, 1995, p.20), profit sharing and ownership right (LaFrancis, 1991 cited in Hoang, 1995, p.20).

Within this research, the dependent variable is the choice of entry mode of a particular New Zealand firm. Entry mode choice is measured by the level of resource commitment in terms of managerial, technical and financial resources committed to the market by a foreign firm (Erramilli and Rao, 1990, p.140; Agarwal and Ramaswami, 1992, p.201; Root, 1994, p.109). Based on the resource commitment needed for each mode and for statistical purposes, entry modes are divided into two categories: low and high. Independent variables are those identified by past international market mode studies. Variables in this category (first dimension) include firm size, firm's cumulative international business experience, product-related characteristics, macro environments, market size and market growth of the industry. The second dimension of independent variables come from literature on the Japanese distribution system and Taiwan's business and distribution systems.

This study is unique because it concentrates on examining the operations of the firms of a single country (New Zealand) in a single foreign market (Taiwan). The objectives of this study are presented below:

- **To examine empirically the influence of selected variables on international market entry mode choice of New Zealand firms which conduct or have conducted business with Taiwan.**
- **To examine the market of Taiwan and its unique business systems/ distribution system and their influence on New Zealand firms' choice of market entry mode.**
- **To generate a research framework on which future inquiries may be based.**

1.4 RESEARCH METHOD AND APPROACH

Detailed discussion of the research methodology is presented in Chapter 5 of the thesis. In this section only a brief review will be provided.

This research starts with a comprehensive review of the literature. Research on the host market including the background of the country, political situation, relationships with its trading partners, its distribution systems and business systems as well as studies on the Japanese distribution systems are explored. A thorough review of the market entry modes literature is also conducted. The research propositions and research model are derived from this literature review.

Personal interviews were used in two pilot studies conducted in 1994 and 1996. The findings of the pilot studies were used to construct research propositions and to finalise the postal survey questionnaire. The questionnaire survey was used to collect primary data to empirically test the research propositions. The postal survey was conducted in April 1997. In total, 580 New Zealand firms conducting business with the host market were surveyed. The response rate of this study, 28.3%, is comparable to the average response rate in market entry mode literature, 28.1%.

When primary data was collected, two statistical analysis methods were used to analyse the relationship between the dependent variable and independent variables. These were chi-square and logistic regression analysis methods. Both methods are widely used and recommended in market entry mode literature (e.g. Anderson and Coughlan, 1987; Erramilli and Rao, 1993).

1.5 CONTRIBUTION TO THE LITERATURE AND KNOWLEDGE

As will be discussed in the literature review sections, most studies focusing on Taiwan have concentrated on its business systems, political relationships or international trade. The topic of the present research has received little attention in the past and further work is likely to substantially enhance our understanding of this important market for New Zealand business. By focusing on New Zealand firms' market entry methods into Taiwan, this research will integrate literature in international market entry mode, international business, New Zealand internationalisation, and research on Taiwan's business systems and Japanese distribution system together, for the first time in the case of New Zealand. Thus, the potential contributions of this study will be to the literature in international business, international marketing, export operations, New Zealand internationalisation literature and market entry into Taiwan. Specifically, this study, by examining behaviour on the choice of market entry modes of companies from different industries, might be able to confirm whether firms in different industries follow a similar or dissimilar approach in their decisions on the choice of market entry mode. Also, by studying the behaviour of firms which are controlled from overseas and purely New Zealand owned, this study is likely to point out any differences in their internationalisation process. Therefore, the findings of this study are likely to contribute significantly to the theory of internationalisation. The results in the area of the relationship between the host market's business system, distribution system and the choice of market entry mode are also likely to provide a new direction in market entry mode research.

The research implications generated by the study could benefit both private and public organisations. The research implications are likely to be of particular interest to marketers who are conducting international business or who are interested in conducting business with Taiwan or other Chinese Family Business (CFB) countries. Specifically, the findings of this study could provide some guidance for their choice of market entry mode. This could be in terms of the influence of the business structure of the local partners, the impact of psychic distance, and the use of international marketing intermediaries.

Finally, the findings of this study could also provide some useful implications for policy-makers. The large number of immigrants from Taiwan to New Zealand in the last ten years mean that immigrant links might be an issue in the choice of market entry mode. The results of this study might point out the contribution of immigrants to New Zealand firms' choice of market entry mode. This could perhaps provide guidance for those policy makers who are in charge of promoting international trade between New Zealand and Taiwan, and New Zealand's immigration policy.

1.6 THE STRUCTURE OF THE THESIS

This thesis contains eight chapters. This opening chapter introduces the background of the research, research questions, research methodology/approach, objectives of the research, contribution to the literature and knowledge, and the structure of the thesis.

Chapter 2 introduces the general background of the market studied with a special focus on analysing and evaluating Taiwan's business system and its potential impacts on foreign firms' operations in Taiwan as described in Chapter 2 and expanded upon in Appendix A

After reviewing the information related to the host market, a review on the theoretical and empirical studies on market entry modes will be undertaken. Chapter 3 is designed to review the literature regarding motivations for doing business internationally; different entry methods; New Zealand internationalisation experience; and the Japanese and Taiwanese distribution system. After reviewing the literature on Taiwan, market entry modes, Japan and Taiwan's distribution systems, a group of propositions will be derived and presented in the fourth chapter of the thesis. The initial conceptual research model will also be presented in this chapter.

The following chapter (Chapter 5) will report the research design and methodology. Details such as the location of the sample and data collection method and techniques employed to ensure a high response rate will be analysed and reported in this chapter. The types of statistical techniques used and the justification for their selection will also be reported.

Chapter 6 is designed to report the results and findings of the study. This will be followed by discussion on the findings. Chapter 7 will discuss the outcomes of the research. A discussion of the significant variables and on the research propositions will be presented in this chapter. Finally, the conclusions and implications of the research findings will be discussed in the final chapter (Chapter 8). This chapter will also address the limitations of the study and makes some suggestions for future research.

CHAPTER 2: THE GENERAL BACKGROUND OF TAIWAN

2.1 INTRODUCTION

As indicated in the previous chapter, Taiwan is a unique country because it has been at times occupied by the Spanish, Portuguese, Dutch and Japanese. Taiwan has also strongly associated with the USA. These countries have had a profound influence on Taiwan and its ways of doing business. Detailed discussion on the general background of Taiwan which includes Taiwan's history, geographical location, its people, and aspects of Taiwan's cultural, political and economic environments are presented in Appendix A. These environments have formed Taiwan's business system and contributed to its uniqueness (also to be discussed in Appendix A). This chapter is designed to focus on Taiwan's business system which is believed to have some impacts on foreign firms' operations in Taiwan. Taiwan's business system is divided into the distribution system, production system, marketing system and general management system. Because of its central role in this study and its closeness to the Japanese distribution system, detailed discussion on the Taiwanese distribution system is presented at the end of the Chapter 3, following a review of the Japanese system. A number of propositions will be extracted after reviewing literature in these areas. Propositions related to Taiwan's business system and distribution system will be considered in Chapter 4.

Before discussing the actual contents of Taiwanese business systems, an introduction to Taiwan's business structure and its special characteristics is provided.

2.2 TAIWAN'S BUSINESS SYSTEM

2.2.1 Business Structure and Characteristics of Taiwanese Business System (TBS)

S. Gordon Redding (1993, p.24) classified Taiwan as an overseas Chinese country because the overwhelming majority of Taiwanese are ethnic Chinese. Ethnic Chinese contributed to more than 95 per cent of the whole island's population. Redding and other researchers (Hamilton et al, 1990; Redding, 1993; Redding & Whitley, 1990; Tanzer, 1994; Whitley, 1992) termed the overseas Chinese business system as CFB or the Chinese Family Business because of their strong family orientated business structure. Because of its Chinese orientation, the characteristics of CFB can also be applied to Taiwan's business system (TBS).

There are several distinguishing features of the Chinese business system. The first commonly cited feature is the small average size of the enterprises. Firms in Taiwan, like firms in other overseas Chinese dominated economies (e.g. Hong Kong), are small in size especially when compared with the Japanese *keiretsu* or the Korean *chaebol* (Whitley, 1992). One partial explanation of the small size of firms in Taiwan is the common belief that self-employment is preferable to working for someone else. People in Taiwan and other Chinese societies prefer to set up their own business establishments when they acquire enough experience, capital and know-how (Wong, 1988 cited in Whitley, 1992, p.60). This concept can be best illustrated by a Chinese saying "it is better to be the bill of a chicken than the tail of an ox" (Liang, 1989, p.1194). It means that it is preferable to be the head of a small firm than to be a marketing manager of a large enterprise. The proliferation of small firms is also a result of the Taiwanese government's efforts to attract foreign investment. When multinational corporations set up their manufacturing plants in Taiwan, they then induce small scale local manufacturing firms to supply parts and components to these MNCs (Long, 1991, p.87).

The second characteristic of the TBS is its centralised management structure. This feature is discussed in more detail in the section on General Management. Because of the importance of the family in the Taiwanese business, decision making is heavily concentrated in one dominant executive, normally the key family member. In a Chinese family business, "the family is the company, the company is the family. There is no separation between owner and management" (Tanzer, 1994, p.143). For instance, the Chief Executive Officer of the largest Taiwanese private enterprise, the Formosa Group, Y. C. Wang still makes most decisions by himself. This multinational corporation employs about 3,000 people and it is owned and controlled by the Wang family (Kao, 1993, p.26). Redding (1993, p.143) indicated that the centralisation of management is especially likely in financial, marketing and personnel decision making. These decisions are normally controlled and made by the owner of the firm because of their importance to the corporation.

The third feature of the TBS is the importance of personal contacts. In general, personal relationships are of crucial importance in East Asian business systems (Japan, Korea, China, Taiwan and Hong Kong). However, they play a different role in these economies. Because of its relative smaller firm size, personal ties are of particular importance in the Taiwanese business system. For instance, when a firm needs to recruit an employee to fill a key position such as finance manager, the owner of the firm normally feels much more secure to hire a person whom he knows or is known by someone in his circle of personal contacts. Through this procedure, the owner gets endorsement of the appointment from someone he knows. This procedure may also occur in Western society, but in the Chinese society, such a recommendation may actually be more important than a person's capability. Loyalty sometimes is more important than an employee's skills in the Taiwanese business system. One effect of this characteristic of personal contacts is the hiring of family members or relatives. It is not uncommon to have several family members or relatives working for a company at the same time. This is particularly true if one family member holds a key position in a firm (e.g. human resource manager), then it is likely his or her relatives will get employed through his or her influences or connections. The emphasis on personal relationships in Taiwanese business society was echoed by Hardee and Johns' report (1988, p.17). They indicated that people in Taiwan prefer to do business with someone they know. Personal relationships appear to be more important than any other business practices. Trust and friendship definitely occupy a very important role in doing business in Taiwan. Hardee and Johns further noted "it (personal relationship) is the manifestation of a venerable Chinese belief that human interaction is the most vital and important part of life" (ibid, p.17). Personal relationships can be established in forum such as schools, colleges, workplaces and can include relatives or friends. Personal relationships in Taiwan are called *kuan-hsi*. The importance of kuan-hsi is illustrated in DeVos' work - "in Taiwan, it is unusual to do business with someone you do not personally know. The extent of your efforts in getting to know the people with whom you do business will determine the level of success you have in Taiwan" (DeVos, 1989, p.5). The take-over of Wyse Technology, a California computer firm, by Mitac, the second largest personal computer manufacturer in Taiwan, illustrates the usefulness of personal contacts in overseas Chinese society (Flannery, 1990, p.58). Wyse Technology was owned by overseas Chinese before it was acquired by Mitac.

Another major unique characteristic of the Chinese family business is their funding source. In Western societies and some oriental countries such as Japan or even Korea, banks or other financial institutions are the primary funding tool of private enterprise. But in a Chinese society, including Taiwan, business enterprises borrow money from family members, relatives or an unofficial organisation called a Mutual Help Association (Tanzer, 1994). This system provides flexibility to the Chinese family business and reduces the time of funding required. Even today, this type of funding practice is still widely used by the medium or small size of firms in Taiwan and other Chinese societies. One American report suggested that one reason why Taiwanese buyers were highly price-conscious about their American exports was because they have trouble raising capital from Taiwan's underdeveloped financial market (DeVos, 1989, p.5).

2.2.2 Elements of Taiwanese Business System

The elements of Taiwanese business systems are divided into three sections: production management system, marketing system and general management system.

2.2.2.1 Production Management System

Because of its relatively small scale, the production management system of the TBS is very different from the vertical system of the Japanese *keiretsu* or the Korean c*haebol*. One medium or large scale Taiwanese company normally has several *weixing gonchang* (Hamilton et al, 1990), meaning satellite production plants or subcontractors. When one upstream company receives an order it will have its subcontractors make components for it and then have them assembled into finished goods at the upstream company's assembly plant. An example of this is Tatung, which is the leading electric home appliance, electronics and computer manufacturer in Taiwan. When Tatung receives an order from its customers domestically or internationally it will have many independent factories to make components for it and have those components assembled on the Tatung assembly lines. Those independent subcontractors are not necessarily owned by Tatung, and Tatung is not their only customer. This type of production system is a loose vertical manufacturing system and it is very flexible. The president of Acer, Stan Shih, once noted that if Acer had not been in Taiwan it might not have enjoyed the success it has had. He attributed Acer's success to the assistance of the concentration of the computer parts satellite production system located in northern Taiwan. Levy (1988) in his comparative study of Korean and Taiwanese business structures found that subcontracting was widely used by the three Taiwanese industries he studied. In contrast, the operations of their Korean counterparts tended to be vertically integrated with a high level of internal production. This is why Korean *chaebol* are much larger in size than the family business firms in Taiwan. While the Korean firms tried to make every thing in-house, the Taiwanese firms tended to procure components from their arms-length suppliers.

2.2.2.2 Marketing System

Because of their small size, firms in Taiwan have concentrated their efforts on production and leave marketing to their export intermediaries such as trading companies or export management companies. These intermediaries not only act as raw materials suppliers to Taiwanese manufacturers but also as marketers of their products. The dependence on trading intermediaries was noted by Levy (1988). He pointed out that in Taiwan there were numerous trading companies who acted as the eyes and ears of Taiwanese manufacturers. These trading intermediaries not only collected marketing intelligence for their clients, but also sourced necessary raw materials for them. This combination provided flexibility for production in Taiwan and a basis for competing with larger firms from other countries. One often heard example in Taiwan was about why an American firm decided to transfer its orders to Taiwan from Korea and Japan. This was because it would take five weeks to be made in Korea and three months to be produced in Japan, but it only took two weeks to be completed in Taiwan. Whitley's (1992) study revealed that because of their small size and high degree of specialisation, most firms in the Chinese family business system had a very high level of interdependence. Manufacturing firms relied on the orders passed from the trading companies. Subcontractors needed to have suborders passed from major manufacturers. Redding & Whitley's (1990) study reflected this characteristic by showing that the Chinese family business was commonly linked strongly but informally with related but legally independent organisations handling key functions such as parts supply or marketing. Their study also identified that it was common for one Chinese family business to have another independent company to distribute its products for it. This system might exist for up to a decade before the company developed its own marketing programme. Redding's (1993) research pointed out that marketing of the majority of overseas Chinese manufacturers was a responsibility for others. His study implied that it was up to the purchaser of the goods produced by an overseas Chinese firm to take the risks of stock inventory and marketing. The overseas Chinese firms conducted very little market research, had very little organising distribution, had almost no sales policy and placed very little reliance on trade marks. These practices involved very low risks but were associated with low profit margins (Redding, 1993, p.171). In contrast to these comments, Kao's study (1993) argued that some Taiwanese MNCs had adopted different marketing approaches to upgrade their international operations. He introduced the term, the *Chinese Commonwealth,* to describe the network of overseas Chinese. His research identified the strategies adopted by one successful Taiwanese computer company, Acer, including stock ownership to employees, decentralisation, doing its own R&D and creating its own brand name. It is now one of the largest personal computer suppliers in the world and it is one of the few made-in Taiwan global brand names. Because of its dynamic combination of technology development and resources, the *Chinese Commonwealth* provided knowledge arbitrage, which meant a new computer could be designed in Silicon Valley by engineers from Taiwan, be produced by some other low labour cost commonwealth members such as China, and then be distributed around the world by other ethnic Chinese groups such as the international marketers in Hong Kong.

2.2.2.3 General Management System

Tanzer (1994) stated that in the overseas Chinese society family is the company and vice versa. In the Chinese business structure there is no separation between ownership and management. Chinese firms are heavily controlled by the patriarch and management positions are traditionally entrusted to family or clan members only. One example of this is the already mentioned company, the Formosa Plastics Ltd. As indicated in this section, this group company is owned and managed by the Wang family.

However, this type of patriarchal management style has been challenged. When a Chinese company's size is small, this management style might work well. However, when it starts to grow, this management style becomes a competitive disadvantage to the company's growth. One reason is the lack of professional management. As Kao (1993, p.26) indicated, "a Chinese entrepreneur may keep a poor manager on because he is family." Kraar's (1994b, pp.67-68) study of the lessons from overseas Chinese provided one exception of the traditional management system. Kao Chin-yen, the founder of President Enterprise which is the largest food company in Taiwan, has built a world-class food conglomerate by relying heavily on professional managers. Besides the situation of the President Enterprise, Acer Computer's business culture is also very different from the traditional Chinese custom (Kraar, 1995b, p.77). Unlike custom which requires that top management pays little attention to subordinates' opinions, Acer Computer's CEO has broken this tradition and allows his employees to interview and express their views of their future superiors before he makes a final decision. This culture may also partially explain Acer's success (as discussed previously).

Overall, the management system in Taiwan is similar to other overseas Chinese societies which are still family orientated. Even though there are a few exceptions, such as Acer, Mitac or the President Enterprise, family influences are still very strong in the Taiwanese business society. The concept of the separation of ownership and management is new to Taiwanese entrepreneurs. Total reliance on professional management is not generally seen in modern Taiwanese business society. It is, therefore, expected that the operations of New Zealand sourced products is likely to be affected by Taiwan's business system.

2.3 SUMMARY

In summary, this chapter has focused on examining a key aspect of Taiwan - the Taiwanese business system and its structure and characteristics. Taiwanese business system is divided into production management system, the marketing system and the general management system. Issues and implications of each element have been examined.

CHAPTER 3: LITERATURE REVIEW

3.1 INTRODUCTION

Although this study focuses on examining and analysing New Zealand firms' operations in Taiwan, it is necessary to first review the more general literature related to the internationalisation of business. The scope of the literature review section includes the motivations for doing international business, international entry strategies, New Zealand's internationalisation experience, and the Japanese and Taiwanese distribution systems.

It is important to understand the motivations for firms to do business internationally because these are the basis for international business. After understanding the motivations to do business internationally, the next task is to examine the types of entry methods which are available to international traders and their experience of using them. After reviewing international entry strategies, these are then applied to New Zealand firms seeking to internationalise their business. As well as entry methods, other relevant issues to be considered include the peculiar characteristics of New Zealand's internationalisation experience, distribution channels and management structure. The chapter then considers one of the core topics of the study, the Taiwanese distribution system. The study also reviews research on the Japanese distribution system which has significantly influenced the Taiwanese system, to generate some research hypotheses.

Specifically, the first part of this chapter covers the reasons for companies to go international. Ideas and findings from different studies are synthesised. The second part of this chapter reviews the literature on the international entry methods. Within this study, these methods are discussed in three broad areas: indirect exporting, direct exporting and overseas manufacturing. Knowledge gained from theoretical and empirical studies are synthesised under each section. The third section is designed to review the literature of New Zealand internationalisation experience.

The final part of this chapter reviews the literature on Japanese and Taiwanese distribution systems. Taiwan was occupied by Japan for more than 50 years (refer to Appendix A). There are a number of similarities between these two countries in terms of culture, business practices, marketing distribution systems, etc. Some details are discussed in the Appendix A. Numerous researchers have completed studies on the Japanese distribution system (Batzer & Laumer, 1989; Czinkota & Woronoff, 1986; Kaikati, 1993; Kitson, 973; Tajima, 1994). Research in this area has been well developed. However, observations on the Taiwanese distribution system have been limited with few studies being devoted to this area (Chuang, 1977; Chang and Sternquist, 1993; Dai, 1991; Lin L. I., 1990; Lin, M. D., 1994; Liu, 1990; Liu, 1992). Because of this constraint, this study also utilises work on the Japanese distribution systems together with the few available studies on the Taiwanese systems (most of which were written in Chinese) to gain a general understanding about the development of Taiwan's distribution system.

3.2 REASONS FOR DOING BUSINESS INTERNATIONALLY

There are many reasons for companies to go overseas to market their products. Doing business internationally is far more important to smaller economies such as New Zealand than larger economies such as the USA. New Zealand's dependence on international trade can be seen from the following statement:

> *"New Zealand exports approximately 20% of its gross domestic product (GDP), whereas a large country, like the USA, exports approximately 8%"*
> *(Lindsay, 1989, p.2).*

Companies from different countries could have their own unique reasons for doing business internationally. The following lists some general motivations and benefits of doing international business. Some of them are particularly important for firms in a small economy such as New Zealand.

Market opportunities

International business is becoming more important in terms of market opportunities. New Zealand's population is about 3.4 million people, while the world's population is about 3.4 billion. This means that New Zealand's population constitutes only 0.1% of the total population in the world (Mueller-Heumann & Duffy, 1994, p.368). The size and opportunities available in overseas markets is a major motivation for firms to do international business.

Market saturation

The markets for a variety of goods in the Western countries are rapidly becoming saturated. This means that firms must develop new markets in order to grow or even to survive (Chee & Harris, 1993 , p.243). One way to grow is to extend their products to overseas markets. Products like kiwifruit and dairy products are saturated or might be in the maturity or even decline stage of their product life cycles in the New Zealand market, but their product life cycles are in the introduction or growth stages in countries such as the PRC and Taiwan. It could be an attractive strategy for New Zealand traders to export these products to those markets for continued growth (Ansoff and McDonnel, 1990). Luostarinen (1981, cited in Harrison, 1990, p.23) echoed this by noting that international markets must be considered at an earlier stage of the company development when the source country's domestic market is small. For companies from small domestic markets, entering the world market is a necessary step for their firm's continued growth.

New Zealand-made goat milk powder or tablets provide other examples. These products are not new and while not in their introductory stage to New Zealand consumers, they are just being introduced to the Taiwanese market. People view these products as healthy goods and are willing to pay a premium price for them. The demand is higher than supply in such markets. Cigarettes provide a further example. They are saturated, discouraged or prohibited consumption in Western countries but they are just in growth or maturity stage in some Third World Countries.

Economies of scale

Where economies of scale are important, a large market is essential. If the domestic market is not large enough to absorb the entire output, the firm could enter international markets to increase sales and production (Ansoff & McDonnell, 1990; Chee & Harris, 1993, p.243). After examining the New Zealand's domestic market situation (i.e. limited market opportunities), one study indicated that New Zealand-based manufacturers could enjoy the benefits associated with economies of scale if they could market their products internationally. New Zealand producers could lower their unit production costs and increase their competitiveness by achieving these economies of scale (Mueller-Heumann & Duffy, 1994, p.368). Economies of scale can also be applied to new product development. If new products are developed for a small market only (e.g. New Zealand), their new product development costs will be higher than if they are designed for a larger market (e.g. the USA). Seeking economies of scale is another reason for firms to define the world as their market.

Hedge against recession

If a recession begins in the domestic market, then firms that are doing business internationally could shift their efforts to markets which have not been affected by the recession (Chee & Harris, 1993, p.243). The business cycle in the home country may be under recession, but the firm's overseas markets could be in prosperity. If its products could be sold in those markets, then the company can hedge the risks of being affected by the slump in the domestic economy.

Competition

As Mueller-Heumann & Duffy (1994) pointed out "because of relaxation of importing policy, including reductions or removal of duties and tariffs, foreign products are capturing a larger share of this market (New Zealand)...Many foreign competitors, because of their large production volumes and minimal costs, can deliver products at much lower prices than small New Zealand business can...New Zealand business faces competition from both abroad and locally. Businesses that rely solely on the New Zealand domestic market are likely to find their market share declining. Survival in the face of such odds requires businesses to find customers outside New Zealand (p.368)."

Besides the above reasons, one Australian study identified two other factors which had drawn Australian companies into international market places: a weakening of marketing opportunities at home and a growing demand for Australian made products in overseas markets, especially the Asian markets (Kotler et al, 1994). The study discussed the experience of Pacific BBA and Kambrook, both are Australian multinational corporations, to demonstrate the importance of international marketing to Australian companies. Pacific BBA's strategy was to establish manufacturing plants in its target markets, while Kambrook's was to design products in Australia, then had them produced in China and to distribute them to different markets from there (Mann & Short, 1991 cited in Kotler et al, 1994).

Besides these motivations, there are other developments which have encouraged firms to conduct cross-border business. Levitt (1983, p.92) pointed out that the improvement of technologies in communication and transportation had considerably lowered the costs of international business. The improvement of communication technology had also driven different markets towards convergence. This trend had enabled multinational corporations such as Sony, Coca Cola, PepsiCO and Ford to develop global products. One benefit of supplying standardised products globally is to gain economies of scale in marketing research, distribution, research and development (R&D) and marketing programmes. Some New Zealand exports such as kiwifruit, apples, pears, milk powder, etc. are marketed internationally under product standardisation strategy which means these products marketed overseas are similar to those sold in the domestic market.

3.3 INTERNATIONAL ENTRY METHODS

3.3.1 Introduction

When a firm understands the benefits of doing business internationally and decides to commit itself to international business and chooses which market to enter, the next step is to determine a suitable entry mode. The selection of a particular market entry mode will have a major impact on the firm's success in the overseas market. This section examines various entry methods and their implications. Before discussing entry methods, a review of previous literature which has discussed various international business involvement provides a more thorough picture of international entry strategies.

3.3.2 Theories of International Business Involvement

Cateora (1993, pp.18-19) introduced a four-level involvement model in international orientation: (1) none, (2) infrequent, (3) regular, or (4) global. Companies who enter international markets fall into to one or the other categories. Under the first level, firms make no active commitment to international marketing. International sales occur only when foreign buyers approach the firm. At the second level, organisations may sell surplus goods generated by over production or due to market demand fluctuations to international markets. But the firm conducts very few changes in its operating style. Organisations in the third group have already developed marketing strategies to achieve their aims. At the last level, global marketing operations, companies make total commitments to their global business operations. Such firms view the whole world as one market.

One other useful international orientation model was also reviewed in several studies. This theory was initiated by Howard Perlmutter in 1967 (Lindsay, 1989, p.51). This approach suggests that firms who commit themselves to international marketing have different attitudes toward international marketing activities. Perlmutter divided these attitudes into four categories: ethnocentrism (home country orientation), polycentrism (host country orientation), regiocentrism (regional orientation) and geocentrism (world orientation) (Chee & Harris, 1993; Keegan, 1995, pp.20-21; Lindsay, 1989, p.51;

McColl-Kennedy et al 1994, pp.526-527; Wind et al, 1973). Firms with an ethnocentric orientation view overseas markets as secondary or a 'child' of the domestic operation. Their primary concern is with domestic markets. In ethnocentrism, foreign markets are viewed as a place to dispose excess domestic production. Many companies start out practising ethnocentrism then move to polycentrism or even regio- or geocentrism. Organisations with a polycentric manner are able to identify each market's unique characteristics and the entry method to each market is tailored to meet the needs of that market. Under this practice, the foreign firm establishes an autonomous subsidiary in each foreign market where it sells products. The foreign office is normally an independent profit centre or cost centre. Firms with a regiocentrist or geocentrist attitude treat the region or the entire world as a single market and tend to realise both similarities and differences in various markets. Firms which practise geocentric or world orientation attempt to create global marketing strategies. The ultimate goal of these companies is to establish global products (McColl-Kennedy et al, 1994, p.527).

After reviewing these theories, the following sections review both theoretical and empirical studies of entry strategies which are classified into three general categories: indirect exporting, direct exporting and overseas manufacturing. The first section discusses the indirect exporting strategies.

3.3.3 Indirect Exporting

3.3.3.1 Introduction

This mode of international entry method involves goods/ services transferred across national borders through international marketing intermediaries (Young et al, 1989, p.1). Normally these intermediaries are located in the home market. Through these intermediaries, manufacturers' products are able to be sold to overseas markets. Indirect exporting occurs when an exporting firm markets its products to overseas markets in an indirect way. The exporting firm itself does not make special efforts to promote its products because all of the marketing functions are carried out by international marketing intermediaries. One study characterised exporting (both indirect and direct) as a low-risk international entry approach (Scholl & Guiltinan, 1995, p.670). Kotler et al (1994, p.625) described "exporting" as the simplest way to enter an overseas market. Shama (1995) reported this strategy as the easiest and most commonly adopted entry method. This strategy exposed the international company to the lowest financial risk. This observer further stated that this strategy was very suitable for firms which viewed international marketing as an extension of their domestic market operations. Shama researched 125 US companies who conducted international business in the Newly Independent States (NIS), the Baltic States, and other Eastern European nations and found that export/ import together with joint ventures were the two most often used entry strategies. One explanation for these choices was the lower risks associated with these two entry methods.

The methods of conducting indirect exporting include exporting via an international trading company, export management company (EMC) and piggybacking (Young et al, 1989; Chee & Harris, 1993; Terpstra and Sarathy, 1994; Mueller-Heumann & Duffy, 1994). Each option is discussed in detail below. After examining the theoretical literature, major empirical studies will be reviewed.

3.3.3.2 International Trading Company

The first type of indirect exporting happens when manufacturers (international marketers) market their products through an international trading company. This trading company could be owned by locals or by foreign companies, but it is based in the manufacturer's home country. A trading company pays the costs of the products and owns the merchandise. Some trading companies are large and buy foreign products for their own uses or for resale in their own market and/ or to a third-country market (Chee & Harris, 1993, p.292; Mueller-Heumann & Duffy, 1994, p.381), while others are small-medium sized companies. Schoell & Guiltinan (1995, p.670) defined an international trading company as a "privately owned business that buys and sells products in many different countries, either in its own name or as an agent for its buyer-seller clients." The manufacturers will not have any power to control whom the trading company sells to. Some well known international trading companies include the Japanese Sogo Sosha (general trading companies such as Mitsui, Mitsubishi, C. Itoh & Co., Marubeni, etc.) and European origin trading companies such as the Swire Group and United Africa Company which is part of Unilever and is the largest trader in Africa (Terpstra & Sarathy, 1994, p.376). The Japanese general trading companies handle the majority of Japanese imports. Sogo Shoshas have representatives and marketing distribution channels in almost every country in the world (Taida, 1992).

Previous literature suggests that this style (international trading company) of international market serving mode is more important for Korean and Japanese trade, but less so in Europe (Chee & Harris, 1993, p.292). The benefits of using international trading companies to export products to overseas market include:

- Trading companies have good knowledge of overseas markets. It is easier to sell products to some overseas markets through them.
- Trading companies tend to offer many services to their clients which include arranging importing and exporting shipping procedures, preparing export documents, storing and transporting, and distributing products through their distribution networks. Manufacturers can, therefore, concentrate on production (Schoell & Guiltinan, 1992, p.714; Chee & Harris, 1993, p.293).

However, one major disadvantage is that because most of the trading companies are general merchandisers and one individual manufacturer's goods only occupies a small amount of their sales, especially for small or medium sized exporters, therefore one manufacturer's merchandise may not receive enough attention from its traders (the trading companies). Another drawback to the exporter is its sales to the trading companies are just like another domestic business, therefore it is still far removed from the target market and its end customers. The exporter has little control over its products (Terpstra & Sarathy, 1994, p.376). The feedback from the market is also limited.

3.3.3.3 Export Management Company (EMC)

The second form of indirect exporting is through an export management company (EMC). EMCs act as the principals' representatives and use their letterheads (Brasch, 1981). Many EMCs operate as contract export departments for their principals. EMCs often represent their principals in negotiations with overseas customers and they often represent several noncompeting principals at the same time. In return, they receive commission payment from the principals (Schoell & Guiltinan, 1992, p.714; Mueller-Heumann & Duffy, 1994, p.381; Terpstra & Sarathy, 1994, p.377; Schoell & Guiltinan, 1995, p.671) or from discounts on goods they buy for resale overseas (Brasch, 1981). Chee & Harris (1993, p.292) suggested that EMCs were particularly useful for small-medium sized exporters because of their speciality. EMCs could either take titles of the goods (Brasch, 1978) or not take titles (Cateora, 1993). EMCs entry mode is associated with several advantages.

- EMCs have considerable knowledge of overseas markets and have access to numerous markets. Producers can gain foreign market information in a short period of time (Chee & Harris, 1993, p.292; Mueller-Heumann & Duffy, 1994, p.382; Terpstra & Sarathy, 1994, p.377).
- As stated above, EMCs are paid on commission, so they are more motivated than other indirect exporting intermediaries, no deals, no pay (Terpstra & Sarathy, 1994, p.377; Chee & Harris, 1993, p.292).

- EMCs, most of the time, represent several producers simultaneously. They can, for example, arrange cheaper transportation costs by consolidating their principals' products together.
- Some producer's product lines are not wide enough to attract overseas buyers. EMC might be able to capture more overseas customers' attentions through getting different manufacturer's products together. Because of this wide representation, the principals can also gain the economies of scale in management and other areas (Chee & Harris, 1993, p.292).

There are a number of disadvantages which result from this method.

- One individual principal's exports may not receive sufficient attention from the EMCs because they deal with several producers simultaneously.
- The exporter may not gain international marketing knowledge and experience because of the distance between customers and suppliers.
- EMCs tend to specialise in some overseas markets or particular product lines, the principal may need several EMCs in order to achieve substantial coverage (Chee & Harris, 1993, p.292).

3.3.3.4 Piggybacking Exporting

This type of indirect exporting occurs when an exporter enters into a collaborative arrangement with one overseas major multinational enterprise (MNE) or a major domestic manufacturer to market the exporter's goods in the target foreign market along with their own products. For instance, piggybacking has been utilised by some American MNEs to break into the Japanese market which is complex and hard to conquer for Western firms. General Food's Maxwell House Coffee was sold in Japan by the Japanese food giant, Ajinomoto, through a piggybacking arrangement with this firm (Goodnow and Kosenko, 1992). Toys "R" Us once sold its toys together with McDonald's hamburgers in Japan in McDonald's restaurants when it first entered the market (Kaitati, 1993, p.36). The overseas MNE or domestic manufacturer is normally a larger company who is called the carrier, while the exporter is termed the rider. Normally the MNE or the major manufacturer has well established export facilities and distribution networks. Under a piggybacking exporting agreement, the MNE or the manufacturer uses its overseas distribution to market the rider's brands along with its own products (Chee & Harris, 1993, p.292; Mueller-Heumann & Duffy, 1994; Terpstra & Sarathy, 1994, p.381).

There are two possible piggybacking or joint marketing arrangements:

> *"the carrier can act as an agent by selling the rider's products on a commission basis; or the carrier can act as a merchant and buy the products outright to resell them" (Chee & Harris, 1993, p.293).*

The advantages and disadvantages of this method are summarised below (Young et al, 1989; Chee & Harris, 1993, p.293; Mueller-Heumann & Duffy ,1994, p.382; Terpstra and Sarathy, 1994, p.381; Terpstra and Yu, 1990).

Advantages for the rider:

- It offers a simple and low-risk method of entering an overseas market.
- It requires the rider to make little capital and/or human resources investment.
- It provides immediate access to one foreign market, especially for small-medium sized firms with scarce financial resources. The rider can take advantage of the carrier's expertise on the foreign market or the carrier's distribution system in that country (Terpstra and Yu, 1990).
- It gives the rider access to established export and distribution facilities.
- It can lower unit operating and/or distribution costs.
- Unlike direct exporting strategies where trading intermediaries often carry competing brands, piggybacking carriers will carry only products which are complementary to those of the rider (Terpstra and Yu, 1990).
- Piggybacking provides the rider with a tool to build up its internationalisation experience. Piggybacking is often used as a transitional strategy. It is often possible

for the rider to change its entry mode when it accumulates adequate international business experience (Terpstra and Yu, 1990).

Weaknesses for the rider:

- It might be difficult to find a suitable piggybacking partner.
- Its products might be a second priority to the existing carrier's product lines.
- Its future market development may be impeded because of its dependence on the piggyback agreement. Sometimes, the rider might find itself under the control of the larger MNE or the carrier. Also because the rider has no presence in overseas markets, it would not be able to receive first hand customer information. This could be another factor likely to impede its future growth.
- Returns could be relatively small compared to other more direct entry alternatives.

Advantages for the carrier:

- The new non-competitive product may make up the gap in the carrier's product lines. It is an easy and profitable way to expand the carrier's product offering (Terpstra and Yu, 1990).
- The carrier may be able to gain economies of scale in the marketing mix or other areas such as marketing research. There is not much difference in costs between conducting marketing research for a product line or for several product lines. Also, if utilisation of the carrier's distribution channel were affected by seasonal demand and supply, the carrier might be able to reduce the fluctuations by carrying these extra products.
- Piggybacking can also create more awareness in the overseas market. One-stop shopping is the trend internationally.
- It can also provide the carrier more product lines to offer to its clients. The carrier may not be able to satisfy those customers' needs with its own product ranges alone.

No drawbacks for the carrier have been identified by previous studies.

3.3.3.5 Empirical Studies of Indirect Exporting Strategies

There are a number of studies which have considered the use of indirect exporting entry strategies empirically. As discussed above, previous research has indicated that the use of an international trading company is more important for those economies in East Asia such as Japan, Korea and Taiwan. However, how this method is actually used in these countries is poorly understood. One study provides some understanding. Levy's (1988) empirical study identified how international trading companies could assist small size firms in a newly industrialised economy (NIE) to succeed internationally. In his comparative study of the strategies adopted by Korean and Taiwanese exporters, Levy (1988) researched three industries, footwear, keyboard producers and personal computer makers in both countries and found that one major difference between Taiwanese and Korean producers was their size. The small size of Taiwanese firms contributed to their dependence on Taiwanese international trading companies to market products for them. Because of their global coverage, Taiwanese trading companies had uncovered export opportunities for Taiwanese manufacturers. Together with their other major feature, flexibility, exporters in Taiwan were able to find niche markets internationally with the help of the trading companies which acted as the Taiwanese exporters' eyes and ears. Not only could they provide international channels for products made in Taiwan, but they also provided market intelligence for the Taiwanese manufacturers. As a result of this, products made in Taiwan were able to be marketed in many parts of the world. Taiwan had emerged to become one of the top personal computers and computer components suppliers in the world. On the other hand, Levy indicated that Korean producers were generally large in size and most Korean business was controlled by the *chaebol,* or the Korean conglomerates. The large size of Korean firms allowed them to establish their in-house trading house. These in-house trading houses were established as marketing arms of Korean manufacturers. Korean producers adopted a vertical integration strategy (conduct each stage of production within the organisation) while small Taiwanese firms employed a horizontal approach.

Similarly, the empirical differences between trading companies in another two East Asian economies, Korea and Japan, have been examined. Amine's (1987) study of the export trading companies (ETCs) in Japan, Korea, Brazil and the United States examined these trading companies' origins and missions, performance levels, types of diversification, types of competitive advantage and their current problems and opportunities. The study found that Japanese Sogo Shoshas (general trading companies) competed across borders with other nations' companies because of their broad scale of operations. These general trading companies (GTCs) had operations in almost every nation on earth. In contrast, the ETCs from Korea and Brazil were niche marketers, although Korean ETCs were beginning to compete directly with their Japanese counterparts. ETCs from Korea and Brazil were not global competitors yet. Competition facing Japanese Sogo Shoshas came mainly from two sources: the four tigers with their low-cost operations and Western European and North American multinationals with their strong design and technological edge. In response to increasing competition, Japanese GTCs had established joint ventures with their competitors. Similarly, Korean ETCs adopted joint ventures as a means of entering high-tech industries. In comparison with the situation of Japanese GTCs and Korean ETCs, Brazilian ETCs had avoided much international competition by positioning themselves as basic consumer goods suppliers to developing markets. They also strengthened themselves through intra collaboration with other Brazilian ETCs. On the other hand, the US ETCs (such as Sears World Trade Inc., a joint venture between Sears, Roebuck and First National Bank of Chicago) appeared not only to be competing with foreign competitors but also among themselves. Sears World Trade Inc. was challenging both Sogo Shoshas, European multinationals and other major US enterprises in the areas of general trading, third-nation trade and vertical integration.

The last difference between the export trading companies in these four countries was the degree of support from their own governments. When compared with the support from the Japan's Ministry of International Trade and Industry, Korean Ministry of Trade and Industry or Brazilian CACEX (Bank of Brazil's Foreign Trade Department), there was no such support system found in the American ETCs. This situation was probably a reason why US ETCs were experiencing extensive teething troubles internationally and domestically.

The findings of Amine's study on Korean ETCs are consistent with Levy's observation. Korean trading houses may not be as large as their Japanese counterparts but they are much bigger than Taiwanese trading companies. This large scale enables them to conduct vertical integration and then enables them to gain economies of scale which is a major competitive advantages of Korean MNEs. These two authors' research findings indicate that the size of exporting firms may have some implications for the way they enter international markets.

Amine's (1987) finding on government support to international trading companies in Japan and Korea is also consistent with Whitley's (1992) and Levy's (1988) observations. Government support may be different in the East Asian nations, but it does play an important role in developing these countries' trading business.

The published empirical literature on export management companies is limited (Bello & Williamson, 1985; Brasch, 1978; Hay, 1977 cited in Williamson and Bello, 1984, p.27; Williamson and Bello, 1984). In an early attempt, Brasch (1978) investigated 198 US export management companies' operational profiles including organisational characteristics, breadth of country expertise, breadth of product expertise and cost of using an EMC. Some of this study's key findings are as follows: Contrary to a view of the conceptual literature (Chee & Harris, 1993), EMCs' customers were not just small manufacturers. EMCs were also used by large manufacturers.

The conceptual literature has also suggested that EMCs normally do not take title of the goods they represent. However, this is not supported by Brasch's study. The findings of Brasch's research indicated that only 8 per cent of his respondents never took title of the merchandise they marketed. Brasch's research findings indicated that EMCs do accept title and credit risk.

Another empirical study was conducted by Williamson and Bello (1984). Their study of 283 export management companies listed in the *US Department of Commerce* directory on EMCs was designed to test three major issues of export management companies: the operating arrangement, ownership of the goods and the size of the sales. These three issues were considered as important to the operations of American EMCs. The research findings supported the view that an EMC which entered either a contractual or an administered relationship with an American manufacturer or supplier (M-S or the principle) had a more stable EMC/ M-S relationship than those EMCs which dealt with M-S at arm's length on each export sale. The research also suggested that EMCs would most benefit if they entered an informal, unwritten arrangement because it would provide EMCs much more flexibility in choosing suppliers. In terms of the second and third issues, this study revealed that whether or not an EMC took title of the goods it exported had an effect on its relationship with its M-S. An EMC's relationship with its M-S was also affected by the volume of sales it generated for its principal. EMCs which took title to goods were most likely to experience marketing channel instability with their M-Ss if the export sales revenues which they generated for their principals were relatively low (less than US$1 million) (Williamson and Bello, 1984, p.38).

Willamson and Bello's findings were consistent with Hay's (1977). This research indicated that whether or not an EMC took the title of goods exported to overseas would influence the sales volume that it could achieve. Similar to the term used in Hay's study, the term "export management company" had been used as a generic term for any indirect exporting activity. It broadly referred to "any US based firms whose principal domain of business is the management of the export of products made by one or more unrelated US manufacturing concerns" (Williamson and Bello, 1984, p.25).

In another attempt, Bello and Williamson (1985) studied 297 US EMCs' operational behaviour. They divided these EMCs into three categories: conventional EMCs (no agreement between suppliers and EMCs), administrative EMCs (informal agreements between suppliers and EMCs) and contractual EMCs (formal contract between suppliers and EMCs). They examined these EMCs' behaviour by using variables such as size of export volume, product lines, number of suppliers represented, export role, geographic market exclusivity and so on. Some key findings of this study included: Conventional EMCs were suitable for suppliers whose products were readily adaptable to foreign markets and did not require aggressive marketing efforts. This was because this type of EMC was merchants and took titles in the domestic transaction. It was almost risk free. However, this type of EMC was less likely to commit a full effort to look after a supplier's brand.

In contrast, the administrative EMCs were suitable for suppliers whose products required flexible and efficient access to international markets. Administrative EMCs ordered directly from their suppliers and bought at or below domestic wholesale price and they received promotion assistance from their principals. On the other hand, because their operating agreements with suppliers were specified in the contract, contract EMCs could operate in foreign markets with the certainty that their suppliers would perform the activities necessary to complete international transactions. Contract EMCs were appropriate for firms which had the capacity and willingness to perform contractual commitments over a long period of time.

The observations of Williamson & Bello (1984) and Bello & Williamson (1985) on EMCs together with Levy's (1988) research findings on trading companies seem to suggest that the size of exporting firms is a determinant for their market entry mode choice.

With respect to the piggybacking empirical study, Terpstra and Yu (1990) examined 65 piggybacking operations. These operations were conducted in the 1970s and 1980s. One of them was conducted by Sony. In the early 1970s, Sony marketed the products of eight US companies in the Japanese market by using its existing marketing channels. Using piggybacking practice, Sony was able to carry complementary products which were compatible with its product lines. From the US companies' perspective, they could utilise Sony's local knowledge, distribution and service networks and brand image and overcome the social and cultural differences between Japan and the US.

The strategy of piggybacking could also be utilised by firms from developing countries. Terpstra and Yu (1990) illustrated this with PRC firms' experience. They indicated that because the producers of the PRC had the problem of a lack of foreign market knowledge, brand image and distribution channel, a good solution was to piggyback with producers from OECD markets. Two examples of this were Chinese-made sport shoes sold in the US under the brand of Nike and the Chinese-made radios carrying the logo of Sanyo.

3.3.4 Direct Exporting

3.3.4.1 Introduction

In the previous section, indirect exporting market entry methods have been examined. In fact, sales through indirect exporting mode are like a domestic sale. Firms employing indirect exporting mode conduct international business via other trading organisations (e.g. export management companies). Sometimes, maybe most of the time, the firm does not even know who the buyers of its products are in overseas markets. Terpstra and Sarathy (1994, p.384) recognised that both the international marketing know-how and sales achieved by indirect approaches are finite. Unlike indirect exporting in which all the exporting procedures are carried out by institutes outside of the producing organisation, direct exporting requires the exporter to handle most of exporting procedures within the organisation. These procedures include market contact, export documentation preparation and arrangement, overseas buyer search, international marketing research, physical distribution set-up, pricing and promotion. Under this type of structure, the exporter normally sets up an international marketing or export department to take responsibility for the whole exporting business. In direct exporting practice, the exporter handles almost all the exporting procedures within organisation although it may still rely on some intermediaries to distribute its products to foreign end customers. When the producing organisation finishes producing its products in its home market and ships them to an overseas market, there are four different routes to distribute them to the end users in that market. The production sites of adopters of both indirect exporting and direct exporting strategies are based on their home country. These routes include agents, distributors, overseas marketing subsidiary and home-based sales people (Chee & Harris, 1993, pp.294-297; Kotler et al, 1994, p.625). Detailed discussion on each option is presented below.

3.3.4.2 Agents

Chee & Harris (1993, p.294) defined an agent as "an individual or organisation that acts on behalf of a principal to bring the principal into a contractual relationship with third parties to whom the principal's products/services can be sold, i.e. they act as intermediaries between supplier and end-user". There are several different types of agents, according to their study, but the important ones are commission agent, service after sale agent, stocking agent and del credere agent, a type of agent that accepts credit risk plus agreeing to pay the principal in the case of a default by the customer.

3.3.4.3 Distributors

According to Chee & Harris (1993), distributors are the customers of the principal and who have been given by the principal exclusive or preferential rights to sell and purchase its products in the overseas market. Under this definition, distributors own the title of the goods when they pay the principal. These two authors indicated that about 80 per cent of UK exports were through this type of direct exporting method.

3.3.4.4 Overseas Subsidiary

Anderson and Coughlan (1987, p.71), in a study of US semiconductor firms' choice of market entry modes, indicated when a manufacturer developed a new industrial product, it had at least two ways to distribute that new product to its overseas buyers - the captive agents (manufacturer's sales force or company owned distribution system) and independent intermediaries. If captive agents entry method was chosen, it meant that the firm used its own distribution system or its own sales force to market the product in a foreign market. The choice of independent intermediaries meant that the firm used an independent agent or distributor to sell the product in the host country. When a company practised the option of captive agents, it intended to integrate its foreign distribution channels with its domestic operations.

Chee and Harris (1993, p.297) indicated that there were at least three methods for a firm to sell its products in foreign markets. These included exporter's own sales force, setting up an overseas branch office and setting up an overseas marketing subsidiary. The first alternative became feasible when qualified agents were not suitable or available. An overseas branch was established when an overseas market sales had grown too large for the agent or distributor to handle. This branch would also enable the exporter to communicate with its customers more effectively and efficiently. It would also help the exporter to monitor its competitors' activities. The third option appeared to be feasible only if the size of the market was substantial enough to offset the cost of setting up a marketing subsidiary.

3.3.4.5 Home-Based Salespeople

Similar to Chee and Harris above mentioned option, Kotler et al (1994) and Albaum et al (1994) suggested that the international firm could also send home-based salespeople abroad at certain times to expand its international business. This is another alternative to conducting direct exporting.

In general, the recognised advantages by the past studies about direct exporting are better control, more direct marketing information, higher investment return, higher market potential, etc. One drawback to direct exporting strategies is the marketer's dependence on its overseas distributors or agents handling the marketing functions for it (Terpstra and Sarathy, 1994; Muelleur-Heumann & Duffy, 1994, p.383). However, this problem can be resolved by creating its own sales presence in the overseas market.

3.3.4.6 Empirical Studies of Direct Exporting Strategies

Similar to empirical evidence on indirect exporting entry strategies, there are also a number of studies which have demonstrated the practical applications of direct exporting. Some empirical studies were conducted to investigate if entry methods adopted by exporting firms have met with that country's special characteristics. For instance, the results of a number New Zealand studies have found that the size of exporting firms are related to their market entry modes selection. Small scale companies tend to adopt less committed entry strategies. One New Zealand empirical study (Akoorie & Enderwick, 1992) which surveyed 252 New Zealand companies engaging in international operations revealed that exporting in its various forms accounted for 77.3 per cent of its responses.

These forms included using overseas distributors, overseas sales branches, and New Zealand agents. This study concluded that the wide usage of exporting entry methods by New Zealand international traders was attributable to one major characteristic of New Zealand exporting firms, small size.

Similarly, Hoang's (1995, p.258) study of 355 New Zealand manufacturing goods exporters also confirmed the proposition that New Zealand exporting firms tended to deal directly with overseas intermediaries. About 55 per cent of his respondents indicated that they extensively used or often used overseas agents/ distributors. This compared with only 11.7 per cent of firms who revealed that they extensively used or often used local New Zealand agents/ distributors to market their products.

In a similar vein, Samiee & Walters (1990), in a study of 1,800 US firms, tended to examine the important differences of exporting problems facing small and larger firms. The determinant used to distinguish a firm's size was the number of full-time employees. The cut-off figure for the division of small and larger exporting firms was 100 full-time employees. The research revealed that among those problems encountered by both small and larger exporting firms, the primary problem was the difficulty of finding suitable foreign agents and distributors. The problem of foreign agents and distributors was also evidenced by Cavusgil (1984b) whose study was designed to investigate the export behaviour of three types of exporters (i.e. experimental, active and committed exporters) which were classified based on their degree of internationalisation. Cavusgil found that the most pressing problem facing experimental exporters was working with foreign distributors. The most significant exporting problem for active and committed exporting firms was foreign currency exchange rate fluctuation.

Besides the size of the firm which could affect a firm's market entry mode selection, other direct exporting empirical studies focus on the effect of other issues such as "psychic distance" on exporting firm's market entry method selection decision. For example, Robles (1994) surveyed 57 American catalogue firms which were active in international markets. His research was designed to examine if US catalogue firms who entered a culturally similar market performed better than those who entered a culturally dissimilar market and if market entry mode selection was related to US catalogue firms' export performance. The study revealed that it was not able to find any relationship between the mode of entry and sales performance. The results showed that an increased presence or variety of entry modes used did not result in better sales performance. Each entry mode had an equally successful or unsuccessful opportunity. The author, therefore, concluded that method of entry was not a good indicator of relative success on any of the performance dimensions. However, this study found that market selection was significantly related to sales revenue per catalogue and overall performance. The firms which selected English-speaking markets as their first countries of entry performed better than those who chose to enter non-English speaking countries at their initial entry. This finding provides further evidence for the concept of "psychic distance".

Regarding entry modes findings, Robles indicated that direct exporting was adopted by 52 firms or 91.2 per cent of his respondents. The second and third most popular entry modes were marketing through distributors, and with agents (Robles, 1994, p.66). Here (in the catalogue industry) direct exporting was defined as "direct marketer initiates an international communication program to prospect and solicit orders from selected target countries. The direct marketer fills orders from a domestic fulfilment centre that ships, collects and provides customer services" (Leighton, 1989 cited in Robles, 1994, p.62). One explanation for this popularity was the importance of direct and personal contact with final clients in the catalogue industry. By having this direct contact, catalogue companies in the US could understand which items of their products were selling well in which markets and they could adjust prices and merchandise to meet market demand.

Another category of direct exporting empirical studies (Anderson and Coughlan, 1987; Bello and Lohtia, 1995; Chan, 1992; Ramaseshan and Patton, 1994) tend to seek a relationship between two direct exporting strategies or between channel structure and export performance (i.e. Chan, 1992). For example, in a recent attempt, one American study (Bello and Lohtia, 1995) of the usage of foreign distributors and agents was based on a sample of 269 manufacturers and found that market diversity, type of transaction, specific assets and production cost economies all influenced the selection between distributors and agents. This study was designed to investigate the efficiency-based aspects of export channel design. The sample companies were American manufacturers exporting through middlemen. Major specific findings from this study included that distributors were used more often than agents by those American manufacturers whose export transactions involved higher levels of technology and other capital expenditures. Unlike agents who often lacked the extensive physical facilities to accommodate their principal's products, distributors often had materials handling equipment, repair and service centres and other necessary capital items to facilitate their foreign principal's products. Consequently, for those firms which were able to handle more technically complex products within organisations and for firms whose human resources were able to market their products abroad, agents were adopted more often than distributors. Agents were used primarily to find overseas customers by these firms.

The research further indicated that if an overseas market environment was uncertain then distributors would be more likely to be employed by American manufacturers because distributors, compared to agents, were more capable of dealing with an uncertain environment. The study, however, suggested that agents were used more often by those firms which had high-export-intensity and firms which had a high sales growth rate. The rates of growth of export operations for agent users and distributor users were 22% and 9% respectively. The percentages of export business to total sales for agent users and distributor users were 23% and 18%.

Finally, this research suggested that compared to distributor users, agent users had a larger internal capability to perform export tasks more efficiently. This was because the agent users' personnel had devoted more time and effort to foreign matters than their counterparts in distributor users. The more experienced personnel of agent users were capable of generating economies of scale in international business and were better able to manage their international business.

Similarly, as mentioned already, the study of Anderson and Coughlan (1987) was designed to examine the factors influencing the selection of an integrated distribution channel (overseas sales through company sales force or company distribution division) or an independent distribution channel (export sales through agents or distributors). The researched companies were US semiconductor firms. The research results found that the choice of integration or independent channel was associated with transaction specificity of assets, product differentiation, and cultural similarities. Products involved with high transaction cost, i.e. those which required the development of specialised skills and working relationships in order to be distributed, were more likely to be marketed by the exporting firms' own distribution system (the integration channel). Products which were highly differentiated were also more likely to go through integrated channels. The research results also revealed that US semiconductor operators tend to integrate their distribution channels more in other Western nations than in Japan or other Asian nations.

Similarly, the exploratory work of Schuster and Keith (1993) was designed to examine whether an exporting firm should use an integrated or independent sales force. The researchers examined distributors of US products, representatives of US companies and other relevant institutes located in Thailand, Singapore and Japan. The reason why these three countries were selected by the study was that they were culturally dissimilar to America. The cultures of these nations were also different one another. This research was designed to examine the psychic distance effect on the choice of overseas sales force. Key findings of this study included critical and secondary issues. Government regulations/ policies and exporting firm's orientation of going overseas (i.e. client-serving or client-seeking) were classified as the two most important factors for US firms' overseas sales force choice decisions. Secondary issues such as market potential, knowledge of the host country, information resources, company sources, product characteristics including service, and level of risk also affected the choice of a sales force.

Likewise, in an attempt to investigate 62 small US water filter and purification equipment exporters' distribution channel choice, Ramaseshan and Patton (1994) found that their respondents' export sales volumes were negatively associated with their distribution integration. US firms with higher export volume tended to use independent channels rather than integrated channels. However, the research found that a firm's product service was positively associated with distribution integration. When before or after-sales service was high, small US firms tended to employ more direct distribution channels than indirect channels. This research found that firms' export experience had no relationship with their overseas distribution channel selection.

Similarly, Chan's (1992) study of 60 Hong Kong and 62 Singaporean small-medium sized exporting firms had also contributed some empirical evidence to direct exporting entry strategies. His study was designed to examine the interrelationships between directness and intensity of export channel and export profitability. Chan (1992, p.19) defined channel directness as "a measure of the utilisation of direct versus indirect channel intermediaries". The definition of channel intensity was "the total number of different export channel intermediaries used", while export performance was referred to the manufacturer's export sales volume. The research showed that the two types of export channels used most often by Chan's respondents were indirect exporting and direct exporting (export department and foreign-based channel intermediaries). Research findings indicated that smaller Hong Kong or Singaporean exporting firms tended to use indirect exporting methods whilst larger firms intended to use a combination of indirect and direct exporting channels. Here, indirect exporters (i.e. companies using indirect exporting entry strategies) were referred to those exporters who relied on the domestic based intermediaries such as domestic-based buyers/ buying agents and domestic-based merchants. Direct exporters (firms using direct exporting entry strategies) represented those firms who performed export channel functions through internal export departments, who dealt directly with foreign-based intermediaries or established their own market presence.

Specifically, 60 per cent of Hong Kong respondents were found to use domestic-based buyers/ buying agents. The corresponding figure for Singaporean firms was 52 per cent. A partial explanation for this preference might be because there were a large number of foreign buying offices established in Hong Kong and Singapore by foreign companies.

These offices purchased merchandise for their home market as well as for other markets. Forty and Forty-two per cent of Singaporean exporting firms admitted using foreign-based agents and foreign-based merchants respectively. This compared with 37 and 38 per cent for the Hong Kong exporters. In terms of the use of company-owned marketing channels established in target markets, 63 per cent of Hong Kong firms used this type of marketing method, while 39 per cent of Singaporean firms were reported to use this approach.

With respect to the relationship between channel directness, channel intensity and export performance, the research revealed a positive relationship between channel directness and export performance. The research findings suggested that exporting firms who adopted more direct export channels outperformed those who adopted indirect export channels. The research also revealed a positive relationship between channel directness and channel intensity. However, channel intensity and export performance were not significantly related. This implied that the number of channel intermediaries employed by an exporter had no relationship to its export performance.

The last category of empirical research shows how market entry modes have been adopted progressively. For example, the study by Nadel (1987) identified how the distribution channels of some Japanese MNCs in the American market evolved in four stages: brokers, importers, exclusive distributors or jobbers and dealing direct to the trade. For example, Sony and Panasonic started by dealing with American importers. As their business grew, they left the importers and entered exclusive agreements with US distributors. When the marketplace grew even bigger, they eliminated all marketing intermediaries and dealt directly with the trade.

The research findings of Akoorie and Enderwick (1992), Hoang (1995), Robles (1994), Bello and Lohtia (1995), Anderson & Coughlan (1987), Ramaseshan and Patton (1994), and Chan (1992) seem to suggest several useful variables which could affect a firm's entry methods selection decision. Both Akoorie and Enderwick (1992) and Hoang's (1995) findings tend to suggest that firm size is a determinant of exporters' market entry method selection. Robles' study revealed that psychic distance is one variable. Bello and Lohita's work suggests that market environment uncertainty is another variable. This suggestion is consistent with the theoretical studies which have suggested that a nation's uncertainty does affect a firm's market entry mode selection. Anderson and Coughlan's study pointed out the impact of product-related features such as product differentiation and service on market entry mode choice. The research findings of Ramaseshan and Patton (1994) identified that a firm's export volume, service requirements and experience were negatively, positively, or insignificantly associated with market channel integration selection respectively. Finally, Chan's observation seems to support the idea that size of a firm will influence its entry method selection. His study has strengthened other empirical studies' findings. Size of the firm is a variable for market entry method selection.

3.3.5 Foreign Manufacturing

3.3.5.1 Introduction

Previous sections have examined indirect exporting and direct exporting entry strategies. As indicated above, production for these entry modes is still based in the home market. In contrast, foreign manufacturing entry modes require the producer to shift production from the home country to the target market. Major methods of foreign manufacturing entry modes include foreign assembly, contract manufacturing (also known as OEM or original equipment manufacturing agreement), licensing, franchising, joint ventures, strategic alliances, and wholly owned foreign production (Chee & Harris, 1993, pp.297-304; Tersptra & Sarathy, 1994, p.389; Kotler et al, 1994, pp.626-627). Although a number of writers classify licensing and franchising as knowledge agreements and exclude them from foreign manufacturing methods (Czinkota & Ronkainen, 1993; Czinkota, Rivoli and Ronkainen, 1992), licensing and franchising do result in foreign manufacturing. Therefore, this thesis classifies them as part of foreign manufacturing methods. Indepth discussion on each option will be presented later on in this section.

Before discussing these strategies, it is worth reviewing the motivations for shifting production from the home country to the host country (Chee & Harris, 1993, pp.297-298; Muelleur-Heumann & Duffy, 1994, pp.386-396; Terpstra & Sarathy, 1994, pp.389-390). These include:

- cheaper transportation costs
- lower or no-tariffs or quotas
- government preference for local production
- regional groupings including the target market country
- better satisfaction of the local needs concerning product design and adaptation, delivery, and service
- lower production and distribution costs
- dramatically increasing market growth

Besides motivations, a criteria for choosing foreign production strategies is risk. If political and business risks in one nation become lower, then a higher resource commitment entry method such as foreign manufacturing is likely to be adopted by international firms. For instance, there are numerous foreign direct investments, the form of international entry with the highest involvement, by Japanese MNEs in the United States or in the United Kingdom. Besides the reasons for using these two countries as regional markets and the fear of protectionism, another reason for this is that these two nations are considered to have low operating risks by the Japanese. Shama's (1995) study on the entry methods adopted by US companies operating in the former USSR and East European nations confirmed that risks of doing international business in these countries were a primary factor affecting American firms' selection of entry methods. The research suggested that higher resource commitment entry methods (such as wholly or partially owned subsidiary) were selected to enter those nations which had lower operational risks such as Hungary, the Czech Republic and Poland. Joint venture and export/import entry methods were widely used to enter the other former Eastern bloc groups including Russia where operational risks were considered higher.

3.3.5.2 Foreign Assembly

The first foreign production method is foreign assembly. In this method, the overseas producer shifts the parts from its home plant to an assembly site located in an overseas market to have them assembled into finished goods there. Chee & Harris (1993, p.298) noted that the foreign assembly strategy is a half-way strategy between indirect exporting and foreign manufacturing and it is usually labour intensive rather than capital intensive. One common way of practising this strategy is the CKD (completely knocked down) method in which the international producer will completely knock down all the parts to have them reassembled in the overseas market. This method is still widely used by international multinational enterprises (MNEs) when they do business with India and some developing countries. Terpstra and Sarathy (1994, p.390) indicated that foreign assembly was widely used in the automobile and farm equipment industries. Chee & Harris (1993) noticed furthermore that CKDs were widely employed by European, Japanese and American car manufacturers. The benefits of adopting this strategy include the reduction of distribution costs and overcoming tariff barriers imposed by a local government. Generally, most countries impose lower tariffs on semi-finished imports than fully assembled imported goods.

3.3.5.3 Contract Manufacturing

One study suggested that contract manufacturing was first developed by Japanese Sogo Shosha (Young et al, 1989). Terpstra & Sarathy (1994, p.391) described this strategy as manufacturing overseas by proxy. In other words, the international marketer's products are produced by another manufacturer located in the target market country under contract agreement. Normally, the contract only covers manufacturing. The international marketer will still handle all marketing functions by itself (Chee & Harris, 1993). Contract manufacturing can be used as an alternative to assembly operations because the exporter's products are made or assembled in the foreign market by another manufacturer operating under contract (Chee & Harris, 1993, p.299).

Kotler et al (1994) noted that this method could be organised when orders were placed from the principal to subcontractor from a developing country to have them produce the principal's components or assembled final goods. The principal, however, will supply any needed material. The finished goods could be traded by the principal either in its own home market or in other markets (Young et al, 1989).

There are several reasons which make this option practicable to international marketers.

- Foreign producers have the capability to produce quality products.
- The firm's strength is in marketing rather than in production. One example is Toshiba of Japan and IBM from America. Toshiba is good at production while IBM is famous for its marketing ability. IBM has contracted the Japanese company to make products under the label of Big Blue (IBM brand) (Schoell & Guiltinan, 1992, p.98).
- When labour costs are expensive in the home country of the export firm, contract manufacturing could be attractive.
- The required financial investment or management resources are relatively small.

Also the risks, such as expropriation by the host government which are often associated with other direct investment methods, are likely to be reduced with this strategy (Young et al, 1989).

- The subcontractor is able to obtain market access or marketing knowledge from the principal (Young et al, 1989).

However, other research (Terpstra and Sarathy, 1994; Willard and Savara, 1988) has also discussed several drawbacks associated with this option.

- Manufacturing profit will go to the manufacturing contractor rather than to the international marketer.
- It is difficult to find qualified and reliable manufacturers.
- Consistent quality is hard to maintain.
- By the end of the contract, the producer could become a potential competitor of the principal. One well known international example of this was the Mitsubishi Car Company. It was a contract manufacturer of America's Chrysler. After many previous years of making cars for Chrysler, it has become a key multinational car manufacturer and is competing with its former partner (Willard & Savara, 1988, p.61; Terpstra & Sarathy, 1994, p.280).

3.3.5.3.1 Empirical Studies of Contract Manufacturing

Contract manufacturing has been widely used by companies in NIEs. For example, one empirical observation from *Asiaweek* (1995, May 12, pp.56-57) was about how South Korea' third largest consumer-electronics and home appliance multinational, Daewoo Electronics, altered its strategy from creating its own brand back to adopting original equipment manufacturer (OEM) agreement with some other MNEs. The main reason of this backward decision was illustrated by the CEO's comment "there are many distributors whose costs are lower than ours, it makes no sense spending lots of money to establish our brand" (*Asiaweek*, 1995, May 12, p.56). This article shows how a contract manufacturing strategy has been reapplied by a multinational from a Newly Industrialising Economy (NIE).

Recently, some Taiwanese manufacturers have upgraded their OEM strategy to ODM (original design manufacturing) which means the manufacturing contractors in Taiwan will design the specifications and appearance of the products according to their overseas client's request. All the foreign firm has to do is to tell its Taiwanese contractors what its requirements are and leave all the details including design and production to their Taiwanese partners. The client's main responsibility in the transaction is to market the products which are made and designed in Taiwan. This method is particularly popular in the computer and electronic industries (Wang, 1995). The study of Kraar (1995b) of Taiwan's Acer Computer also provided some insights into contract manufacturing. Kraar's observation showed how Acer Computer, the world's seventh largest personal computer manufacturer, had converted itself from purely an OEM operator to world class computer maker. Acer started as a contract manufacturer of many international well known computers companies. Kraar indicated that in 1995, OEM business still accounted for 29% of Acer's total sales. However, Acer, besides its important role in OEM business, also actively created its own brand. Its founder, Stan Shih, had successfully converted the McDonald's fast food management style into his computer business. Now Acer Computer had adopted a just-in-time strategy, assembling its computers at 35 sites around the world. This strategy allowed Acer to keep its inventories to the lowest level and also enabled Acer to respond quickly to the changing demands of various local markets.

3.3.5.4 Licensing

As indicated above, some researchers have classified licensing and franchising as knowledge agreements and they have discussed them apart from other foreign manufacturing methods. Czinkota, Rivoli and Ronkainen (1992, p.274) believed that indirect and direct exporting, franchising and licensing were widely used by companies who were new entrants to international business, while other foreign manufacturing methods were mostly used by larger and more experienced firms.

Similar to contract manufacturing, licensing is another method by which the international firm can employ a local production strategy without heavy capital investment. Chee &

Harris (1993, p.299) viewed licensing as an extension or development of contract manufacturing. However, these two strategies contain some differences. Licensing differs from contract manufacturing in that it involves a longer term cooperative relationship with the local production partner. Licensing also enables the local party to carry more responsibilities (Terpstra & Sarathy, 1994, p.392).

The items that the licensor (international firm) allows the licensee (local firm) to exercise could cover patent rights, know-how or technology on products or processes, trade mark rights, copy rights, technical advice and assistance and trade secrets (Chee & Harris, 1993; Kotler et al, 1994; Terpstra & Sarathy, 1994; Young et al, 1989). In return, the licensee pays the licensor royalties which could be taken in several forms: a down payment when the agreement is signed; a fee based on a percentage of sales or a fixed amount; or an exchange of patents or know-how, i.e. cross licensing. Schoell & Guiltinan (1992) noted that a cross-licensing agreement could enable the participating parties to have access to each other's patents in exchange for license premiums or for other technologies. One famous illustration of this option is Coca-Cola's global licensing strategy. It has licensed bottlers around the world by supplying them the condensed syrup ingredient needed to make Coca Cola's products (Kotler et al, 1994, p.626). This strategy has made Coke the number one brand in many countries (Sellers, 1994).

The reasons why licensing, from the licensor perspective, is popular include (Chee & Harris, 1993, p.300; Kotler et al, 1994, p.626; Terpstra & Sarathy, 1994; Young et al, 1989):

- No heavy capital investment is required. This is especially attractive for small or medium sized companies to enter the world market.
- It is a quick and easy foreign market entry method.
- It allows immediate gains of local market knowledge, distribution and marketing intelligence.
- Ease of acquiring government approval for two reasons: (a) generating local

employment and (b) technology transfer to the host country.

- It allows savings in tariffs and transportation and freight cost.
- It may be a local government requirements. Licensing could be the only allowed entry method.

The benefit to the licensee is that there are no research and development costs attached to access to the new technology or know-how of the licensor.

The drawbacks of this method include, from the licensor point of view:

- Lower profit returns.
- Difficulty of controlling licensees.
- The danger of creating a potential competitor.
- Difficult to implement quality control programmes. Licensees may not have the same quality control concept as the licensor does. This could have a negative impact on the licensor's reputation since the products are marketed under the licensor's brand name.
- Government interference on the remitting of royalties.
- Difficulty of finding suitable licensing partners in overseas markets.
- Communication problems. This is particularly likely when two licensing partners are from dramatically different cultures, namely the West and East.

One variant practice of licensing is franchising. Welch (1989) pointed out that the first penetration of franchising happened at the end of the nineteenth century in the form "product and tradename franchising". Since then, franchising has spread to other Western nations from the United States. The major usage areas of franchising are automobile dealerships, service stations and soft drink bottlers.

Franchising occurs when a parent company grants another independent organisation the right to conduct business in an agreed manner (Czinkota and Ronkainen, 1993, p.439). This form of entry has spread rapidly all over the world in the last decade, especially in the service industries. Some examples which can be seen internationally include

McDonald's, Pizza Hut, Hertz, Sheraton Hotel, Hyatt Hotel, and Quality Inn. One American study (Czinkota & Ronkainen, 1993, p.439) suggested that in 1991 franchising sales of goods and services accounted for 35 per cent of all retail sales in the US. Internationally, in the same year, there were over 31,000 outlets operated by over 350 American franchising companies. Franchising agreements usually involve the supply of materials and management know-how from franchisers to franchisees. These could include equipment, products or product ingredients, the rights of trademark or tradename, managerial advice, and a standardised marketing system (Weekly and Aggarwal, 1987 cited in Hoang, 1995, p.23).

3.3.5.4.1 Empirical Studies of Licensing and Franchising

There are a number of empirical studies of licensing and franchising. One of them focuses on studying the internationalisation operation of franchising firms in one major Western advanced nation, Australia. Welch's (1989) study of four Australian franchising firms' internationalisation experience indicated that a motivation for Australian firms' entry into international markets was their limited local markets. Australian franchisors sought to establish an international network as a basis for their company's future growth. Most of the companies studied by Welch expanded their franchising business into another country through joint ventures with local partners. Another characteristic of these firms was their strong and successful domestic operations. One explanation for this strong domestic foothold could be that it generated some useful experience for Australian firms' international entry although this might not be always necessary. Strong and successful domestic operations also provided the franchisor (i.e. Australian firms) an asset to be franchised. One other benefit of this practice was that it provided those Australian franchising operators a test marketing ground for their new products or new concepts. The researcher indicated that Australian franchisors' successful domestic operations often led them to expand their business internationally. The other feature might be that because of geographical proximity, Australian franchising operators seemed to use New Zealand as their experimental location for their further market entry into different countries.

As mentioned above, in a franchising system franchisors normally supply the needs of the franchisees. In return, the franchisees will pay royalties to the franchisors. Royalty payment is one of the key elements in a franchising agreement. One empirical study (Agrawal and Lal, 1995) focused on examining the role played by royalty rate in the franchising contract. This study was based on personal interviews with 43 franchisor-franchisee dyads. Within this research, royalty rate was defined as "the total percentage of gross dollar sales that the franchisee pays to the franchisor on a regular basis" (Agrawal and Lal, 1995, p.217). The research indicated that the royalty rate charged by the franchisor was positively associated with brand-name investment made by the franchisor. It also supported that the royalty rate charged by the franchisor was negatively related to the level of service provided by the franchisees. These Agrawal and Lal's two findings are confirmed by another theoretical study's observation (Lal, 1990). Lal (1990) stated that the incentives for the franchisee to offer better service were inversely related to the royalty rate. The higher of royalty rate, the lower the service offered by the franchisee. Lal (1990) also stated that the incentives for the franchisor to invest in the brand name were positively related to the royalty rate charged.

Another purpose of the Agrawal and Lal (1995) study was to investigate the effect of monitoring costs on monitoring behaviour and inputs provided by the franchisor and franchisees. Here the cost of monitoring to the franchisor referred to "the total cost of inspecting a franchisee to ensure the required business format and service level" (Agrawal and Lal, 1995 p.217). Monitoring costs can be calculated by labour costs and travel costs. Because it is difficult to measure actual travel costs, this study uses inspection time as the measure of monitoring cost.

Agrawal and Lal (1995) found a negative and significant relationship between service level and monitoring costs. This result showed that the time the franchisor took to inspect a franchisee negatively affected the service level offered by the franchisee. It also meant that monitoring costs had a negative relationship with the monitoring frequency. However, a positive relationship between monitoring frequency and royalty rate was found. The royalty rate charged by the franchisor positively affected the frequency with which the franchisor monitors the franchisee.

The finding of this study supports the view that the level of service offered by the franchisee should decrease with the cost of monitoring and the frequency with which the franchisor monitors the franchisee should increase with the royalty rate.

Combs and Castrogiovanni's (1994) study of 558 franchisors operating in 1990 had also made some empirical observations on franchising. Similar to Agrawal and Lal's observation on franchising royalties, they found that those franchsiors whose set-up investments were large, had a higher proportion of franchised units in their system. These francisors' royalties rates were also higher than the others. The research explained this was because royalties were not part of the upfront fee due to the unpredictability of unit sales. The higher royalty charge meant less risk was carried by the franchisor.

A further premise of Combs and Castrogiovanni that large or older firms, in theory, should have been using slack resources to build their own units and/or buy back franchisees was not supported. The size of franchisor was not relevant to the proportion of franchised units in the system.

With respect to licensing, Adam, Ong and Pearson (1988), in a study of using licensing as an alternative to foreign direct investment, investigated 145 British firms which conducted foreign licensing agreements. The research findings suggested that British firms did evaluate licensing to unaffiliated firms as an alternative to foreign direct investment. This research examined six firm characteristics which were related to the entry mode decision and their relationship with licensing activity. Key variables included relative expenditure on research and development (R&D), relative size in the industry, degree of product diversification and percentage of sales manufactured by related subsidiaries abroad (firm's overseas experience). By using multiple regression analysis, the research findings showed that the strategy of licensing was likely to be employed by firms which spent relatively more on R&D, firms with more diversified product lines, firms with less international business experience and firms which were large in size.

3.3.5.5 Joint Ventures

Compared with other entry methods, joint ventures are the most discussed topic in previous literature (Chee and Harris, 1993; Cockroft, 1990; Goodnow and Kosenko, 1992; Hendryx, 1986; Munro, 1992; Schoell and Guiltinan, 1992; Young et al, 1989). It is an important overseas manufacturing method. One study estimated that joint ventures might account for 20 per cent of all international direct investment and 30 per cent or more in manufacturing (Christelow, 1987 cited in Cockroft, 1990). The Organisation for Economic Cooperation and Development (OECD) defined an equity joint venture as "the sharing of assets, risks and profits, and participation in the ownership (i.e. equity) of a particular enterprise or investment project by more than one firm or economic 'group'. The latter may include private corporations, public corporations, or states" (Young et al, 1989, pp.17-18).

International joint venture agreements are similar to licensing agreements. However, some major differences between these two are that in a joint venture the international firm owns a certain share of the venture, takes an equity share and a management role (Chee & Harris, 1993, p.302) but a licensing agreement normally does not offer these conditions to the foreign partner. This also means that the overseas firm holds the right to share management, production and marketing. Schoell & Guiltinan (1992, p.718) suggested that joint ventures are widely adopted in the automobile industry. One well known case is the joint venture between Mazda and Ford. However, one study (Webster, 1989) about joint ventures involving American, Japanese and Chinese firms identified a number of negative impacts for the American partners. It illustrated that in the joint venture between Ford and Mazda, basic assembly was to be conducted in the United States, while all of the highest value technological components were imported from Japan. This study warned American companies who entered into joint ventures with the Japanese that they needed to consider the long-term consequences as well as the short term benefits. The study advised the American joint venture partners that the irreducible minimum level of preparation for any joint venture with Japanese or Chinese firms was to have a management team which included lawyers representing the American firm and to fully acknowledge the legal and cultural aspects attached to establishing the joint venture and negotiations.

Several advantages have contributed to the greater use of this option. These include:

- Greater returns on investment compared to other royalty payment entry methods such as licensing.
- Better control over production and marketing operations.
- Better and more direct market feedback.
- Risk sharing by both parties.
- A means of overcoming government restrictions including non-tariff barriers and import restrictions imposed on direct exporting (Webster, 1989). Honda's joint venture with the British automobile company, Leyland, allowed this Japanese car maker to market its products in the European Union market (Chee & Harris, 1993, p.302).
- Opportunities for acquiring technology and marketing expertise and improvement of managerial and sales capabilities (Webster, 1989).
- A tool for combining talents and resources, allowing economies of scale in manufacturing, distribution and research and development, especially for small-medium sized firms (Webster, 1989).

In addition to the above advantages, one other benefit observed by Young et al (1989) was that through their joint ventures with developed-country MNEs, local partners from the developing countries could derive benefits which included gaining access to new sources of capital and the transfer of technology, management and marketing skills from such cooperation. Connolly (1984) in his study of American multinationals' joint ventures with developing countries' multinationals also indicated that there were several advantages that the developing countries multinationals could provide to their American partners. These advantages included: lower labour costs and cheaper materials, the appropriateness of technology, first hand familiarity with working conditions in developing economies, such as inadequate infrastructure, government bureaucracies, work attitudes and general manner of doing business and little threat to local political or economical independence. Because developing countries multinationals were normally located in newly formed regional economic areas such as APEC or ASEAN, this study suggested that the potential benefits of joint venturing with MNCs from developing countries were also plentiful. For instance, to enter a joint venture with a MNC from the Association for South East Asian Nations (ASEAN) region meant access to an area with the highest growth rate in the world. This study concluded that MNCs from the developing countries had achieved an increasingly important role in international business. These firms could provide distinctive advantages which could complement the U.S. firms' intentions to enter or expand their businesses internationally.

Disadvantages of this method include:

- More capital and management involved means joint venture operation is more expensive than other foreign manufacturing entry modes such as licensing or contract manufacturing.
- Higher risk involved; greater returns means higher risk.

Other weaknesses could occur in disagreement over investment, marketing or other policies between partners; for instance, the foreign partner may like to reinvest earnings for growth, but the local partner may wish to take out these earnings (Kotler et al 1994, p.627).

3.3.5.5.1 Empirical Studies of Joint Ventures

As with the theoretical literature, considerable empirical attention has been paid to international joint ventures. Shama's (1995) study of the market entry strategies of 125 American firms conducting business with the NIS, the Baltic States and a number of Eastern European nations provided an example. The background of Shama's respondents included consumer goods companies, industrial goods companies, computer and communication companies, oil and gas companies and service companies. Shama's study revealed that joint venture and export/ import strategies were the two most frequently adopted entry options to enter these nations, especially in the cases of Russia and Ukraine. "Country's perceived risks" factor was the American firms' major influence on their choice of market entry mode into these nations. This finding was supported by examining the entry strategies used by American firms to enter Hungary, the Czech Republic and Poland, which were perceived as less riskier than Russia and Ukraine. Shama found that besides joint venture and export/ import strategies, wholly or partially owned subsidiaries were also employed by American organisations entering these countries. The author concluded that the international entry methods applied in Western economies were equally applicable to the markets of the former USSR. When international marketers first entered the Soviet bloc, they tended to use less risky entry methods to enter the market, however, as time passed and perceived risk declined, more sophisticated entry strategies would be employed. Therefore, the findings of this study justified the generalisability of international market entry strategies.

McCarthy et al (1993) in their study of 42 New England firms doing business with the former Soviet Union also reached a similar conclusion. Import-Export and joint ventures were the two most widely used entry modes by American firms into the former USSR. The top two republics in which American firms were doing business with were Russia and Ukraine. With respect to the risks of doing business in the former USSR, the respondents indicated political instability, lack of infrastructure and the lack of laws governing and protecting business interests as the greatest risks in operating business in the region.

Similarly, Root (1968) in a study of the impact of political risk on US firms' foreign investment pointed out that political stability was a factor of political risks identified by his respondents. Root's study revealed that although joint ventures between US firms and local business were viewed as an effective way to minimise the political risks of foreign operations, only 54 respondents (out of 124 firms) were actively engaging in joint ventures. Among them only 40 per cent used joint ventures to avoid political risks. Advantages of using this entry method included better relations with host governments, identification as a national company and creation of a better investment climate. Nonpolitical advantages, which were mentioned by the majority of joint venture users, included less investment capital, local market knowledge and local investment. Root concluded that joint ventures with local business was not widely used to avoid political risks.

In terms of identifying independent variables, the studies of Shama (1995), McCarthy et al (1993) and Root (1968) all suggest that a country's political risk seems to be a variable for market entry method selection. When a country's perceived political risk is high, lower resource commitment entry methods are likely to be employed by international firms.

In contrast to Shama's study, Rosten's (1991) study of Soviet-U.S. joint ventures focused on two other aspects of joint ventures: negotiations and operations. He interviewed representatives of 16 Soviet-U.S. joint ventures or over one-third of these two nations' joint ventures up to 1991. Some findings from this study are listed below. The most important issue facing American firms when they negotiated with their Russian partners was the issue of management and control. American firms viewed the authority to make decisions as important. In terms of the criteria of success, respondents listed external business factors, internal business factors and inter-partner relations as the three most important factors. The researched respondents who listed external factors as an important criteria for their success was because they viewed the venture's success relying on whether or not the venture could meet the demands of its customers. Internal business factors represented the competitive advantage of the joint venture. Inter-partner relations meant the ability of the respective partners to rely on, trust and communicate with one another. With respect to difficulties of operation, respondents viewed the Soviet's infrastructure as the most severe problem facing them. These problems included shortage of living and office space, and the lack of effective means of communication. Access to information, supplies and markets were listed as moderately difficult by respondents.

Similarly, Hendryx's (1986) study examined a Western firm's joint venture with another major communist nation, China. His study of a venture created by Otis Elevator Co. and the Chinese government pointed out the motivation for the Chinese was to acquire advanced technology, foreign exchange and management expertise. The motivation for

Otis was to gain access to the massive Chinese market. The research identified the reason for using this entry strategy was because it allowed Otis to participate in the Chinese market and provided Otis with some control over its business activities there. The major problems of conducting this project from Otis's perspective included non-convertible currency, difficulty in implementing a localisation programme, inadequate human resources, and the lack of the marketing concept. Because the currency of the Chinese, the Renminbi, was non-convertible to major international currencies, the joint venture could not use the Renminbi it earned from the Chinese market to pay its overseas customers. Because of the substandard quality of the Chinese subcontractors, Otis was forced to import some parts from overseas which was a serious foreign currency drain. The quality of human resources in China was not acceptable for this kind of high technology product, so the joint venture had to establish its own training programme. Finally, the marketing concept in China was still in the "producer era". Manufacturers all concentrated their attention on how to make products more efficiently but not on how to meet customers' needs or wants. Besides the above issues, Chinese culture was another major influence of the joint venture. The study identified that "in the end, it is the human resources of the organisation that determines the outcome and not the technology" (Hendryx, 1986, p.66). When foreign firms dealt with the Chinese, they should pay more attention to the Chinese cultural issues and view irrational behaviour more positively.

Hendryx's observation has provided some useful suggestions for entry methods selection. In entering an oriental market, human relationships are a factor influencing a firm's market entry method selection. When a Western firm has good personal contact in an Asian market, it is likely to adopt a high resource commitment entry method.

Likewise, Davies' (1994) study considered another joint venture in China. It was established by a Japanese department store, Yaohan, and a Chinese department store, Shanghai No.1 Department Store. This Sino-Japanese joint venture was the first one approved in the service sector by the Chinese government since free market retailing became legal in 1978. This establishment symbolised that the Chinese retailing sector was now open to foreign investments. Yaohan's entry into the Chinese market also represented the attitude change by Japanese investors in China (Maruyama, 1993). Maruyama's research indicated that whereas formerly the Japanese investors in China preferred wholly owned subsidiaries to joint ventures because they believed that it would benefit them the most if they avoided any involvement with the local Chinese economy (meaning they imported everything from outside of China and exported everything they produced there). More recently, Japanese companies started establishing a presence in the host country in order to take advantage of China's fast growing economy in addition to using China as an export base.

In comparison with Japanese firms' joint venture operations in China, the study of Woodcock, Beamish and Makino (1994) examined the relationship between ownership entry modes and performance of Japanese firms which had operations in the North American market. They examined the performance of 321 Japanese firms who entered the North American market using three methods, new ventures, joint ventures and acquisitions. Within their study, new venture was defined "an entry that involved only one parent, which built and operationally equipped the plant"; acquisition was defined as "an entry that involved only one parent and its plant and equipment were purchased from the previous owner"; and the definition of joint venture was "an entry that involves more than one parent and its plant was built and operationally equipped by these parents" (Woodcock, Beamish and Makino, 1994, p.265). The study revealed that the performance of firms using new venture mode was better than those who adopted joint venture entry mode, and the joint venture entry mode outperformed the acquisition mode. Together with other international business literature (e.g. Li & Guisinger, 1991; Simmonds, 1990 cited in Woodcock, Beamish & Makino, 1994, p.268), it is apparent that international ownership-based entry modes have different performance levels.

The findings of Woodcock, Beamish and Makino (1994) have provided some useful information on determining market entry method selection variables: entry mode choice is related to a firm's export performance. This suggestion is contrary to Robles' (1994) finding which reported that there is no relationship between entry methods and export performance in US catalogue firms.

However, in a study of transnational corporations (TNCs) from Asian developing countries, Yeung's (1994) study was based on personal interviews with top executives from more than 110 Hong Kong TNCs and their operations in the ASEAN region, existing empirical studies and scattered secondary information on Asian NTCs. Yeung indicated that although joint venture is the most preferred entry method adopted by NTCs from Asia developing countries, other entry methods such as wholly-owned subsidiaries were also widely adopted by Korean and Taiwanese TNCs (Yeung, 1994, p.31).

3.3.5.6 Strategic Alliances

Hoang (1995, p.25) indicated that as global competition increased and product life cycle became shorter, a new type cooperative arrangement called strategic alliance occurred among firms operating in international markets. Global strategic alliance could occur in several forms: joint ventures, joint research and development and production and marketing partnership (Tung and Miller, 1990 cited in Hoang, 1995, p.25).

A survey conducted by Survey Research International in 1990 on 419 American companies pointed out that strategic alliances were used by more than half of the companies for their global expansion. Strategic alliances are now one of the most popular international entry strategies (cited in Hung, 1995). The popularity of strategic alliances is further supported by Hung's observation (1995, p.6) "...multinational companies...they get to realise that no matter how strong and resourceful a company is, there is no way it can have competitive advantage in each and every step of the value added processes in all national markets, nor can it maintain a cutting edge in all the different critical technologies required for the development, production and marketing of today's sophisticated products." Chee & Harris (1993, p.304) described strategic alliances as "a type of international corporate alliance between organisations from different countries who are often competitors." They identified two European examples of alliance formation: Plessy's links with GEC (UK) and GEC's cooperation with Siemens of Germany (Chee & Harris, 1993, p. 304). Philip's links with Siemens, Texas Instruments links with Hitachi of Japan, Toyota's strategic cooperation with General Motor, Thomson and JVC, Canon and Kodak, Apple and Canon, Honeywell and NEC, and most recently, IBM and Apple are also other examples of this strategy (Terpstra & Sarathy, 1994, p.399; Hung, 1995, p.6). There are a number of reasons for the emergence of this form of international entry strategy. The increasingly intensive global competition, rising research and development costs, and changing customer wants and needs are some factors. Chee & Harris' (1993, p.304) observation may also explain some reasons for the development of this option. They indicated that different strategic alliances are formed for different purposes but the most common ones include: to gain market entry, to remain competitive and to attain economies of scale in production and research & development. These two authors divided strategic alliances into three categories: production, distribution and technology based alliances.

This view is supported by a Japanese study. Moriguchi (1994) pointed out that strategic alliances between manufacturers and distributors had also been used as a tool to increase the whole marketing channel productivity, especially in the Japanese distribution channel. This cooperation had been viewed as a win-win game and the key notion of this arrangement was the sharing of scanner data. One notable American example of this type of strategic cooperation was conducted by Proctor and Gamble (P&G) and Wal-Mart (Walton and Huey, 1992 cited in Moriguchi, 1994). Moriguchi (1994) predicted that there would be more cooperation between enterprises not only in product development but also in marketing channels.

3.3.5.6.1 Empirical Studies of Strategic Alliance

A number of empirical studies have focused on strategic alliances. For example, the findings of Hung's (1995) study has contributed some empirical evidence to the use of strategic alliance. His empirical study explored the use of strategic business alliances or SBAs by Canadian industrial firms in 12 Asian Pacific nations including Australia, New Zealand, Japan, Hong Kong, Singapore, Taiwan, South Korea, Indonesia, Malaysia, Philippines, Thailand and China. He used mail questionnaires to survey 253 Canadian firms which had SBAs in the Asia Pacific region in the summer 1991. From these 253 firms, only 49 were completed and provided useable information and the research findings were based on these 49 respondents. The study examined these SBAs' operations in four areas: the type of agreements, their contribution, their motives and how they felt about some propositions on the objectives and benefits of using SBAs.

With respect to forms of strategic business alliance agreements, Hung found that among the often used eight types of strategic alliance agreements (i.e. multi-purpose joint venture, technology transfer, contract manufacturing, licensing, collaborative research, market development/promotion, local distribution and information exchange) local distribution agreement was the most often adopted by Canadian firms. This indicated that the SBAs established by Canadian firms in this region were primarily local market orientated. In terms of locations of the SBAs, Japan and Korea were the two most popular nations to host Canadian SBAs.

With regard to contribution to the alliances, the research suggested that the contributions from the Canadian partners were mostly of a non-equity nature (e.g. employees training, management and production technologies). This characteristic clearly indicated that the Canadian firms entered SBAs agreements in order to enhance their competitive position in local markets. The contribution from the local partner was local distribution and promotion. Equity capital contributed from local partners was limited. This reinforced the nature of those Canadian SBAs agreements and their non-equity basis.

In terms of the motives of Canadian firms entering SBAs, the most common was "to gain access to the local market". Other motives which were rated of some importance by respondents included "to become global more quickly" and "to share business risk". These findings with regard to motives are consistent with those of Hamel, Doz and Prahalad (1989 cited in Hung, 1995, p.15) who stated the purposes of Western firms entry into SBAs were mainly to avoid investments and to reduce costs and risk of entering new markets but not to acquire new skills.

Hung's findings are also consistent with Shan and Hamilton's (1991) observation on the use of international cooperations to overcome market entry barriers. Shan and Hamilton's study was based on a sample of 264 domestic and international cooperative relationships established by Japanese biotechnology firms. The aim of this research was to investigate the significance of country-specific advantages and other factors in differentiating domestic and international cooperative relationships formed by Japanese firms in the commercialisation of biotechnology. In line with other researchers' findings, this research indicated that marketing was a major obstacle for a foreign firm to enter and compete in the Japanese market because of its particular features. European and American MNEs would be in a better position if they established strategic alliance relationships with Japanese companies. For the Japanese firms, entering cooperative relationships with Western MNEs would help them enter the world market. This study confirmed that the function of marketing was a major purpose for Japanese biotechnology firms entering cooperative relationships with foreign firms and vice versa.

Likewise, the study by Burgers, Hill and Kim (1993) was to examine whether their respondents supported the two major motivations for entering strategic alliances, to reduce demand and competitive uncertainty (to be defined later). After examining 58 strategic alliances in the global automobile industry, their research supported the view that strategic alliances were used as a device to reduce both demand and competitive uncertainties. Demand uncertainty was defined as "the uncertainty that arises from unpredictable changes in consumer purchasing patterns", while the definition for competitive uncertainty was "the uncertainty that arises from competitive interdependence" (Burgers, Hill and Kim, 1993, p.420). Specifically, the study supported the idea that the number of long-term horizontal alliance agreements an automobile firm enters into was negatively related to the firm's performance. Poor performing automobile manufacturers tended to seek a greater number of alliance agreements than those who performed better. However, the study rejected the hypothesis that poor performing firms tended to seek out a great number of strategic alliance partners. The hypothesis that "the number of competitors linked to a firm will be the highest at an intermediate level of firm size" (Burgers, Hill and Kim, 1993, p.421) was also supported. The research results showed that the medium sized automobile makers tended to establish linkage with a greater number of partners than small or large sized firms. However, the results of the study did not support the belief that medium sized firms would intend entering a greater number of alliance agreements. One last finding of the study was the larger the size of the automobile companies, the smaller on average would be the size of its partners. This finding showed that larger firms had a preference for entering strategic alliances with small size automobile operators.

Consistent with other researchers' findings (Bello and Lohtia, 1995), Burgers, Hill and Kim's above findings seem to confirm that market entry methods are related to business environmental uncertainties. Their findings are also consistent with those studies (i.e. Amine, 1987; Chan, 1992; Levy, 1988; Williamson and Bello, 1984) which have identified that size of the firm is a factor for market entry method selection.

To better understand the use of strategic alliances and factors associated with their success, Bleeke and Ernst (1991) examined 49 international strategic alliances involving top companies from the United States, Japan and Europe. Key findings of the study were that both cross-border alliances or cross-border acquisitions had similar success rates. However, when strategic alliances were used to expand from existing business into new business or into new geographic regions, cross-border alliances seemed to work better than cross-border acquisitions. But to build the position of core business in existing geographic markets, the research findings indicated that firms should use acquisitions instead of alliances. For acquisitions focused on existing markets, the success rate was 94%, while it was 25% for alliance users.

The second major finding of the study was that strategic alliances between two strong partners were more successful than alliances between two weak partners or one strong and one weak. The success rate between two financially strong performers or between a strong and an average performer was 67%, compared with 39% for alliances involving two weaker players.

The last major finding was related to ownership. The study revealed that alliances with an even split of financial ownership were more likely to succeed than those in which one owner held a majority interest. This observation was supported by the research finding which showed that the success rate of equal ownership was 60% but 31% for those alliances which had an unequal ownership. One explanation of why unequal ownership had a lower success rate was that when one strategic alliance partner had a majority interest, it tended to dominate decision making and it placed its own interests above those of the alliance.

Similar to Bleeke and Ernst's finding on international strategic alliances (even split of financial ownership), Frey and Schlosser's (1993) study of ABB and Ford's strategic alliance revealed a similar observation on the importance of mutual understanding about each partner's strengths and weaknesses. Their research pointed out that mutual strengths were the forces which brought two partners together. If one party failed to recognise and respect the strengths of the other party, this could lead that party to dominate the alliance and impede the process of creating mutual value. The study found that the more symmetrically both parties viewed the alliance, the better the conditions for its success. This equal relationship was also applied to the sharing of profit. After observing the case study of ABB-Ford, the researchers concluded that in order to avoid distraction from profit claiming, it was important to establish explicitly and simply a way to divide the benefits stemming from the alliance. If this procedure was lacking, one strategic alliance partner might be tempted to position itself to be the greater beneficiary of the venture.

Likewise, Shan and Hamilton (1991) found that new Japanese pharmaceutical firms were more likely to form cooperative relationships with American firms who were in a leading position in the biotech-pharmaceutical industry than to cooperate with other Japanese domestic firms. In order to ease entry into a new market, new entrants were more likely to cooperate with those companies with well known technological capabilities. In the biotech-pharmaceutical industry, these were the American manufacturers.

Shan and Hamilton's finding has confirmed the previous mentioned Bleeke and Ernst's result which suggested that strategic alliances formed by two strong partners were more likely to succeed.

3.3.5.7 Wholly Owned Foreign Production

Wholly owned foreign production represents the highest commitment to the host country market by the international firm. In theory, wholly owned means the overseas production venture is 100 per cent owned by the international marketer. In practice, prior studies indicate that the exact percentage of ownership is not a major concern, but the actual managerial control that the international firm can exercise is more important. The firm can still achieve the same results by owning 95% or less if it is able to manage and direct the venture (Chee & Harris, 1993, p.305; Terpstra & Sarathy, 1994, p.399; McColl-Kennedy et al, 1994). Mueller-Heumann and Duffy (1994) recognised that if New Zealand-based enterprises want to become a major force in global marketing, they will need to adopt more committed entry strategies such as setting up wholly owned foreign production subsidiaries.

A New Zealand study (Cockroft, 1990, p.19) provided some reasons why this method was more sophisticated than any other market entry modes. It suggested that establishing wholly-owned foreign production facilities would enable New Zealand firms to have full control of their international business activities in a foreign market and have the opportunity to develop market contacts, experience and knowledge. However, the investment involved in creating a wholly-owned production facility was great. Since there was no other partner involved, New Zealand firms' financial investments were large. Furthermore, this entry method had also exposed New Zealand international traders to political, economic, and any other international risks which were not attached to any other market methods. This method required New Zealand firms to have abundant international management personnel.

Some other features which contribute to the sophistication of this mode of entry are listed below (Kotler et al, 1994; Terpstra & Sarathy, 1994; McColl-Kennedy et al, 1994):

- Highest return on investments.
- Full control over products, distribution channel, promotion activities, pricing and production.
- Complete international operation experience obtained.
- Finest contacts with target market.
- Better serve customers' needs and coordination results between subsidiary and the headquarters.
- Lower costs in terms of cheaper labour or raw materials, foreign government investment incentives and transportation savings.
- Image improved by creating employment locally.

Drawbacks of this alternative include:

- Much more expensive than any other entry strategies.
- Negative local-government and public relations effects.
- Risks associated with restricted or devalued currencies, falling markets or government expropriations.

3.3.5.7.1 Empirical Studies of Wholly Owned Foreign Production

Similar to the situation of other entry methods, there is a substantial empirical literature on wholly owned foreign production. These empirical studies can be generally divided into three categories: studies which focus on manufacturing foreign production (Dunning, 1973; Dunning, 1979; Grosse, 1988; Kumar, 1994; Moxon, 1975); those which concentrate on service industry's foreign direct investment (Erramilli, 1991; Erramilli & Rao, 1993; Li and Guisinger, 1992; Nigh, Cho and Krishnan,1986; Terpstra and Yu, 1988;) and the others (Mason, 1992; Willard and Savara, 1988) which do not fall into the first two categories.

The first category of empirical studies focused on developing theories on international production. For example, Dunning (1973) in his study of the determinants of international production pointed out the most important considerations of conducting foreign production were the host government's attitudes toward foreign investment, political stability and the prospects of market growth. These observations were made according to several surveys conducted in the 1950s and 1960s. Dunning uncovered these determinants by dividing foreign production literature into five major approaches: the survey approach, capital theory, the trade approach, location approach, and industrial organisation and market structure theory. Literature in the last category had identified that currency fluctuation (Aliber, 1970, 1971 cited in Dunning, 1973, p.316), size of the company and product structure (Vaupel, 1971 cited in Dunning, 1973, p.317) were important determinants of foreign production.

In another attempt, Dunning (1979) developed the eclectic theory of international production. This framework incorporated three industrial and firm specific factors: ownership-specific, location-specific and internalisation advantages. A key finding of the study was that the size of the firm was a key country-specific determinant of ownership advantages. The variable of government intervention was also considered to be an important factor affecting foreign production within that country. With respect to location specific determinants, Dunning's work pointed out that the distances between home and host country (physical, psychic and economic), risk diversification and the exchange rate were the most important factors affecting foreign production.

The second group of empirical studies in the first category have examined one particular industry or cross industries' foreign production empirically. For instance, Moxon (1975), in a study of US electronic firms' offshore production behaviour, examined the offshore production decision process with several variables: US domestic competition status, firms' product characteristics including labour intensity, skill requirements, tariffs, sales growth, standardisation of product and process, operational risks, alternatives, and firms' experience. Among these factors, domestic competition, labour intensity, standardisation of product and process, firms' experience were listed as very important factors by the companies Moxon studied. Seventeen of the 20 executives who were interviewed by Moxon expressed some form of price competition as an important contributing factor in choosing products for offshore production. Products and process standardisation were also considered as important factors. Nineteen out of 20 managers interviewed expressed that they chose simple, standardised and high volume products for offshore production. Products which needed frequent engineering changes were produced in America. With respect to the impact of firms' experience, research results revealed that US electronic firms' offshore production was related to international business experience. They started by doing the simplest manufacturing operations on the most standardised products offshore then progressed to much more complex operations and products.

Studies which have examined cross industries' overseas production behaviour include Benito & Gripsrud (1992), Green & Cunningham (1975), Grosse (1988), Kumar (1994) and Scaperlanda & Mauer (1969). In an early attempt, Scaperlanda and Mauer's (1969) study was designed to research US direct investment in the E.E.C. (now European Union) in the 1952-1966 period. Specifically, their research examined three motivations for firms to conduct foreign investment: size of the market, economic growth and tariff discrimination. The research results indicated that the only variable which was positively related to US foreign direct investment in the European Union was the size of the market. Both economic growth and tariff discrimination variables were rejected. These two variables were not considered as important motivations for US firms' investment in the European Union. The study by Green & Cunningham (1975) of US foreign direct investment in 25 countries was designed to examine the relationship of nine group of variables which were identified by previous studies (Aharoni, 1966; Basi, 1963) and US foreign direct investment. Their study revealed that only market potential (as measured by GNP) and cultural variables were significantly related to US foreign direct investment activities. The rest of the variables showed no relationship with US firms' foreign direct investment.

The work of Benito & Gripsrud (1992) was designed to examine the cultural distance impacts on FDIs conducted by Norwegian manufacturing firms. Their study used Kogut & Singh's (1988) index to measure cultural distance between Norway and the home country. Research results showed there was no support for the notion that the first FDI in general occurred in culturally close countries than later FDIs. The same size of this study was 201 Norwegian including 93 first investments and 108 later investments. This research also found no support for the premise that when Norwegian international operators acquired more international business experience their investment tended to move to countries which were culturally away from the home country. Experience effect did not seem to play an important role in the choice of location for FDIs undertaken by Norwegian manufacturers.

Kumar's (1994) research focused on examining export-oriented production established by American firms in 40 countries. Export-orientated production was a special type of foreign direct investment and it was primarily driven by a country's availability of low-cost resources, human and natural resources such as raw material. The aim of this research was to examine the role of both structural and policy factors in explaining the international pattern of export-orientated production by US multinational corporations. Structural factors included a nation's average wages, industrial infrastructure, availability of experienced and skilled manpower and natural resources. Policy factors were those factors such as international orientation of the economy, establishment of export processing zones, intensity of incentives to foreign investment and performance requirements imposed by the host government. The research was based on a sample of US production affiliates in 40 nations, 21 developed countries and 19 developing countries. Some key findings are described as below.

The proposition that relocation of production sites overseas by US multinationals was positively related to a country's average labour wage was confirmed. A nation's relative level of wages did positively influence that country's attractiveness to US international marketers. A nation's industrial capability such as infrastructure and skilled workers were proved to be important to US firms' foreign production site selection. The establishment of export-processing zones (EPZ) had also been confirmed to positively attract American foreign production. However, this study indicated that the country with the most open economy was not necessarily an attractive site for US firms' relocation of their production. Government incentives and regulations other than those provided through setting up EPZs were also unlikely to affect US firms' site selection criteria.

Similarly, Grosse's (1988) study was to investigate foreign manufacturing MNEs operating in Venezuela and examine their impacts on the host country's economy. His study was based on 60 foreign-owned chamber members who were actually involved in manufacturing in Venezuela. Grosse concluded that his research findings supported the view that FDI offered net benefits to the host country. Specific findings are presented below.

Foreign direct investments were shown to increase local employment in the investing industry and in ancillary industries. When employment effects were tested in four areas, capital/labour ratio, wages and salaries, use of expatriates and net addition of jobs; the findings demonstrated that foreign firms in this sample did not have greater capital intensity than local Venezuelan firms. The research also failed to support that there was a significant difference between compensation patterns of foreign MNEs and their local counterparts. The number of expatriates hired by foreign MNEs was not significantly larger than domestic firms. In fact, MNEs were shown to add jobs into the host country.

Foreign direct investment was also positively correlated with increases in the host country's economic growth rate. This could be evidenced in four sub-hypotheses, investment substitution, reinvestment of earnings, tax payments and demand patterns. The results of these four sub-hypotheses confirmed that FDIs had positively upgraded Venezuela's economic growth rate. A positive overall balance of payments impact on the local economy from FDI was also supported. Balance of payments effects were divided into four areas: substitution for imports, purchase of inputs from overseas, exports from the host country and profit remittance and other financial transfers abroad. Again these four factors were found to support the view that the balance of payments effects resulting from FDI in Venezuela had a positive impact on the host country's economy.

The work of Yu and Ito (1988) was designed to study the impact of oligopolistic reaction and some firm-related (i.e. firm size) and host country-related factors (i.e. market size, political instability, geographical proximity) on FDI activities in the US tyre and textile industries. Yu and Ito examined 270 FDI activities conducted by US tyre industry in 1977 and 1982 and 240 activities by textile industry in the same two years. Variables which had positive impact on FDI activities were the degree of oligopolistic reaction (in the tyre industry only), firm size and market size. Explanatory variables which had no significant impact or negative impact on foreign direct investment include advertising intensity, R&D intensity and geographic proximity and political instability.

The second category of empirical studies of foreign direct investment investigated service industries' offshore investment activities. Weinstein (1977) examined the overseas investment activities conducted by US multinational advertising agencies pre-1950 and post-1950. His study found that the entry strategy adopted by investment conducted before 1950 was almost exclusively 100 per cent ownership, while 55 per cent of investment occurred after 1950 was minority positions. Entry modes were divided into four categories: 100 per cent, majority, minority and equal ownership. Weinstenin also found that experience and psychic distance were related to US advertising agencies' foreign investment. However, this study indicated that the size of agency was not related to US advertising agencies' choice of market entry mode. Erramilli (1991) studied the impact of US-based service firm's pre-export experience and two major foreign market entry decisions: market selection and market entry mode selection. As stated in the conceptual section, when a foreign firm first enters an overseas market, it is likely to adopt a less resource commitment market entry method such as indirect exporting or direct exporting. However, when the firm accumulates enough international experience, then it is likely to switch to a high resource commitment entry mode such as wholly owned foreign production. Gatignon and Anderson (1988) revealed that the number of wholly owned subsidiaries set up by MNCs was positively related to their cumulative international experience. In fact, this proposition was a major aim of Erramilli's (1991) study which was based on survey data from 151 United States-based service companies. Erramilli's research was designed to test if American service firms' market selection and their choice of market entry methods were relevant to their pre-entry international business experience (measured in number of years of the firm had been in international business prior to the current entry and geographic scope of this experience). The research findings indicated that there was a U-shape relationship between experience and the choice of market entry methods. American service firms adopted a high-control entry mode such as joint venture or wholly owned foreign production in their early or late stages of international operations but not when they had moderate experience. This finding is, however, contrary to the findings on American manufacturing firms' choice of market entry mode behaviour. US manufacturing firms are often found to employ high resource commitment market entry strategies when they accumulate enough international business experience (Davidson, 1980, 1982; Gatignon & Anderson, 1988).

Similarly, the work of Nigh, Cho and Krishnan (1986) was designed to investigate the location-related variables of US banking industry overseas investment. Based on US banks' offshore investment in 30 countries in the period from 1976 to 1982, this research found that the US banking industry's overseas investment was positively related to US business presence in that nation. This finding suggested that US banking overseas establishment was designed to serve local US business in overseas market - an example of following your customers abroad. The research has also supported the view that foreign direct investment conducted by the US banking industry in a country was positively related to its openness to other banking investors. This effect was particularly seen in less developed countries, especially in Asian nations. However, the research found no support that local market opportunity was positively related to US banks' overseas investment in that market. This last finding supported the view that US banking foreign investment was created purely to meet the needs of the expansion of US based MNEs. US banking foreign investment was not established to target host country business.

In a similar vein, the study of Terpstra and Yu (1988) was designed to investigate the impact of several factors on US advertising agencies' foreign investment by using the theories of foreign direct investment developed for the manufacturing sector. These factors included the market size of the host country, geographic proximity to the home country, size of the firm, the firm's international experience, oligopolistic reaction and servicing home country clients in overseas markets. Their study was based on examining the 20 largest American advertising agencies' international operations in 1972 and in

1984. Key findings of the study are presented below. The impact of a country's market size was confirmed to be positively correlated with US advertising agencies' investment in that country. US advertising firms entered a country with a large market size. However, the factor of geographic proximity, was not confirmed to have significant impact on US advertising firms' foreign investment although it was hypothesised to have a positive impact on US advertising foreign investment. US advertising firms did not discriminate between foreign investing locations because of their geographical closeness to America. The size and the international experience of the firms were found to be positively related to American advertising agencies' foreign investments. With respect to the oligopolistic reaction, it was confirmed to have a positive and significant impact on US advertising firms' foreign investments. American advertising agencies did follow their competitors in marketing their products abroad. The concept of following your customers overseas was also supported. American advertising agencies were confirmed to follow their clients and enter international markets. Contrary to Erramilli's (1991) findings on American service industry, Terpstra and Yu (1988) found that the determinants of American advertising agencies' foreign direct investments were similar to their manufacturing counterparts.

Likewise, the study by Li and Guisinger (1992) investigated the determinants of foreign direct investment conducted by service MNEs in the "triad" areas: Japan, European Union and the USA. In this study, they elected seven independent variables after reviewing the foreign direct investment literature. These included market size, cultural difference, openness of the host country, global oligopolistic reaction, firm size (measured as growth rate in sales), international competitiveness and follow your clients to go abroad. This empirical study was based on 158 foreign direct decisions conducted by MNEs based in these areas in the period of 1976-1980, and 168 decisions in the 1980-1986 period. After analysing these sample decisions, the study concluded that market size, openness of the host country, global oligopolistic reaction, firm size and international competitiveness were positively related to the foreign direct investment decisions, while cultural difference was negatively related to these decisions. Following clients to go abroad was not significantly related to foreign investment decisions.

Erramilli and Rao (1990), employing the concept of following your clients in the service industry, used a behavioural theory approach variable, market knowledge, to examine the entry mode selections of those US service firms which followed their clients and those who did not (service firms which entered a foreign market to serve customers in that market). Erramilli & Rao (1990) pointed out that together with product characteristics, firm characteristics and external environmental factors, behaviour theory approach variables (such as market knowledge and market uncertainty as initiated by Johanson and Vahlne, 1977; Reid, 1980; Cavusgil, 1980, 1982) were also another group of variables which could influence a firm's entry method decision. Within their research, they sampled 175 US service firms which were engaged in international business and found that those who followed their clients abroad adopted more committed entry modes than those who did not. Vice versa, US service firms who entered a foreign market with the aim to serve local customers showed a stronger intention to team up with external entities (i.e. adopted contractual methods). The study explained these findings as those who followed their clients to go overseas were more knowledgeable about the foreign market than their counterparts. More knowledge about the market meant they would experience a lower degree of uncertainty and perceived a lower risk. As a result, they tended to use a more aggressive entry mode.

Erramilli and Rao (1993), using a modified transaction-cost analysis (TCA), investigated how 118 US service firms operating in international markets chose between full-control (i.e. wholly owned operation) and shared-control (such as contractual transfer or joint venture agreements) entry modes. The five variables used within the research included capital intensity, inseparability, cultural distance, country risk and firm size. The research results showed that only host country cultural distance was not supported. The other four variables were found to be related to the choice between these two types of entry modes. Because of its importance in the formation of the independent variables, more discussion on this study will be presented in the section of independent variables and conceptual model (Chapter 4).

The last category of foreign wholly owned production empirical studies investigated if a pattern existed in international market entry modes. One of them tends to suggest a model of using wholly owned foreign production entry method. Willard & Savara's (1988) study of the Japanese and PBCs' (Pacific Basin competitors) entry patterns into the US market identified five paths. These five market entry mode paths were drawn after observing five different industries including automobiles, tyres, colour televisions, farm-equipment and machine tools. The finding of this study had provided a classic example about the evolution of the choice of market entry modes. The main findings were that first, the US manufacturers created a "window of opportunity" which meant that there were some segments of the market ignored by current U.S. producers. One example of a window of opportunity was that for radial tyres which could last twice as long as traditional bias-ply tyres. This type of tyre was needed especially by U.S. fleet owners or professional drivers, but this segment was ignored by the U.S. tyre manufacturers. A window of opportunity was then opened for the non-U.S. tyre manufacturers. Two: Japanese or PBCs established their initial market presence because of the segments' needs. They usually started with a contract manufacturing entry strategy to enter the market, e.g. marketed products under U.S. manufacturers' labels (e.g. Yanmar's private-labelling for John Deere). Yanmar, a Japanese tractor maker, used this strategy to enter the American market and now had begun promoting its own brand. Three: after a period of effort conducted by Japanese or PBCs firms, they became well known and recognised as a source by the American consumers. Four: they started marketing products under their own name or label and often entered the upmarket segments with the support of excellent quality and competitive prices. Five: Japanese or PBCs firms moved to permanent market presence by using the wholly-owned production strategy to establish their production and/or assembly operations within the U.S. market (Willard & Savara, 1988, pp.57-74).

In contrast to Willard & Savara's study of the Japanese and other East Asian nations' MNCs' entry patterns into the American market, Mason's (1992) study focused on examining why American firms' direct investment in Japan still remained limited. Although the United States was the largest single foreign investor in Japan, American firms faced two major type of impediments for their direct investment in Japan - home country and host country factors. Home country factors included the declining international competitiveness of American firms to Japanese firms and three major strategic errors; lack of patience, lack of knowledge and lack of effort. Because of the declining competitiveness of American firms in some sectors, it was difficult for them to conduct direct investment in Japan. American firms were also often found to have problems in evaluating the trade-offs between short-term costs and long-term benefits. They often failed because they did not have thorough knowledge about the Japanese market in terms of its distribution system, labour relations, language and culture.

Host country factors could be divided into public and private sector impediments. Public sector impediments came from government regulations, legislation, inadequate intellectual property protection and lack of transparency and administrative guidance to foreign direct investment. Private sector impediments were believed to be the major impediments to FDI inflows from overseas. Major features of this type of impediment included the extremely high cost of land, insufficient experienced and new personnel (due to the life-time employment practice and new graduates' preference for working for local companies), a complex distribution system and the emphasis of personal relationships.

Finally, this research found that Merck's, a major American pharmaceutical maker, success in Japan was due to its correct entry strategy selection. It adopted foreign acquisition to enter the Japanese market. There were two reasons for adopting this strategy. Firstly, it allowed the company to market its products more effectively. When compared to the company's previous entry methods such as joint ventures, Merck did not have the problem of matching its interest with the local Japanese partners'. The second reason was the change of government regulatory policy which allowed foreign acquisition of majority shares in existing Japanese enterprises.

Regarding the formation of independent variables, the findings of Erramilli and other researchers' (Willard and Savara, 1988, Davidson, 1980, 1982, Gatignon and Anderson, 1988) seem to suggest that a firm's international business experience is related to its market entry method selection.

With respect to contribution to market entry mode independent variables creation, Terpstra and Yu's (1988) research findings seem to point out that physical distance does not affect a firm's market entry method selection. However, both the findings of Li and Guisinger (1992) and Mason (1992) have suggested that psychic distance is an indicator for a firm's market entry mode selection. Li & Guisinger and Mason's observations are consistent with the already mentioned Robles' (1994) findings.

Consistent with other studies' findings, the studies of Terpstra and Yu (1988) and Li and Guisinger (1992) seem to have agreed that firm size is a determinant for a firm's market entry mode selection. The same theory holds in market size.

3.3.5.8 Summary

This section has reviewed both theoretical and empirical literature on international entry strategies. The three main categories of entry modes often used by international marketers are indirect exporting, direct exporting, and foreign manufacturing. Before these strategies were discussed, this section first introduced some theories about international marketing orientations. There are several methods of conducting indirect exporting including international trading companies, export management companies and piggyback exporting. Firms who conduct direct exporting normally set up an export department or international marketing department to carry out all export procedures. Foreign manufacturing represents the highest commitment from an international marketer. It differs from the other two in conducting manufacturing in the overseas market either in a direct or a indirect way. Several popular ways of conducting foreign manufacturing have been discussed here together with several applications. These include foreign assembly, contract manufacturing, licensing, franchising, joint ventures, strategic alliances and wholly owned foreign production. Each option has its own characteristics and strengths and weaknesses.

3.4 LITERATURE REVIEW OF NEW ZEALAND'S INTERNATIONALISATION EXPERIENCE

3.4.1 Introduction

Previous sections have reviewed different routes of entry into foreign markets. However, how these theories are actually applied by New Zealand international marketers has not yet been considered. This section reviews this literature.

The contents of this section include the characteristics of New Zealand's international business and how these features affect New Zealand firms' international operations, selection of market entry methods, selection of the distribution channels. The barriers to New Zealand exports entering overseas markets will also be analysed.

3.4.2 Characteristics of New Zealand international businesses and their impact on New Zealand firms' international operations

New Zealand with a population of 3.5 million people and the geographical size of California or Japan has many unique features associated with its international business. These features have deeply affected its firms' international operations.

Prior research has identified several unique features about New Zealand firms' international operations (Akoorie and Enderwick, 1992; Au and Enderwick, 1994; Hoadley, 1993; Lindsay, 1990). These include niche marketing, small size, late entry into the world market, world orientation and non-conventional products exports.

<u>Niche Marketing</u>

Lindsay's study (1990) pointed out that niche marketing was one feature of those successful small medium sized (SMEs) New Zealand manufacturing exporters. Her study revealed that those SMEs performed best if they exported differentiated products or products with unique features. Lindsay (1989) also found that most of the participants in her research claimed they were niche marketers. They usually targeted a special and small market niche and fully understood the characteristics of this niche. They believed that a niche marketing strategy was a critical tool for their success. However, Akoorie and Enderwick (1992) observed that although most of their respondent companies claimed to pursue a niche marketing strategy, they were still competing internationally mainly on price. Their study further identified that one primary benefit of adopting a niche marketing strategy was to decrease the competition a firm faced, but New Zealand companies were still experiencing substantial competition internationally. Therefore, they concluded that a large number of New Zealand companies were not really niche marketers (p.67).

Kinsella (*NZ Herald*, 1993, Sep. 30) suggested that New Zealand companies who were interested in exporting food to Taiwan should adopt a niche marketing strategy. He indicated that because Taiwan was able to grow and produce a variety of vegetables, fruit and other food products by itself, New Zealand traders should export products which could not be produced or which were not suitable to be grown on the island, such as kiwifruit or Fuji apples.

The research conducted by Harrison (1990) has also stressed the importance of niche marketing. He argued that this marketing strategy provided the best opportunity for New Zealand firms competing internationally. The research indicated that competition in smaller markets was not as intensive as in a mass market and could be served by small and flexible New Zealand international marketers (Harrison, 1990, p.107). This comment strengthens Kinsella's observation on exporting New Zealand products to the Taiwanese market.

Small Size

The second characteristic of New Zealand international firms is their small scale. Akoorie and Enderwick's (1992) study pointed out that the average size of New Zealand international marketers was classified as small scale according to international standards. The average number of employees of the respondent enterprises was 128. In contrast, the average number of employees of the smallest 50 Fortune firms was 11,404 people. This small scale classification by these two authors was also verified by some European studies (Akoorie and Enderwick, 1992, p.57). Generally a small firm is constrained by limited financial resources to develop or support its international business programme which includes two basic decisions: where to export (market selection) and how to export (means of distribution). To develop these two functions properly takes a consider amount of financial resources and managerial time which small size exporters find difficult (Cockroft, 1990; McDougall, 1991). Hoadley's (1993) study revealed that most of the problems facing New Zealand firms operating in Taiwan were related to their small size. For example, one problem of doing business in Taiwan for many smaller New Zealand international marketers was their inability to set up a permanent presence in the market[1]. This presence was crucially important when doing business in Taiwan. Consequently, MNCs from larger countries with more abundant financial resources were better able to capture market expansion by having their own representative offices or subsidiaries there.

The characteristic of small size is also reflected in New Zealand firms' international investment. The study by Au and Enderwick (1994) of New Zealand joint ventures in China revealed that the small size of New Zealand firms together with their limited international investment experience might have contributed to the high failure rate of New Zealand joint ventures in China.

However, it is worth noting that although the average size of New Zealand firms operating in the international marketplace is small, some large size companies (by New Zealand standards) have also been conducting international businesses for a number of years. A study conducted to investigate the patterns of foreign direct investment of eight large New Zealand companies indicated that average size of employees hired by these companies was more than 1,000 employees both inside and outside New Zealand. Fletcher Challenge is the largest New Zealand company and it had 37,600 employees in 1987 (Akoorie, 1993, p.175). The eight companies identified by Akoorie (1993) included Fletcher Challenge Limited, Brierley Investments Limited, the New Zealand Dairy Board,

[1] According to TRADENZ office in Taipei, only 15 New Zealand companies have set up representatives, offices, branches, or subsidiaries in Taiwan up to Oct, 1996. However, in terms of the number of New Zealand marketers who use direct or indirect exporting strategies to enter the Taiwanese market, the office does not keep a record since this type of business is completed individually.

Equiticorp International Limited, Goodman Fielder Wattie Limited, New Zealand Insurance Corporation Limited, Carter Holt Harvey Limited, and Bank of New Zealand Limited. Besides these companies, previous studies have also identified that large New Zealand companies such as Lion Nathan and Fisher & Paykel have also been actively operating in the world-wide market for many years (Lion Nathan, 1997; *NZ Herald*, 1999; Teutenberg, 1997; Sexton, 1994).

Late Entry

The study conducted by Akoorie and Enderwick (1992, p.59) revealed that the length of time the majority of their exporters had been in international markets was ten years or less. Their study therefore concluded that New Zealand international firms had the feature of late entry. There were several problems associated with this feature including lower scale operation, higher manufacturing costs, brand name not known, high degree of vulnerability and high risks. These problems had placed New Zealand firms at the position of cost disadvantage. New Zealand firms' late entry into international markets can also be seen in international investment. Au and Enderwick's (1994) study reported that the operating difficulties facing New Zealand joint ventures in China were related to their limited experience of international investment. The primary concerns from their respondent companies included the risk of breach of contract, poor infrastructure and unfamiliar business practices. These findings were different from the difficulties facing those more experienced and larger sized investors who listed a lack of foreign exchange, controlling senior Chinese officers, overstaffing among their major operational problems in China.

However although most of the New Zealand companies' international business experience is short, there are some exceptions. For instance, Fisher & Paykel has been marketing its own brand in Australia since 1988 (Sexton, 1994). Fletcher Wood Panels Limited, a division of Fletcher Challenge Limited, has been exporting wood panels to countries such as Taiwan and Japan for more than 20 years. In 1997 the export value of the company had reached NZ$38,000,000 and it had served customers in over than 26 countries (Fletcher Wood Panels report, 1999). Also as indicted in Akoorie (1993), the four major

New Zealand commodity sectors (wool, meat, butter and cheese) have also been operating in the international marketplace at least since 1960s. New Zealand Dairy Board is believed to have been operating in Taiwan at least for more than 25 years. Fletcher Challenge Limited and Cater Holt Harvey Limited have started their first foreign direct investments since 1984 (Akoorie, 1993).

<u>World Orientation</u>

This characteristic has been discussed in several previous studies (Lindsay, 1990; McDougall, 1991; Steiner, 1993). Lindsay's (1990) study pointed out that most successful SMEs started adopting a nearby neighbour approach. They initially exported products to Australia or the Pacific Islands which are geographically close to New Zealand then expanded their operations to other markets beyond "nearest neighbour". This research, together with other literature, supported the view that a world orientation was positively related to exporting success. The benefits generated from a world orientation included: spreading of financial risk, increasing of niche market opportunities and increased volume advantages. This finding of Lindsay's is confirmed by McDougall's (1991) research which pointed out that many New Zealand SMEs started exporting their produce to New Zealand's nearest neighbour (Australia or the Pacific Islands) but over time, they expanded their coverage to further markets and adopted a world orientation. Over 50 per cent of McDougall's (1991) research respondents indicated that their first initial export markets were either Australia or the Pacific Island nations. This choice was because Australia is New Zealand's closest market both geographically and psychologically and the South Pacific is very close to New Zealand geographically. However, the theory that exporting begins with neighbouring countries is not supported by Steiner's observation (1993). Her study is contrary to other authors' findings as she reported that respondents to her study adopted a world orientation even when they first started exporting. New Zealand fishing traders exported products not only to Australia or Pacific Islands but also places such as the US, Japan and Europe when they first started doing international business. The initial average number of exporting markets was four per exporter. Her study confirmed that New Zealand fishing exporters adopted a world orientation rather than a nearest neighbour approach when they first conducted exporting business. Steiner's findings may be different from others because of the nature of the industry she studied.

Non-Traditional Exports

Traditionally, New Zealand exports were concentrated on primary products (i.e. agricultural and horticultural products). However, a number of previous researchers have concluded that some non-traditional New Zealand industries such as manufacturing and services are also actively trading their products internationally. This development suggests New Zealand exports have diversified and the experiences of non-traditional products exporters are valuable to other New Zealand exporters. For instance the foreign market entry approach adopted by these non-primary sector exporters are normally different from the ones used by traditional produce exporters (Akoorie & Enderwick, 1992). The exporting of non-traditional products is also supported by Harrison (1990, p.59) whose study indicated that 52 per cent of the products exported by New Zealand traders were manufactured goods and 29 per cent of New Zealand exports were primary produce.

3.4.3 Entry Methods Selection

With respect to the entry methods, past literature has suggested that there are a variety of international entry methods used by New Zealand international marketers.

Lindsay's research (1990 & 1989) pointed out that successful New Zealand small-medium sized manufacturing goods exporters were active exporting marketers not passive exporters. Her study defined active exporters as those firms which actively looked for export opportunities and passive exporters as those which waited for business to come to them (Lindsay, 1989, p.95). This finding was consistent with previous research (i.e. Chirstensen et al, 1987 cited in Lindsay, 1989, p.95) which also suggested that successful exporting firms were active export market seekers. This domination of utilising exporting as the entry strategy by New Zealand marketers is also evidenced by Akoorie and Enderwick's study (1992). The overwhelming majority of their respondent firms were using direct exporting (using overseas distributors) as their entry method. However, there was some usage of high resource commitment market entry strategies such as foreign production by the respondent companies. Steeman's study (1993b) has also produced a similar result. Steeman's research on PDL's operation in Malaysia revealed that the Christchurch based electrical and plastics manufacturer was adopting a wholly-owned manufacturing entry strategy for its operations there. It has set up two manufacturing plants in Malaysia. There were several reasons for choosing this practice. Malaysia itself was a large market, as big as Australia, and it had high levels of tariff protection, average duty rates of 35%. It had low or even non-existent duties to pay on entry to other nearby Asian markets (Steeman, 1993b), especially to the members of the Association of South East Asian Nations (ASEAN). Malaysia is a key member of ASEAN. By having a manufacturing presence there, PDL could supply the market without facing duties and could export products made in Malaysia to other Asian markets including Singapore, Thailand or Indonesia without high duties. Another advantage of this entry method was labour costs which were lower in Malaysia than in New Zealand. PDL had marketed its products in more than 40 countries. More than 50 per cent of its annual sales revenue was from international sales. Its annual turnover was over NZ$ 245 million. PDL had three manufacturing companies in New Zealand and one in Malaysia. It had distribution companies in Australia, Germany, and Italy and overseas offices in Kuala Lumpur, Johor

Bahru (Malaysia), Singapore, Melbourne, Brisbane, Adelaide, Perth, Sydney, Florence, Nuremberg and Thames (UK) (*The New Zealand Way*, March 1995). PDL also manufactured heaters in a joint venture in southern China. All products produced there were exported. It was seriously considering establishing an operation base in Shanghai to make products for the local Chinese market.

More evidence about the utilisation of the wholly owned production strategy comes from Fisher & Paykel's operations in Australia. Sexton's (1994) study illustrated how Fisher & Paykel's sales performance had been upgraded in the Australian market after establishing its first overseas manufacturing facility in Cleveland, Brisbane, in 1990. In 1994, Fisher & Paykel acquired 17.2 per cent of the Australian refrigerator and freezer market share, while it was the third largest brand name in the washing machine and drier market (p.67). About one-fifth of its Australian sales came from the Cleveland factory, the author indicated.

In contrast, McEwen's observation of the New Zealand Kiwifruit Marketing Board's (NZKMB, now known as Zespri) operation in Japan provides a different perspective on setting up an overseas marketing office. His article outlined the background of the Board's reversal of a sole distributor entry strategy (McEwen, 1994). The study described the reasons behind the change from setting up an overseas office in Tokyo, which was set up in 1992 to improve the marketing performances, to entering a deal with Dole Japan as its sole distributor of New Zealand kiwifruit in Japan. These reasons included the difficulty of accessing information about the prices or margins taken at the different distribution levels (e.g. wholesaling and retailing) even though the Board had its own marketing office. The article further noted a comment from an official of Dole Japan "the one who survives in Japan is the one who gets the distribution costs down, nothing else" (McEwen, 1994, p.19) to describe the importance of controlling distribution. McEwen's article should provide a lesson for those New Zealand exporters who view setting up a marketing office as a tool to increase their sales in the Asian markets. As the spokesman of IKS, a grower group which is seeking to export New Zealand kiwifruit, indicated "it is very expensive exercise to do it (distribution) ourselves" (McEwen, 1994, p.19).

The operations of Tip Top, a leading New Zealand ice cream maker, in Japan provides another successful example for New Zealand international traders. Rotherham's report (1991) indicated that Tip Top entered the Japanese market by signing a contract manufacturing agreement with Borden, an American multinational food company whose products included the most popular milk powder brand name, KLIM, in Asian countries such as Taiwan and Hong Kong. Tip Top was manufacturing ice cream for Borden's Lady Borden brand in Japan. It was the number one premium ice cream brand in Japan and was sold only in fancy department stores.

Steeman's (1993a) article about the Christchurch based Smith Seeds Ltd.'s experience in Asia provides another illustration of the use of contract manufacturing. The seed company's Asian customers specially cultivated and selected seeds and then sent them to Smith Seeds to grow in much greater quantities. The whole process was under a contract growing agreement. It was the prerogative of the customers who bought the seeds to distribute, market and package the products in their countries. Smith Seeds Ltd's responsibility was to mass produce the seeds for their customers. Smith Seeds did not commit to any overseas marketing activities at all. As the author said "Smith Seeds was a small company and not geared to marketing the products in several countries with a variety of backgrounds and lifestyles (p.10)." This study shows how a New Zealand small-medium size company gained experience in the world markets and the obstacles it faced when trying to expand its business internationally.

3.4.4 Distribution Channels Selection

The relationship between distribution channel and entry method have been discussed before. Basically, distribution channels are a means of distributing products to end customers, while entry methods are means of delivering products to the overseas market. In order to transmit New Zealand products to their foreign end users, entry methods and distribution channels are two necessary media. Entry methods, generally, are the prerequisite to distribution channels. Some entry methods (e.g. trading companies, EMCs, piggybacking, agents, distributors and licensing) do not require the exporters to take direct responsibility for their foreign-market distribution.

One study identified that the most frequently used distribution channel by New Zealand SMEs was overseas distributors. The methods used to search for distributors by New Zealand SMEs included attending international trade shows, obtaining a list of potential distributors from the Trade Development Board and visiting the foreign market and contracting potential distributors by SMEs themselves (McDougall, 1991). The use of overseas marketing intermediaries to distribute products in foreign markets is echoed by another New Zealand study. Akoorie and Enderwick's (1992) findings indicated that agents located in New Zealand, and overseas distributor entry methods were adopted by the majority of their respondent companies, even though a small amount of them had adopted overseas sales subsidiaries entry mode. Steiner's (1993) investigation of the relationship between international marketing control variables and export performance within the New Zealand fishing industry revealed that in their initial export years, the top three most common distribution channels adopted by New Zealand fishery exporters were commission agents, offshore subsidiary/ JV (joint venture) partner and foreign distributors (p.212). One explanation for these preferences was those overseas representatives' knowledge of the local markets. Another motivation for going to these intermediaries could be the avoidance of contacts in the export market. An indirect exporting entry strategy, as mentioned above, is the cheapest way of distributing products in overseas markets. However, once exporters gain more experience and knowledge about foreign markets, their preferences switch to selling directly to their overseas buyers. Steiner (1993) reported that selling directly to overseas customers would benefit the New Zealand fishery traders more.

Lindsay's research (1989, p.96) also emphasised the importance of distribution for New Zealand manufacturing goods exporters. Her study revealed that to find suitable distributors or agents in overseas markets was difficult for New Zealand manufacturers. The study showed that most of the firms had at least one unsuccessful experience of dealing with overseas distributors or agents.

Harrison's (1990, p.60) study revealed that the most frequently used entry methods to develop overseas markets by New Zealand exporters were exporting alone (45 per cent), exporting via overseas sales agents (28 per cent) and overseas sales office (12 per cent). In addition, his study further identified that channel management was recognised by the New Zealand traders as a key prerequisite for successful international business. It is interrelated with many other marketing functions. To develop a good distribution relationship was a clear objective for all of the researched firms (p.107).

3.4.5 Management Characteristics of New Zealand Exporters

Lindsay (1989, p.111) found all respondents within her research scope adopted centralised management structure. New Zealand companies tended to control all key international marketing functions from within their New Zealand headquarters. They seemed reluctant to allocate responsibilities to their managers in overseas markets because of the high risks involved. These risks were associated mainly with New Zealand's long distance from markets and the New Zealand firms' inability to conduct frequent contacts with their overseas markets. This finding was contrary to some overseas studies (such as Doyle et al 1985 and Johnston, 1986 cited in Lindsay, 1989, p.111) which stated that the success of Japanese MNCs was correlated with the level of decentralisation of functions and their control and that the decentralisation of managerial control was important for firms exporting products to the United States market.

3.4.6 Constraints and Challenges of New Zealand International Businesses

Besides the above issues, the New Zealand internationalisation literature has also highlighted several constraints and challenges facing New Zealand companies when they internationalise their businesses. These comments and experience might be valuable for those New Zealand firms which are considering to enter the international marketplace.

Lack of Understanding

Hoadley (1993) pointed out that a barrier for New Zealand firms' operating in Taiwan was their lack of understanding of this market due to insufficient timely and reliable marketing intelligence. This information included customer's needs and wants, product use conditions and consumption habits and government regulations.

Tariffs and Quotas

With respect to the specific barriers facing New Zealand exports to Taiwan, Hoadley (1993) made a comparison between U.S. exports and New Zealand exports to this market and revealed how New Zealand exports were treated unfairly in terms of tariffs levied. As a result, New Zealand products were less competitive than imports from America, Canada, or even from Australia. Hoadley concluded that New Zealand should learn from the Australian experience of dealing with trade barriers with Taiwan. These experiences included visits to Taiwan by top Australian political leaders and the signing of governmental agreements with Taiwanese authorities which list trade barriers as part of the negotiation agenda. However, Ivan Kinsella (1993), the former manager of TRADENZ Taipei Office, indicated that the market of Taiwan apart from having high tariff levels, was basically open. When compared with other New Zealand trading partners, Taiwan had relatively few non-tariff barriers (NTBs). Kinsella further identified that a number of New Zealand products were not allowed to be imported into Taiwan. These included persimmons, peaches, nashi pears, animal offal, velvet and potatoes. These bans were primarily implemented in order to protect local farmers interests, he indicated. New Zealand apple exports were restricted to 2,608 tonnes per annum (Kinsella, 1993; Hoadley, 1993) while there was no similar regulation of apple imports from the U.S. and Canada (Hoadley, 1993, p.38). John McArthur (1995, *Auckland Chamber of Commerce*) indicated that because of Taiwan's intention of entering the World Trade Organisation (WTO) some New Zealand products which used to be banned are likely to have restrictions lifted (*NZ Ministry of Foreign Affairs and Trade*, 1994). Squid would be an example of one of these items. Other items which are expected to have access to Taiwan after its accession to the WTO are offal, liquid milk, deer velvet, mackerel, sardines, pears, and persimmons, according to the manager of TRADENZ office in Taipei (Lee, 1998).

Another New Zealand study also echoed the impact of tariffs and quotas on New Zealand exports to Japan and other East Asian countries. Lindsay's observation on critical success factors for manufacturing goods exporters pointed out that for New Zealand manufacturers who did business with Japan and the Far East nations, one significant factor in their success was tariffs and quotas (Lindsay, 1989, p.94). The research further identified that these markets were perceived by the respondent firms to be more difficult than Western nations. McDougall (1991, p.115) also reported that most of the companies he interviewed preferred exporting products to markets which were psychologically close to New Zealand such as Australia, Canada, UK or the US.

Geographic Distance

Another barrier to New Zealand firms' internationalisation is New Zealand's geographical location. The nearest neighbour, Australia, is 1,600 km away. This physical distance from major economic areas has several effects: increasing transportation cost, increasing communication cost, and reducing speed of delivery (McDougall, 1991). However, the geographic distance barrier is not confirmed by Lindsay (1989, p.97) whose study revealed that New Zealand distance from overseas markets was not considered as a problem by her respondents. Steiner's (1993, p.189) study of New Zealand fish exporters also supported that geographical closeness did not influence New Zealand fish exporters' performance. Only ten percent of her respondents indicated that geographical closeness to a market was the main factor for choosing their initial overseas market. Steiner's finding was consistent with Marshall's (1992, cited in Steiner, 1993, p.191) study on the New Zealand wine industry.

Psychic Distance

The effect of psychic distance has also been widely examined in New Zealand internationalisation literature (Chetty, 1993; Gray, 1994; Harrison, 1990, pp.31 & 106; Lindsay, 1989; Steiner, 1993). Some studies support the psychic distance effect. Lindsay's (1989, p.82) study indicated that nine (out of seventeen) of her researched companies revealed that Australia was their first market. Harrison's (1990) study indicated that lack of understanding of foreign markets was considered problem/ barrier to New Zealand firms' internationalisation (p.106). Steiner (1993) found that there was no relationship between psychic distance and export performance. Gray (1994) also found that a firm's perception of psychic and geographic distance were negatively related to that firm's degree of internationalisation but it was not very strongly supported. Lindsay's (1990) study on critical success factors of New Zealand manufacturing goods exporters found that among those respondents who practised a world orientation strategy (extending export markets beyond "psychic distant" close nations) had more opportunities to succeed.

3.4.7 Other Issues

Personal Contacts

Past studies have pointed out that a good relationship with overseas distributors has a positive impact on sales performance (McDougall, 1991). Personal contact was also considered as a critical success factor by New Zealand manufacturing exporters (Lindsay, 1989, p.88). The tools used by New Zealand exporters to maintain a good relationship with their overseas distributors were to keep their promise in terms of quality, product volumes, timing of shipments and support material (McDougall, 1991). Other methods of maintaining good personal contact included an emphasis on service, developing a sense of mutual loyalty and commitment and establishing close surveillance of the competition. To have the managing director or senior manager visiting the export markets has a positive benefit in maintaining a good relationship with overseas distributors and customers (Lindsay, 1990). One Australian study (Levy, 1994) has also emphasised the importance of frequent visits to the markets when Australians do business with Asians. Levy (1994) pointed out that one or two visits a year to the market was not good enough to understand the Asian market. A number of visits a year was necessary in order to have a full appreciation of these markets. Frequent visits would allow the company to demonstrate its commitment to both the market and partner companies.

Steiner (1993) also agreed that personal contact with overseas customers was important to the success of New Zealand fishery exporters. As a means of promotion, a personal selling strategy had been found to be positively related to the success of New Zealand fishery exports (p.236).

Dau's (1991) study of 356 New Zealand manufacturing firms' adoption and implementation of the marketing concept and their export performance also concluded that visits to foreign markets was seen as the most important factor in export success by those respondents. His study indicated that paying regular visits to foreign markets was positively related to their export performance. This finding is consistent with a number of other New Zealand studies (e.g. Lindsay, 1990, pp.31-32).

Networking

This is another issue identified by New Zealand internationalisation literature. Chetty (1993) indicated that establishing networks was stressed by her respondents as an important factor to affecting their export performance. Chetty cited that networks can occur when exporters cooperate with their competitors to enter an overseas market. TRADENZ's joint action groups (JAG) were established to achieve this aim (p.107). The study of Gray (1994) on New Zealand firms' internationalisation examined the relationship between business networking skills and a firm's degree of internationalisation. This study found a non-significant relationship between these two variables (p.131).

3.4.8 Product Strategies

Product strategies refer to the degree to which a New Zealand firm adapts its products to international markets. There are two practices: standardisation or adaptation. Standardisation policy means that the firm simply sells products it sells in the domestic market with as small amendment as possible. Companies which adopt an adaptation policy develop a new product mix for export markets.

Some overseas studies supported the view that companies which adopted an adaptation product strategy outperformed those who did not. For instance, Cooper and Kleinschmidt's (1985) study examined 142 Canadian electronics firms' export strategies and their export performance. Their study found that those companies which adapted their products, segmented their export markets and adopted a world market practice outperformed their non-counterparts. Companies which practised product adaptation and segmentation strategies had export growth at 130 per cent annually in comparison with 26 per cent for those who did not.

Wiedersheim-Paul, Olson and Welch (1978) in examining exporting firms' pre-export activities discovered that a firm's products were an important factor determining that firm's export activities. Their study suggested that the software/ hardware relationship (a package of services) of the product lines was the most important feature. They believed that the content of software/ hardware content had an impact on the information flow needed between seller and buyer.

In her study on New Zealand fishery exporting activity, Steiner (1993) found that 49% of New Zealand fish exporters either frequently or often made product modifications. This finding is contrary to Akoorie and Enderwick (1992) and Dau (1991) who suggested that New Zealand companies were reluctant to amend their products for the world market. Regarding the relationship between product adaptation and export performance, the study found no relationship between those two. Steiner (1993) also found no relationship between developing products specifically for the international markets and export performance. The findings of Steiner's study also revealed that New Zealand fishery operators' export performance was also not related to their new product introduction programmes (p.224).

3.4.9 Summary

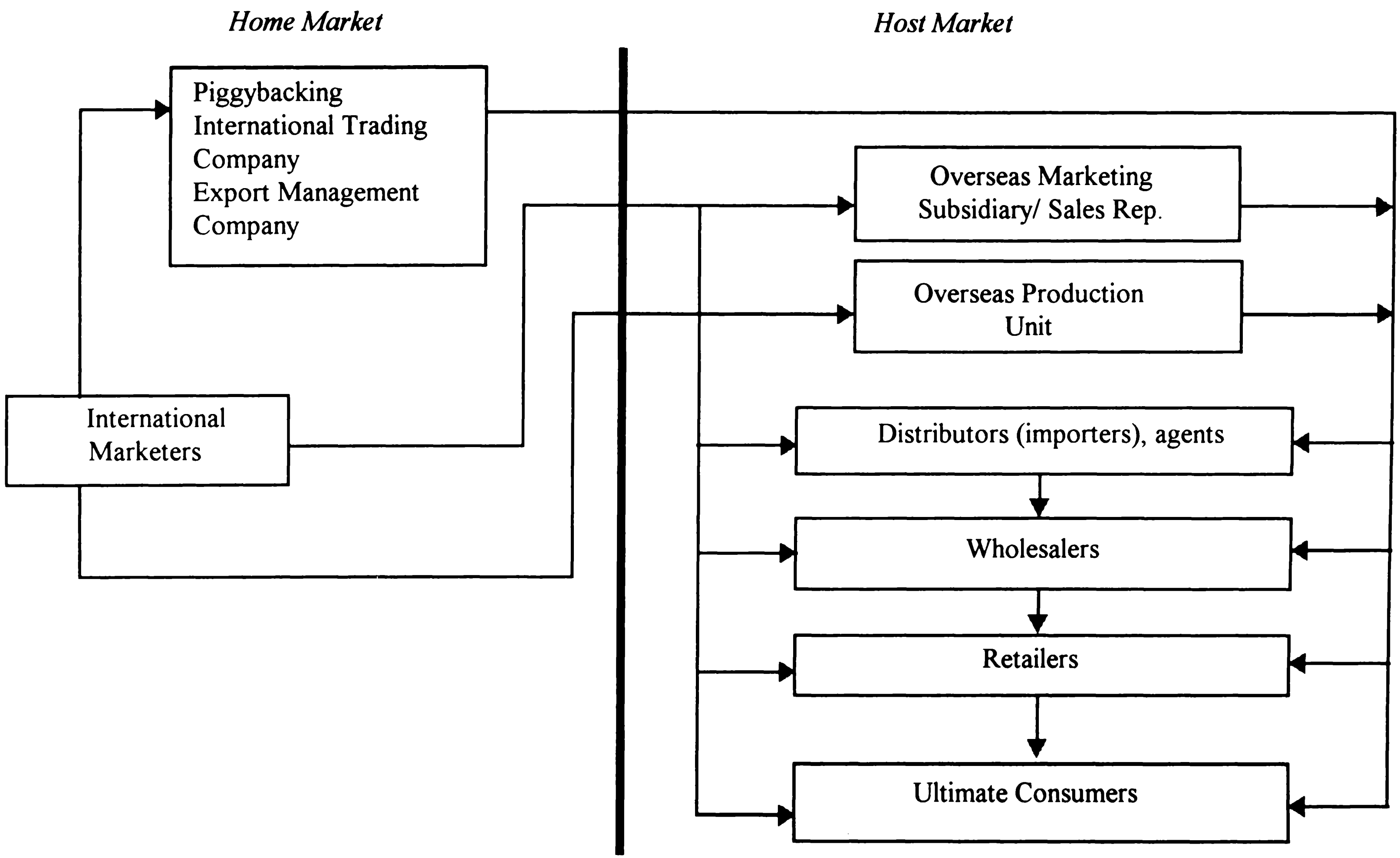
This section has reviewed literature on the internationalisation New Zealand firms. Issues such as the special characteristics of New Zealand internationalisation experience and their impact on New Zealand firms, New Zealand firms' market entry methods selection, distribution channels selection, and constraints and challenges of New Zealand international businesses were examined in this section. The characteristics of New Zealand firms operating internationally include niche marketers, small size, late entry, the importance of a world orientation and exporting non-traditional products. However, although the average size of New Zealand firms operating in international markets is small, the literature has also indicated that a number of large companies have been operating internationally for many years. These large companies are likely to be operating in Taiwan.

Entry methods adopted by New Zealand firms are still concentrated on direct exporting related entry strategies such as agents or distributors. However, several studies have pointed out that high resource commitment entry methods (e.g. foreign manufacturing) are also adopted by firms in different sectors. Normally, when New Zealand firms first internationalise their business they adopt a less risky (low resource commitment) entry method. But when they accumulate experience, they tend to adopt a higher involvement entry method. In terms of distribution channels, these vary between sectors. Overall, overseas agents and distributors are the two most popular distribution methods adopted by New Zealand exporters. Personal contact is also identified as important. This is especially true when New Zealand firms export products to Asia. With regard to management characteristics, previous studies have identified that a centralised management structure is widely adopted by New Zealand exporters. There are a number of constraints and challenges that New Zealand firms are likely to encounter when they enter the international marketplace. These include lack of understanding overseas market, tariffs and quotas, country of origin image, geographic distance and psychic distance. Other issues such as personal contacts are also identified by the literature as an important issue to New Zealand business internationalisation.

3.5 The Japanese and Taiwanese Distribution Systems

Preceding sections have reviewed studies on different entry methods available to foreign international marketers as well as to New Zealand exporters and the experience of New Zealand firms' international operations. These studies mainly focus on how to bring international marketers' products into a foreign market. However, once the firm decides a mode for entry into the foreign market, the next task facing it is how to distribute its products to the end users in that foreign country. The distribution system within that foreign market will also affect the international firm's entry mode selection. For instance, in Japan it is unusual for retailers to buy products from wholesalers they do not know or who they are not familiar with, therefore foreign firms who want to enter this market might have to adopt a less integrated (low resource commitment) entry mode such as a local distributor in order to penetrate the market. This section first examines various options and issues in distributing products in a foreign market and it then discusses the Japanese and Taiwanese distribution systems and how they could affect New Zealand firms' market entry mode decisions. Figure 3.1 introduces different distribution routes used to deliver overseas sourced goods to the end users in an overseas target market.

Fig. 3.1 Market Entry Modes and Distribution Systems



As discussed in previous sections and also shown in Figure 3.1, there are a number of routes available for international marketers to deliver their products to a host country's ultimate consumers. Firms adopting indirect exporting strategies normally use marketing intermediaries based in the home country to deliver their products to overseas customers. When these marketing intermediaries acquire products from the exporting firms (the principals), they then deal directly with distributors (importers) or agents who will resell the exporting firm's products to wholesalers, retailers, or ultimate consumers. Sometimes, these home based marketing intermediaries sell their principals' products directly to wholesalers, retailers or even to ultimate consumers in the host country if there are no suitable distributors or agents available. The four often used direct exporting entry strategies are overseas distributors (importers), agents, foreign sales forces, and overseas marketing subsidiaries. When these organisations acquire or receive products from the exporters (or the parent company), they then resell them to wholesalers, retailers or even ultimate consumers. Firms adopting overseas manufacturing strategies have their products made in the host country. As shown in Figure 3.1, within the host country, there are a number of routes available for delivering products to the host country's ultimate consumers.

3.5.1 Literature on International Distribution Channels

3.5.1.1 Introduction

Issues in international distribution have been widely discussed in the literature. Research has pointed out that it does not matter how well a product meets the demand of the target market, how high the quality of the product is, or how well the promotion programme is designed, the foreign firm's products must be delivered to the right people at the right time and at the right place. The international marketing distribution system is the link between the foreign producer and customers in the host country (Jain, 1993) and it is considered crucial for the success of foreign operations. The structure of distribution systems varies between countries. Studies have pointed out that the channels of distribution available in any country are the result of culture and tradition (Jain, 1993, p.564). It is dangerous for international marketers to use one standardised distribution system for every nation in which they operate. International marketing managers need to examine different aspects of a country's distribution system carefully in order to decide the best option for distributing its products within that market.

As discussed in the section on international entry methods, companies adopting indirect or direct exporting entry strategies such as a trading company, EMCs, piggybacking, agents, distributors, or foreign manufacturing entry forms such as licensing or franchising, normally do not bear the tasks of managing distribution within a foreign market. Responsibility for distributing products is normally allocated to their marketing intermediaries or local partners. These overseas firms normally have very little knowledge about how their products are distributed to end users in the host country. However, companies which utilise marketing subsidiaries or complete manufacturing and marketing operations need to manage their own overseas market distribution systems in the foreign market (Terpstra and Sarathy, 1997, p.560).

3.5.1.2 Wholesaling

For a foreign firm needing to decide which channel to use to distribute its products to the end users in a foreign market, the wholesaling system is probably the first item that it needs to examine. The variables which have been suggested to distinguish wholesaling systems internationally are wholesalers' size, number, and services offered by the wholesalers in the host market (Terpstra and Sarathy, 1997). The scale of wholesalers in developed economies is generally large and they tend to supply a number of retailers at one time. But, Japan and Italy are the two exceptions to this belief. In Italy, distribution is fragmented and costly (*Tradenz*, 1995). Because Italy is a long thin country in geographical terms, it is necessary for foreign firms to set up a number of regional distribution networks in order to have nationwide coverage. Because its economy is dominated by small and medium sized family owned businesses, the distribution system in Italy remains fragmented. The modern retailing forms such as supermarkets and hypermarkets are less popular in Italy than they are in other European countries such as Germany or France (*Tradenz*, 1995, p.6). Explicit discussion on the Japanese distribution system will be presented later in this section. Wholesaling systems in developing countries are normally smaller in size and they tend to serve a limited number of customers (Terpstra & Sarathy, 1994). Another issue concerning the wholesaling system in developing countries is its role and status in society. Wholesalers are not considered as part of the production system, rather they are viewed as benefiting from it. These countries place a greater emphasis on production. In these economies, the wholesaling industry might not be able to recruit enough qualified personnel to work for the industry and this could generate some negative impacts for foreign firms which intend to establish their own distribution systems in these nations (Jain, 1993).

Terpstra and Sarathy (1997) indicated that the most important difference in international wholesaling systems is in the service offered to the manufacturer (overseas supplier). The quality of service offered by wholesalers usually relates to the size of their operations. The key differences as summarised by Terpstra and Sarathy are:

- a wholesaler could be a credit demander instead of a provider.
- product lines carried by wholesalers are limited. Small wholesalers often carry a

narrow assortment of products. Manufacturers will either omit some of their product lines or seek other wholesalers to carry them.

- geographic coverage: small wholesalers often cover a limited geographic area. In order to cover the desired geographic area, manufacturers may need to find more wholesalers to cover the neglected regions.
- other services such as inventory, promotion: small wholesalers often carry limited amount of inventories and they often have less effective selling and promotional efforts.

3.5.1.3 Retailing

After evaluating a nation's wholesaling system, the next task for the international marketing manager is to examine that country's retailing industry. There are several general issues identified in the literature.

Number and Size: These two variables determine if economies of scale and efficiency could be obtained in a nation's retailing business. The size of retailing outlets will also affect the services they provide to the foreign manufacturers. Stern & El-Ansary (1992, p.555) indicated that small size local retailers normally offer limited services to their foreign principals. Small size retailers are also usually short of capital and stock space which could reduce their inventory carrying capability. To the foreign firm, this feature suggests that narrower product lines will be carried by the retailing outlets and the probability of stockout will be high.

Changes in Retailing: Studies have indicated that there are several retailing trends occurring globally (Terpstra and Sarathy, 1997). Self-service retailing is growing fast in different parts of the world. Different forms of supermarkets are also booming in both developed and developing countries. Discount stores, hypermarkets and convenience stores are also growing fast internationally (Cateora, 1993). Stern & El-Ansary (1992) pointed out that the hypermarket, which is a combination of supermarket and discount stores, has been popular in many parts of the world for a considerable time. Two examples of this form of retailing outlet are the previous mentioned Carrefour and

Makro. Both are represented in Taiwan and came from Europe originally. The globalisation of retailing is also identified by Stern and El-Ansary (1992, p.556). Many American retailing stores now operate in different parts of the world. K-Mart stores are found in many markets and Wal-Mart has already identified sites in Shanghai and Shenzen in China . Wal-Mart is considering entering the Chinese market with its partner from Thailand, the C-P group (Terpstra and Sarathy, 1997). More specific discussion on these changes in retailing will be presented later.

3.5.2 Japanese Distribution System

3.5.2.1 Why Study the Japanese Distribution System?

This section examines the literature on the Japanese distribution system. There are several reasons for this focus on the Japanese distribution system. First, as stated before, Japan had a direct influence on Taiwan through its 52 years of colonisation. Much of the Taiwanese infrastructure and industries such as railroads, electrical system, hydropower system, home appliance system, motor vehicle industry, sugar industry and business systems including distribution, were inherited from Japan or deeply influenced by it. In contrast to Taiwan's highway system which is an American-based system, the driver seat of the railroad system is identical to its Japanese equivalent, on the right hand side. This unusual design is an example of the Japanese legacy for Taiwan. There are many similarities between the two nations' distribution systems. For instance, Taiwan's department stores are either managed by Japanese know-how (e.g. Dai-Li Isetan Department Store) or joint ventures with Japanese operators (e.g. Pacific-Sogo Department Store, Shin Kong Mitsukoshi Department Store). One study pointed out that "Taiwan's department store has been intensively influenced by the Japanese because of geographic proximity, cultural resemblance and the colonization of Taiwan by Japan" (Chang and Sternquist, 1993).

Secondly, since there is very little literature on the subject of the Taiwanese distribution system, reviewing the Japanese distribution literature may provide some insights into about how the Taiwanese system works. To use Japan as a tool for understanding another East Asian nation's systems is not new in academic research. Song's (1994) use of Japan to understand Korean economic development is one example of this. Whitley's (1992) research on East Asian business systems compared the Japanese *keiretsu* system with others' in the region (i.e. Korean *chaebol* and Taiwanese *CFB*).

Furthermore, the lessons and experiences of overseas firms which have dealt with the Japanese distribution system might provide useful insights for this study. Investigating both conceptual and empirical work on the Japanese distribution system will generate useful propositions to examine the distribution issues of marketing New Zealand products in Taiwan.

Due to the above stated reasons, Taiwanese distribution is expected to be similar to the Japanese distribution system. It is expected that both systems are similar in the areas of wholesaling and retailing. The similarities between the two systems are to be discussed in the following section (3.5.3). However, it is worth pointing that some differences are also likely to be existent in both systems. One expected difference is likely to be the funding method used by the channel members of the systems. As already identified by the Chinese Family Business (CFB) literature (eg Whitley, 1992; Tanzer, 1994), Taiwanese wholesalers and retailers are likely to acquire their business set-up capital from private channels such as family members or close friends, while their Japanese counterparts are possibly to raise their business funds through the commercial banking systems or from the support of major conglomerates, or the Keiretsu. Another significant difference is expected to be the management structure of both systems. In Japan, more chain stores are expected to be used and they are more likely to be managed by professionals. Taiwanese wholesalers and retailers are likely to be family businesses and they are more likely to use a centralised management structure.

3.5.2.2 Introduction to the Japanese Market and its Distribution System

In order to market products to Japan, international marketers need to understand business practices, the needs and wants of people, culture and other issues such as business systems in Japan. As one New Zealand study revealed "the Japanese businessman when dealing with people does not think the same as we (New Zealanders) do. He lives and works by a different set of rules and he places a lot of emphasis on manners and maintaining face" (Moffitt, 1987, p.41). The Japanese market is a very difficult one not only for foreign companies and their products but also for existing Japanese enterprises who are attempting to expand their business into new segments or markets (Tajima, 1994). This difficulty was evidenced by the opening of one wholly local Japanese owned toy retailer, Hello Mac (Takahashi, 1994). The obstacles the company faced included difficulty of obtaining enough merchandise from the Japanese toy wholesalers. In Japan, wholesaling was based on past business records and personal relationships. Because Hello Mac was new to the market and to the distribution channel, it initially did not get adequate support from the Japanese toy wholesalers (Takahashi, 1994, p.103). However, once the Japanese market is conquered, it provides substantial rewards for foreign firms who succeed in the market. One study illustrated the Japanese market as a walnut, "walnuts' rich and nutritious contents are covered by a hard shell. Once one cracks the shell, one may enjoy the tasty contents...." (Lazer, Murata & Kosaka, 1985, p.75).

Unlike research on the Taiwanese distribution system, research on the Japanese distribution system is well developed. The reasons so much research has addressed the Japanese distribution system could be its particular characteristics including its fragmentation, its complexity, and its highly inefficient and multi-layered systems which have generated huge barriers for international companies (Batzer & Laumer, 1989; Goodnow & Kosenko, 1992). A number of authors viewed the Japanese distribution system as a non-tariff barrier (NTB) and as a key factor in the US trade deficit with Japan (Czinkota, 1985; Kosenko & Rathz, 1988 cited in Fahy & Taguchi, 1995, p.49). The discussion of the Japanese distribution system is organised into several parts: the unique characteristics of the system and the reasons behind these features; Japanese business practices and consumption habits; the changing Japanese retailing industry; and alternatives for market entry to Japan.

3.5.2.3 Unique Characteristics of the Japanese Distribution System

Research has revealed that there are several unique characteristics of the Japanese distribution system. These characteristics plus other factors such as government regulations, business practices and consumer behaviour have restricted foreign firms attempts to gain access to this system. Because of its huge market size, a large number of foreign firms have set up operations in Japan. Those who succeed in the market are often found to understand the special characteristics of the Japanese market well and have adapted their marketing programmes to match the special needs and wants of Japanese customers. The most common feature mentioned by the Japanese distribution studies (Batzer & Laumer, 1989; Czinkota & Woronoff 1986; Fahy & Taguchi, 1995; Goodnow and Kosenko, 1992; Kaikati, 1993; Kitson, 1973; Manifold, 1993; Moffitt, 1987; Nariu & Flath, 1993; Thornton, 1994) is the **large number of small scale marketing intermediaries**.

Kaikati (1993) suggested that this characteristic could be the reason for the higher prices of imported goods. Thomson's (1991) US-Japan price study found that prices of comparable products were about 37 per cent more expensive in Japan than in America (cited in Kaikati, 1993, p.36). Kitson (1973) believed that this feature was associated with Japanese shopping habits and the scarcity of land. This explanation is echoed by Manifold's study (1993). Her research first identified limited storage space in Japanese homes and congested traffic conditions as factors which forced people to shop at nearby stores.

A second reason contributing to the large number of small scale retailers and wholesalers is the requirement for freshness of food, mainly fish and vegetables, important in the Japanese diet. Japanese consumers in order to ensure the freshness of food shop more frequently than their counterparts in other Western nations (Manifold, 1993). The emphasis on the freshness and quality of produce in the Japanese society could be illustrated by the delivery operation of one leading Japanese convenience chain store operator, Lawson. It had food delivered three times a day, once at midnight, another one before noon and the other in the evening. It also discarded day-old food (Fahy & Taguchi, 1995).

The third reason is that small stores provide the function of social welfare (Manifold, 1993). Research has indicated that because of the lack of social welfare system in Japan, retirees have either to depend on their extended family for support or to chose to invest their lump sum bonus in small "Mum and Pop" neighbourhood retailing stores to support themselves. Many of them choose the latter. It has been a Japanese tradition to offer retirees a single lump sum bonus after they retire. Retailing has therefore provided a form of social welfare system (Czinkota and Woronoff, 1986, p.76; Goodnow and Kosenko, 1992).

The last factor contributing to the smallness of Japanese neighbourhood retail stores is the feudal system which required each fiefdom to establish their own distribution system regardless of economic inefficiency or economies of scale (Goodnow and Kosenko, 1992).

Empirical studies have produced mixed findings on the characteristics of numerous small size marketing intermediaries. For instance, the findings of Czinkota's (1985, p.65) study were based on a series of indepth interviews with 97 individuals in Japan and the United States. These individuals were from 51 public and private sectors institutions. His study found that the ratio of wholesale to retail sales in Japan was more than double that of the US. This meant that more frequent contact occurred in the Japanese distribution system than in its American counterpart. However, this result was questioned by Goldman (1991) whose study was based on both primary and secondary data. This study conducted 50 in-depth interviews with Japanese executives. Goldman suggested that the feature of numerous marketing middlemen in the Japanese distribution system might occur only in the food sector. In the food sector, the ratio was 0.7 food retail stores per thousand persons in the United States whereas it was 5.5 per thousand people in Japan. However, in the non-food sector, the ratio of stores per thousand people was 7.9 in Japan compared with a ration of 6.8 found in the US and France (Goldman, 1991, p.156). The US food sector was dominated by large stores while Japan featured small outlets. But in the nonfood retail sector, both nations were dominated by small and medium-sized stores. Therefore, the characteristic of numerous marketing intermediaries might only occur in certain Japanese business sectors.

Another characteristic discussed in the literature is the **multi-layered channel structure** characteristic of the Japanese distribution system. There appears to be a link between this feature and the social welfare function discussed above. Czinkota and Woronoff (1986) provided some explanations about how this feature has developed. These reasons included the creation of a feudal system, similar to the above stated Goodnow and Kosenko's (1992) observation, which had divided the country into many small provinces in which each province had its own distribution system, the restriction of the four main island divisions which had discouraged the mobility of people and merchandise, and the production specialisation of Japanese manufacturers.

One effect of the characteristic of large number of small scale marketing intermediaries is the inefficiency of the system. More middlemen in a system means it is less likely to be efficient. However, the criticism of the inefficiency of the Japanese distribution system is not always correct. Goldman examined the Japanese distribution system in three major areas: productivity, effectiveness and equity. Equity was defined as "how fair the distribution system is in its dealings with all participants and users" (Goldman, 1992, p.20). Goldman found that the Japanese distribution system was only weak in productivity and on price (an element of effectiveness). Relative productivity of wholesale and retail industries was 0.55 for the Japanese system, while it was 0.70 for the US's and 0.97 for the UK system (Goldman, 1992, p.22). This index (relative productivity of wholesale and retail industries) was measured as the proportion of distribution income (or GNP of distribution industry) in national income (GNP) over proportion of workers in distribution among all workers (Goldman, 1992, p.22). The Japanese system was inefficient in this respect. The study also confirmed that Japanese consumers paid much higher prices than their Western counterparts. However, the Japanese consumers appeared to be highly satisfied with the products offered in the system. Japanese manufacturers were normally satisfied with the distribution system which was not viewed by the manufacturers as a means of blocking their access to consumers. Therefore, based on these findings, Goldman (1992) concluded that the comment, "the Japanese distribution system is inefficient", was dependent on which variable was used for evaluation. If the variable was productivity or price, it was true. But if others were used, such as effectiveness and equity, the Japanese system appeared to perform well.

Besides the above stated features, Tajima's (1994) observation has also contributed to a better understanding of this system. He indicated that any nation's distribution system is part of a larger economic system created by that society, just like manufacturing or financial systems. However, what made the Japanese system so unique is that it maintains a number of outdated characteristics. Its highly segmented sales channels built for each product group is the first characteristic. In America, wholesalers are able to supply 70 per cent or 80 per cent of the needs of supermarkets, but no such wholesalers exist in Japan. Unlike its American wholesaling counterpart, Japan's wholesaling business is composed of a wide variety of wholesalers, each of which specialises in a specific category of merchandise. Even the most successful Japanese food wholesalers can still concentrate on alcoholic beverages, seasonings, processed foods, snack foods and preserves. They often do not stock fresh produce, seafood, meat, bread and confectionery.

The second characteristic mentioned by Tajima (1994, p.10) is *za* and *kabu-nakama* system, meaning closed groups or unions. These groups are exclusionary cooperative members of specialised professions. Without being a member of these groups, one is not permitted to sell the products. Also, because of the single membership requirement, a merchant is forced to specialise in one product category. Both "za" and "kabu-nakama" no longer exist, but the concept of specialisation still exists in Japanese business society including the distribution business. The modern form of group systems is k*eiretsu* (Cateoria, 1994, pp.52-59; Keegan, 1994, pp.406-410). The concept of doing business only with group members discourages competition, especially from overseas. Czinkota and Woronoff (1986, p.21) classified keiretsu into three groups. The first is traditional keiretsu which consist of a number of companies in diverse sectors that revolve around a leading bank, such as the Mitsubishi Bank. This type of keiretsu is also called a horizontal keiretsu. The second type is a vertical keiretsu which involves a major manufacturer such as Nissan or Panasonic and its supplying network. The third type is a distribution keiretsu which brings a manufacturer and its sales outlets together. Goodnow and Kosenko's observation (1992, p.43) indicated that the predecessor of *keiretsu* were *zaibatsu*. Their research revealed that it is quite difficult for foreign firms to break into the Japanese distribution channels because these groups are governed informally by close ties between the almost self-sufficient keiretsu and a set of Japanese wholesalers which are bound together by family or martial ties, interlocking directorates, cross stockholdings and management exchanges.

The concept of keiretsu is further discussed in a recent study. Fahy & Taguchi (1995) pointed out that keiretsu is a type of interaction system. A type of company affiliated distribution network, known as *ryutsu keiretsu* in Japanese, is a classic example of this vertical system. In the Japanese distribution system, financial ties are usual among distribution channel members. These ties exist in full ownership of retailing outlets or cross-share holding among manufacturers, wholesalers and retailers. Mutual supports between channel members are also often found in the system.

As ready mentioned, a major characteristic of keiretsu is to do business only with group members. Consequently, this practice is likely to put foreign firms and their products in a disadvantaged position. Besides the difficulty of penetrating the market, those foreign products which are fortunate enough to enter the market, are also likely to be discriminated against by the Japanese market intermediaries. One such issue was studied by Borin, Van Vranken and Farris (1991) whose research was based on an intensive analysis of one product category, shampoo, in 131 Japanese retail stores. Their focus was to examine if foreign shampoo brands (including products from the US) and local Japanese brands received an equal amount of support from Japanese retailers. The results of the study showed that in the aspect of breadth of distribution, at the same market share foreign products received a higher breadth of distribution than their Japanese counterparts. A similar result occurred in depth of distribution. At the same market share levels, foreign goods received comparable or even greater merchandising support than their domestic counterparts from Japanese retailers. Therefore, the study concluded that foreign shampoo brands received a higher in-store support per unit market share than products made by local Japanese manufacturers. In brief, the study suggested that foreign shampoos did not receive any distribution support discrimination from Japanese retailers. In many cases, they received a higher level of distribution and in-store merchandising support than their domestic rivals.

3.5.2.4 Japanese Business Practices and Consumption Habits

As well as identifying the unique characteristics of the Japanese distribution system, research has also focused on the issue of Japanese business practices. It has been suggested that New Zealand based manufacturers who are interested in the Japanese distribution system need to understand not only the physical aspects of distribution but also, the intangible aspects such as personal relationships between channel members (Kitson, 1973, p.25). This section discusses the Japanese business practices and consumption habits. The Japanese distribution system has been deeply influenced by these practices and habits. Most importantly, these business practices and habits are preventing Japanese intermediaries from changing their local Japanese suppliers to overseas supplying companies. For foreign firms who want to penetrate the system, it is necessary for them to understand these issues .

Personal relationships

One business practice widely discussed is the emphasis on **personal relationships**. Moffitt (1987, p.6) pointed out that in Japan, personal loyalty and trust is a prerequisite for long-term business relationships. To establish personal contacts is crucially important in doing business in Japan. Going out with colleagues, customers, friends to a bar is one common way of building up personal relationships. A video programme produced by the *TRADENZ* office in Japan (1995) also emphasised the importance of personal relationships in doing business with the Japanese. "You have to sell yourself before you sell your products", the video pointed out. Manifold's (1993) research indicated that to have a long-term stable relation with other business organisations or customers is seen as a necessary condition for the reduction of business risks and uncertainty. This is illustrated by an observation from one Japanese government office, "this practice of placing high value on long-term stable relationships is economically rational in that it helps to reduce future uncertainty, disperse costs, and diminish the risk burden" (MITI, 1989 cited in Manifold, 1993, p.53). The cost saving resulting from a long-term business relationship is also supported by another recent study. "Dealing with well-known channel members reduces the cost of information gathering, monitoring and negotiation" (Fahy & Taguchi, 1995, p.52). This business practice often discourages Japanese enterprises from switching long-term and reliable Japanese suppliers to an unknown foreign supplier. Goodnow and Kosenko's (1992, p.47) study encouraged Western business people to understand the role human relations plays in Japanese business society. In the Western world, business decisions are made according to economic efficiency and profits. In Japan, these economic motives are accompanied by maintaining harmony among members of the group. Besides business, Japanese business people also place emphasis on establishing trust with their suppliers.

Empirical evidence also supports this view. Previous studies (Czinkota, 1985; Goldman, 1991) pointed out that the relationships between channel members are maintained and nurtured by personal contacts, frequent visits, gifts, mutual services, friendly discussion, very little direct pressure to sell, and financing and support in difficult times. Time is the key element in building up personal relationships and this is a clear disadvantage for foreign firms when they first enter the Japanese market (Czinkota, 1985). The problems caused by the emphasis on personal relationships were also identified by Ross (1983, p.7) who indicated that one operational problem facing foreign firms in Japan was related to personal relationships and obligations. These two factors played a critical role in gaining access to the Japanese market. Ross' findings were based on structured interviews with senior executives of 30 major foreign firms operating in Japan and commercial staff in the Canadian and American embassies.

Sale-or-return system

Another unique Japanese business practice is the "sale-or-return system", in essence an unlimited returns policy employed by manufacturers (Manifold, 1993). Manufacturers who employ this policy will take back unsold or outdated products from retailers who in return will not discount the manufacturer's merchandise. Other studies also support the existence of this practice. Japanese retailers are highly demanding of their suppliers, manufacturers and wholesalers. Suppliers accept the unsold merchandise returned by their retailers without attaching any condition. This consignment basis practice helps small retailing outlets which cannot afford to keep unsold products in their limited storage space for a long period of time (Czinkota & Woronoff, 1986, p.86 & p.97; Moffitt, 1987). This practice may be foreign to marketers in other nations but it is very common in Japan. Thornton (1994, p.32) found that Japanese department stores and other traditional retailers normally purchased merchandise on the "sale or return" condition.

However, this practice has been challenged recently. Because of the impact of the bubble economy, one Japanese specialty discounter, Aoyama, has paid 25 per cent less to its suppliers for not having this privilege (Fahy & Taguchi, 1995, p.57).

Lengthy trade credit

One other business practice which is related to the above is the custom of lengthy trade credit (Moffitt, 1987; Takahashi, 1994). For example, payments made by wholesalers to manufacturers are generally made at half the invoice in cash and the remainder in 30 to 60 days promissory notes. Within retailing, the payment conditions vary between sectors. The payment by small toy retailing stores to their wholesalers falls into two broad stages: the first payment stage, paid by cash, occurs when products are purchased, and the second payment stage happens after the merchandise is sold, also by cash (Takahashi, 1994, p.102).

Resale price maintenance

The final Japanese practice is resale price maintenance. This practice is associated with the previously mentioned *keiretsu* (Manifold, 1993, p.49). As indicated before, *keirestu* represent loose organisation-like relationships based on long-term trade partnerships formed by manufacturers, wholesalers and retailers. A manufacturer normally provides special offers (e.g. rebates) to their distribution channel members who in return promise to keep their resale prices stable. It is also enforced through the medium of exclusive dealings contracts, withholding of credits or informal threats to discontinue business. Resale price maintenance is illegal in most parts of the world but exists in Japan.

Czinkota (1985) pointed out that the Japanese distribution system is often labelled as a keiretsu relationship where producers, distributors and retailers are all financially connected to each other, either directly or indirectly through a bank or a trading house. As a result, members of the family tend to buy products from group members only. A similar result was reported by Ross (1983) who found that "grouping" was one of the problems facing foreign firms' operations in Japan. The grouping acted as a barrier for any change conducted by the foreign supplier. Also because of the strength of the keirestu, a foreign exporter might have to align himself with a domestic manufacturer and sell product lines which did not compete with its Japanese business partner. Ross concluded that those foreign firms who succeeded in Japan aligned themselves with Japanese manufacturers. They sold products which were complementary to their Japanese counterpart and still maintained constant involvement in the selling effort.

Other factors

Besides these practices which affect the Japanese distribution system, research has indicated that consumer habits provide another explanation for the uniqueness of the Japanese system. The principal aspects of consumption in Japan include the demand for high-quality products and freshness (Fahy & Taguchi, 1995; Manifold, 1993; Moffitt, 1987). Foreign products which had achieved success in the Japanese market were those which provided competitive quality and price, according to Moffitt (1987, pp.11-16). As discussed before, this preference has contributed to the higher shopping frequency in Japan than in other Western societies. The emphasis on quality and reliability by Japanese consumers has also been helpful in guiding Japanese domestic manufacturers' overseas operations. The high demands of Japanese consumers have pushed Japanese manufacturers to make zero defect products which have contributed to their success in world markets (Lazer, Murata & Kosaka, 1985).

Secondly, personalised service, after-sales service, and prompt delivery service are part of business transactions (Petrison et al, 1994). The service provided by Japanese wholesalers and retailers is greater than that provided anywhere else in the world (Bazter and Laumer, 1989). Petrison et al (1994, p.46) supported this by suggesting that the high level of service provided by Japanese retailers was a major force contributing to the highly demanding attitude of the Japanese consumer. In Japan, buyers tended to have higher bargaining power than their counterparts in other Western societies. And this practice has affected relationships between Japanese distribution channel members. Japanese consumers are willing to pay a higher premium than Americans for prompt delivery and for the convenience of next-door shopping (Nariu & Flath, 1993).

Empirical studies have also supported the characteristic of after-sales service. Czinkota (1985, p.67) found that sales support is an important characteristic of the interaction between channel members. In addition to the traditional deal aids, wholesalers are expected to supply a significant number of personnel to retailers to support their product sales. These sales support personnel often work in the retail shops but their expenses are paid for by the wholesalers. Ross (1983) study pointed out that this feature was identified by his respondents as a problem. The major problems associated with after-sales service included local presence, expense and limited product line offerings (Ross, 1983, p.10).

3.5.2.5 Alternatives for Market Entry into Japan

After reviewing the characteristics, business practices and consumption habits of the system, past studies have also examined market entry methods to penetrate the Japanese market. This section examines what methods are available for foreign companies to enter the market and the empirical experience of international firms adopting them in entering the Japanese market. There are several significant entry methods suggested by past studies (Batzer and Laumer, 1989, pp. 82-87; Czinkota & Woronoff, 1986, pp.52-60; Goodnow and Kosenko, 1992, pp.43-46; Kaikati, 1993, p.36-42; Kitson, 1973, pp.39-41; Manifold, 1993, pp. 56-57; Moffitt, 1987, pp.31-39). These options are summarised below.

Japanese trading companies

To have Japanese trading companies distribute their products in Japan is one entry alternative for smaller scale foreign companies who cannot sustain a presence on the market (Manifold, 1993, p.57). One problem with this entry method is that Japanese trading companies normally represent too many overseas producers at the same time (Batzer and Laumer, 1989). Other disadvantages include trading companies' specialisation in the field of large volume trade in raw materials or in other bulky products and limited representation in consumer and small volume products (Moffitt, 1987, p.36). The relatively small scale of New Zealand traders means that they need to be particularly aware of this characteristic. Besides these negative aspects, one advantage of adopting this alternative is simplicity (Kitson, 1973, p.40). The Japanese trading companies can arrange import - export documentation, shipping and distribution for their overseas suppliers. Moffitt (1987) pointed out that other advantages of granting Sogo Shosha as sales agents included their ability to organise the transportation of the goods to Japan, the unloading, the customs clearance and the distributing of goods to intermediaries. However, a disadvantage of this option was that these general trading companies were unlikely to import small turnover merchandise. If they did carry consumer goods, they generally focused on well-known branded products.

In terms of the profit margins, this type of market entry strategy could provide the foreign supplier with an instant profit in the short term. When a business transaction is completed, the foreign supplier will receive its payment right away from its Japanese trading partner. However as past studies (Manifold, 1993) indicated that Japanese trading companies often require an exclusive sales arrangements with their foreign supplier. They often do not carry those products which compete with their existing product lines or to compete with those produced by their allied companies. Due to these practices, foreign firms which wish to receive a healthy profit return from their operation in Japan in the long term, this entry strategy might not be the most suitable one for them. Another weakness of this entry strategy is that the foreign supplier has very little control over the product they sell to the trading companies and therefore they could face a stagnating market share (Batzer and Laumer, 1989; Manifold, 1993). Therefore for those firms which intend to stay in Japan for a long time, they might want to consider other types of entry strategies.

Among Japan's 7,500 or so trading companies, only nine are Sogo Shosha (general trading houses) and they handle more than one-third of all Japanese imports (Taida, 1992, p.14). Moffitt (1987) suggested that for New Zealand firms which plan to sell a huge volume of products to Japan, Sogo Shosha may be a viable alternative. These general trading companies are huge in size and have many years' international trade experience. These comments are consistent with the previous discussion on Sogo Shosha in the International Entry Methods section (3.3.3).

The use of Japanese trading companies is also evidenced in empirical literature. Based on two survey data sets collected in 1979 and 1986, the work of McKinney and Rajaratnam (1993) indicated that the use of Japanese trading company to distribute American products was relatively common. In 1986 the services of Japanese trading companies were expected to be used less by American firms operating in Japan than in 1979. After accumulating more operational experience in Japan, US firms were expected to employ higher commitment market entry modes in 1986. However, the research failed to reveal a significant difference between 1979 and 1986 in the use of Japanese trading companies. This result showed that Japanese trading institutes were still used by US firms operating in Japan to distribute their products in 1986.

Piggybacking

Piggybacking is another creative method for breaking into the complex Japanese distribution system. As mentioned in the section of International Entry Methods (3.3.3), piggybacking occurs when an exporter enters into a collaborative arrangement with an overseas multinational enterprise (MNE) or a major domestic manufacturer to market the exporter's goods in the target foreign market along with their own products. Piggybacking has helped many foreign firms to penetrate the Japanese market successfully. Some empirical examples are illustrated in the work by Goodnow and Kosenko (1992) whose study reported that many US firms had succeeded in entering the Japanese market and were competing with Japanese manufacturing firms in 85 of Japan's 126 industrial sectors (Alden, 1987; Kosenko, 1988; Pauli, 1985 cited in Goodnow and Kosenko, 1992, p.43). For instance, General Food's Maxwell House coffee was piggybacked by the Japanese food giant, Ajinomoto, whilst Colgate cooperated with a Japanese soap company to sell its products through the Japanese company's distribution channels. Both General Food and Colgate increased their sales dramatically after adopting a piggybacking entry strategy. Another notable case was the joint promotional campaign conducted by California Almond Growers Exchange (CAGA) and the soft drink giant, Coca Cola. Through piggybacking on Coca Cola's dominant market share in Japan, CAGA has acquired a 70 per cent market share (Kosenko & Rathz, 1988 cited in Goodnow and Kosenko, 1992, p.45).

In terms of the conditions under which to use piggybacking to enter the Japanese market, Goodnow and Kosenko (1992, p.45) provided the following suggestions - "the Western firm might be best served by implementing a piggybacking strategy under the following conditions:

- when the western firm does not have a financial position to support high market entry costs.
- when the piggybacking partner carries a product or product line that is complementary to the product or product line offered by the Western firm.
- when the Western firm is making its initial entry into the Japanese market on an experimental basis."

Direct marketing

This is a new way of distributing products in Japan and it includes mail order, door-to-door sales, vending machines and telemarketing (Kaikati, 1993, p38; Manifold, 1993; Petrison et al, 1994). In 1991, the total money spent on direct mail orders in Japan totalled US$14.1 billion, according to the *Japan Direct Marketing Association*. This has placed Japan as the second largest mail order market on earth (Petrison et al, 1994, p.48). There are several reasons for the popularity of these direct marketing approaches. Kaikati (1993, p.40) indicated that because the employment of Japanese females was increasing, this approach had become more attractive. Foreign companies should look at these alternatives carefully and considered utilising them as tools for circumventing traditional systems.

Avon and Amway are two famous overseas examples using this approach successfully in Japan. Amway Japan, owned by Amway USA, has become the second most profitable foreign firm in Japan, after Coca-Cola. Amway had 1.2 million sales representatives to distribute products ranging from Paul Newman's spaghetti sauce to cosmetics (Thornton, 1994, p.34). After observing the evolution of the chain store in Japan, Czinkota & Woronoff (1986, p.114) believed that mail order would be more important in Japanese retailing business although it represented only a small percentage of retail sales in Japan.

Their study indicated that the problems facing nonstore marketers in Japan included inadequate physical distribution infrastructure and high initial set up costs.

Direct marketing in Japan has been growing in double digit figures in the past ten years. Some key findings of Patrison et al (1994) included that currently, mail order accounted for 1.44 per cent of total retail sales in Japan. This compared with 3 per cent or more in other Western nations such as America, Germany and UK. Japan's mail order industry had been impeded by its supportive infrastructure (to be discussed later). Also of the top 10 direct marketing companies in Japan, all of them were at the upper end of consumer goods markets. The entry methods adopted by foreign direct marketers into the Japanese market included joint ventures (e.g. Williams-Sonoma and Otto Versand), partial acquisition (e.g. Tiffany) and offering identical American English catalogues (e.g. LL Bean and REI). The research also pointed out, based on a 1992 survey of 3,000 Tokyo-area residents conducted by Dentsu Inc., that 37.1 per cent of the respondents had used mail order at least once in 1992, in comparison with 30 per cent in 1991. Japanese females were more likely to purchase products via mail order. People who were in the age group mid-20s to mid-40s were most likely to respond to mail order. Highly educated Japanese females tended to use mail order more often than their lower educated counterparts. Also Japanese women who were employed full-time and those who did not work were more likely to respond to mail order than those who worked part-time. People who did not live in the centre of Tokyo were slightly more likely to make mail order purchase than those people who lived in Tokyo downtown areas.

Finally, there were several structural obstacles confronting foreign firms which wanted to conduct direct marketing activities in Japan. These included the lack of industry lists, high mailing costs, an underdeveloped telemarketing infrastructure and the lack of sophisticated support companies.

Large Japanese wholesalers

This entry method was proposed by Kitson in 1973. He believed that this option would become a desirable alternative if New Zealand exporters wished to achieve a wide market penetration in the Japanese market. His argument was that because the Japanese distribution system was predominantly smaller neighbourhood stores, if New Zealand manufacturers wanted to cover the markets thoroughly, a single large Japanese wholesaler was an alternative (Kitson, 1973, p.40).

Batzer and Laumer's (1989, p.250) study indicated that the distribution strategy adopted by the German pen manufacturer, Montblanc-Simplo GmbH, was through a sole Japanese importer. Their study was based on both interviews with management in about 60 firms in Germany and Japan, and 142 mail questionnaires which were conducted in Germany, designed to investigate the marketing and distribution strategies adopted by German firms doing business with Japan. Their study examined firms ranging from capital goods to food and the semi-luxuries sector.

Montblanc together with Dunhill writing products (also made by Montblanc-Simplo which has been a subsidiary of Dunhill Holdings PLC since 1977) were made in Germany and exported to Japan. The Japanese importer had an exclusive right to sell Montblanc and Dunhill brands in Japan. With respect to the distribution channel, when the Japanese importer purchased products from Montblanc, it then sold them to 12-15 specialist writing equipment wholesalers, which resold them to retailers. In all, there were about 30 wholesalers involved in marketing Montblanc products. The German firms' success in Japan contributed to its good brand image and the efficiency of the importer's distribution system.

Tie-ups with Japanese Producers

This entry strategy would be attractive if Japanese producers could expand their product line coverage by including New Zealand imports on their sales lists. However, this method may require private branding arrangements which could hamper the New Zealand companies' growth on the Japanese market because the New Zealand firms would not be able to create their own brands (e.g. Tip Top's contract manufacturing agreement with Borden) (Kitson, 1973, p.40). From the Japanese manufacturers' perspective, the advantages of this arrangement include the ability to keep abreast of overseas developments and to provide a wider range products to their customers (Moffitt, 1987, p.37). The foreign firm can gain both technical cooperation and extensive distribution network from local manufacturers.

Tie-Ups with Japanese Retailing Operators

Sales through supermarkets, department stores, specialty stores or mail-order sales companies are entry options identified by Kitson (1973) and Moffitt (1987). Kitson stated that Japanese supermarket chains became more interested in the direct importing of products from overseas. But because of their low profit margins, economies in distribution were important to supermarkets (Kitson, 1973, p.40). Moffitt (1987, p.36) suggested selling New Zealand products through these marketing institutes for one year without signing an import agency agreement. He indicated that Japanese department stores were interested in including new quality import items in their product lines. They often stocked expensive goods which would help to promote the prestige image of their other imports. One major disadvantage of having department stores as sales agent was that New Zealand imports on the market could not be sold to other competing Japanese department stores or other retail stores.

Licensing

This way of entering the Japanese market occurs when an international firm grants a local licensing partner the right to undertake local production on behalf of the licensor. In return, the foreign firm receives royalties from its Japanese licensee without going through a very time-consuming and expensive procedure of building up an efficient distribution network (Batzer and Laumer, 1989, p.86; Czinkota & Woronoff, 1986, p.59). Batzer and Laumer (1989, p.87) further reported that a licensing arrangement did not normally involve the very latest technology. This option was attractive to foreign

licensors because there was less capital involved and a profit guarantee during the period of the agreement.

Joint venture

This option is attractive to international firms who are unable to set up their own distribution or marketing presence in Japan. The international marketers may lose some or even full control over their distribution in the market, but this option does provide a means for gaining a foothold. This method becomes more attractive if the Japanese partner can help overcome tradition, culture, language, connection barriers or Japanese regulations (Goodnow and Kosenko, 1992). Several American multinationals such as McDonald's, KFC, Pizza Hut, Domino's Pizza, Budget Rent-a-Car and Borden (with Meiji) have used this strategy to break into the conservative Japanese market (Czinkota & Woronoff, 1986, pp.52 & 59; Goodnow and Kosenko, 1992; Manifold, 1993, p.56; McColl-Kennedy et al, 1994; Terpstra and Sarathy, 1994, pp.304-306). A joint venture can be good for both partners. From the non-Japanese partner perspective, it provides access to the Japanese partner's existing marketing and distribution network. On the other hand, for the Japanese partner, it can complement its own product range in a rational manner or can provide access to technological know-how from its foreign partner (Batzer and Laumer, 1989, p.86). The interests of the Japanese joint venture partners are their Western partner's advanced technological and product-development skills and gaining access to the firm's home market or third country market channels (Goodnow and Kosenko, 1992).

The use of joint ventures by foreign firms to penetrate the Japanese market is supported by several empirical studies. For example, the study by Bazter and Laumer (1989) identified one example of a foreign joint venture in Japan conducted by a German firm, BASF AG. BASF Japan Ltd. acted as a holding company for six joint ventures and three wholly owned BASF subsidiaries which had manufacturing facilities in Japan. The motivation for BASF to establish these six joint ventures was to gain easier access to the Japanese market (Bazter and Laumer, 1989, p.164). Another example of a joint venture was established by the German giant consumer and cosmetic goods manufacturer, Beiersdorf AG, the maker of Nivea skincare cream, and a major Japanese detergent and toiletries maker, Kao. This 50/50 equity joint venture was established in 1971. Kao's chief incentive for establishing this joint venture was to enlarge its product range and to acquire technology and international experience from the German firm. On the other hand, the largest benefit for Beiersdort AG was to utilise Kao's existing distribution network. Through Kao's distribution system, Beiersdorf marketed its imported household cleaning products and toiletries along with those products made by the joint venture partner such as skincare and deodorant products. Kao controlled an exclusive distribution network which had protected it from foreign and domestic competition. Because of its role in the joint venture, the Japanese distribution system was not a barrier for Beiersdorf AG.

Setting up wholly owned operations

The benefits of a physical presence on the spot means that the foreign firm can establish personal contacts with its Japanese customers (Batzer & Laumer, 1989). The importance of this criteria has been discussed above. To set up a wholly owned operation allows the foreign enterprise to establish such relationships with their customers. A wholly owned operation involves renting premises, hiring personnel, and developing a marketing presence on the market. The two primary types of wholly owned operations in Japan are a distribution subsidiary and a production subsidiary (Czinkota & Woronoff, 1986, p.60). One observer suggested that this option is the best means of maximising control over distribution but the cost is high in comparison with other alternatives. It is also very time consuming and a difficult strategy even for some experienced MNEs (Manifold, 1993, p.56).

In terms of the timing to set up a foreign firm's own sales branch, research suggests that it will become appropriate if the firm's sales have reached a volume at least sufficient to justify the costs of maintaining a branch office in Japan, or when the Japanese marketing partner is unable or unwilling to fully capture the market potential (Bazter & Laumer, 1989; Kitson, 1973; Moffitt, 1987). If the costs of setting up a Japanese office are underestimated, this option might end up as a failure (e.g. the case of NZKMB's operation in Tokyo, refer to McEwen, 1994). Even when the international firm desires to set up its own subsidiary, they could still benefit if a Japanese company is invited as a shareholder, especially the former marketing partner (Bazter & Laumer, 1989, p.85).

Kitson (1973, p.41) suggested that this strategy might be more viable if several New Zealand companies joined together to set up a branch or office in Japan. These firms could carry complementary or even non-competing products. Similarly, another New Zealand report identified that this alternative might provide greater flexibility but it could also be expensive (Moffitt, 1987, p.38). The report indicated that the responsibilities of the sales branch should include establishing distribution channels, planning and carrying out promotion activities, arranging imported goods from New Zealand to Japan, and serving as a bridge for information flow between the parent company and the Japanese market (Moffitt, 1987, p.38).

One empirical example of using this method successfully on the Japanese market is Toys "R" Us of the U.S. (Kaikati, 1993; Takahashi, 1994). The success of this giant American toy retailer's penetration into the Japanese market has been attributed to two strategies: the use of political influence (e.g. on modification of Large-Scale Retail Store Law) and association with a strong local partner (e.g. teaming up with McDonald's Japan). It started selling toys with McDonald's hamburgers at the same site. Toys "R" Us adopted a non-conventional purchasing and marketing strategy, buying directly from producers rather than from wholesalers and establishing its own physical distribution network. By doing this, the company was able to eliminate the multi-layered distribution system and maintain its low price discount strategy. This retailing multinational has changed the entire Japanese toy distribution system and has provided a model for foreign companies which want to penetrate the complicated Japanese distribution network. This is one of the few foreign companies which was able to enter the Japanese market by not targeting a niche market but rather, looking for a mass market.

There are other empirical examples available in Batzer and Laumer's (1989, p.253) work. Rotring, a German manufacturer which specialises in making precision drawing instruments, terminated its links with a Japanese trading company in 1984 and established a wholly owned company in Japan to take care of its operation in Japan. The subsidiary handled all marketing activities including advertising, sales promotion and service by itself. Some major features of this firm's Japanese operation are described below. The company had 24 wholesalers to distribute Rotring products nationwide. The wholesalers sold Rotring products to the co-operative shops at universities and colleges, drawing office supplies retailers and department stores. Rotring Japan maintained a good relationship with its wholesalers which had enabled the company to establish contact with various customer groups. These contacts were very important for doing business in Japan.

Rotring Japan had also entered into contracts with its Japanese wholesalers in which delivery conditions, rights and duties were stated. In return, the wholesalers were granted quasi-exclusive distribution rights.

In addition to these empirical German case companies, another German automobile maker, BMW, has had a huge success in applying the strategy of wholly owned operation. BMW's success was due to its willingness to become the first foreign car maker to establish its own independent distribution network. It adopted a local distributor strategy before establishing its own subsidiary. BMW Japan Corp., a wholly owned subsidiary of BMW in Germany, set up in 1981. Its sales jumped more than eight fold between 1980 and 1988. This has made BMW the leading luxury class imported brand in Japan. Due to the outstanding service brought by its independent deal system, the BMW brand has become the symbol of high quality, reliability and service (*Tokyo Business Today*, 1989).

3.5.2.6 Summary

The Japanese distribution system has been subjected to considerable study. This section introduced the unique characteristics of the system together with some explanations of their source. Japanese business practices and consumption habits were also reviewed. These practices include an emphasis on personal relationships, sale-or-return policy, lengthy trade credit and distribution keiretsu. The main features of Japanese consumption habits were outlined as a demand for high quality products and personalised service. The final section discussed different entry methods to the Japanese market. Both theoretical and empirical literature was reviewed.

3.5.3 Taiwanese Distribution System

3.5.3.1 Introduction

As Chang and Sterniqust (1993) indicated, there is very little literature focusing on Taiwan's retailing industry. Due to this limitation, the following discussion is based on a number of studies written in Chinese, published in Taiwan, (e.g. Lin, 1994) and several other studies written in English and published in Western countries (e.g. Chang and Sternquist, 1993; Liu, S.-S., 1992).

Like other business systems, the distribution system of Taiwan has been heavily influenced by Japan, mainly through colonisation. There are many similarities in the distribution systems of these two nations. One study of Taiwan's department stores provided two other reasons for this similarity: geographic proximity and cultural resemblance (Chang and Sternquist, 1993). Among these similarities is the railroad system. Taiwan's railroad and highway logistics systems were designed by the Japanese during the colonial period and the Nationalist government simply inherited them from the Japanese after World War II. This infrastructure contributed to the success of Taiwan (Spaeth, 1995a, p.33). The wholesaling and retailing systems in Taiwan followed the framework of Japan's. This section discusses Taiwan's distribution system and its similarities with Japan.

3.5.3.2 Distribution Channels of Foreign Imported Products in Taiwan

The structure of distribution systems for foreign imports in Taiwan can be divided into several basic channels. These include private importers/distributors/agents, end-users, public trading agencies such as Central Trust of China and Taiwan Supply Bureau and foreign firms' own marketing offices (Hardee and Johns, 1988). Private importers and distributors import products from overseas suppliers then resell them to end customers. Some well known importers and distributors are found in the home appliance industry such as K.E. Trading Company, the sole distributor of Fisher & Paykel's washing machines and refrigerators in Taiwan. Agents sell products on behalf of their overseas principals to the end customers on the market and they get paid on commission. Agents are found in the pharmaceutical, medical instruments and machine tools industries. Lin

(1994) stated that because of the keen competition in the domestic home appliance retailing market, some local Taiwanese manufacturers have started importing major international home appliance brands in order to compete with their Japanese rivals. These producers besides manufacturing their own brands also act as agents for well known multinational brands. For instance, Tatung is the Toshiba home appliance product lines Taiwanese agent, while Kolin is the sole distributor of Mitsubishi's home appliance products in the Taiwanese market. Both Tatung and Kolin are major local Taiwanese whiteware manufacturers. The home appliance retailing market in Taiwan is undergoing a revolution after the market entry of huge Japanese home appliance retailers.

Large scale end users such as the National Taiwan Hospital, China Steel Company, Taiwan Machinery Manufacturing, Formosa Plastic, etc. are also important customers of foreign imports. These organisations directly import products from their overseas suppliers for industrial purposes. Due to the number of sales involved and special demands on the products, they normally deal directly with foreign suppliers. This is the second channel for foreign imports.

The third type of channel is purchasing through government procurement houses. The most famous one is the Central Trust of China (CTC) which purchases foreign products for educational institutes, military organisations and other public organisations. In 1987, CTC bought more than US$570 million of foreign products and services for its clients. The other government procurement agent is the Taiwan Supply Bureau which imports products for Taiwan's provincial governments. This type of government importing procurement structure is believed to come from Japan. In its early development Japan had a very limited amount of foreign currency reserves, so the government of Japan had to tightly control its foreign currency usage. The intention of the Japanese government was to spend these precious foreign currency reserves on the most necessary items for economic growth such as raw materials for industrial production. One practical tool to achieve this goal was to limit foreign imports. The government agencies controlled almost every importing activity. The general public were not allowed to undertake their own importing without permission from the government. Taiwan's development followed that of Japan's, so it was reasonable for the Taiwanese government to borrow this practice from a country which had had a similar experience. However, following the increasing volume of foreign currency reserves and economic growth and the trend toward free trade, importing activities are now much more open. There are very few items that the private sector cannot import from overseas. The role of these government procurement organisations is less important than before.

The last channel for distributing foreign products in Taiwan is through the foreign firm's own marketing subsidiary. This type of structure becomes viable when the number of sales reach a critical mass. One classic example of this is the New Zealand Dairy Board which set up a marketing office to handle its own distribution many years ago. The New Zealand Dairy Board used an agent to market its products in Taiwan before it established its own marketing subsidiary. In Taiwan, more and more foreign businesses have created their own distribution systems.

The above discussed distribution channels for foreign goods are authorised channels, which means the distributors or importers get distribution permission from their foreign suppliers. The empirical study by Chang (1993) identified another distribution channel for foreign imports, the unauthorised distribution channel. It is sometimes called parallel importation. Trading companies or individuals have taken advantage of the substantial price disparities between the Taiwanese market and foreign markets by buying goods abroad and shipping them back to Taiwan and selling them there. These products are called "water goods". Unlike parallel importing goods in some Western nations, such as the USA, they are welcomed by Taiwanese consumers. This has been attributed to the fact that the price is much cheaper than authorised imports. Water goods include soft drinks, infant formulas, soaps, shampoos, cameras, televisions, VCRs, camcorders, and baby diapers. These products' prices can be fifty per cent less than authorised imports.

3.5.3.3 Wholesaling System

Like Japan's distribution system, wholesaling has also played an important role in Taiwan's distribution system. The size of wholesaling markets varies among industries. Some large scale wholesaling markets exist in the fruit, vegetables, meat and sea food sectors. These wholesaling markets are available in different areas of the island. For example, in Taipei one famous wholesaling market is Bean-Chang Wholesaling Market. It is a comprehensive wholesaling market and covers items from flowers, fruit, meat, vegetables to dry goods. Individual farmers, growers, and their middlemen (who purchase products from farmers and growers) bring their produce to this wholesaling market and have their products auctioned there. Their customers include wholesalers and small scale-retailers. The wholesalers will resell the products they purchase from the market to other smaller scale retailers through their own distribution channels.

In addition to the above, wholesaling systems are also found in the food industry and soft drink industry (Chuang, 1977; Lin, L. I. 1990). Chuang's (1977) study of several major Taiwanese food manufacturers' distribution channel, including the two leading companies, President Enterprise and Weichun Industry, pointed out that wholesalers were used in these firms' distribution channel. These wholesalers existed in the forms of regional sales companies or branches, regional distributors and wholesalers. Both regional sales companies and branches were normally owned by food manufacturers, while the other food wholesalers were privately owned. These wholesalers' responsibility (regional sales company and branch) was to facilitate the distribution of products to end customers. Similarly, Lin's (1990) study was based on personal interviews with 38 members of the Taiwanese Softdrink and Juice Makers Association. His study found that the two most popular distribution routes used by the Taiwanese soft drink industry were Manufacturer → Distributor/Branch → Retailer → Consumer and Manufacturer → Distributor/Branch → Jobber → Retailer → Consumer. Again, wholesalers are widely adopted in the soft drink distribution channel.

Similarity to Japan

From the above analyses, it is evident that Taiwan's wholesaling system is similar to its Japanese counterpart at least in two aspects. Firstly, wholesalers have played an important role in both Japanese and Taiwanese distribution system. It is important for foreign operators to fully understand the wholesaling systems in both countries in order to market their products successfully in Japan and Taiwan. Secondly, the wholesaling system of Taiwan's primary produce sector is operated under an auction system. A similar system is also used in Japan's wholesaling system. A well known example is Tokyo Tsukiji Wholesaling Market where products are sold and bought by auction.

3.5.3.4 Retailing System

Traditional Market

When retailers acquire products from the wholesale market (i.e. Beng-Chang Wholesaling market), one channel for them to resell their purchases to the end users is the traditional markets. These traditional markets (or wet markets) are established and owned by the government. Traditional markets are set-up according to administrative districts. There are numerous traditional markets in Taiwan. Each individual retailer can rent or buy out a stand from the government. Most of their customers are residents living in that district. The items carried in these markets are mainly food products ranging from sea food to vegetables and fruit. The price of the products sold in these outlets is normally cheaper than those sold in other modern retailing outlets such as supermarkets or convenience stores. Bargaining is also another major characteristic of wet markets (Trappey, 1997). Most traditional market operators have built strong relationships with their customers and offer them personalised service. However, as Taiwan becomes more urbanised, wet markets are losing their share to modern retailing outlets such as supermarkets and hypermarkets (Trappey, 1997).

Department stores, supermarkets and hypermarkets

Before the creation of large-scale retailers such as supermarkets or hypermarkets, the major retailing markets in Taiwan were the traditional markets. Recently, supermarkets are beginning to replace the traditional markets as the major retailing outlets. Supermarkets have been in Taiwan for a while. Most of them were established by department stores originally. They were normally located in the basements of department stores. However, there are a number of new supermarkets which have been opened recently and most of them are no longer attached to department stores. Some major ones include Wellcome and Ho-Pin supermarkets. Supermarkets are found throughout in the whole island, but most of them are located in urban areas.

The creation of hypermarkets was the result of a joint venture between Makro of the Netherlands and a local giant food company. Makro entered Taiwan in the late 1980s. It is a combination of a supermarket and discount store. It carries not only food items but also other daily necessities and even home appliances. Its big open space has attracted people in Taiwan who are tired of small retailing outlets. Its launch created a new evolution in the Taiwanese retailing industry. Following Makro, has been the opening of the French Carrefour and several other locally owned hypermarkets.

Supermarkets or hypermarkets purchase products directly from their suppliers. They do not normally acquire products through wholesalers.

<u>Similarity to Japan</u>

Researchers believed that the origin of Taiwan's supermarket was from Japan. One explanation was that Taiwan's supermarkets were attached to department stores. As indicated, almost every Taiwanese department store started their operation by cooperating with the Japanese or were managed in the Japanese way. Chang and Sternquist (1993) found that almost all Taiwanese department stores had had management contracts with Japanese department stores. More recently a number of Taiwanese department stores had teamed up with Japanese department stores. The first Sino-Japan department store joint venture, Pacific-Sogo, was created in the early 1980s. This store now has one-tenth of the Taiwanese department store market share (Chang and Sternquist, 1993). Following Pacific Sogo, there is Shin-Kun Mitsukoshi, another joint venture between a local company and Japanese department stores.

When customers go shopping in a Taiwanese department store, they will find lots of features common to its counterpart in Japan. One notable feature is the welcome ceremony first thing every business morning. The identical practice is found in Japan's department stores where every morning during the opening, the chief officers of each store stand at the doors to welcome the customers with bows and all other personnel stand in the hallways bowing to customers and thanking them for shopping at the stores (Czinkota & Woronoff, 1986, p.92).

An exception to these similarities is the general merchandise hypermarket. These stores were imported from Europe, Makro of Holland and Carrefour from France. However, the home appliance hypermarket in Taiwan was originally developed in Japan (also known as "Lian-Fan Dian"). This type of home appliance hypermarkets are often 100 per cent owned by Japanese companies. The opening of the "Lian-Fan Dian" has generated a new revolution in Taiwan's home appliance retailing market (Lin, 1994).

Because New Zealand products are imported from overseas, supermarkets and hypermarkets are likely to be very important retailing outlets for New Zealand sourced products. When compared to traditional retailing markets, these two types of retailing outlets are likely to distribute more New Zealand sourced products.

Mum & Pop Stores and Convenience Stores

Besides supermarkets, hypermarkets, and traditional market retailers, there are two other types of retailing outlets in Taiwan: Mum & Pop stores and Convenience stores. The first category is normally owned by a family and they operate in residential areas. These stores are typically very small. There are numerous Mum & Pop stores in Taiwan. It is believed that this type of retailing outlets is a product of Japan's colonisation. In fact, some of Mum & Pop stores have been operating since Japan controlled the island. The second type of stores are Convenience stores. These stores are an innovation for Taiwanese consumers. Most of them exist in commercial areas. Unlike Mum & Pop stores, these stores display their products on the shelf. They are clean and bright. Convenience stores normally carry limited items and the prices are more expensive than their equivalent in supermarkets, hypermarkets or even the traditional retailing market. Major chain convenience retailing outlets include 7-Eleven, Family Mark (Japanese owned) and Circle-K. Most of them are owned by major Taiwanese food companies such as the President Enterprise and Wei-Chun Enterprise. These large scale convenience store chains normally deal directly with manufacturers but not through wholesaling systems. Besides this factor, other reasons which have contributed to convenience stores' success included the changing behaviour of Taiwanese consumers, the use of modern technology, and marketing research conducted by convenience store operators, according to one study on 7-Eleven's operations in Taiwan (Liu, 1992). 7-Eleven was established by the President Enterprises in 1979.

Similarity to Japan

Like the situation in wholesaling and other retailing systems, Taiwan's Mum & Pop stores and Convenience stores are also similar to their counterparts in Japan. The similarity of Japanese and Taiwanese retailing system can be seen from the role played by Mum & Pop stores. This type of store used to be one of the most important retailing outlets available for manufacturers in both countries. Mum & Pop stores in both countries operate by heavily relying on the personal relationships they create with their customers. The structure of Mum & Pop stores in both countries is also similar, both being family oriented.

The relationship between these two countries' retailing systems can be also be tracked by the development of convenience stores. As indicated, the success of 7-Eleven in Taiwan has been attributed to the boom in Taiwan's convenience stores sector. It is believed that 7-Eleven entered Taiwan because of its huge success in Japan. 7-Eleven USA used its successful experience in Japan as a blueprint for its entry into Taiwan. Similarities between the convenience stores in both countries can be seen in their interior designs, product displays, product lines range, and marketing and personnel management. In fact, a number of convenience stores in Taiwan (e.g. Family Mart) are owned by Japanese.

CHAPTER 4: RESEARCH VARIABLES AND CONCEPTUAL MODEL

4.1 The Dependent Variable

International market entry modes can be classified according to level of control (Stopford and Wells, 1972; Anderson and Coughlan, 1987; Gatignon and Anderson, 1988; Erramilli & Rao, 1993), resource commitment (Stopford and Wells, 1972; Johanson & Wiedersheim-Paul, 1975; Erramilli & Rao, 1990; Hill et al, 1990; Kim & Hwang, 1992; Gannon, 1993; Root, 1994), risk involvement (Hill et al, 1990), profit sharing and ownership right (LaFrancis, 1991 cited in Hoang, 1995, p.20). Control represents a firm's need to influence systems, methods and decisions in a foreign market (Anderson and Gatignon, 1986 cited in Agarwal and Ramaswami, 1992, p.201). The definition of resource commitment is introduced below.

Within this research, the dependent variable is the choice of entry mode of a particular New Zealand firm. Entry mode choice is measured by the level of resource commitment in terms of managerial, technical and financial resources committed to the market by a foreign firm (Erramilli and Rao, 1990, p.140; Agarwal and Ramaswami, 1992, p.201; Root, 1994, p.109). A summary of the level of resource commitment required for each entry mode is provided in Exhibit 4.1. As pointed out by previous studies, exporting (indirect and direct except overseas marketing subsidiaries) in its various forms is widely regarded as a less risky form of international involvement and also requires less resource commitment than other forms of foreign operations (Cavusgil, 1984a; Weekly and Aggarwal, 1987 cited in Hoang, 1995, p.22; Agarwal and Ramawsami, 1992, p.201).

Licensing and franchising are also widely viewed as low resource commitment entry modes (Hill et al, 1990, p.120; Root, 1994, pp.109 & 134). Contract manufacturing requires a comparatively small resource commitment (Root, 1994, p.138). The dependent variable will be coded as "low" if any of these variables is chosen by New Zealand firms.

Previous studies have identified foreign assembly, joint ventures, and strategic alliances as moderate resource commitment entry modes (Hill et al, 1990, p.120; Agarwal and Ramaswami, 1992, p.201; Root, 1994, p.145). Other studies (Hill et al, 1990; Kim and Hwang, 1992; Erramilli and Rao, 1993, p.21; Kwon and Konopa, 1993, p. 72) have identified wholly owned marketing and production subsidiary as high resource commitment entry modes. For the sake of statistical analysis these two categories of "moderate" and "high" resource commitment have been combined in this study and hereafter labelled "high" resource commitment. Exhibit 4.2 details the classification of level of resource commitment of each entry mode.

Exhibit 4.1: Required Level of Resource Commitment of Market Entry Modes

Market Entry Modes	Level of Resource Commitment
International trading company, export management company, piggybacking, agents, distributors, home-based (overseas) sales representatives	"Low"
Licensing, franchising, contract manufacturing	
Foreign assembly, joint ventures, strategic alliance	
Wholly owned subsidiary (marketing and production)	"High"

(Sources: Johanson & Vahlne, 1977, p.24; Hill et al, 1990, p.120; Agarwal & Ramaswami, 1992; Erramilli and Rao, 1993, p.21; and Root, 1994)

Exhibit 4.2: Coding and Classification of Market Entry Modes

International Market Entry Mode	Coding	Level of Resource Commitment Classification
Wholly owned overseas subsidiary (production)	1	High
Wholly owned overseas subsidiary (marketing)	2	High
Strategic alliance	3	High
Joint venture	4	High
Foreign assembly	5	High
Franchising	6	Low
Licensing	7	Low
Contract manufacturing	8	Low
Home-based sales representatives	9	Low
Distributors	10	Low
Agents	11	Low
Piggybacking	12	Low
Export management company (EMC)	13	Low
International trading company	14	Low

(Sources: Johanson & Vahlne; 1977, p.24; Hill et al, 1990, p.120; Agarwal & Ramaswami, 1992; Erramilli and Rao, 1993, p.21; and Root, 1994)

4.2 Independent Variables and Conceptual Model (first dimension)

4.2.1 Introduction

After reviewing studies on international market entry modes, New Zealand internationalisation, Japan and Taiwan's distribution systems, and Taiwan's business systems, a group of research variables and their respective propositions, based on these studies, have been developed. There are two dimensions of independent variables. This first dimension of research independent variables are formed based on two major sources of literature: international market entry literature and New Zealand internationalisation literature. These variables are divided into several categories: firm's characteristics (firm size and cumulative international business experience), macro-environment factors (competitors' choice of mode and home market dominance), product-related characteristics and product strategies, and market size and growth (industry). The second dimension of research independent variables and propositions are drawn and established based on the literature of Japanese and Taiwanese distribution systems, and Taiwan's business systems. The discussion on this group of variables and propositions are to be presented in Section 4.3. The following sections will first discuss the first dimension of variables and their respective propositions.

4.2.2 Factors Influencing Choice of Market Entry Mode

4.2.2.1 Firms' Characteristics: Firm Size

Table 4.1 groups the effects of firm size and their relevant literature references. Consistent with traditional theories, some studies have found a positive relationship between firm size and entry method selection (Amine, 1987; Chan, 1992; Levy, 1988; Li and Guisinger, 1992; Terpstra and Yu, 1988). However, there are also a number of studies which have shown a non significant relationship (i.e. Cavusgil, 1984a; Cavusgil, 1984b; Czinkota & Johnston, 1983; Weinstein, 1977) or a negative relationship (e.g. Ramaseshan & Patton, 1994) between entry mode choice (level of resource commitment) and the size of the firm. Some examples in the latter two groups are discussed below. Cavusgil (1984a) in a study of the relationship of level of exporting activities as measured by percentage of export sales and a set of 10 organisational characteristics found the size of the exporting firms was statistically insignificant. In another attempt Cavusgil (1984b), together with other studies, believed that a firm's internationalisation was evolutionary and its commitment to international business was incremental. The ultimate stage of internationalisation usually brought the exporting firm into a higher commitment entry mode such as direct investment in overseas production facilities. The research results indicated an insignificant relationship between a firm's size and its degree of internationalisation when firm size was measured by the number of full-time employees. The size of committed exporters (the highest level of internationalisation classified in the research) was not necessarily larger than the other two groups of exporters, experimental and active exporters. However, at the 0.00 level, when firm size was measured by annual sales, a significant relationship was found among the three types of firms (p.198). Ramaseshan and Patton's (1994) study of 62 US water filtration and purification equipment exporters found that firms with higher exports (measured as a percentage of the total sales revenue) tended to use independent channels rather than integrated channels (a more committed entry mode). These two authors' findings contradicted the traditional 'rule of thumb' which stated that when a firm's export sales volume became larger, it tended to adopt a more direct control distribution channel (i.e. integrated channel). Furthermore, in an unexpected finding, the work of Adam, Ong and Pearson (1988) pointed out that the size of the firm was positively associated with licensing activity. Their study hypothesised that smaller British companies in their industry would conduct more licensing activities than their larger counterparts. The argument is that the smaller firms with fewer resources would be less able to adopt FDI entry mode and choose the relatively less risky and low resource commitment required entry mode, licensing. Larger firms were expected to choose a more committed entry method such as foreign direct investment. But the research found a reverse relationship. Partial explanation for this situation was that larger firms, with their larger resources, were more likely to establish industry standard technologies (e.g. Intel micro processor) and therefore they were more able to conduct licensing activities than smaller size firms. Licensing would also enable large firms to widen their market coverage.

A number of US and Canadian studies also found a positive relationship between firm size and the choice of market entry modes. In a study of 97 US leasing firms involved in international business, Agarwal and Ramaswami (1992) concluded that larger US leasing companies showed a greater tendency to enter foreign markets. Also if they chose to invest, they were more likely to select a sole venture (high resource commitment) entry mode than a joint venture (moderate resource commitment) entry mode. Yu & Ito (1988), in their study of the FDI activities of the US tyre and textile industries, pointed out that firm size (measured by total assets of a firm) had a significant impact on these firms' foreign direct investment activities. Likewise, Klein, Frazier and Roth (1990), in a study of 925 Canadian exporting firms' channel integration choice, found that as the sales volume of the product line increased, a highly integrated channel (e.g. wholly owned subsidiary) was more likely to be chosen by Canadian exporting firms. High sales volume of the product line provided exporters the benefits (e.g. economies of scale) in pursuing an integrated distribution channel in overseas markets.

In a study of 114 Norwegian exporters' experience in the Japanese market, Gripsrud (1990) revealed a positive relationship between firms' size and their ability to export products to Japan (a psychically distant country). The larger the size of the Norwegian firms, the more likely they were able to export products to Japan. Entry to the Japanese market required a long term commitment and endurance. Only larger firms normally had the resources to achieve these criteria. Gripsrud's findings seem to imply that a firm's entry method selection is related to its size.

Overall, the majority of the literature tends to support a positive relationship between a firm's size and its market entry method selection (degree of resource commitments).

Proposition 1: Firm size is likely to influence the choice of market entry mode. Small size New Zealand firms are more likely to adopt entry modes that involve low resource commitment, while large size New Zealand firms are more likely to adopt entry modes that involve high resource commitment.

Table 4.1: Choice of Market Entry Mode Literature: Firm Size

Independent Variable	Dependent Variable	Literature References	Findings
Firm size	Market entry mode (licensing / foreign direct investment)	Adam, Ong, and Pearson, 1988, pp.36, 41,46	Firm size was positively associated with licensing activity
Firm size	Market entry modes (no involvement, exporting, licensing, joint venture and sole venture)	Agarwal and Ramaswami, 1992	Related
Firm size	Market entry modes	Bilkey, 1978 cited in Yaprak, 1985, p.74	Larger firms may employ entry modes other than exporting (licensing, joint ventures or direct investment)
Firm size	Foreign direct investment	Buckley & Casson, 1976; Cho, 1985; Caves & Mehra, 1986; Yu & Ito, 1988; Kimura, 1989 cited in Agarwal & Ramaswami, 1992, p.202	Positively related
Firm size (sales)	Export intensity (percentage of sales exported by the firm)	Cavusgil, 1984a, pp.14, 18	Not related
Firm size (full-time employee & annual sales)	Degree of internationalisation	Cavusgil, 1984b, p.198	Not significantly related (as measured by full-time employees), significantly related (as measured by annual sales)
Firm size	Distribution channel	Chan, 1992	Small size exporting firms are more likely to select less direct distribution channel
Firm size (annual sales/ employees)	Export intensity	Cooper and Kleinschmidt, 1985, p.50	Not related
Firm size (annual sales)	Export growth	Cooper and Kleinschmidt, 1985, p.51	Negative
Firm size (sales)	Export attitudes	Czinkota & Johnston, 1983	Not related
Firm size (sales)	Market diversification	Denis and Depleteau, 1985 (cited in Hoang, 1995, p.131)	Positive
Firm size	Export experience	Gripsrud, 1990, pp.476, 480, 483	Supported. The larger the size of the company, the more likely it is to export products to Japan.

Table 4.1: Choice of Market Entry Mode Literature: Firm Size - continued

Independent Variable	Dependent Variable	Literature References	Findings
Channel volume	Channel integration	Klein, Frazier and Roth, 1990, pp.198, 201, 204	Positively related
Firm size	International Trading Companies	Levy, 1988	Related
Firm size (growth rate)	Foreign direct investment	Li and Guisinger, 1992	Positively related
Firm size (export volume, measured as a percentage of the total sales volume)	International channel selection (choice of direct or integrated channel)	Ramaseshan and Patton, 1994, p.31	Negatively associated
Size of the firm	Foreign direct investment	Terpstra and Yu, 1988	Related
Firm size (as measured by total billings)	Foreign direct investment	Weinstein, 1977	Not related
Firm size (size of the sales)	Export management companies	Williamson and Bello, 1984	Title taking EMCs: more secure EMCs/M-S relationship if sales exceeds US$1 million
Firm size (sales/employees)	Export propensity	Yaprak, 1985	Positive
Firm size (GDP)	Foreign direct investment	Yu & Ito, 1988, pp.451, 455	Significantly related

4.2.2.2 Firms' Characteristics: International Business Experience

Table 4.2 summarises the literature which has examined the impact of a firm's experience on market entry method choice. As indicated above, a number of studies revealed that when firms entered international markets they adopted an incremental approach (e.g. Johanson and Vahlne, 1977; Moxon, 1975; Cavusgil, 1984a & 1984b; Willard and Savara, 1988). When firms accumulate enough international business experience, they normally adopt entry modes which involve higher resource commitment. Other empirical studies have revealed a positive relationship between a firm's international experience and entry modes (i.e. Davidson, 1980; Davidson, 1983; Gatignon & Anderson 1987; Gatignon & Anderson, 1988; Klein & Roth, 1990; Terpstra and Yu, 1988; Weinstein, 1977). Weinstein (1977) divided ownership entry strategies into four types: 100 per cent (wholly owned), majority, minority and equal ownership (joint ventures) and found that, for instance, US advertising agencies' joint venture choice seemed to be related to their international business involvement. Weinstein's findings indicated that US advertising firms which entered international business prior to 1950 had purchased 39% of their offices while agencies that started their international operations after 1950 had purchased 82% of their offices. In one vein, based on their examination of Swedish firms' internationalisation process, Johanson and Vahlne (1977) found that the entry modes employed by their respondents evolved from agents, sales subsidiaries and overseas production.

In another vein, Gatingon and Anderson (1987; 1988), in studying 180 of the largest US Multinational Corporation's (MNCs) degree of control over their foreign subsidiaries, supported the proposition that "MNC's degree of control of a foreign business entity should be positively related to the firm's cumulative international experience" (Gatingon and Anderson, 1987, p.9). The research findings indicated that when US MNCs gained enough experience abroad, they tended to adopt a higher control entry mode such as 100 per cent wholly owned subsidiaries. Erramilli's (1991) study of US service firms' entry mode selection identified a U-shaped relationship between entry modes and firms' international business experience. Firms in the early and late stages of their international operation were most likely to employ high-control market entry modes than those firms with moderate experience. Adam, Ong and Pearson (1988) reported that a firm's dependence on licensing was negatively related to that firm's overseas production experience. When a firm's international business experience was low, the firm was more likely to adopt a less committed entry mode (i.e. licensing). However, when it accumulated enough experience, it would adopt a more committed entry mode (i.e. foreign direct investment). Licensing was used as a prerequisite for conducting foreign direct investment. Adam, Ong and Pearson used a firm's percentage of sales manufactured by related subsidiaries abroad to measure its accumulated foreign experience.

The work of Gripsrud (1990) of Norwegian fishery exporters' experience in the Japanese market claimed that those firms who had exported products to Japan had a more positive attitude toward their future involvement in Japan than those who did not export products to Japan. This research was intended to discover whether or not an exporter's experience with an overseas market affected its attitude towards that market as a future destination. However, in another attempt, Benito & Gripsrud (1992) found no support for the experience effect after examining 201 Norwegian foreign direct investment activities. Their study was designed to find if the later investments conducted by given Norwegian firms were moved to more culturally distant countries. The empirical evidence showed that the average change in cultural distance between two subsequent investments was not positive and did not vary with the number of investments conducted by the companies previously. Similarly, Cavusgil (1984b) found that a firm's experience was not a strong indicator of a firm's degree of internationalisation although it is widely believed that a firm's internationalisation process is related to its international involvement experience.

Based on the above consideration, this study includes a firm's experience as an independent variable for examining New Zealand firms' entry strategies into the Taiwanese market. The following proposition is created.

Proposition 2: Cumulative international business experience (as measured by number of years the parent company has been in international business and number of foreign markets the parent company is operating in at the time the firm first enters the Taiwanese market) is likely to influence the choice of market entry mode. New Zealand firms which have high cumulative international business experience are more likely to adopt entry modes that involved high resource commitment at the time they first enter the Taiwanese market. The reverse holds as well.

Table 4.2: Choice of Market Entry Mode Literature: International Business Experience

Independent Variable	Dependent Variable	Literature References	Findings
Firm's international investment experience (measured by percentage of sales manufactured by controlled subsidiaries abroad)	Market entry mode (licensing / foreign direct investment)	Adam, Ong and Pearson, 1988	Dependence on licensing was negatively associated with the firm's overseas production experience.
Cultural expansion (due to accumulated experience)	FDIs	Benito & Gripsrud, 1992, pp.471, 472	No support
A firm's level of multinational experience	Market entry modes	Caves & Mehra, 1986 cited in Agarwal & Ramaswami, 1992, p.203	Positively related (higher multinational experience => more use of investment entry mode
Export experience	Degree of internationalisation	Cavusgil, 1984b, p.199	Not a strong predictor
Firm's prior investment experience	Foreign direct investment	Davidson, 1980, pp.13, 15, 16, 18	Positively related
Firm's experience	Market selection	Davidson, 1983, p.447	Significant
Pre-export experience	Market selection and entry mode selection	Erramilli, 1991	U-shaped relationship
International experience	Foreign market selection	Erramilli, 1992 cited in Hoang, 1995, p.141	Correlated
Cumulative company experience	Degree of control entry mode choice	Gatignon & Anderson , 1987, pp.16, 19, 30, 35	Positively related
Company's experience (measured as number of market entries conducted by the parent company)	Entry modes	Gatignon & Anderson, 1988, pp.308, 317, 323, 331	Positively related
International experience	Market entry mode (agents, sales subsidiaries and local production)	Johanson & Vahlne, 1977, p.24	Evolutionary process
Firm's prior investment experience	Foreign direct investment	Johanson & Wiedersheim-Paul, 1975, cited in Terpstra and Yu, 1988, p.35	Positive impact
International experience	Channel selection	Klein & Roth, 1990, pp.29, 31, 33, 35	Related
International experience	Expansion strategy	Li, 1994, cited in Hoang, 1995, p.141	A key factor

Table 4.2: Choice of Market Entry Mode Literature: International Business Experience - continued

Independent Variable	Dependent Variable	Literature References	Findings
Offshore production experience	Offshore production	Moxon, 1975	Evolved
Exporting experience	International channel selection (choice of direct or integrated channel)	Ramaseshan & Patton, 1994, pp.26, 29, 32	NS relationship
Experience in the relevant country	Market entry mode (joint venture & wholly owned activities)	Stopford & Wells, 1972	JV was less likely to be chosen when the firm had more experience in the relevant countries
International operations experience	Foreign investment (service firms)	Terpstra & Yu, 1988, pp.35, 41	Positively & significant impact
Experience	Foreign direct investment	Weinstein, 1977, p.85	Related
Experience	Market entry strategies	Willard & Savara, 1988	A sequential order

4.2.2.3 Psychic and Physical Distance

Tables 4.3 & 4.4 provide an outline of studies which have examined the effect of psychic and physical distance on international business activities. As can be seen from the tables, it seems that almost all the literature has pointed to a negative effect of psychic distance on exporting activities such as export commitment or export methods. For instance, Root (1994) pointed out that Canada was a favourite first entry country for equity investment by US companies because it is culturally close to the US. By the same token, Klein and Roth (1990) in their empirical study of 477 Canadian exporting firms' export channel selection found that psychic distance was negatively related to the dependent variable (export channel selection). Presumably, those Canadian firms operating in the US market should adopt a more integrated distribution channel than those who operated in a culturally dissimilar market such as Japan. Weinstein (1977) examined US advertising agencies' overseas investment behaviour before 1950 and after 1950 and found that those investments made in the late 1950s and early 1960s were done in the highly developed and culturally familiar areas of the world. In contrast, investment conducted in the late 1960s and early 1970s expanded into less developed and less familiar countries.

Within this literature, only two studies (Benito & Gripsrud, 1992; Erramilli & Rao, 1993) failed to reveal a significant relationship. Benito & Gripsrud (1992), in their study of 201 FDIs conducted by Norwegian manufacturing firms, revealed no support relationship between cultural distance and foreign direct investment activities. They used Kogut and Singh's (1988) index to measure the differences between the home country and the host country (Norway). Cultural distance was measured in four dimensions: uncertainty avoidance, individuality, power distance and masculinity-femininity. Kim and Hwang (1992) measured location unfamiliarity by asking their respondents about their perceived differences between the home and host country with respect to culture, political systems and economic conditions (p.40). Location unfamiliarity was found to have a significant relationship with US MNCs' market entry mode choice.

In another vein, the research findings of Erramilli and Rao (1993), although failing to support a relationship between entry mode selection and cultural distance, did suggest that when cultural distance increases, like their manufacturing counterparts, service firms do prefer to adopt a less committed entry mode (i.e. a shared-control mode).

With regard to the effect of physical distance, past studies identify a negative relationship between it and various dependent variables. As indicated by Root (1994, p.30), "when the (geographic) distance is great, transportation costs can make it impossible for some export goods to compete against local goods in the target country." Hence, high transportation costs may discourage international marketers to adopt export related entry modes other than more direct and control entry methods. It is expected that there will be a negative relationship between physical distance and entry mode choice. The empirical study conducted by Davidson (1980) has linked the impact of physical, psychic distance and a firm's foreign investment experience together. His study demonstrated a significant preference for nearby and similar markets. Specifically, exporting firms in their initial stage of foreign expansion (low international business experience) showed a strong preference to invest in a country which is physically and culturally close to the home country. Yu & Ito (1988) in their study of the impact of geographical distance on US tyre and textile industries' foreign direct investment showed an almost certain significant relationship (except in the year 1977). Geographical distance was measured by the air distance between the capital city of the host country and a US city (p.453). However, this result is contrary to the findings of Green & Cunningham (1975) who found a non-significant relationship between geographic proximity and US foreign direct investment activities. Similarly, the study of Cavusgil (1984a) revealed a non-significant relationship between the variable of proximity to market and the degree of export activity.
The results of New Zealand studies on physical distance on export activities have either resulted in a non significant relationship (i.e. Steiner, 1993) or a negative relationship (i.e. Gray, 1994).

As can be seen above, the effect of psychic and physical distance on choice of market entry mode has been well discussed by a number of studies. However, due to the current study focusing on a single market, the variables of psychic and physical distance are constant and cannot be empirically tested further in this research. Therefore no propositions are proposed to examine their relationships.

Table 4.3: Choice of Market Entry Mode Literature: Psychic Distance

Independent Variable	Dependent Variable	Literature References	Findings
Cultural similarity	Channel selection	Anderson & Coughlan, 1987, p.80	More foreign the culture, less likely to integrate channel
Cultural distance	FDIs	Benito & Gripsrud, 1992, pp.461, 466, 467, 468471	No support, p.471, 472
Choice of export markets (psychologically close countries)	Degree of internationalisation	Cavusgil, 1984b, p.204	Not related
Cultural distance	Marke entry mode)full-control/ shared-control entry mode)	Erramilli & Rao, 1993, p.32	No relationship has been found.
Psychic distance	Entry mode	Gatignon & Anderson, 1986 cited in Klein & Roth, 1990, p.30	Related
Sociocultural distance	Entry mode choice (degrees of control: sole ownership, majority equity, equal equity, and minority equity)	Gatignon & Anderson, 1987, pp.9, 16, 19, 26, 30, 35	Negatively related
Psychic distance	Choice of export channels	Goodnow & Hansz, 1972 cited in Klein & Roth, 1990, p.30	Related
Cultural differences	Foreign direct investment	Green & Cunningham, 1975, pp.115, 117	Related
Psychic distance	Market expansion	Johanson and Vahlne, 1977, p.24	Exporters started trading with psychically close nations
Location unfamiliarity	Market entry mode choice	Kim & Hwang, 1992, pp.40, 47	Negatively related (the greater the perceived unfamiliarity between home and host country, market entry modes which involved low resource commitment were more likely to be employed)
Psychic distance	Channel selection	Klein & Roth, 1990, pp.29, 32, 35	Negatively related
Cultural distance	Market entry method selection	Kogut & Singh, 1988, pp.414, 422, 424	Cultural distance increased the chance of adopting a joint venture or wholly owned subsidiary over an acquisition (a more committed entry mode).
Cultural distance	Foreign direct investment	Li & Guisinger, 1992	Negative related
Home country factors & host country factors	US foreign direct investment in Japan	Mason, 1992	Limited investment due to psychic distance effect
Lack of exposure to other cultures	Barriers to exporting	Rabino, 1980, p.71	The most significant barrier to exporting

Table 4.3: Choice of Market Entry Mode Literature: Psychic Distance - continued

Independent Variable	Dependent Variable	Literature References	Findings
Cultural similarity	Export Performance	Robles, 1994, p.62	Positive (entered culturally similar country, performed better)
Cultural distance	Foreign market entry mode	Root, 1994, pp.31	Related. Canada is a favourite first-entry country for equity investment by US companies, p.32
Psychic distance	Foreign direct investment	Weinstein, 1977, p.86	Related
Psychic distance	Market expansion	Johanson & Wiedersheim-Paul, 1975, and Wiedersheim-Paul et al, 1978 cited in Gray, 1994, p.38.	Started trading with psychically close nations. Expanded to more distant market when gained more market experience.
Experience	Market expansion	Barker and Kaynak, 1992, Buckley and Mathew, 1980; Luostarinen, 1980; Yaprak, 1985	Started with psychically close nations. When gained more experience, extended to more distant markets.
Perceptions of psychic and geographic distance as barriers	Degree of Internationalisation	Gray, 1994, pp.40 & 128	Negatively related (supported but not strong)

Table 4.4: Choice of Market Entry Mode Literature: Physical Distance

Independent Variable	Dependent Variable	Literature References	Findings
Proximity to market	Export intensity	Cavusgil, 1984a, pp.12, 14	Not significantly related
Near & Similar market	Foreign direct investment	Davidson, 1980, pp.10, 16, 18 (also cited in Kogut & Singh, 1988, p.416)	Related
Geographic proximity	Foreign direct investment	Green & Cunningham, 1975, pp.115, 116, 117	Not related
Geographic distance	Foreign market entry mode	Root, 1994, p.30	A factor
Geographic proximity to the home country	Foreign direct investment	Terpstra and Yu, 1988	No relationship
Geographical proximity	Foreign direct investment	Yu & Ito, 1988, pp.452, 455	Significant
Geographic distance	Market selection	Barker & Kaynak, 1992; Dichtl et al 1990; Simpson & Kujawa, 1974 cited in Gray, 1994, p.39	Start trading with physically close nations
Perception of geographic distance	Degree of internationalisation	Gray, 1994, pp.38, 128	Negatively related but not strong

4.2.2.4 Macro-Environment Factors: Country Risk

Country risk is another variable which has been identified as influencing entry method decisions. Relevant literature is listed in Table 4.5. McCarthy et al (1993) and Shama (1995) empirically examined the impact of perceived business risk on Western firms' market entry modes into former Soviet Union nations. Shama (1995) found that market entry strategy theories developed in the West were also applied to the markets of the former Soviet bloc. Western firms first entered these markets by employing a less riskier entry method, but when the perceived risks of the markets declined, a more committed entry mode such as wholly owned entry method was used. The research findings indicated that joint venture and export/ import strategies were used the most often to enter the Russian and Ukraine market, but wholly owned subsidiaries were not often used. On the other hand, wholly owned entry methods were often used by Western firms operating in Poland, the Czech and Hungary which were perceived as lower risk markets. McCarthy et al (1993) pointed out that political instability was considered as the greatest risk by their respondents when doing business with former USSR republics. Similar to the results of Shama's, McCarthy et al (1993) revealed that import-export and joint ventures were the most popular entry modes adopted by American firms. Their study also found that the two major republics which American firms did the most business with were Russia and Ukraine. This finding, together with Shama's result (1995, p.102), seem to be explained by these two countries' market size. "Market size mitigates market risk", as explained by Shama (1995, p.103).

The work of Root (1994) claimed that a foreign country's investment risks can be divided into political, legal, economic, social and cultural environments. Among them, political risks are the most influential ones. When a target country is perceived as highly politically risky, entry methods adopted by international marketers operating in that country tend to be low resource commitment (p.32). Root grouped political risks into four categories: general instability risks, ownership/control risks, operations risks and transfer risks (p.153). As discussed in the Appendix A, it seems that the most relevant category of Root's classification to this current study is the instability risks. These risks arise from management uncertainty about the future viability of a host country's political system.

By applying Root's (1987) general instability political risk assessment, the work of Schuster & Keith (1993, p.45) found that the amount of risk attached to the investment would influence a sales force choice decision. When a firm entered a country which has low political stability, the mode of entry adopted by that firm tends to be the one which has the greatest flexibility such as an independent form of sales force. Schuster & Keith intended to uncover the factors affecting the strategic decision of whether an international firm should use an integrated or independent sales force.

In other research, Root (1968) examined the impact of political risks on 124 US industrial corporations' foreign investment. Root claimed that the decision to invest in a foreign market is a trade off of market opportunities and political and business risks. Both opportunities and risks are two elements of the investment equation. In addition, Terpstra and Sarathy (1994, p.134) indicated that political stability was also often used as a basic measure of expropriation risk, the greatest political risk and the ultimate tool for a government to control foreign firms operating within that country.

Erramilli & Rao (1993) found a negative relationship between country risks and market mode selection. Shared-control modes will be adopted more by low-specificity firms when a host country's operational risks increase. Agarwal and Ramaswami (1992) examined 97 US equipment leasing industry firms' entry mode selection and found that a lower committed entry mode such as exporting was employed by US firms when entering markets with perceived with high investment risks. Entry methods selection was found to have a negative relationship with a country's investment risks. The work of Gatignon and Anderson (1987; 1988) also examined the impact of country risk on entry mode selection. Their study revealed that in countries with high operational risks, US MNCs tended to avoid adopting 100 per cent wholly owned subsidiaries entry methods. Dependent variables employed in this study included wholly owned subsidiaries, dominated partnerships, balanced partnerships and minority partnerships. Based on Goodnow and Hanz's (1972) classification system, Gatignon and Anderson (1987; 1988) classified countries into three categories safe, somewhat risky and highly risky.

However, not all previous studies generate the same result. For instance, in a study of determinants of US foreign direct investment, Green & Cunningham (1975) found a non significant relationship between political instability and US foreign direct investment.

With respect to the propositions in this study, as indicated in the previous studies, the variable of country risk best works on comparing firms' perceptions on the countries they operate (eg Taiwan vs PRC). Since this study's focus is on New Zealand firms' operations in one foreign market, all of the companies investigated are operating in the same market. It can only be limited on comparing firms' views on the risk of the industries they operate in the host country if this variable is operationalised. The results generated by this comparison are still limited on the same country. Thus its contribution to the knowledge of country risk on the choice of market entry modes might be confined. After considering the nature of this study, it appears that country risk is not likely to be a significant explanatory variable in this research. No proposition is suggested to examine the relationship between entry mode choice and country risk.

Table 4.5: Choice of Market Entry Mode Literature: Country Risk

Independent Variable	Dependent Variable	Literature References	Findings
Investment risks	Entry mode selection	Agarwal and Ramasawami, 1992, pp.207, 209, 217	Negatively related (exporting mode was chosen to enter markets with high investment risks)
Country risk	Entry mode selection	Anderson and Gatignon, 1986	Related
Country risk	Marke entry mode (full control/ shared-control entry mode)	Erramilli and Rao, 1993, pp.25, 32,33	Negatively associated
Country risk	Entry mode choice: degree of control	Gatignon & Anderson , 1987, pp.4, 6, 13, 19, 25, 30, 35	Negatively related
Country risk	Entry mode	Gatignon & Anderson, 1988, pp.308,309, 315, 323, 331	Related
Political instability	Foreign direct investment	Green & Cunningham, 1975, p.115,	NS related
Country risk	Market entry mode choice	Kim & Hwang, 1992, pp.43, 47	Negatively related
External uncertainty	Channel integration	Klein, Frazier and Roth, 1990, pp.201,	Related. Volatility is positively related to the use of channel integration. Diversity is negatively related to the use of channel integration.
Riskiness of the business environment	Market entry strategy	McCarthy et al, 1993	Top two entry modes: Import/export & joint venture . Only 5 of the 42 firms used wholly owned or partially owned subsidiaries initially (p.103).
Political risks	US industrial investment abroad	Root, 1986	Three reasons: avoidance, adaptation and risk transfer
Level of risk	Sales force choice decision	Schuster & Keith (1993)	Related
Perceived business risk	Market entry strategy	Shama, 1995	Russia & Ukraine (high perceived risk): export/import and joint ventures; Hungary, the Czech Republic and Poland: export/import, joint venture and wholly owned subsidiaries

4.2.2.5 Competitors' choice

As indicated in Table 4.6, "competition" has been suggested by several studies as an influence of firms' international market entry mode choice. For example, Terpstra and Yu (1988) used the concept initiated by Knickerbocker (1973), "following the leader", to examine the behaviour of US advertising agencies' foreign direct investment and found that US advertising firms, as their manufacturing counterparts, did follow their competitors in going overseas. Li and Gusinger (1992) further expanded this concept to examine the foreign direct investment conducted by service firms which were based in the triad economies: Japan, European Union and the US. The findings of these two studies have pointed to a positive relationship between this independent variable (competition) and their dependent variables (i.e. foreign direct investment). The study of Yu and Ito (1988) suggested that oligopolistic reaction varies according to industry structure. When there were a handful firms in an industry, each firm might watch the other's foreign investment activities. When there were many competitors within an industry, all firms were more likely to invest overseas independently (i.e. without being concerned with the others' investment decisions). Their study revealed that oligopolistic reaction had a positive impact on FDI in the tyre industry (an oligopolistic industry) but it showed no impact in the textile industry (a non-oligopolistic industry).

Based on these observations, the following proposition is presented.

Proposition 3: New Zealand firms' choice of market entry mode is likely to be influenced by the decisions of New Zealand's competitors in their industry. For instance, New Zealand firms whose major competitor(s) have entered the Taiwanese market with a strategy of high resource commitment, are likely to pursue a similar strategy.

Table 4.6: Choice of Market Entry Mode Literature: Oligopolistic Reaction

Independent Variable	Dependent Variable	Literature References	Findings
Competition intensity (host country)	Market entry mode choice	Kim & Hwang, 1992, pp.36, 46	Non significantly related
Global oligopolistic reaction	Foreign direct investment (conducted by largest service firms based in Japan, EU and the USA)	Li & Gusinger, 1992	Positively related
Oligopolistic reaction	US adverting agencies' foreign direct investment	Terpstra and Yu, 1988	Positively related
Competition	Export	Wiedersheim-Paul, Oslon and Welch, 1978, p.53	Competitive stimuli arises when domestic competitors go abroad or from domestic market caused by domestic or foreign competitors.
Oligopolistic reaction	Foreign direct investment	Yu & Ito, 1988, pp.449, 450,	Oligopolistic reaction has a positive and significant impact on tyre industry (oligopoly) but no impact in the textile industry (non-oligopoly).

4.2.2.6 Home-Market Presence

The influences of home market presence on international business have been identified by a number of international and New Zealand studies. These include stability of domestic market (Hirsch and Lev, 1971& 1974) and competitive domestic market influence (Alexandrides, 1971 cited in Bilkey, 1978, p.34). Hirsch and Lev (1971 & 1974) cited that a strong domestic market presence was a prerequisite for a firm's entry into international markets. They (Hirsch and Lev, 1971) argued that firms must establish themselves in the domestic market before entering into foreign markets. This is because operating in foreign markets is much riskier than in domestic market mainly due to their political, economic and social instability. These instability is likely to affect firms' entire operations (domestic and international) if they do not have a strong position in the domestic market. The findings of Hirsch and Lev (1971) confirmed that firms' sales stability was positively related to their export diversification. Alexandrides (1971), in a study of 104 Georgia manufacturing firms in the USA, confirmed that a firm's international business was related to the intensity of competition in the domestic market it faced. Cavusgil (1984a, p.7) further noted that firms with large domestic market share tended to market more products internationally. However, in another attempt, Cavusgil (1984b, p.201) found that a firm's domestic market presence was not related to its degree of internationalisation.

Besides these studies, New Zealand research (Crocombe et al, 1991; Lindsay, 1990; Steiner 1993; Stening & McDougall, 1974) has also studied the impact of New Zealand firms' domestic presence on their international business (not listed in the table). Crocombe et al (1991), in a study of New Zealand industries' competitive advantage, suggested that New Zealand companies, in order to be successful internationally, would need to have a well established position in the domestic market (cited in Steiner, 1993, p.148). Lindsay's (1990) study also found that those successful manufacturing goods exporters had a dominant position in the domestic market. Lindsay (1989, p.114) revealed that many of her research firms were reliant on their domestic market base to support their export business. A stable home presence was particularly vital in the start-up period. However, contradicting other New Zealand studies' findings, Steiner's (1993) study on New

Zealand fishery operators' international operations found that her respondents' export performance were not related to their domestic market position. It was not essential for a successful New Zealand fishery international operator to have a strong domestic presence. Steiner attributed this finding to the nature of the industry she studied. Unlike manufacturers which often needed a strong domestic operation to support their international business, New Zealand fishery companies exported most of their products to overseas markets. The domestic market was not important for New Zealand fishery operators.

Based on these observations, it seems reasonable to suggest that New Zealand firms' domestic market presence might have some influence over their market entry strategy choice. The following proposition is, therefore, proposed.

Proposition 4: Degree of dominance in the New Zealand domestic market is likely to influence New Zealand firms' choice of market entry mode. A strong and successful New Zealand domestic presence is likely to provide the New Zealand firm with more resources to support its international operations. Therefore, New Zealand companies who dominate their domestic market (as measured by share of the market) are more likely to choose entry modes that involve high resource commitments. The reverse holds as well.

4.2.2.7 Product- Related Factors

Table 4.7 summarises the impact of product-related features on international business. Moxon (1975), in a study of US electronic firms' foreign production decision, found that most of his respondents chose simple, standardised and high-volume products as their offshore production items. Those products which needed frequent engineering changes and products which required rapid delivery were all produced in America. Moxon's findings seem to indicate that foreign investment decisions are related to a firm's product characteristics. Moxon's view is further strengthened by the work of Adam, Ong and Pearson (1988). Their study found that the degree of product line diversification was positively related to a firm's licensing level. This finding meant that a firm with more diversified product lines was more likely to use licensing than foreign direct investment (FDI) because adopting licensing entry mode would allow it to widen its market coverage. Often this goal is difficult to achieve using FDI entry modes. The study by Root (1994, p.33) indicated that firms' with highly differentiated products, due to their distinctive advantages over competitive products, were more likely to market their products through exports than those firms whose products were associated with low levels of differentiation. Firms whose products enjoyed low differentiation tended to adopt local production strategies. However, Root's finding contrasts with the results of several other empirical studies which have revealed that when an international firm has the capability to create differentiated products, it may run the risk of losing its competitive advantage if it adopts a share-control entry strategy. These studies found the use of higher control modes (high resource commitment entry modes) were associated with higher levels of product differentiation (Anderson & Coughlan, 1987; Caves, 1982; Coughlan, 1985; Coughlan & Flaherty, 1983; Davidson, 1982; Stopford and Wells, 1972, cited in Agarwal and Ramaswami, 1992, p.202).

Other studies have examined the impact of product service on export activities. The work of Ramaseshan and Patton (1994) pointed out that a firm's product service aspect was positively related to that firm's overseas channel selection. Firms whose products needed more back-up support services were more likely to adopt a higher resource commitment entry mode (integrated channel). Wiedersheim-Paul et al (1978) and Root (1994) also reached a similar conclusion. Root's (1994, p.34) study asserted that firms with service-intensive products were more likely to adopt high resource commitment entry modes such as branch/ subsidiary exporting or local production entry modes than those methods which involved low resource commitment.

By dividing product/ service characteristics into proprietary, high service requirement, new product category, differentiated products, core product, mature product category, superior product and narrow product lines, Schuster & Keith (1993) found that a firm's overseas sales force decision (integrated or independent) was related to these product/ service characteristics.

However, the importance of service on market entry method selection has not been supported by Anderson and Coughlan's (1987) study. Their research found that a specialised producer or a differentiated producer was more likely to adopt an integrated channel distribution. But such a decision was not related to the service aspect of the products. By using a transaction cost analysis (TCA) model to explain international marketing firms' degree of channel integration choice, Klein, Frazier and Roth (1990) reached a similar result. Their findings supported the hypothesis, "the greater the transaction specificity of assets, the greater is the degree of channel integration in a foreign market (often a higher resource commitment entry mode)" (Klein, Frazier and Roth, 1990, p.204). These authors divided marketing channels into four categories: wholly owned subsidiary, serving the overseas market from home country by using company personnel, commission agents/ joint ventures and merchant distributors (Klein, Frazier and Roth, 1990, p.201).

Overall, most literature seems to point out that a company's product-related characteristics are a factor influencing overseas resource commitment market entry strategy selection.

Based on these findings, the following propositions are, therefore, hypothesised.

Proposition 5: Product-related characteristics are likely to affect New Zealand firms' market entry mode choice. Those companies whose products require a higher after sales service are more likely to adopt entry modes that involve high resource commitment. The reverse holds as well.

Proposition 6: Product-related characteristics are likely to affect New Zealand firms' market entry mode choice. New Zealand firms whose exported products are more differentiated from other companies operating in the same industry are more likely to adopt entry modes that involve high resource commitments. The reverse holds as well.

Table 4.7: Choice of Market Entry Mode Literature: Product-Related Factors

Independent Variable	Dependent Variable	Literature References	Findings
Product diversification	Market entry mode (licensing/ foreign direct investment)	Adam, Ong, and Pearson, 1988, pp.36, 46	Positively related to the use of licensing
Products (specialty, differentiated)	Channel selection	Anderson & Coughlan, 1987, pp.76, 78,79	More specialised -->more integrated channel; more differentiated-->more integrated channel
Service requirements	Channel selection	Anderson & Coughlan, 1987, pp.76, 78	NS relationship
Product differentiation	Entry modes	Caves, 1982; Coughlan & Flaherty, 1983; Davidson, 1982; Stopford & Wells, 1972 cited in Agarwal & Ramaswami, 1992, pp.202	Higher product differentiation ----> higher control modes
Technology intensiveness of industry	Export intensity	Cavusgil, 1984a, pp.12, 14, 17	Related
Product differentiation	Channel integration	Coughlan, 1985	Associated
Asset specificity	Channel integration	Klein, Frazier and Roth, 1990, pp.201, 204	Positively related
Product and process standardisation	Offshore production	Moxon, 1975	Important factors
Importance of service requirements such as back-up support, repair or installation.	International channel selection (integrated versus independent)	Ramaseshan & Patton, 1994, pp.27, 29, 31	Positively associated with integration channel selection
Pre- and post purchased services	Foreign market entry modes	Root, 1994, p.34	Positively related. More service-intensive -->more committed entry mode
Product differentiation	Foreign market entry mode choice	Root, 1994, p.33	A factor
Product/service characteristics	Sales force choice decision	Schuster & Keith, 1993, pp.30, 44	Related
Products (software/hardware relationship*)	Information flow	Wiedersheim-Paul, Oslon and Welch, 1978, p.50	The higher the hardware content, the smaller the information flow needed between the seller and buyer, and, therefore the greater the chance for a seller to use exporting methods.

* can also be measured as degree of standardisation and degree of complexity

4.2.2.8 Market Knowledge

Market knowledge has been identified by several studies (listed in Table 4.8). Johanson and Vahlne (1977) pointed out that a firm's internationalisation process is incremental. The two authors postulated a direct relationship between market knowledge and market commitment. When an exporting firm lacks market knowledge (i.e. high perceived risk and operational uncertainty), the firm's commitment toward that market is limited. However, when the firm starts to gain more market knowledge, it will commit itself more in the market. Davidson (1982), in a study of how market uncertainty (i.e. insufficient market knowledge) can affect US firms' market entry selection, found that full controlled entry methods such as wholly owned operations were adopted by American firms operating in markets such as Canada or Australia which were similar to the US. However, less committed entry modes such as licensing or joint ventures were found to be employed by US companies operating in countries which were less similar to the US. In theory, US firms should be much more knowledgeable about those markets which are similar to the American market. Davidson (1982) also revealed that licensing and joint ventures were more likely to be employed by firms that were experienced in a particular foreign market when compared to more experienced firms (cited in Erramilli & Rao, 1990, p.139). The study of Davidson seems to use the years in the market to proxy a firm's knowledge of a particular market. Erramilli and Rao (1990) further examined the impact of market knowledge on market entry mode decisions of US service firms. Their research findings revealed that those with higher levels of knowledge about foreign markets were more likely to adopt a more resource commitment entry mode.

Schuster & Keith (1993) in examining US firms' overseas sales force choice decision found that a firm's knowledge about the host country is a determinant of whether an integrated or independent sales force should be adopted (p.42). Knowledge of the host country included a firm's ability of acquiring information in terms of effort, time and cost.

Hoadley (1993), in his study of New Zealand firms' operational problems in Taiwan, indicated that market knowledge was a barrier for New Zealand firms' market entry into Taiwan, although this was not supported by any empirical evidence.

Since the focus of this current study is on New Zealand firms' operations in a single foreign market, the market examined is constant. Hence this study will not be able to test market knowledge empirically. However, as implied by Davidson (1982 cited in Erramilli & Rao, 1990) this study will utilise the number of years of operation in international business and in the Taiwanese market as a proxy for New Zealand firms' market knowledge of Taiwan. The data needed will be derived from responses to Proposition 2.

Table 4.8: Choice of Market Entry Mode Literature: Market Knowledge

Independent var.	Dependent var.	Study	Findings
Market knowledge	Entry method selection	Cavusgil, 1980, 1982; Reid, 1980 cited in Erramilli & Rao, 1990, p.137	Related
Market uncertainty (i.e. insufficient market knowledge)	Market entry modes choice	Davidson, 1982	Positively related
Market knowledge	Market entry mode selection	Erramilli & Rao, 1990	Positively related
Market knowledge	Market commitment	Johanson and Vahlne, 1977	Incremental
Knowledge of the host country	Sales force choice decision	Schuster & keith, 1993, pp.30, 41	Related

4.2.2.9 Country Specific Variables: Market Size and Market Potential

Market size is another variable which has been cited as an influence on international market entry mode choice. For example, the findings of Yu & Ito (1988) revealed that market size had a significant impact on FDI conducted by US firms within the tyre and textile industries. The larger a market's size, the higher the volume of inward investment that country would receive. In an early attempt, based on factors identified by Basi (1963) and Aharoni (1966), Green & Cunningham (1975) examined the impact of a set of variables (including market potential, political instability, cultural differences and geographical proximity) on US foreign direct investment activities (total US foreign direct investment and US foreign investment in manufacturing). Their study indicated that the most important factor in the allocation of US foreign investment was market potential. Market potential was measured as a country's GNP and population. GNP was found to be significantly related to both foreign investment activities. Population was also found to be related to total US foreign direct investments. In summary, the authors concluded the variable of market size or potential as measured by GNP and population was a key influence on distribution of US foreign direct investment. Agarwal and Ramaswami (1992), in a study the operations of US leasing industry in three countries, also found that market potential was positively associated with the choice of sole investment. The indicators used by the authors to measure the market potential of the industry of a host country included perceived managerial assessment of the market size ("market potential" is the term used in the actual questionnaire), growth potential, acceptability of leasing as a financial tool in the host country, host government attitudes toward foreign firms in general and the leasing industry in particular.

As shown in Table 4.9, the focus of past studies is mainly on examining US firms' direct investment in foreign countries. In contrast to their aims, as mentioned already, the present study is designed to examine New Zealand firms' international business activity in one country. Due to the nature of this study, variables identified by previous studies to examine market size and market potential have been amended. The research propositions are described below.

Proposition 7: Market size of the industry in the host country is likely to affect New Zealand firms' market entry mode choice. The larger the market size of the industry in Taiwan, the more likely the New Zealand firm will choose entry modes which involve high resource commitment. The reverse holds as well.

Proposition 8: Market potential of the industry in the host country is likely to affect New Zealand firms' market entry mode choice. The larger the market potential of the industry in Taiwan, the more likely the New Zealand firm will choose entry modes which involve high resource commitment. The reverse holds as well.

Table 4.9: Choice of Market Entry Mode Literature: Market Size and Market Potential

Independent var.	Dependent var.	Study	Findings
Market potential of the industry (leasing business) in the host country	Choice of market entry mode (no involvement, exporting, licensing, joint venture, and sole investment)	Agarwal and Ramaswami, 1992	Positively related (high marketing potential--> sole investment)
Market size	Foreign direct investment	Davidson, 1980, pp.13, 16	Correlated
Market potential (measured as GNP and population)	Total US direct investment & US foreign investment in manufacturing	Green & Cuningham, 1975, pp.115, 118, 119, 120	Significantly related
Market size	Foreign direct investment	Scaperlanda & Mauer, 1969	Positively related
Market size	Foreign direct investment	Agarwal, 1980; Dunning, 1973; Nigh, 1985 cited in Terpstra & Yu, 1988, p.34	Positively related
Market size	Foreign direct investment	Terpstra & Yu, 1988, p.39	Positively & significant related
Market size (measured by Gross domestic product or GDP)	Foreign direct investment	Yu & Ito, 1988, pp. 452, 455	Positively significant

4.2.3 Summary

This section has presented the first dimension of independent variables and their correspondent propositions. These variables and propositions are based on studies on market entry modes and New Zealand internationalisation literature. Key variable categories in the first dimension include: firms' characteristics, macro-environment factors, product-related characteristics and product strategies, and market size and growth. Past studies have suggested that firms' characteristics such as size of the firms and their international business experience are likely to be related to the choice of market entry modes. Macro-environment factors such as competitors' choice and firms' market position in the home country are also likely to affect their decision on market entry modes selection. Previous studies have also indicated that product-related factors are likely to be related to the choice of market entry modes. Two often used variables to measure the influence of product-related factors are the before and after sales service required and the extent of differentiation of the products marketed in the host country. Market size and potential are two other factors which have been suggested by the literature as possible factors for the choice of market entry mode. Due to the focus of this study, these last two variables have been narrowed down to the size and potential of the industries rather than the traditional measurement, market size and potential of the countries.

The first dimension of initial conceptual model is presented in Figure 4.1. The expected relationship between the first dimension of independent variables and the choice of market entry modes is summarised in Exhibit 4.3.

Figure 4.1: Initial Conceptual Model (First Dimension)

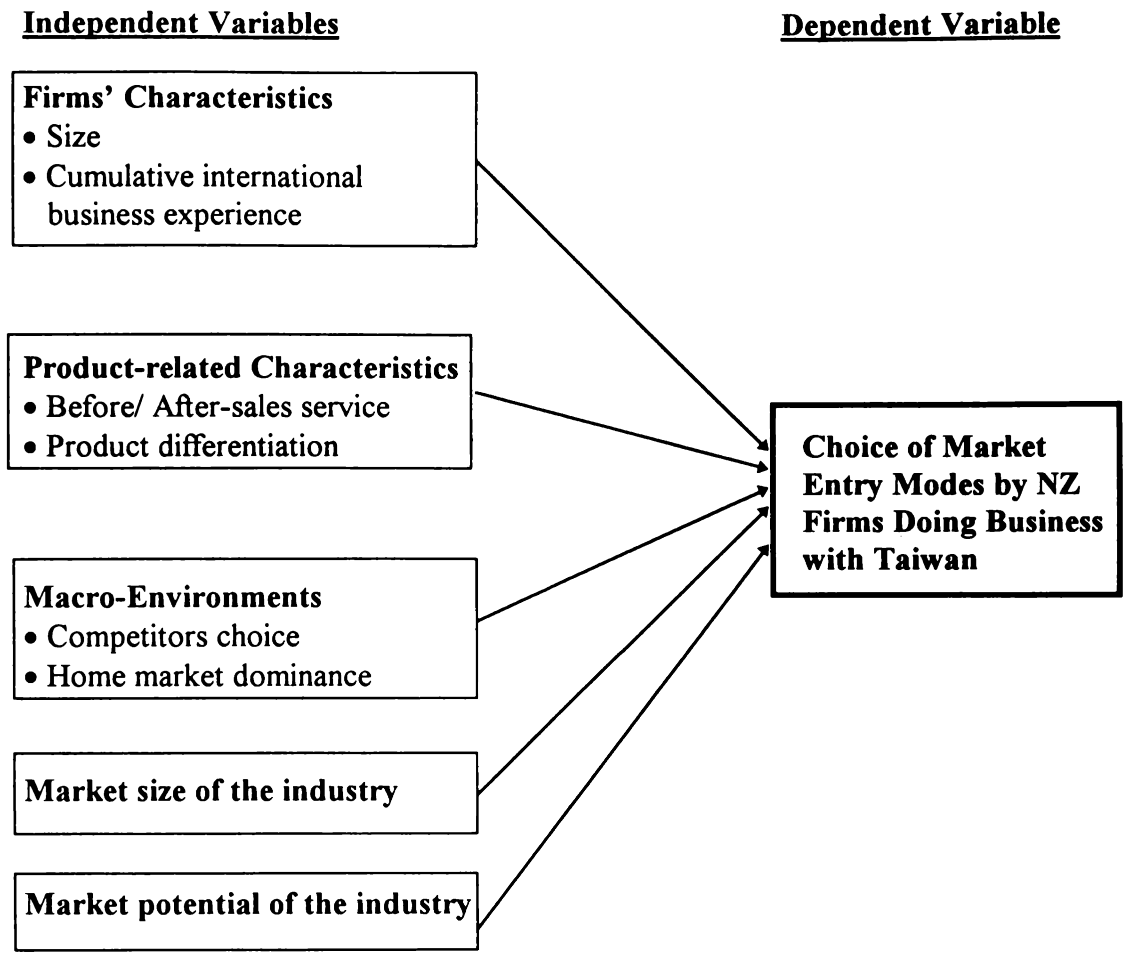


Exhibit 4.3: Expected Relationship between independent variables and choice of market entry modes (level of resource commitment) (first dimension)

Independent Variables	Choice of Market Entry Mode
Firms' Characteristics	
Firm size (if large)	High
Firm's cumulative international business experience (if high)	High
Product-related characteristics	
After sales service (if high)	High
Product differentiation (if high)	High
Macro Environments	
Competitors' choice of mode	Similar to competitor*
Home market dominance (if high)	High
Market size of the industry (if large)	High
Market growth of the industry (if high)	High

Note:
High: a high resource commitment entry mode is expected to be selected.
Low: a low resource commitment entry mode is expected to be selected.
*: A New Zealand firm is likely to select a similar strategy to its major competitor.

4.3 Independent Variables and Conceptual Model (second dimension)

4.3.1 Introduction

As discussed in the previous chapter, the host country's distribution structure could influence a foreign firm's market entry mode selection (i.e. the Japanese distribution system). The identification of the second dimension of independent variables and their respective research propositions are based on the literature of Taiwan's business system, Japanese and Taiwanese distribution systems. These variables are divided into two categories: Taiwan's business system and Taiwan's distribution system.

4.3.2 Taiwan's business system

As discussed in Chapter 2, the business system of most Taiwanese firms is family oriented. Although more private enterprises are going into professional management, the majority of businesses in Taiwan is still owned and controlled by families. This structure has affected the Taiwanese firms' production management and marketing system. Major characteristics of the Taiwanese business system include family business structured, centralised management structure, and high personal authority of the owners (Kao, 1993; Tanzer, 1994; Whitley, 1992). These characteristics are believed to have some negative influences on foreign firms' choice of market entry mode.

The trade history between New Zealand and Taiwan is short, so most New Zealand firms doing business are expected to be newcomers. Therefore, local distributors or agents are likely to be used by most of them although Hoadley (1993) has revealed the importance of having a physical presence in Taiwan. This study indicated that local representatives are able to identify key decision makers and establish contacts easier. Hoadley's suggestion implies that Taiwanese business system is likely to be an influence of New Zealand firms' market entry mode choice.

In light of these observations, this study proposes the following relationship between New Zealand firms' entry modes choice and the Taiwan's business system.

Proposition 9: Taiwan's family business system is likely to influence New Zealand firms' choice of market entry mode. New Zealand firms are more likely to adopt entry modes that involve high resource commitment if their key Taiwanese business counterparts' business structures are not family structured business. New Zealand firms are more likely to adopt entry modes that involve low resource commitment if their key Taiwanese counterparts' organisational structures are family orientated.

4.3.3 Taiwan's distribution systems

Large number of small scale marketing intermediaries & multiple-layered channel structure

The influences of a large number of small scale marketing intermediaries and a multi-layered channel structure have been identified by many Japanese distribution studies. These characteristics have been identified as major barriers for foreign firms wishing to enter the Japanese market. Also as indicated above, Taiwan has an unique relationship with Japan and it also has numerous retailing outlets (2.097 employees per retailing outlet)[2]. As pointed out by Japanese distribution studies, the Japanese distribution system has affected foreign firms' entry mode selection. Because of the complexity of the Japanese distribution system, when foreign firms first enter the Japanese market they normally choose entry modes which involve low resource commitment (e.g. Toys "R" Us piggybacking with McDonald's, as illustrated in Chapter 3) and then progress to high resource commitment entry modes such as wholly owned marketing subsidiary (e.g. the case of BMW Japan Corp., as illustrated in Chapter 3).

Similar to the influence of Japanese distribution system on foreign firms' choice on market entry modes, international marketers' entry decision is also likely to be influenced by the Taiwanese distribution system.

Wholesaling Structure and Retailing Development

As discussed in the previous chapter, Taiwan's distribution system is similar to the Japanese. The characteristics of the Japanese distribution system are likely to be found in Taiwan's system. The features and structures of wholesaling systems in both countries are difficult for firms from foreign countries to understand. The influence of Japan's wholesaling system on foreign firms' operations have been well examined and discussed. This study proposes that foreign firms' operations in Taiwan are likely to be influenced by

[2] See Chang and Sternquist, 1993, p.30. In 1986, there were 270,427 retailing outlets employing 567,165 employees. As indicated, the population of Taiwan is about 21 million.

Taiwan's wholesaling system. The wholesaling structure is expected to influence New Zealand firms' choice of market entry modes.

Like its Japanese counterpart, Taiwan's retailing system is complex and complicated. There are also numerous small size retailing outlets operating in Taiwan. New Zealand firms' choice of market entry modes is likely to be influenced by Taiwan's retailing system.

In light of the observations on Japan's and Taiwan's distribution systems, the following propositions are therefore introduced.

Proposition 10: Taiwan's distribution systems are likely to influence the choice of New Zealand firms' market entry mode. **Both wholesaling and retailing distribution systems are examined.**

Proposition 10-1: New Zealand firms whose products are marketed through a multi-layered wholesaling system (e.g. fruit or agricultural items) are likely to adopt entry modes that involve low resource commitment. New Zealand firms whose products are marketed through a single-layered wholesaling system (e.g. whiteware) are likely to adopt entry modes that involve high resource commitment.

Proposition 10-2: New Zealand firms whose products are marketed through numerous independent owned retailers are likely to adopt entry modes that involve low resource commitment. New Zealand firms whose products are marketed through a limited number of independent owned retailers are likely to adopt entry modes that involve high resource commitment.

4.3.4 Summary

This section has outlined the second dimension of independent variables and their correspondent propositions. The variables and propositions of the second dimension are extracted from studies on the Taiwanese business system, distribution systems and the Japanese distribution systems. Variables in the second dimension include host market's business system and host market's distribution system. Previous studies have identified a number of unique characteristics of the Taiwanese business system. These peculiar features are likely to affect New Zealand firms' choice of market entry mode. Studies on the Japanese distribution system have revealed that the choice of market entry modes of foreign firms operating in Japan are deeply influenced by Japan's distribution system. Because of Taiwan's close relationship with Japan, this study proposes that New Zealand firms' choice of market entry mode are likely to be related to how their products are distributed in the Taiwanese market.

The second dimension of initial conceptual model is presented in Figure 4.2. The expected relationship between the second dimension of independent variables and the choice of market entry modes is summarised in Exhibit 4.4. Figure 4.3 depicts the overall initial conceptual model.

Figure 4.2: Initial Conceptual Model (Second Dimension)

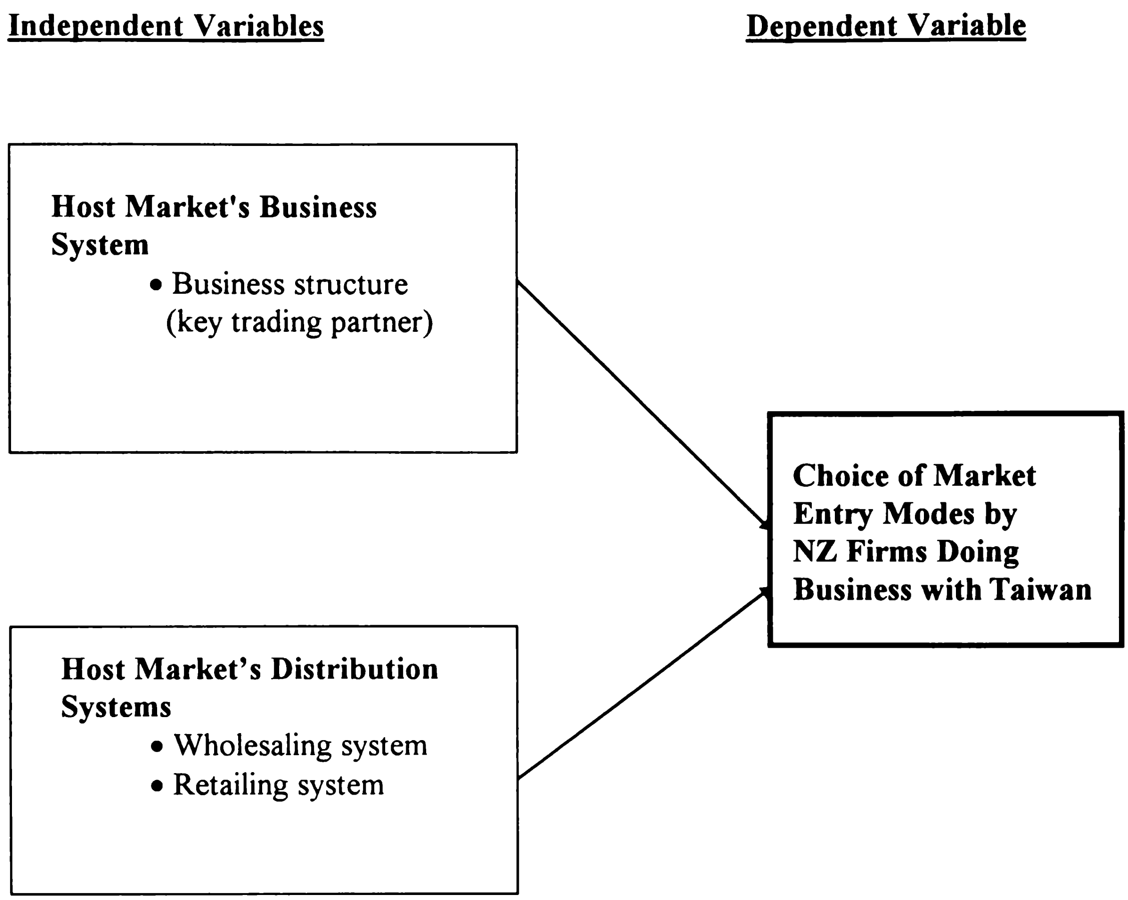
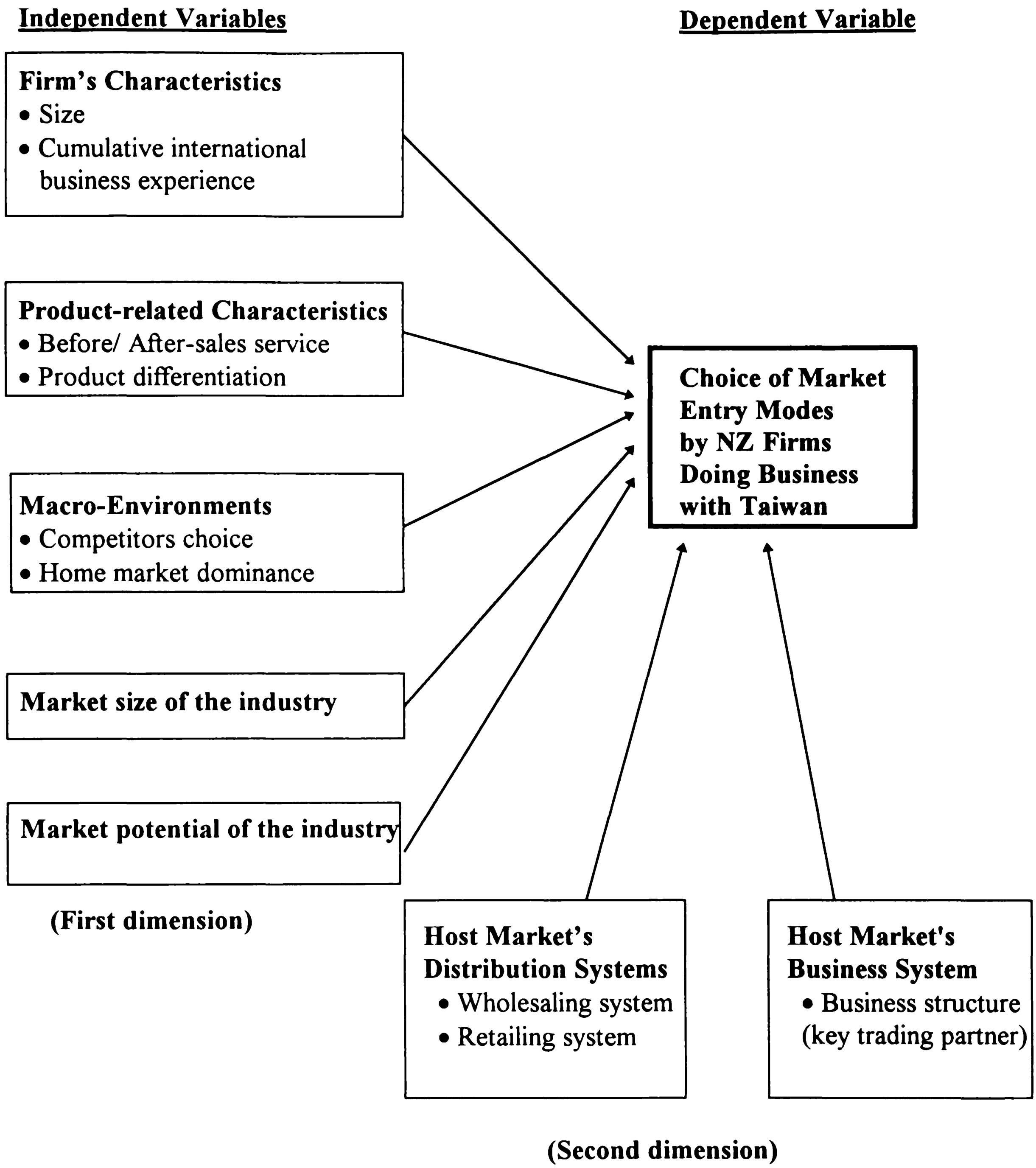


Exhibit 4.4: Expected relationship between independent variables and market entry modes choice (level of resource commitment) (second dimension)

Independent Variables	Choice of Market Entry Mode
Taiwan's Business Systems	
Chinese family business (if yes)	Low
Chinese family business (if no)	High
Taiwan's Distribution System	
Wholesaling system (if multi-layered)	Low
Wholesaling system (if single-layered)	High
Retailing system (if numerous)	Low
Retailing system (if limited)	High

Low: a low resource commitment entry mode is expected to be employed.
High: a high resource commitment entry mode is expected to be employed.

Figure 4.3: Initial Conceptual Model (overall)



CHAPTER 5: RESEARCH DESIGN AND METHODOLOGY

5.1 INTRODUCTION

Research variables and the conceptual model were discussed in the previous chapter. Research propositions were also presented there. This chapter reports the process of research design and methodology selection. Section 5.2 outlines details of the research design. It includes methods of data collection, sampling frame, pilot studies, questionnaire pretests, postal survey mailing dates, and elements of postal survey package. Section 5.3 describes the process of questionnaire design. In this section, research variables and their relevant questions in the questionnaire will be discussed. Section 5.4 details how each research measurement is constructed. In the final section, Section 5.5, data analysis techniques are presented. This section explains why certain statistical analysis techniques are suitable for this research.

5.2 RESEARCH DESIGN

5.2.1 Methods of Data Collection

Two methods are often used to collect primary source data - observations and surveys. Emory and Cooper (1991) indicate that observation methods are relatively more time consuming and more expensive than survey methods. Using observations, data are collected through observation conditions, events, processes and so on. Surveys, on the other hand, tend to be a more versatile, quick, efficient, economical, and accurate means of assessing information about the population (Emory and Cooper, 1991; Zikmund, 1991). For these reasons, surveys are widely adopted in social science and business related research (Lee et al, 1989; Emory and Cooper, 1991). This study adopted a postal questionnaire survey to collect primary data.

Surveys require asking people, who are called respondents, for information, using either verbal or written questioning. Questionnaires or interviews are often used to collect survey data. A questionnaire is a preformulated written set of questions to which respondents record their answers, usually within closely defined alternatives. A questionnaire is an efficient data collection method when the researcher knows exactly what is required and how to measure the variables of interest (Sekaran, 1992).

There are a number of methods to conduct postal surveys. These include: personal or face-to-face interviewing, telephone survey, mail survey or combination of these (Zikmund, 1991). Each of these methods varies in terms of cost, type and quantity of information acquired. Each method is discussed below.

Personal Interviewing

Personal interviewing is a two-way conversation initiated by an interviewer to secure information from a respondent. This method has a number of advantages. It allows the researcher to acquire in-depth and detailed information. This technique also allows the interviewer to have more control over the respondent. Furthermore, personal interviews provide the interviewer an opportunity to give feedback to the respondent (Zikmund, 1991). The researcher may also be able to probe for a clearer or more comprehensive explanation if a respondent's answer is not clear enough. Zikmund (1991) noted also that when research requires an extremely lengthy questionnaire, personal interviews might be the only choice.

Personal interviewing has many advantages, but is also associated with a number of disadvantages. It is generally more expensive and more time consuming than postal survey and telephone interviewing. In addition, it is relatively less anonymous and thus people are often reluctant to participate (Zikmund, 1991). Further, certain biases can easily be initiated through body language unless with qualified interviewers are used.

Telephone Interviewing

The major advantages of this method include moderate cost and time efficiency. Groves and Kahn (1979) (cited in Emory and Cooper, 1991, p.330) suggested that the costs of sampling and data collection using telephone surveys are about 45 to 64 per cent lower than those conducted by personal interviewing. Zikmund (1991) reckoned that in a comparison of personal interviewing and telephone interviewing the cost of telephone interviewing is about 40 percent of the cost of personal interviews. He further noticed that the time and cost of travel are eliminated in telephone interviewing. Also with centralised and computerised interviewing, further cost savings can be made. Speed of data collection is one of the largest advantages of this method. It is much quicker to gather data through telephone interviewing than personal interviewing or postal surveys (Zikmund, 1991). Sekaran (1992) echoed this advantage by adding that the number of people that can be researched in a relatively short period of time is another advantage of telephone interviewing.

Telephone interviewing is also associated with several disadvantages. Sekaran (1992) suggested that a main disadvantage of this method is that the respondent could terminate the interview without any warning or explanation by hanging up the telephone.

It is also difficult to get people to take part in a telephone interview nowadays. A high non-response rate is one disadvantage of this method. Another disadvantage of telephone interviewing is its short length of interviewing. One study pointed out the refusal rate of telephone interviewing is positively associated with length of interviewing. The rule of thumb of telephone interviewing length is about 10 minutes long (Zikmund, 1991). The information obtained by this method may not be accurate because the interviewees do not have time to think or recollect the facts. Also this method is not ideal for answering complex questions.

Mail Survey

Mail survey is one of the most frequently used data collection methods in business related research (Hoang, 1995, p.172). The advantages of this method include wider geographical coverage, lower cost, convenience, and a high degree of reliability (Dau, 1991; Sekaran, 1992). Mail questionnaires can reach a geographically dispersed sample simultaneously at a relatively low cost. Respondents in isolated areas or those who are otherwise difficult to reach can more easily be contacted by mail. Compared to other data collection methods (e.g. personal interviewing or telephone surveys), the cost of mail questionnaires is relatively low (Zikmound, 1991). Mail questionnaires can also be filled out whenever the respondent has time. Therefore, there is a better chance that respondents will take time to think about their replies (Zikmound, 1991).

However, there are also a number of disadvantages in adopting mail questionnaires as a data collection method. One problem is that the return rate of mail questionnaires is typically not as high as might be desired. Another disadvantage of this method is that any queries the respondents might have cannot be clarified (Sekaran, 1992). Zikmund (1991) indicated that the major limitations of mail questionnaires are related to response problems. Respondents who answer the questionnaire may not be typical of all people in the sample (ie people who are more interested in the topic are more likely to answer it). Also there is no assurance that the intended subject will fill out the questionnaire. Another difficulty of mail questionnaires is that it is usually difficult to use this method to acquire a large amount of detailed information (Hoang, 1995, p.172).

In order to minimise these disadvantages, a number of techniques have been suggested to increase mail questionnaire response rate. Details of these techniques are discussed in the following sections.

After evaluating the advantages and disadvantages of each primary data collection method, it seems that the most suitable data collection method for this study is a **mail questionnaire survey**. This is because this research is intended to investigate the choice of market entry modes of all New Zealand companies conducting business with the host market studied. Potential respondents are located nationwide. Other advantages which have also encouraged the researcher to adopt this method include those already discussed (i.e. wider geographical coverage, lower cost, convenience, and high degree of reliability.)

5.2.2 Sampling Frame

This study is based on a postal survey of New Zealand companies which had conducted or were conducting business with Taiwan at the time of the survey (April, 1997). A census was sought of all such companies based in New Zealand. Inquiries asking for assistance to acquire mailing listings were sent to TRADENZ offices in Taipei and Wellington, Taipei Cultural and Economic Offices in Auckland and Wellington, Asia 2000 Foundation, Auckland Chamber of Commerce, and New Zealand - Taiwan Business Council in the period of 1994 - 1996.

After many attempts, the final mailing listings were acquired from the following sources:

- World Trade Centre (Auckland Chamber of Commerce)
- Dun Bradstreet
- New Zealand Taiwan Business Council (1995, 1996 membership listings)
- TRADENZ in Wellington
- New Zealand Hwa Sha Society
- New Zealand Hakka Society
- Newspapers and magazines published in New Zealand (e.g. *New Zealand Herald*, *The National Business Review*) and in Taiwan (e.g. *The United Daily*).

Besides these sources, a small number of company's names were acquired from the two pilot studies conducted in 1994 and 1996. The total number of companies gathered from these sources was 580 which formed the research sample size. Companies in the sampling frame were the best available at the time when the study was conducted. It was believed that these companies were most likely to have business experience with Taiwan. However, despite numerous efforts to reduce the sampling frame errors, these listings could still be incomplete. For example, the World Trade Centre database was not specially designed to compile companies which exported products from New Zealand to Taiwan. It included all New Zealand registered companies which conducted business with Taiwan - importers, exporters, and those which were interested in conducting business with Taiwan. It did not specify which companies exported products to Taiwan or imported products from Taiwan. Because it was difficult and would be very time consuming to screen those companies which only had exporting experience with Taiwan, it was decided to view all of the companies in the listings as those which exported products to Taiwan.

5.2.3 Pilot Studies

Two pilot studies were conducted as a preliminary inquiry. One was conducted in November 1994. The other was conducted in November 1996. The purpose of the first pilot study was to acquire general information and understanding about New Zealand companies' operations and how their products were marketed in Taiwan. The first pilot study was also used to identify the potential problems facing companies when they marketed New Zealand products in Taiwan. These problems identified were used to create some research propositions. For example, one of the common problems facing New Zealand companies operating in Taiwan was Taiwan's distribution systems. A participating company had identified that New Zealand kiwifruit was marketed in Taiwan through numerous retailing outlets. Because it was not possible for the New Zealand Kiwifruit Marketing Board (Zespri) to distribute their products to the numerous small size retailing outlets which are located throughout the island, the Board decided to use three importers to distribute New Zealand kiwifruit to these retailing outlets (via wholesalers). Another problem of Taiwan's distribution system as identified by the participants was its multiple layered channel structure. New Zealand products often needed to go through several marketing intermediaries before they were arrived in final consumers' hands. These problems identified by the participants had implied that New Zealand firms' choice of market entry modes were likely to be influenced by how their products were distributed in Taiwan, similar to the case of Japan. Based on the information received in the first pilot study, two relevant research propositions related to Taiwan's distribution systems were established consequently. These propositions were drawn based on reviewing studies on the Japanese distribution systems (JDS) as well as research on the Taiwanese distribution system. Details about using the JDS literature were discussed previously.

A list of general questions was asked of those companies which agreed to be interviewed. Details about these questions are provided below. Six New Zealand companies' marketing representatives (including TRADENZ and local distributors) were personally interviewed. The results of this study were used as a basis for the questionnaire construction and for an understanding of how New Zealand products were distributed.

The second pilot study was used to pre-test the research questionnaire. Details about the two pilot studies are provided below.

1994

In the 1994 pilot study, the six companies interviewed were asked to identify their business area, main product categories, types of markets they operated in, size of their organisations, and years of doing business in Taiwan. These companies were also asked to identify their market entry methods.

In terms of distribution, respondents were asked to identify the type of system used to distribute their products in Taiwan. Companies were also asked to identify end users of their products and the problems of distributing their products in Taiwan.

Companies were then asked if Taiwan was their sole export market, if there were differences of doing business in Taiwan and other markets (e.g. Japan) if it was applicable to the companies, the obstacles of doing business in Taiwan, the entry barriers on New Zealand exports (tariffs, non-tariff barrier, quotas, etc.). They were also asked if there were any special barriers on New Zealand exports compared to exports from other Western countries such as USA, Canada or Australia and if so what were their companies' experiences of dealing with these obstacles. Companies were also asked to identify the implications for New Zealand exports to Taiwan if Taiwan became a member of GATT (WTO) or other trade groupings (eg ASEAN).

Companies were then asked to identify the impacts of the relationship between Taiwan and the PRC on New Zealand exports. They were asked whether they used Taiwan as a base for the market entry into the PRC. Companies were also asked to identify the potential of the Taiwanese market for their products. Finally, companies were asked to provide suggestions for newcomers from New Zealand and to give suggestions for the research undertaking.

The results of the 1994 pilot study are summarised in Table 5.1.

Table 5.1 Summary Findings of Pilot Case Studies (1994)

	Company A	Company B	Company C	Company D	Company E	Company F
Business Area and product ranges	Milk products and dairy ingredients	Kiwifruit; industrial and consumer market supplier	Trading consultant	Beef, sheep, & goat meat	Dairy products including cheese, butter, milk and goat milk powder, etc	Distributors of imported home appliances and home safety appliances
Types of market	Industrial market supplier	Industrial and consumer market supplier	Service provider	Industrial market supplier	Consumer market supplier	Consumer market
Supplier	New Zealand dairy suppliers	A New Zealand fruit marketing board	A division of TRADENZ	Four New Zealand meat brands	NZ dairy suppliers	A NZ home appliance manufacturer
Size of Organisation	35 employees (one expatriate)	1 (representative)	unknown	3 (one expatriate)	105 (two expatriates)	Unknown
Market Entry Methods	Joint venture	Importers (three)	Marketing subsidiary	Marketing subsidiary	Marketing subsidiary	Sole distributor
Location	Taipei	Taipei	Taipei	Taipei	Taipei	Taipei
Interview language	English	English	English	English	Mandarin Chinese	Mandarin Chinese
Position of interviewees	Managing director	Sales representative	Manager	Manager	Product manager	Sales manager
Years of doing business in Taiwan (marketing NZ products)	5 years	NA	NA	NA	Over 25 years	Since 1993
Types of distribution channel	(1) Ex-store sales from the company's warehouse directly to large food manufacturers (2) sales representatives	(1) Marketing directly to large retailing institutes such as supermarkets and hypermarkets (2) via wholesaling	Not applicable	(1) Directly distribute products to customers' warehouses (2) via wholesalers (sheep/goat meat)	(1) General trade: Supermarkets, hypermarkets, and other retailers, (2) MNDPX (PX): Public Service Employee Stores (main customer). Distributed to these channels by the company itself.	Own sales forces to independent home appliance retailers and department stores

Table 5.1 Summary Findings of Pilot Case Studies (1994) - continued

	Company A	Company B	Company C	Company D	Company E	Company F
Distribution problems	Numerous retailing stores; unable to distribute products to every customer	Thousands of retailers (small scale)	Not applicable	NA	NA	NA
Market share	70%	NA	NA	NA	Number 1 or 2 brands, depends on product types	Very little
Taiwan as the sole export market?	Not	Not	Not	Not	Not	Not applicable
Differences of doing business in Taiwan and othe markets (e.g. Japan)	Very Chinese culture based; lots of Japanese influences	Relationship focused orientated	NA	Price: the number 1 criteria (in Japan, quality is the first)	NA	NA
Obstacles of doing business in Taiwan	Very few	Perception of "they are all Asians and they are about the same" needed to be changed	NA	NA	NA	Green image
Barrier of entry	Tariffs (but is able to compete with companies from other nations)	50% tariffs on imported NZ kiwifruit	NA	No quota limit for NZ meat products; tariffs: NT$30/kg (grass feed), NT$20/kg (high grain feed), NT$23.8/kg (low grain feed); internal organs import prohibited	15% on CIF sales term on any dairy imports	Refrigerators: 2.5% plus 13% GST; Washing machines: 6%
Special barriers to NZ exports	(1) USA subsidy programme, DEIP (Dairy Export Incentive Programme); (2) Dumping from USA, Europe and Australia	NA	NA	NA	NA	Green image provides negative impacts on NZ manufacturing goods

Table 5.1 Summary Findings of Pilot Case Studies (1994) - continued

	Company A	Company B	Company C	Company D	Company E	Company F
GATT (WTO) or other trade organisations (eg ASEAN) impacts on NZ exports to Taiwan	Positive impact	NA	NA	NA	Positive impacts: more business opportunities (e.g. market open up to fresh milk and UHT milk); negative impacts: more competitions	Positive (lower tariffs) and negative impacts (more competition).
Use Taiwan as a base for PRC market entry?	No plan at present time	Not workable for this company	Suggestions: work with existed Taiwanese agents to enter the PRC market but be aware of the differences between Taiwan and the PRC market	No imports to the PRC from Taiwan	No exports to China through Taiwan	No
Potential of Taiwanese market	NA	Highest among those newly developed countries	Good return for NZ traders	NA	High potential for NZDB products	Good potential for NZ manufactured goods if necessary steps are taken care of.
Suggestions for new entrants	Improve language capability; increase value added process in Taiwan; utilise untapped immigrant human resources	Find a strong local partner; frequent follow-up and strong assistance to local partners	NA	Very expensive to set up office in Taiwan; high commitment to the market is needed; sufficient profit margin return; pre-entry market research	Well utilised local human resources. Not necessary to set up a local office if a strong partner can be found.	Alter Taiwanese perception about NZ green image through good quality manufactured goods. (Word of mouth is important.); more understanding on people's consumption habits.
Suggestions for the research	Reduce data collection timing due to the potential changing of interviewees	NA	NA	NA	NA	NA

Table 5.2 Summary Findings of Pilot Case Studies (1996)

	Case A	Case B	Case C	Case D	Case E	Case F	Case G	Case H	Case I	Case J
Market entry modes	Joint venture	Distributor	Marketing subsidiary	Marketing subsidiary	Distributor	Distributor	Distributor	Marketing subsidiary	Distributor	Agent
Main business Area	Milk products & ingredients	Kiwifruit	anolin lotion, duvet and sheep skin	Beef and sheep/ goat meat	Goat milk powder	Home appliances	Yoghurt powder	Trading consultant	Ice Cream	Forest materials
Wholesaling system	Single-layered	ulti-layered	Multi-layered	ingle-layered	Single-layered	Single-layered	Single-layered & multi-layered	Not applicable	Single layered (wholesalers located in Kaohsiung, Tainan, Taipei and I-lan)	Single-layered
Retailing outlets	Numerous	Numerous	Numerous	Numerous	Appr. 600-700	Appr. 100 outlets	Numerous	Not applicable	22	NA
Year entered Taiwan	1989	NA	1990	1992	1991 but discontinued in 1996	1993	1991	NA	1993	Over 20 years
Data collection methodology	Personal interview	Written interview	Personal interview	Personal interview	Personal interview	Personal interview	Personal interview	Personal interview	Personal Interview	Personal interview
Language used in interview	English	English	Mandarin Chinese	Mandarin Chinese	Mandarin Chinese	Mandarin Chinese	Mandarin Chinese	English	Mandarin Chinese	English
Location of interviewing	Taipei	Written interview	Taipei	Taipei	Taipei	Taipei	Taoyuan	Taipei	Taipei	Auckland
Position of interviewees	Managing director	epresentative	Manager	Manager	Sales manager	Product manager	Managing director	Manager	General Manager	Agent

1996

The major purpose of the 1996 pilot study was to pre-test the postal survey questionnaire. Companies were asked to answer the questionnaire and give feedback on the questionnaire design. Besides answering the questionnaire, companies were also asked to identify their wholesaling and retailing systems. A summary of the information provided by the companies is listed in Table 5.2. More details about the pre-test are provided below.

5.2.4 Questionnaire Pretests

The questionnaire pretest was conducted in several steps. Initially, the questionnaire was reviewed and examined by five academic staff to assess its proper wording, content validity and consistent measurement. Extensive debate and consultation took place in this stage. The research questionnaire was then revised based on the feedback received from these staff. The revised questionnaire was then completed by three staff of Manukau Institute of Technology who had experience in marketing New Zealand products to overseas markets. In addition, the revised questionnaire was also completed by three New Zealand companies' managing directors who were actively conducting business with Taiwan. The method used in this round of questionnaire pretest was personal interviewing. These two questionnaire pretests were held in Auckland in 1996. Due to their relevancy, only one of the companies is listed in the summary table (Table 5.2).

The revised questionnaire was then taken to Taiwan for more pretests (the second pilot study). In total, 10 personal interviews were conducted in the second pilot study. Five interviews were conducted in English and Mandarin Chinese was the language used in the other five interviewing. The ten companies interviewed included Tradenz, a New Zealand-Taiwan milk company's joint venture, a New Zealand goat's milk manufacturer's sole distributor, a New Zealand home appliance manufacturer's sole distributor, a New Zealand food company's marketing representative (information about this company is not listed in the summary table because its decision to enter Taiwan was not made by its New Zealand subsidiary. It was owned by Australian companies at the time when the pilot study was conducted), a New Zealand ice cream company's sole distributor, a New

Zealand sheepskin manufacturer's marketing subsidiary, a NZ dairy company's sole distributor (main product line: yoghurt powder) and a Australian-New Zealand bank's local branch (information about this company is not listed in the summary table because its decision to enter Taiwan was not made by its New Zealand subsidiary. It is an Australian owned bank). The person who was interviewed was either in charge of their company's operation in Taiwan or was responsible for marketing NZ products in Taiwan (eg distributors). Among them, only two managers had not been employed at the time the company first entered the Taiwanese market (i.e. the NZ-Taiwan milk company's joint venture & the Australian-NZ Bank). The other managers were employed at the time when their company first entered the Taiwanese market or first distributed NZ products in Taiwan. Interviewees were asked either to complete or to give comments on the questionnaire.

As a result of the pilot studies and pretests, the postal survey questionnaire was finalised in April, 1997.

5.2.5 Postal Survey Mailing Dates

The postal survey package was sent out to those 580 companies listed in the mailing listings on the 30th, April, 1997. The questionnaire package included a cover letter, an endorsement letter from Mr Rick Christie (former CEO of TRADENZ), the questionnaire, an appendix which explained the terminology used in the questionnaire and a free post envelope. Each element of the survey package is discussed below. A copy of the postal survey package is presented in Appendix B.

5.2.6 Elements of the Postal Survey Package

5.2.6.1 Methods used to reduce the non-response rate

There are a number of methods identified by previous studies to minimise the non-response rate. These include: making a pre-questionnaire contact, enclosing a covering letter, use of colours and graphics in the questionnaire, making multiple follow-ups and survey sponsorship (Dau, 1991, p.121). However, Dau (1991) pointed out that among these methods only some are suitable for studies conducted in New Zealand. His study used an approach initiated by Dillman's celebrated Total Design Method (TDM) (cited in Dau, 1991, p.121). The most commonly used methods in New Zealand are discussed below. This study adopted a similar approach to that of Dau.

5.2.6.2 Covering Letter

The use of a covering letter as a means to increase the response rate has been widely suggested. It is an important means of inducing the reader to complete and return the questionnaire. One of the key tasks of the covering letter is to assure the confidentiality of the research. Another task is to explain the importance of the current study (Zikmund, 1991).

In the postal package, one covering letter, together with other survey materials, was sent out to the Chief Executive Officer, managing director, export marketing manager, or the person who was in charge of the company's Taiwanese operation. The purposes of the covering letter are described as below:

- To state the purpose of the study.
- To seek help from the person who receives the questionnaire.
- To offer the respondents an opportunity to receive a summary copy of the research findings.
- To inform respondents that this study had been endorsed by TRADENZ's former CEO, Mr Rick Christie.

- To ask the respondents to complete their questionnaire before a certain date. Respondents were given about 3 weeks to answer the questionnaire.

5.2.6.3 Endorsement Letter

An endorsement letter has been used by a number of New Zealand studies as a method to gain a higher response rate (ie Dau, 1991). In this study, the endorsement letter was written by Mr Rick Christie in February, 1997. Mr Christie is well known to, and is highly respected by, New Zealand companies doing business with Taiwan.

5.2.6.4 Personalised Mail

Besides the above two practices, this study also adopted a personalised mail technique to get a higher response rate. The mail questionnaire package was sent to the company's Chief Executive Officer, managing director, export marketing manager or the person who is in charge of the company's operation in Taiwan with personalised address. Most of the names of these people were available in the mail-out listings. For those companies whose names and addresses were not available, individual telephone calls were used to acquire the names and the addresses of the relevant people.

5.2.6.5 Free Post Envelope

Besides a covering letter and an endorsement letter, providing a self-addressed free post envelope is also recommended as a useful technique to increase the response rate (Sekaran, 1992; Hoang, 1995). In this study, a self-addressed free post envelope was provided to the respondents who were instructed to place their completed questionnaire into the envelope and post it back to the researcher without paying postal fees.

5.2.6.6 Follow-ups

Follow-ups are another method suggested to increase response rates. Follow-ups can be done with letters or postcard reminders (Sekaran, 1992; Zikmund, 1991). In this study, follow-ups were conducted in two ways. A reminder telephone call was made to those respondents who did not complete their questionnaire three weeks after the mail-out date. A reminder letter was sent to companies which did not return the questionnaire one month after the mail-out date. Reminder follow-up letters were sent out on the 4th June, 1997.

5.2.6.7 Response Rates

As indicated above, the respondents were given about three weeks to complete the questionnaire.

There were a total of 282 questionnaires returned to the researcher in the months of May and June, 1997. When responses were inspected it was clear that there were some issues requiring examination. These issues are as below:

This research aims to study New Zealand companies who have conducted or were conducting international business at the time of the survey. The responses revealed 91 respondents who had not conducted or were not conducting business with Taiwan, at the time when the survey was conducted. This result is likely related to a weakness of the sampling frame. As indicated in an earlier section (5.2.2), one of the listing sources, the World Trade Centre database, includes all New Zealand registered companies which have conducted business with Taiwan and those which are interested in conducting business with Taiwan. This database is not specially designed to compile information about companies which export products from New Zealand to Taiwan only.

Also there were 23 companies which indicated that they imported products from Taiwan and were not exporting to Taiwan. The number of companies in these two categories is 114. Eight questionnaires were returned because of wrong addresses. Eight companies indicated that this survey was not applicable to them and twelve questionnaires were returned without providing any specific reason. Since, in the questionnaire, respondents are instructed to return the questionnaires if they are not conducting business or have not conducted business with Taiwan, therefore it was reasonable to exclude these 12 companies from the sample size. The total number of companies in these categories is 142. There were 16 companies which had conducted business with Taiwan but did not wish to participate in the study. Major reasons given by these companies include that it was too difficult to recall the information (it was a long time ago since their company first entered the market), the person in charge of the market was overseas, or that they were not willing to share confidential information with outsiders. These 16 companies were classified as non-respondents. Detailed figures in each category are recorded in Table 5.3.

After considering the above situation, the total sample size was adjusted to 438. The number of useable returned questionnaires was 124 which represents a 28.3% response rate. Among them, 91 questionnaires were returned within three weeks after the mail questionnaire was sent out (First wave responses), 24 questionnaires were received after the follow-up telephone calls were made (Second wave responses), and 9 questionnaires were received after the follow-up letters were sent out (Third wave responses). This response rate is similar to other studies conducted in New Zealand (e.g. Akoorie & Enderwick, 1992, 20.2%, Hoang, 1995, 47%). This response rate is higher than other overseas studies on market entry mode (i.e. Agarwal and Ramaswami, 1992; Kim and Hwang, 1992; Driscoll and Paliwoda, 1997, p.76) but a little lower than the response rates of Bello and Williamson (1985), Erramilli and Rao (1993) and Klein et al (1990). Overall, the response rate of this study is a little higher than the average response rate of previous studies (28.1%). Data on the response rates of previous studies on market entry mode are presented in Table 5.4.

Table 5.3: Questionnaires Mailed Out and Returned

Total questionnaire mailed out		**580**	
Did not wish to participate*	16		2.7%
Less			
No business experience with Taiwan	91		
Importers	23		
Returned due to incorrected address	8		
Not applicable to the companies	8		
Returned without specific reasons provided	12		
Sub-Total		142	
Eligible potential respondents		**438**	
First wave useable returned questionnaire		91	20.77
Second wave (telephone follow-up) useable returned questionnaire		24	5.50%
Third wave (written follow-up) useable returned questionnaire		9	2.05%
Total useable questionnaire		**124**	**28.32%**

(*: classified as non-responses)

Table 5.4: Sample and Response Rate for Empirical Studies in Market Entry Mode Literature[3]

Research	Sample size	Useable responses	Response rate
Agarwal and Ramaswami (1992)	536	97	18%
Bello and Williamson (1985)	900	297	33%
Driscoll and Paliwoda (1996)	725	117	18%
Erramilli and Rao (1993)	395	175	44%
Kim and Hwang (1992)	629	96	15%
Klein et al (1990)	925	375	41%
Mean	**685**	**192.8**	**28.1%**

[3] This table is based on the figures reported in Driscoll and Paliwoda (1997, p.75).

5.2.6.8 Testing of Non-Response Rate

Non-response is a major potential problem of a postal survey. As discussed above, one of the major weaknesses of postal survey is the absence of the verbal contact with the respondents. Because of this characteristic, non-response is most likely troublesome whenever a study is conducted by postal survey (Weiers, 1988, p.233). The problem of non-response occurs when there is a difference between those who agree to participate in the study and those who are unable or unwilling to participate (Dillon et al, 1990). In general, the higher the response rate, the lower the probability of non-response problem. However, it is important to note that "a low response rate does not necessarily imply that the study suffers from non-response bias. The bias occurs if and only if the respondents are substantially different from non-responses" (Dau, 1991, p.129).

A number of methods have been suggested by previous studies to deal with non-response problems. As Hoang (1995) indicated, the most obvious method is to reduce non-response itself. Other options for dealing with non-response bias include sampling non-respondents and estimating the effects of non-response. The former technique requires the researcher to call randomly selected non-respondents and to collect data from them. This approach is an effective method for testing for non-response bias but it is also a costly exercise. The major advantages of the latter method include cost-effectiveness in terms of money and time (Armstrong and Overton, 1977). Because of these advantages, this method has been adopted by most studies to assess non-response biases. Armstrong and Overton (1977) suggested three assessment methods - comparisons for known value for the population, subjective estimates and extrapolation.

The last method, the extrapolation approach, has been widely used by New Zealand studies in the areas of international business or international marketing. This study has also adopted this method to assess non-response. This method is based on the assumption that respondents who respondent less readily are similar to non-respondents. "Less readily" is defined as "respond later, or as requiring more prodding to answer" (Hoang, 1995, p.194). The most common extrapolation type is "successive waves". Wave means the response generated by a stimulus such as follow-ups. This study adopts the extrapolation successive waves method to test its non-response biases. Three groups of firms were selected based on the response waves (First, Second and Third). The comparison for the three groups is based on the following criteria:

- Firm size (full time employees in New Zealand, international sales, and total sales)
- Industry category.
- Choice of market entry modes.
- International business experience.

In total, 6 chi-square tests were conducted. The results of these tests are presented in Table 5.5. As the results revealed, companies in the three groups do not differ significantly in terms of firm size, the industry category they belong to, firms' choice of market entry modes and their international business experience. These results suggest that the study's empirical results were not influenced by non-response bias to any significant extent.

Table 5.5 Waves Comparison

Firm Size: International Sales (INTSALEC)

Frequency Row % Column % Total %	Small sized firms	Medium sized firms	Large sized firms	Row Total
First wave	14 15.4 73.7 11.3	25 27.5 86.2 20.2	52 57.1 68.4 41.9	91 73.4
Second wave	3 12.5 15.8 2.4	4 16.7 13.8 3.2	17 70.8 22.4 13.7	24 19.4
Third wave	2 22.2 10.5 1.6		7 77.8 9.2 5.6	9 7.3
Column Total	19 15.3	29 23.4	76 61.3	124 100.0

Chi-square	**Value**	**DF**	**Significance**
Likelihood Ratio	6.68682	4	.15339

Number of missing observations: 0

Firm Size: Total Sales (TOTSALEC)

Frequency Row % Column % Total %	Small sized firms	Medium sized firms	Large sized firms	Row Total
First wave	39 42.6 73.6 31.5	34 37.4 75.6 27.4	18 19.8 69.2 14.5	91 73.4
Second wave	11 45.8 20.8 8.9	9 37.5 20.0 7.3	4 16.7 15.4 3.2	24 19.4
Third wave	3 33.3 5.7 2.4	2 22.2 4.4 1.6	4 44.4 15.4 3.2	9 7.3
Column Total	53 42.7	45 36.3	26 21.0	124 100.0

Chi-square	**Value**	**DF**	**Significance**
Likelihood Ratio	2.93760	4	.56832

Number of missing observations: 0

Table 5.5 Waves Comparison - continued

Firm Size: Full Time Employees in NZ (FIRMSZIN)

Frequency Row % Column % Total %	Small sized firms	Medium sized firms	Large sized firms	Row Total
First wave	41 46.1 73.2 33.6	33 37.1 80.5 27.0	15 16.9 60.0 12.3	89 73.4
Second wave	11 45.8 19.6 9.0	7 29.2 17.1 5.7	6 25.0 24.0 4.9	24 19.4
Third wave	4 44.4 7.1 3.3	1 11.1 2.4 .8	4 44.4 16.0 3.3	9 7.3
Column Total	56 45.9	41 33.6	25 20.5	122 100.0

Chi-square	**Value**	**DF**	**Significance**
Likelihood Ratio	5.01332	4	.28593

Number of missing observations: 2

Industry Category (INDUSCA)

Frequency Row % Column % Total %	Primary produce suppliers	Manufacturing goods suppliers	Services providers	Row Total
First wave	32 36.0 68.1 26.4	44 49.4 73.3 36.4	13 14.6 92.9 10.7	89 73.6
Second wave	11 47.8 23.4 9.1	11 47.8 18.3 9.1	1 4.3 7.1 .8	23 19.0
Third wave	4 44.4 8.5 3.3	5 55.6 8.3 4.1		9 7.4
Column Total	47 38.8	60 49.6	14 11.6	121 100.0

Chi-square	**Value**	**DF**	**Significance**
Likelihood Ratio	4.88903	4	.29887

Number of missing observations: 3

Table 5.5 Waves Comparison - continued

Choice of Market Entry Modes (RESOURCE)

Frequency Row % Column % Total %	Low resource commitment entry modes	High resource commitment entry modes	Row Total
First wave	82 90.1 75.9 66.1	9 9.9 56.3 7.3	91 73.4
Second wave	18 75.0 16.7 14.5	6 25.0 37.5 4.8	24 19.4
Third wave	8 88.9 7.4 6.5	1 11.1 6.3 0.8	9 7.2
Column Total	108 87.1	16 12.9	124 100.0

Chi-square	**Value**	**DF**	**Significance**
Likelihood Ratio	3.37115	2	.18534

Number of missing observations: 0

International Business Experience (INTXWOLC)

Frequency Row % Column % Total %	0	1-5 years	6-10 years	11-15 years	15 plus years	Row Total
First wave	18 19.8 78.3 14.5	40 44.0 70.2 32.3	8 8.8 66.7 6.5	11 12.1 78.6 8.9	14 15.4 77.8 11.3	91 73.4
Second wave	2 8.3 8.7 1.6	14 58.3 24.6 11.3	3 12.5 25.0 2.4	3 12.5 21.4 2.4	2 8.3 11.1 1.6	24 19.4
Third wave	3 33.3 13.0 2.4	3 33.3 5.3 2.4	1 11.1 8.3 0.8		2 22.2 11.1 1.6	9 7.3
Column Total	23 18.5	57 46.0	12 9.7	14 11.3	18 14.5	124 100.0

Chi-square	**Value**	**DF**	**Significance**
Likelihood Ratio	7.29162	8	.50552

Number of missing observations: 0

5.2.7 Summary

In this section, methods of data collection, sampling frame, pilot studies, questionnaire pretests have been described. Postal survey mailing dates were also discussed in this section. The elements of postal survey package which includes methods used to reduce the non-response rate, covering letter, endorsement letter, personalised mail, free post envelope, follow-ups and a comparison between this study's response rate and other studies' were documented.

5.3 QUESTIONNAIRE DESIGN

Based on the preceding literature review, a comprehensive questionnaire was constructed covering various issues in the choice of market entry mode. A summary of variables used in the study and their relevant codings and questions in the questionnaire are presented in Table 5.6.

5.4 RESEARCH MEASUREMENT

5.4.1 The Dependent variable

Respondents were asked to select the response which best described their companies' entry mode at the time their company first entered the Taiwanese market from a listing of fourteen entry modes. In order to help clarify the terms used in the questionnaire, an appendix was provided with the questionnaire to explain the terminology used in the survey. Besides these 14 entry modes, "other" section is provided for those respondents who did not feel that any of the modes in the listing reflected the entry mode selected by their company.

The dependent variable (RESOURCE) is measured as 0 and 1. The market entry modes adopted by New Zealand companies when they first entered the Taiwanese market is 0 if a low resource commitment entry mode was selected (see Chapter 4: The Dependent Variables and Research Model). It is 1 when a high resource commitment entry mode is selected. This dichotomous classification has been widely used by studies in the choice of market entry modes (e.g. Erramilli & Rao, 1993).

Table 5.6: Summary of Variables & their Codings

Question	Category of variable	Variable	Codes	Categorical or continuous
A1		Market entry mode	**RESOURCE**	Categorical (0=low, 1=otherwise)
B1	Firm size	Number of employees employed in NZ	**FIRMINZ**	Discrete interval
		Number of employees employed in NZ	**FIRMSZIN***	Categorical (1=10 or less; 2=11-99; 3=100 or more)
B1		Number of employees employed outside NZ	**FIRMOUNZ**	Discrete interval
B2		Total sales in relevant previous financial year	**TOTALSAL**	Discrete interval
		Total sales in relevant previous financial year	**TOTSALEC***	Categorical (1=under $5mil, 2=$5mil-$49,999,999, 3=$50mil or more)
B3		Percentage of international sales over total sales in previous financial year	**INTSALES**	Discrete interval
		Percentage of international sales over total sales in previous financial year	**INTSALEC***	Categorical (1=under 10%, 2=10%-49%, 3=50% or more)
C1	International experience	Number of years in international markets	**INTEXWOL**	Continuous interval
C1		Number of years in international markets	**INTXWOLC***	Discrete interval (ordinal)
C1		Number of years in Taiwan	**INTBUTAI**	Continuous interval
C2		Number of countries operating in prior to enter Taiwan	**NUMCOUTR**	Discrete interval
C2		Entry into Chinese business countries	**CFBCOUN**	Categorical (0=no, 1=yes)
C2		Entry into Japan	**JAPAN**	Categorical (0=no, 1=yes)
C2		Entry into Korea	**KOREA**	Categorical (0=no, 1=yes)
C2		Entry into other Asian countries	**OTHEASIA**	Categorical (0=no, 1=yes)
C2		Entry into North American countries	**NORTHAME**	Categorical (0=no, 1=yes)
C2		Entry into Australia and Pacific island countries	**AUPACIFIC**	Categorical (0=no, 1=yes)
C2		Entry into European countries and UK	**EUROUK**	Categorical (0=no, 1=yes)
C2		Entry into other countries	**COUOTHER**	Categorical (0=no, 1=yes)
D1	Competitor's choice	Major competitors in the market?	**COMINMAR**	Categorical (0=no, 1=yes)
D2		Number of competitors in market?	**COMNUMB**	Discrete interval

*: these variables are used exclusively in testing of non-response rate (Section 5.2.6.8).

Table 5.6: Summary of Variables & their Codings - *continued*

Question	Category of variable	Variable	Codes	Categorical or continuous
D3	Competitor's choice	Choice of key competitor's entry mode	**RESOUCOM**	Categorical (0=no competitor, 1=low, 2=high/moderate)
D4		Influence of competitor's choice	**INFCOCHC**	Categorical (0=no competitor, 1=weak influence, 2=moderate influence, 3=strong influence)
E1	Domestic market share	Percentage of domestic market share	**DOMARSHA**	Continuous interval
F1	Product-related characteristics	Consumer product	**PRODCONS**	Categorical (0=no, 1=yes)
F1		Industrial product	**PRODINDU**	Categorical (0=no, 1=yes)
F1		Services	**PRODSERV**	Categorical (0=no, 1=yes)
F2		Extent of before or after-sales services required	**SERVICE**	Discrete interval
F3		Extent of product differentiation	**PRODDIFF**	Discrete interval
G1	Market size and market potential	Market size of the industry	**MARKSIZC**	Categorical (0=only Taiwan, 1=smaller, 2=similar, 3=larger)
G2		Market potential of the industry	**MARKPOTC**	Categorical (0=only Taiwan, 1=least promising, 2=average, 3=most promising)
H1	Host market business system	Partner's business structure	**FAMILY**	Discrete interval
H2		Personal authority of the owners	**OWNERS**	Discrete interval
H3		Decision structure	**DECISION**	Discrete interval
H4		Influence of Taiwan's business system	**INFTWNBU**	Discrete interval
I1A	Host market wholesaling system	Whether or not marketed through a wholesaling system	**WHOLSALE**	Categorical (0=no, 1=yes)
I2		Percentage of distributing through a multi-layered system	**MULTIPLE**	Continuous interval
I2		Percentage of distributing through a single-layered	**SINGLE**	Continuous interval
I2		Percentage of distributing through other means	**OTHELAY**	Continuous interval

Table 5.6: Summary of Variables & their Codings - *continued*

Question	Category of variable	Variable	Codes	Categorical or continuous
I3	Host market wholesaling system	Distribute to wholesalers via own marketing subsidiary	**WHOOWNMA**	Categorical (0=no, 1=yes)
I3		Via agents, distributors or importers	**WHOIND**	Categorical (0=no, 1=yes)
I3		Via other means	**WHOLOMEA**	Categorical (0=no, 1=yes)
I4		Characteristics of Taiwanese wholesaling system: fragmented	**WHOLFRAG**	Categorical (0=no, 1=yes)
I4		Characteristics of Taiwanese wholesaling system: complex	**WHOLCOMP**	Categorical (0=no, 1=yes)
I4		Characteristics of Taiwanese wholesaling system: multi-layered	**WHOLMULT**	Categorical (0=no, 1=yes)
I4		Characteristics of Taiwanese wholesaling system: different from NZ	**WHOLCOM**	Categorical (0=no, 1=yes)
I5		Influence of the wholesaling system	**INFWHOLC**	Categorical (0=no use of wholesaling system, 1=weak influence, 2=moderate influence, 3=strong influence)
J1A	Host market retailing system	Whether or not marketed through a retailing system	**RETAIL**	Categorical (0=no, 1=yes)
J1B		Via own marketing subsidiary	**RETOWNMA**	Categorical (0=no, 1=yes)
J1B		Via agents, distributors or importers	**RETAGNDI**	Categorical (0=no, 1=yes)
J1B		Via independent wholesalers	**RETIND**	Categorical (0=no, 1=yes)
J1B		Via other means	**RETOMEAN**	Categorical (0=no, 1=yes)
J2		Knowledge of the number of retailers	**RETKNOWN**	Categorical (0=no, 1=yes)
J2		Number of retailers	**RETNUMBC**	Categorical (0=no use of retailing system, 1=less than 100, 2=100-499, 3=500 or more)

Table 5.6: Summary of Variables & their Codings - *continued*

Question	Category of variable	Variable	Codes	Categorical or continuous
J2	Host market retailing system	Retailing outlet: supermarkets	**RETSUPER**	Categorical (0=no, 1=yes)
J3		Retailing outlet: wet markets	**RETWET**	Categorical (0=no, 1=yes)
J3		Retailing outlet: department stores	**RETDEPAR**	Categorical (0=no, 1=yes)
J3		Retailing outlet:convenience stores	**RETCONVE**	Categorical (0=no, 1=yes)
J3		Retailing outlet: Pop and Mum stores	**RETPOPMU**	Categorical (0=no, 1=yes)
J3		Retailing outlet: other	**RETOTHER**	Categorical (0=no, 1=yes)
J4		Characteristics of Taiwanese retailing system: fragmented	**REFRAGME**	Categorical (0=no, 1=yes)
J4		Characteristics of Taiwanese retailing system: complex	**RECOMPLE**	Categorical (0=no, 1=yes)
J4		Characteristics of Taiwanese retailing system: multi-layered	**REMULTI**	Categorical (0=no, 1=yes)
J4		Characteristics of Taiwanese retailing system: different from NZ	**REDIFFER**	Categorical (0=no, 1=yes)
J5		Influence of Taiwan's retailing system	**INFRETAC**	Categorical (0=no use of retailing system, 1=weak influence, 2=moderate influence, 3=strong influence)
K3	Business category and ownership of company	Field of business area	**INDUSCA**	Categorical (1=primary produce, 2=manufacturing, 3=service)
K4		Ownership of the company	**OWNERSHI**	Categorical (0=foreign controlled, 1=NZ owned)

5.4.2 Initial independent variables

There are eight sets of initial independent variables (see Chapter 4).

Firm size

In total, there are four variables used to measure a firm's size. These include FIRMINZ, FIRMOUNZ, TOTALSAL and INTSALE. Each variable is explained below.

Firm size is measured by the company's full-time or equivalent employees inside and outside of New Zealand when the firm first entered the Taiwanese market. Respondents were asked to indicate how many full time or equivalent employees were employed by the company when it first entered the Taiwanese market, both inside and outside New Zealand. Firm size is coded as FIRMINZ and FIRMOUNZ for number of employees hired in New Zealand and outside New Zealand respectively. These two variables are discrete interval variables[4]. FIRMSZIN is a variation of FIRMINZ. It is a categorical variable and is designed to test the research non-response rate. It is used to represent small (10 or less employees), medium (11-99 employees), or large sized firms (100 or more employees).

Firm size is also measured by the company's relevant previous year's total sales and the ratio of its international sales over the company's total sales at the time when the company first entered the Taiwanese market. These two variables are coded as TOTALSAL and INTSALE for total sales and the ratio of international sales over company's total sales, respectively. These two variables are discrete interval variables.

Missing Value

Firm size variables were coded 999 if no figures were provided.

[4] This study distinguishes nominal, ordinal, interval or ratio scale based on the rules suggested by Neil Burdess (1994). The Really Understandable Stats Book. Sydney: Prentice Hall.

International Experience

New Zealand companies' international experience was measured by how many years they had operated in international markets in prior to entering Taiwan (INTEXWOL). The number of years they had been operating in or had operated in Taiwan was also included in the questionnaire (INTBUTAI). These variables are continuous interval variables (ratio variables). Respondents were also asked to identify the number of countries (NUMCOUTR) they had operated in prior to entering the Taiwanese market and to identify the names of countries they had operations in. NUMCOUTR is a discrete interval variable.

Countries operated in prior to the entry to Taiwan are coded based on several classifications. Chinese business countries (CFBCOUN, including China, Hong Kong, Singapore, Malaysia, Indonesia, Thailand, and Brunei), Japan (JAPAN), Korea (KOREA), and other Asian countries (OTHEASIA including the Philippines and Vietnam), North America (NORTHAME including Canada and USA), Australia and Pacific islands countries (AUPACIFIC), European countries and UK (EUROUK) and other countries (COUOTHER). CFBCOUN is classified based on the percentage of a country's economy controlled by Chinese (Lasserre and Schutte, 1995, p.100). If 50% or more of a country's economy is estimated to be controlled by Chinese then it is classified as a Chinese business country. These dummy variables are coded 1 when a New Zealand company entered either that country or a country in the group, 0 when otherwise.

Competitor Choice

Respondents were asked to identify if their major New Zealand competitor(s) had already entered the market (COMINMAR, 1 = yes, 0 = no). If they had, they were asked to identify the number of competitors (COMNUMB) already in the market at the time they first entered the Taiwanese market. COMNUMB is a discrete interval variable. Among those competitors, respondents were asked to select the most direct competitor and to identify its entry mode. Similar to the question for the dependent variable, respondents were asked to choose the one which best described the entry mode used by their most direct New Zealand competitor from a listing of 14 entry modes plus "other" if those modes in the listing did not reflect the one used. Competitor's choice of market entry modes is coded as RESOUCOM. This is a categorical variable. It is 0 where a New Zealand firm indicated that it had no New Zealand competitor operating in the Taiwanese market at the time when it first entered the market. RESOUCOM is 1 when a low resource commitment entry mode was selected by the respondent's competitor and 2 when a moderate or high resource commitment was employed. Respondents were also asked to identify the extent to which their choice of entry mode had been influenced by their most direct competitor's choice (INFCOCHC). INFCOCHC is a categorical variable (0=no New Zealand competitor operating in Taiwan, 1 = weak influence {1,2,3 in original scale}, 2 = moderate influence {4 in original scale}, 3 = strong influence {5,6,7 in original scale}).

Missing value

Variables in this category are coded as 999 if no answer is provided to a particular question.

Domestic market share

Respondents were asked to identify their market share in New Zealand at the time when they first entered the Taiwanese market. Domestic market share is coded as DOMARSH. This is a continuous interval variable.

Missing Value

DOMARSHI is coded as 999 if no figure is provided.

Product-related characteristics

Respondents were first asked to classify their products marketed in Taiwan into three categories, consumer, industrial products or services. Companies which market more than one product line, were asked to focus on the major one. PRODCONS is 1 when a New Zealand company identified its major products marketed in Taiwan as consumer products, 0 means other categories. PRODINDU is used to represent industrial products in Taiwan (1 = yes, 0 = no). PRODSERV is 1 when products are services while 0 means otherwise.

Respondents were also asked to identify how much before or after-sales services were required for their products marketed in Taiwan (1 = little, 4 = moderate, 7 = high) (coding SERVICE). SERVICE is a discrete interval variable.

In terms of product differentiation, respondents were asked to select from a 1 to 7 scale for their product differentiation (1 = not different, 4 = moderately different, 7 = extremely different) (coding PRODDIFF). This is an discrete interval variable.

Missing Value

Product-related variables are coded as 999 if no figures are provided.

Market size and market potential of the industry

Respondents were asked to identify the size of the industry in Taiwan when compared with their largest overseas market at the time their firm first entered the market (coded as MARKSIZC). This is a categorical variable. MARKSIZC is 0 when a New Zealand firm only operated in Taiwan at the time it first entered the Taiwanese market (ie cannot compare Taiwan with other markets). It is 1 when the scales 1, 2, or 3 (smaller) were selected. It is 2 when scale 4 (similar) has been identified and 3 when scales 5, 6, or 7 (larger) were selected.

A number of methods have been suggested to measure the effect of market potential. The two key indicators used by Agarwal and Ramaswami (1992) to measure a country's market potential include perceived managerial assessment of market size (in actual question "market potential" is used) and growth potential of the industry studied. Gripsrud (1990) measured market potential of the host country by asking his research respondents to compare the host market with other markets that they have operated. This study constructs the measurement for market potential based on the methods suggested by these two studies and the feedback of the two pilot studies. Respondents were asked to compare the potential of the industry in Taiwan with other markets (coded as MARKPOTC; 0= only operated in Taiwan, 1 = among the least promising export markets {1,2,3 in original scale}, 2 = about average {4 in original scale}, 3 = among the most promising export markets {5,6,7 in original scale}). MARKPOTC is defined as a categorical variable.

Missing value

These variables are coded as 999 if no answers are provided to any of the questions.

Taiwanese counterpart's business structure

Respondents were asked to identify their most important partner's business structure (1 = family business structured, 7 = professional management structured, coded as FAMILY). Respondents were also asked to identify the importance of the personal authority of the owners of the organisation (1 = not important, 4 = moderately important, 7 = extremely important, coded as OWNERS). Respondents were also asked to classify that Taiwanese organisation's decision making structure (1 = decentralised decision making, 7 = centralised decision making, coded as DECISION).

After answering the above questions, respondents were asked to identify the overall impact of that Taiwanese organisation's business system (1 = weak influence, 4 = moderate influence, 7 = strong influence, coded as INFTWNBU) on their choice of market entry mode. Variables in this section are discrete interval variables.

Missing Value

999 is assigned to the variables in this section if no figures have been provided.

Taiwanese wholesaling system

Respondents were first asked if their products were marketed through a wholesaling system (WHOLSALE, 1 = yes, 0 = no). For those who did not use a wholesaling system, they were asked further to specify the reasons for not using it in an open-ended question. This question is not coded in the statistical analyses. For those using a wholesaling system in their distribution channel, respondents were asked to identify the percentage of their products which were distributed through a multi-layered (MULTIPLE), single-layered (SINGLE) or other layered system (OTHELAY). MULTIPLE, SINGLE, and OTHELAY are continuous interval variables (ratio variables).

Respondents were then asked to identify who actually delivered products to a wholesaling market or to wholesalers. This is a multiple response question. There are three methods by which a company could deliver their products to the wholesaling market/ wholesalers (own marketing subsidiary, via agents, distributors or importers, or through other means). Own marketing subsidiary is coded as WHOOWNMA (1 = yes, 0 = no). Via agents, distributors or importers is coded as WHOIND (1 = yes, 0 = no). Other means is coded as WHOLOMEA (1 = yes, 0 = no). Companies which used other means to distribute to the wholesaling market were required to specify the method. This sub-question is not coded.

Respondents were then asked to describe the wholesaling system that was used by their company. The characteristics of Taiwan's wholesaling system include fragmented (WHOLFRAG, 1 if fragmented is selected, 0 otherwise), complex (WHOLCOMP, 1 if complex is selected, 0 means otherwise), multi-layered (WHOLMULT, 1 if multi-layered is selected, 0 means otherwise), very different from NZ (WHOLCOM, 1 if very different from NZ is selected, 0 means otherwise). This is also a multiple response question.

To conclude this segment, respondents were asked to identify the influence of the wholesaling system on their choice of market entry mode (coded as INFWHOLC). INFWHOLC is 0 when a firm identified that its products were not distributed through a Taiwanese wholesaling system. It is 1 when scales 1, 2, or 3 (weak influence) was selected. It represents 2 when scale 4 (moderate influence) is adopted and 3 when a firm selected 5, 6, or 7 (strong influence) in the original scale. INFWHOLC is a categorical variable.

Taiwan's retailing system

Similar to the question for the wholesaling system, respondents were asked if their products were distributed by a retailing system (regardless of the means of distributing products to retailers) (coded as RETAIL, 1 = yes, 0 = no). If they answered no, they were asked to specify the reasons. If they answered yes, respondents were asked who distributed products to independently owned retailers (ie own marketing subsidiary, agents/ distributors/ importers, independent wholesalers or other means). Own marketing subsidiary is coded as RETOWNMA (1 = yes, 0 = no). Via Agents, distributors or importers is coded as RETAGNDI (1 = yes, 0 = no). Independent wholesalers is coded as RETIND (1 = yes, 0 = no). Other means is coded as RETOMEAN (1 = yes, 0 = no).

Companies which used a retailing system were then asked if they had knowledge of the number of independently owned retailers RETKNOWN (1 = yes, 0 = no). If they answered yes, they were asked to indicate the number of retailers which were used to carry their products (RETNUMBC). RETNUMC is a categorical variable (0 = no use of retailing system, 1 = less than 100, 2 = 100-499, 3 = 500 or more). Respondents were also asked to identify the type of retailing outlets which distributed their products (e.g. supermarkets, traditional or wet markets, department stores, convenience stores, Pop and Mum stores). Supermarkets are coded as RETSUPER (1 = yes, 0 = no), Traditional or wet markets are coded as RETWET (1 = yes, 0 = no). Department stores are coded as RETDEPAR (1 = yes, 0 = no). Convenience stores are coded as RETCONVE (1 = yes, 0 = no). Pop and Mum stores are coded as RETPOPMU (1 = yes, 0 = no), while others is coded as RETOTHER (1 = yes, 0 = no).

Respondents were then asked to describe the retailing system for their products marketed in Taiwan (ie fragmented, complex, multi-layered or very different from NZ). Fragmented is coded as REFRAGME (1 = yes, 0 = no). Complex is coded as RECOMPLE (1 = yes, 0 = no). Multi-layered is coded as REMULTI (1 = yes, 0 = no). Very different from NZ is coded as REDIFFER (1 = yes, 0 = no). At the end respondents were asked to identify the influence of Taiwan's retailing system on their choice of market entry mode

(INFRETAC). INFRETAC is a categorical variable. INFRETAC is 0 when a firm identified that its products were not distributed through a Taiwanese retailing system. It is 1 when scales 1, 2, or 3 (weak influence) were selected. It represents 2 when scale 4 (moderate influence) is adopted and 3 when a firm selected scales 5, 6, or 7 (strong influence).

Personal and company details

Respondents were also asked to identify the field of business their company operated in (INDUSCA, 1 = primary produce, 2 = manufacturing, 3 = service). INDUSCA is a categorical variable. The ownership of the company is the last question. Respondents were requested to identify the ownership of the company (OWNERSHI, 0 = foreign controlled, 1 = wholly New Zealand owned). If a company is controlled by a foreign company, respondents were asked to identify the nationality of their parent company. Two variables were used to represent respondents' nationality (OWNTAIWA, 0 = otherwise, 1 = controlled by newly Taiwanese immigrants; OWNOTHER, 0 = wholly New Zealand owned or controlled by newly Taiwanese immigrants, 1 = controlled by other foreign companies). Foreign ownership is defined as 25% or more of the company's equity is owned by foreign nationalities. Variables in this section are categorical nominal variables.

<u>Missing Value</u>

Variables are coded as 999 if no indication has been made.

5.5 DATA ANALYSIS TECHNIQUES

This study adopted the following procedure during the data analysis phrase:

- Data keying
- Chi-Square
- Factor Analysis
- Logistic Regression Analysis
- Bivariate correlation analysis - Pearson's correlation coefficient

5.5.1 Data keying

Each questionnaire returned was assigned a case number. The information given was coded and then entered twice (for verification purposes) into the SPSS for Windows, Release 6.0 on an IBM compatible personal computer.

5.5.2 Chi-Square

After all data were entered into SPSS for Windows, chi-square tests were conducted to analyse the relationship between the dependent variable and the categorical (qualitative) independent variables (e.g. ownership of the company {OWNERSHI}, 1 = New Zealand owned, 0 = otherwise). Likelihood Ratio chi-square value was used to identify whether a relationship was significant. Chi-square is often used to test a hypothesis about an association between two variables with any number of categories (Burdess, 1994). Burdess (1994) points out that there are three assumptions for using chi-square analysis. Firstly, only absolute frequencies (not percentages) are used in the calculation. Secondly, an individual cannot be included in more than one category. Thirdly, by rule of thumb, chi-square is used when all expected frequencies are at least 5.

5.5.3. Factor Analysis

Factor analysis is used to identify underlying factors (constructs) in a study. This method is used in a number of market entry mode studies (e.g. Agarwal & Ramaswami, 1992; Anderson & Coughlan, 1987; Klein & Roth, 1990; Klein et al, 1990) to reduce the number of dimensions or to assess the psychometric properties of the research constructs. Factor analysis is a statistical method used to identify a relatively small number of factors that can be used to represent relationships among sets of many interrelated variables (SPSS Professional Statistics, 1993, p.47). In this study, as can be seen in Table 5.6, a number of constructs of the study were assessed with a single question (e.g. domestic market size) while others were measured by multiple questions (e.g. firm size).

Factor analysis is used to group continuous interval or discrete interval variables (Klein & Roth, 1990; Agarwal & Ramaswami, 1992; Hoang, 1995). Klein and Roth (1990) used factor analysis to analyse their asset specificity construct. This construct consisted of six variables which were measured on a 7-point scale. Similarly, factor analyses were used by Klein et al (1990) to establish their three research constructs. The items used in their study to measure the constructs were assessed by a 7-point scale or were continuous interval scaled variables. Agarwal & Ramaswami (1992) adopted factor analysis to assess the psychometric properties of their research constructs. As with the methods of measurement adopted by Klein et al (1990), all the scale items used to represent the constructs of their study were either measured on a 7-point bipolar scale or were continuous/discrete interval items. Hoang (1995) used factor analysis to create constructs for his research and most of the variables in the constructs were assessed by a 5-point Likert-scale.

Following the practice of these previous studies, in this study factor analysis is used to establish underlying constructs in the data. These items were either discrete interval variables (e.g. assessed by a 7-point Likert scale) or continuous interval variables.

5.5.3.1 Internal Consistency Method

Cronbach's alpha is often used to test the internal consistency of the constructs suggested by factor analysis. Cronbach's alpha has been used in a number of previous studies (Anderson and Coughlan, 1987; Klein and Roth, 1990; Klein et al, 1990; Agarwal & Ramaswami, 1992; Kim & Hwang, 1992; Hoang, 1995). The use of Cronbach's alpha in a data reduction process can be seen in the research of Agarwal & Ramaswami "...After confirming the unidimensional nature of the constructs, internal consistency among the items was further assessed by estimating coefficient alpha and dropping items with low item-to-total correlations. Finally, the reduced set of items was rechecked for internal consistency via factor analysis" (Nunnally, 1978 cited in Agarwal & Ramaswami, 1992, p.210). Cronbach's alpha is also used by Anderson and Coughlan (1987) to measure the reliability of their research constructs. The practice adopted by Anderson & Coughlan (1987) is to standardise all variables (i.e. removing differences in response scale) and compute each construct's Cronbach's alpha. This procedure was suggested by Nunnally (1978). Anderson and Coughlan pointed out that an alpha value of at least 0.5 is adequate for basic research but 0.7 is more appropriate (Nunnally, 1967 & 1978 cited in Anderson & Coughlan, 1987, p.75). The lowest Cronbach alpha coefficient in the Anderson and Coughlan study was 0.53 (a two-item construct). They indicated that this ratio was good for a construct which consisted of two items. The cut-off point suggested by Kim and Hwang (1992) was 0.6. After considering the number of items used to measure the constructs in the present study, a cut-off point of 0.5 was adopted.

5.5.4 Logistic Regression Analysis

Besides chi-square and factor analysis, Logistic Regression Analysis is also employed to examine the relationship between the dependent variable and independent variables.

Logistic Regression is used extensively by studies on market entry mode choice (Agarwal & Ramaswami, 1992; Anderson & Coughlan, 1987; Ball & Tschoegl, 1982; Gatignon & Anderson, 1988; Klein et al, 1990; Davidson & McFetridge, 1985; Erramilli & Rao, 1990; Erramilli, 1991; Erramilli & Rao, 1993; Kim & Hwang, 1992; Klein et al, 1990; Kogut & Singh, 1988; Li & Guisinger, 1992; Ramaseshan & Patton, 1994; Ursacki & Vertinsky, 1992) as a method to predict the occurrence of the dependent variable (choice of entry mode). Logistic regression, estimated by the method of Maximum Likelihood, is often used to predict which particular entry mode will be chosen. The reason why Logistic Regression is suitable for this type of inquiry is best described by the comment made in Erramilli & Rao (1993).

> *"logistic regression is utilised for estimation of the effects, because it is recommended when (1) the dependent variable is binary, (2) there are qualitative and quantitative independent variables and (3) the underlying assumptions of Multivariate normality cannot be met" (Erramilli & Rao, 1993, p.28).*

Afifi and Clark (1984) also asserted that logistic regression is used whenever an individual is to be classified into one of the two populations and it is an alternative to discriminant analysis. Logistic regression is used when the multivariate normal model is not justified (no linear relationship in the parameters). This statistical analysis method is applicable for any combination of discrete and continuous variables (Afifi and Clark, 1984, pp.297-298). Their statement is supported by Press and Wilson (1978 cited in Ball and Tschoegl, 1982) who indicate when the data violate the normality assumptions, (i.e. the presence of qualitative/ dummy variables), discriminant analysis generates inconsistent estimates and misleading results. In contrast, logistic regression is relatively robust. It is an appropriate technique when the independent variables set consists of either or both binary and continuous variables.

In addition, Hosmer and Lemeshow (1989 cited in Tansey et al , 1996, p.343) also indicated that similar to discriminant analysis, logistic regression is used to predict group membership based on information contained in a hypothesized model of covariates (independent variables). Specifically, it allows the researchers to obtain the probability of accurately classifying the presence of an event, the absence of an event and the overall pooled rate of all the sample cases across both those representing the presence or absence of a certain type of event. They further point out that logistic regression is more flexible for analysing a mixed set of nominal/ ordinal and interval variables. In logistic regression, interval variables are easily included in the model, while nominal variables are also easily accommodated as dummy variables (cited in Tansey et al, 1996, p.347).

Based on the above discussion, logistic regression is employed to predict the occurrence of New Zealand firm's choice of entry mode. As suggested by other studies, the rationale behind this selection is because this current study has a mixed set of categorical and interval independent variables and its dependent variable is also categorical.

The equation which produces the probability (*p*) of an individual respondent belonging to the category of interest is referred to as logistic regression equation. It is based on the log odds of membership in the category of interest (Kachigan, 1986). Log odds is expressed Ln (P/1-P), which is also called logit (Afifi and Clark, 1984, p.291). P is the probability that the category of interest would occur. P ranges from 0 to 1 while Logit ranges from $-\infty$ to $+\infty$. When P =0, Ln(odds) = $-\infty$, P=0.5, Ln (odds) = 0, P=1, Ln(odds)= $+\infty$. Logit is important because it carries the desirable properties of a linear regression model (Hosmer and Lemeshow, 1989). P ranges from 0 and 1 and it is not linearly related to Y. However, Ln (P/1-P) or the logit, is not only linear in the independent variables set but also linear in the parameters (Gujarati, 1988, p.482; Hosmer and Lemeshow, 1989, p.7).

The logistic regression equation is often expressed as below (Afifi and Clark, 1984; Erramilli and Rao, 1993; Kogut and Singh, 1988):

$$\text{Ln } (P/1\text{-}P) = Y, \text{ where } Y = bo + b1X1 + b2X2.....+ biXi$$

$$P/1\text{-}P = e^{Y}, \ P(\text{event}) = e^{Y} \ / \ \{1+ e^{Y}\} = 1 \ / \ \{1+ e^{-Y}\}$$

P(event):	The probability of the event concerned (the dependent variable) occurring (the choice of high resource commitment entry mode, in current study)
Y:	linear function of the research independent variables
Xi:	a vector of the ith independent (explanatory) variable
bi:	a vector of coefficients of the ith independent (explanatory) variable
b0:	constant

5.5.4.1 Regression analysis, discriminant analysis and logistic regression analysis

There are a variety of multivariate statistical methods which can be used to predict a binary dependent variable from a set of independent variables (SPSS Advanced Statistics, 1993, p.1; Hair et al, 1995). Multiple regression analysis and discriminant analysis are two related techniques. However these two methods face difficulties when the dependent variable can assume only two values (i.e. in this case, low versus high resource commitment entry modes) and the assumption of multivariate normality of the independent variables is not met. Multiple (linear) regression analysis is used when the nature of dependent variable is continuous, rather than binary (Hosmer & Lemeshow, 1989).

When the dependent variable has only two values, the assumptions for hypothesis testing in regression analysis are necessarily violated. One of the assumptions of regression analysis is that the distribution of error is normal. This does not exist in a dichotomous model. Also the assumption of normal distribution for the dependent variable at all independent variables is not valid when the dependent variable has only two values. Another assumption of multivariate regression analysis is that predicted values cannot be interpreted as probabilities and they do not necessarily fall into the interval of 0 and 1 (SPSS Advanced Statistics, 1993, p.1).

Hair et al (1995) pointed out that logistic regression is similar to multiple regression in many aspects, but the primary difference between these two methods is the way they estimate coefficients. In multiple regression, the criteria used to construct an equation that fits the data well is to minimise the sum of the squares of the deviation (least squares) (Hair et al, 1995; Kinnear et al, 1994, p.40). Logistic regression analysis, on the other hand, maximises the "likelihood" that an event will occur. The overall measure of how well a logistic regression model is determined by the likelihood value. Because the likelihood is a number smaller than 1, it is customary to use -2 times the log of the likelihood (-2LL) as a measure of how well the estimate model fits the data. A well-fitting model is one that has a small value for -2LL, therefore a perfect fit model has a likelihood of 1 and its -2LL is 0 (Hair et al, 1995; SPSS Advanced Statistics, 1993, p.10).

Linear discriminant analysis is a method often used to predict a binary (categorical, nonmetric) dependent variable from a set of independent variables. It has been widely used in situations where the researcher's primary objective is to identify the group to which an object belongs (Hair et al, 1995). Discriminant analysis (DA) is an appropriate statistical analysis method when the dependent variable is categorical (nonmetric) and the independent variables are continuous (metric). The application and interpretation of discriminant analysis is much the same as in multivariate regression analysis. The key difference between these two methods is that DA is appropriate when the dependent variable is categorical, whereas the multivariate regression is applied only when a study has a continuous (metric) dependent variable (Hair et al, 1995). The two key underlying assumptions of discriminant analysis are multivariate normality of the independent variables and equal covariance matrices for the groups as defined by the dependent variable (SPSS, Professional Statistics, 1993; Hair et al, 1995).

Logistic regression technique is superior to discriminant analysis in analysing this type of data in that logistic regression analysis requires fewer assumptions than discriminant analysis (SPSS Advanced Statistics, 1993, p.1; Hair et al, 1995). Logistic regression analysis is particularly useful when the basic assumption of discriminant analysis, the assumption of multivariate normality of the independent variables, is violated. The strength of logistic regression analysis is further evidenced by Afifi and Clark (1984, p.291) who pointed out that "the fundamental assumption in logistic regression analysis is that ln (odds) or logit is linearly related to the independent variables. No assumptions are made regarding the distributions of the X or independent variables. In fact, one of the major advantages of this method is that the X variables may be discrete or continuous." Furthermore, SPSS (1993, Professional Statistics) indicated that when the independent variables are all binary or a mixture of continuous and discrete variables, the linear discriminant function is not the most ideal analysis tool. As indicated already, multivariate normality is an assumption for applying a discriminant analysis. When the independent variables are normally distributed, discriminant analysis is preferred to logistic regression analysis (Efron, 1975; Press and Wilson, 1978). Ramaseshan and Patton (1994, p.28) further indicated that logistic regression is preferred when the dependent variable is dichotomous. The logistic regression method is more suitable than discriminant analysis in this type of inquiry (Domencich and McFadden, 1975; Press and Wilson, 1978).

5.5.4.2 Stepwise Logistic Regression

The test of whether a variable improves prediction forms the basis for a stepwise logistic regression procedure. Its principle is the same as that used in stepwise linear regression or stepwise Discriminant Analysis. At each step, the variable with the lowest significance level for the score statistic, provided it is less than the chosen cut-off value (0.05 in this study), is entered into the model (SPSS Advanced Statistics, 1993).

There are two main versions of stepwise procedure which include (1) forward selection with a test for backward elimination and (2) backward elimination followed by a test for forward selection. The stepwise approach is useful and intuitively appealing in that it builds models in a sequential order and it provides a fast and effective means to screen a large number of variables and to simultaneously fit a number of logistic regression equations (Hosmer & Lemshow, 1989, p.106). This study adopts a forward selection procedure.

All variables in the forward stepwise block that have been entered are then examined to see if they meet removal criteria. SPSS forward stepwise logistic regression procedures have a choice of Conditional, Likelihood-Ratio (LR) and Wald. In forward Conditional stepwise, removal testing is based on the probability of the Likelihood-Ratio statistic based on conditional parameter estimates.

In forward Wald stepwise, removal testing is based on the probability of the Wald statistic. In forward Wald stepwise, the Wald statistic for all variables in the model are examined and the variables with the highest significance level for the Wald statistic are removed from the model. A necessary requirement of the significant variable is that its value should be greater than the chosen cut-off value. If no variables meet the removal criteria, the next eligible variable is entered into the model. If a variable is selected for removal and it results in a model that has already been considered, variable selection stops. Otherwise, the model is estimated without the deleted variable and the variables are again examined for removal. This continues until no more variables are eligible for removal.

Removal testing is based on the probability of the Likelihood-Ratio (LR) statistic based on the maximum-likelihood estimates in the forward likelihood-ratio procedure. This method involves estimating the model with each variable eliminated in turn and looking at the change in the log likelihood when each variable is deleted. The likelihood-ratio test for the null hypothesis that the coefficients of the terms removed are 0 is obtained by dividing the likelihood for the reduced model by the likelihood for the full model. If the null hypothesis is true and the sample size is sufficient large, the quantity -2 times the log of the likelihood-ratio statistic has a chi-square distribution with r degrees of freedom, where r is the difference between the number of terms in the full model and the reduced model (SPSS Advanced Statistics, 1993). This study adopts forward Likelihood-Ratio (LR) as the forward stepwise procedure.

5.5.5 Bivariate Correlation Analysis (Multicollinearity)

Collinearity happens when there is a high multiple correlation when one independent variable is regressed on the others (Hoang, 1995, p.224; SPSS Base System User's Guide, 1993). This also means that there is a high correlation between independent variables. The problem with collinear variables is that they provide very similar information and it is relatively difficult to isolate the effects of the individual variables.

Past studies indicate that the rule of thumb for multicollinearity is $r^2 = 0.9$ (Cohen and Cohen, 1975; Green and Tull, 1978 both cited in Ramaseshan and Patton, 1994, p.28).

The two often used Bivariate correlation coefficient methods are Pearson product-moment, and Spearman's rank correlation coefficient. Pearson product-moment correlation is appropriate with data that attain at least an interval level of measurement. Normality is also assumed when testing hypotheses with this method. For ordinal or interval data that do not satisfy the normality assumption, Spearman's rank correlation coefficient is more appropriate. This study adopts Spearman's rank correlation coefficient.

5.6 SUMMARY

In this chapter, research design was first discussed. Various data collection methods were analysed and evaluated. Sources of samples were also identified. Information about the two pilot studies were discussed. Elements of the postal survey package including covering letter, endorsement letter, personalised mail, free post envelope, and follow-up reminders were all discussed in detail. The postal survey was conducted in April, 1997. The response rate of this study was 28.32% which is slightly higher than the average response rate of previous studies. Testing for non-response bias was also discussed in detail. Chi-square results have revealed that this study does not appear to have a non-response bias problem.

Questionnaire design and the measurement of research variables were discussed next. Codings of each variable were also discussed in the chapter. A 7-point Likert scale was used in the questionnaire design. Data analysis techniques employed by this study included chi-square, logistic regression analysis, and bivariate correlation analysis (for testing of multicollinearity).

In the next chapter, detailed analysis of the research findings of each method will be presented.

CHAPTER 6: RESEARCH FINDINGS

6.1 INTRODUCTION

The previous chapter has discussed details of research design and methodology In this chapter, the research findings of this study will be reported. Company related information is discussed in section 6.2. Findings about the choice of market entry mode are analysed in the subsequent section. Section 6.4 is designed to report chi-square results. Section 6.5 details the results of logistic regression analyses. Goodness of fit of the model is discussed in section 6.6. The test for multicollinearity is presented in section 6.7. Section 6.8 offers concluding comments.

6.2 COMPANY RELATED INFORMATION

As can be seen in Table 6.1, based on the classification system suggested by Hoang (1995) about 45% of the respondents were classified as small-sized companies and 34.4% were medium sized companies, with 20% of the respondents classified as large sized corporations. In terms of number of employees hired by New Zealand firms outside of New Zealand (Table 6.2), 35% of the respondents did not hire any employees outside of New Zealand. It is likely that these companies conducted their international business from their base in New Zealand and they are likely to be in the first stage of Perlmutter's model (1967), ethnocentrism or home country orientation. About 19% of the respondents hired between 1 and 10 employees and 8.9% of them hired 11 or more employees. One thing worth noting is the high number of companies which did not identify the number of employees hired outside of New Zealand. As shown in Table 6.2, about 40% of the respondents (50 companies) did not indicate the number of employees their companies hired outside of New Zealand. This might be because this question did not apply to these respondents or the information required to answer this question was not available at the time the study was conducted. As indicated in the previous chapter, the number of employees hired outside of New Zealand is coded as FIRMOUNZ. Due to its high number of missing values, this variable might not be helpful in predicting the choice of market entry modes. Logistic regression analysis would reject any case if it contains any missing values in its data set. Besides FIRMOUNZ, it was discovered that a number of other variables which also contained high missing values. These included DOMARSHA, WHOLFRAG, WHOLCOMP, WHOLMULT, WHOLCOM, REFRAGME, RECOMPLE, REMULTI, and REDIFFER (refer to Table 5.6 for details about these variables). Again, due to this weakness, these variables' contribution to the prediction of the choice of market entry modes is remote.

With respect to total sales in the previous financial year (Table 6.3), about 42% of the companies were classified as small sized companies while 36.3% of the respondents were medium sized companies. Only 21.8% of the respondents were considered as large corporations. In terms of the importance of the international sales to the company's total sales (Table 6.4), more than 60% of the respondents indicated that more than 50% of their total sales came from international sales.

The industries each respondent operated in and the type of products they marketed in Taiwan are summarised in Table 6.5 and 6.6. As can be seen, almost half of the New Zealand companies operating in Taiwan are manufacturing goods producers and 11.3% of the respondents are services providers. These findings are consistent with the results of Akoorie and Enderwick (1992). Their study revealed that a considerable number of New Zealand manufacturing companies and service industries operate in international markets. Thus, their suggestion that internationalisation of New Zealand business has occurred to a quite significant extent in non-primary resource industries is confirmed by this study.

With respect to the specific types of products marketed in Taiwan (Table 6.6), 62.1% of the respondents indicated that their major product line marketed in Taiwan was consumer products. About 26% of the products sold in Taiwan were industrial products and about

10% were services. In terms of specific product category, the top three categories identified by the respondents were food (24.2%), fisheries (9.7%) and manufacturing (5.6%). Marketers of health goods and meat products (4.8%) were also active in Taiwan.

Table 6.1: Number of employees hired inside New Zealand

Number of employees	Frequency	Percentage of companies (%)
10 or less	56	45.2%
11-99	41	33.1%
100 or more	25	20.2%
Missing value	2	1.6%
Total	**124**	**100%**

(Note: In actual statistical analysis, original data is used.)[5]

Table 6.2: Number of employees hired outside New Zealand

Number of employees	Frequency	Percentage of companies (%)
0	39	31.5%
1-10	24	19.4%
11 or more	11	8.9%
Missing value	50	40.3%
Total	**124**	**100%**

(Note: In actual statistical analysis, original data is used.)

[5] This classification is based on the method suggested by Hoang (1995, p.191).
Small firms= 10 or less
Medium firms = 11- 99
Large firms = 100 or more

Table 6.3: Company's Total Sales in Previous Financial Year

Amount of sales (NZ$)	Frequency	Percentage of companies (%)
under $5 million	53	42.7%
$5million - $49,999,999	45	36.3%
$50 million or more	26	21.0%
Total	**124**	**100%**

(Note: In actual statistical analysis, original data is used.)[6]

Table 6.4: International Sales as a % of Total Sales in Previous Financial Year

Percentage of sales	Frequency	Percentage of companies (%)
under 10%	19	15.3%
10% - 49%	29	23.4%
50% or more	76	61.3%
Total	**124**	**100%**

(Note: In actual statistical analysis, original data is used.)

Table 6.5: Industry Category

Industry	Frequency	Percentage of companies (%)
Manufacturing	60	48.4%
Primary Produce	47	37.9%
Services	14	11.3%
Missing value	3	0.8%
Total	**124**	**100%**

(NB: Manufacturing category includes food, manufacturing, beverages, computers and electronics, building products (e.g. bath items), souvenir, chemicals, winery, timber, pharmaceuticals, leather, and personal care items. Primary produce includes fishery, forest, healthy goods, meat, wool products, horticultural, agricultural, raw materials, and game meat industry. Services include trading company, immigration service, education, aviation, collectable, legal services, freight forwarding, and telecommunications.)

Table 6.6: Product Types

Industry	Frequency	Percentage of companies (%)
Consumer Products	77	62.1%
Industrial Products	33	26.6%
Services	13	10.5%
Missing value	1	0.8%
Total	**124**	**100%**

[6] This classification is based on the method used in Dau (1991, p.127).

6.3 CHOICE OF MARKET ENTRY MODES RESULTS

As reported in Table 6.7, the three most often used entry modes by New Zealand companies to enter the Taiwanese market were distributors (32.3%), international trading companies (located in New Zealand) (22.6%), and agents (18.5%). This finding is similar to the result of Akoorie and Enderwick (1992). Their study revealed the top three most frequently used market entry modes are overseas distributors, overseas sales branch, and New Zealand agent.

It is clear from Table 6.7 that direct exporting entry modes (distributors and agents) were the most often used entry methods by New Zealand firms. Distributors and agents were located in the host country. Besides these two methods, another widely used entry mode was international trading companies. About 22% of respondents used international trading companies as a way to enter the Taiwanese market. This result indicated that a large number of New Zealand companies marketed their products to Taiwan in an indirect way. These firms sell their products to trading companies located in New Zealand which then resell the purchased goods to Taiwanese customers. New Zealand companies which used this way to enter the market did not have to worry about distribution or any other international marketing matters. Their business transactions simply finished in New Zealand and on most occasions they had no knowledge of buyers in Taiwan. This type of entry mode requires a low resource commitment and also involves low operational risk. However, the return on this method is also quite low.

Although it is not specified in the questionnaire, a number of international trading companies used by New Zealand firms in this study were established by Taiwanese immigrants. These companies buy products from local New Zealand firms and resell them to Taiwanese customers. These international trading companies are often associated with Taiwanese firms which have a well established distribution system.

From Table 6.7, it is also seen that overseas production subsidiary is not adopted by respondents as a market entry mode although a number of other high resource commitment entry modes have been used (e.g. overseas marketing subsidiary). This highest resource commitment entry mode was not considered by any New Zealand companies as an option for their entry into Taiwan. A reason for this tendency is probably related to the effect of country of origin - Taiwanese perception about New Zealand. As discussed in the General Background of Taiwan (Appendix A), New Zealand has been promoted as a country with a clean and green environment. A considerable number of New Zealand companies' successes in Taiwan are because their products are associated with these two images. These two images are a key selling point for some New Zealand products. The influences of these two effects are reflected by the successes of New Zealand Dairy Board, ANZCO, Zespri and other agricultural and horticultural companies. A key factor for these companies' success in Taiwan is their country of origin. Taiwan is a polluted country and people in Taiwan are desperate to buy products which are produced or grown in an unpolluted country. Therefore the products of these companies need to be produced or grown in New Zealand if they want to use the clean and green image to market their products to Taiwanese consumers. If a product is marketed with a country of origin effect, it is often produced in the home country.

Another reason why overseas production entry mode was not selected is probably because the volume of sales generated in the Taiwanese market is still not big enough to justify the cost of adopting an overseas production subsidiary. For example, Fisher and Paykel has been employing a foreign production subsidiary entry mode in Australia for a number of years (Sexton, 1994), but it is still using a local distributor to handle its operations in Taiwan. A major reason for adopting this low resource commitment entry mode is that its sales in this market is still quite low.

Table 6.8 summarises the market entry modes in terms of resource commitment. As indicated before, only three entry modes which were classified as high resource commitment entry modes were adopted by New Zealand companies operating in Taiwan. These included overseas marketing subsidiary, joint venture and strategic alliance. The number for high resource commitment entries is 16. From these results, it was clear that the majority of the respondents started their business operation in Taiwan by choosing a low resource commitment entry mode. Only 12.9% of the respondents entered the host market by using a high resource commitment entry mode.

Table 6.7 Choice of Market Entry Modes

Market Entry Modes	Frequency	Percentage of companies (%)
Distributors	40	32.3%
International trading company	27	22.6%
Agents	23	18.5%
Overseas sales representatives	11	8.9%
Overseas marketing subsidiary	9	6.5%
Joint venture	4	3.2%
Other (eg Japanese trading company, direct mail, trade mission)	4	3.2%
Strategic alliance	3	2.4%
Contract manufacturing	2	1.6%
Export management company	1	0.8%
Total	**124**	**100%**

Table 6.8 Market Entry Modes - level of resource commitment

Market Entry Modes	Frequency	Percentage of companies (%)
Low resource commitment	108	87.1%
High resource commitment	16	12.9%
Total	**124**	**100%**

6.4 CHI-SQUARE RESULTS

As indicated in the previous chapter, chi-square analysis was used to examine the relationship between the dependent variable and discrete independent variables (e.g. JAPAN). The summary of this analysis is displayed in Table 6.9. As can be seen in this table, variables which were identified as significantly related to the choice of market entry modes included JAPAN, NORTHAME, PRODSERV, RETOWNMA, RETAGNDI, WHOLESALE, WHOOWNMA, WHOINDE, WHOLOMEA, INDUSCA, OWNERSHI, OWNTAIWA, and OWNOTHER ($p<0.05$). Variables which were significant to the choice of market entry mode at p<0.1 level include AUPACIFIC, EUROUK, RESOUCOM, PRODCONS, RETKNOWN The rest of the discrete independent variables were not significantly related to the dependent variable.

The chi-square results indicated that the choice of market entry mode related to whether or not a New Zealand registered company had a business experience with Japan or North American countries (i.e. Canada and USA) prior to its entry to Taiwan. Respondents' choice of market entry mode is also related to whether their main product line marketed in Taiwan is a service product (p<0.05) or a consumer product (p<0.1). With respect to the influence of the host country's retailing system, chi-square results suggested that whether or not a company's product marketed in Taiwan was distributed to independently owned retailers through its own marketing subsidiary is also related to the dependent variable. New Zealand firms' choice of market entry mode is also related to whether or not their products were distributed to retailing outlets via a local Taiwanese agent/ distributor. In terms of the influence of the host market's wholesaling system on the choice of market entry mode, chi-square results indicated that whether or not a firm's product was distributed through a Taiwanese wholesaling system is a factor for the choice of market entry mode. Similarly, the chi-square findings also revealed that the method used by New Zealand firms to distribute their products to wholesaling markets/ wholesalers is also related to the choice of market entry mode. The three methods of distributing products to wholesaling markets/ wholesalers (i.e. through its own marketing subsidiary, through independent marketing intermediaries, or via other methods) are all related to the choice of market entry mode.

The chi-square results also suggested that New Zealand firms' choice of market entry mode is related to the type of business field they operated in and the ownership of their companies at the time they first entered Taiwan. Whether a firm was controlled by Taiwanese companies or interests from other countries are also influences of the choice of market entry mode.

At $p<0.1$ level, the chi-square results revealed that whether a New Zealand firm operated in Australia or the Pacific Islands is a factor the choice of market entry mode. A firm's experience with European countries (including UK) is also suggested as relevant to the dependent variable. New Zealand firms' choice of market entry mode is also influenced by their key competitor's selection. Finally, the chi-square result indicated that whether a respondent had a knowledge of the number of independently owned retailers to distribute its products is a factor of its choice of market entry mode.

Table 6.9 Chi-Square Results

Variable	Degree of freedom	Likelihood Ratio value	Significance+
CFBCOUN	1	1.56373	0.21112
JAPAN	1	9.05205	0.00262*
KOREA	-	-	0.38742
OTHEASIA	-	-	0.73887
NORTHAME	1	10.37903	0.00127*
AUPACIFIC	1	3.75657	0.05260**
EUROUK	1	3.22782	0.07240**
COUOTHER	-	-	0.73620
COMINMAR	1	0.14779	0.70066
RESOUCOM	-	4.28101	0.11760
PRODCONS	1	2.69814	0.10047
PRODINDU	-	-	1.0000
PRODSERV	-	-	0.01347*
RETAIL	1	1.89721	0.16839
RETOWNMA	-	-	0.00210*
RETAGNDI	-	11.20168	0.00082*
RETIND	-	-	0.73380
RETOMEAN	-	-	0.52395
RETKNOWN	-	-	0.28979
RETSUPER	-	-	0.77444
RETWET	-	-	0.73342
RETDEPAR	-	-	1.0000
RETCONVE	-	-	1.0000
RETPOPMU	-	-	0.44674
RETOTHER	-	-	1.0000
REGRAGME	-	-	0.25739
REMULTI	-	-	0.14094
REDIFFER	-	-	0.65089
RECOMPLE	-	-	0.41206
WHOLSALE	-	-	0.00622*
WHOOWNMA	-	-	0.15789
WHOINDE	-	13.08679	0.00030*
WHOLOMEA	-	-	0.08300**
WHOLCOMP	-	-	0.64127
WHOLDIFF	-	-	0.14634
WHOLFRAG	-	-	0.55575
WHOLMULT	-	-	0.61412
INDUSCA	2	6.16597	0.04582*
OWNERSHI	-	-	0.00452*
OWNTAIWA	-	-	0.00562*
OWNOTHER	5	20.85159	0.00086*

+: Significance level is based on the results of Fisher's Exact two-tail test. If Fisher's Exact test is not available, significance level is based on the results of Likelihood Ratio test.

*: Significant at $p<0.05$ level.

**: Significant at $p<0.1$ level.

6.5 FACTOR ANALYSIS AND INTERNAL CONSISTENCY OF CONSTRUCTS

As discussed in the previous chapter, factor analysis is often used to generate the underlying factor structure in a set of independent variables. Factor analysis is often applied when a multiple item scale is used to measure the influence of a factor (Hoang, 1995). As indicated in Chapter 5, factor analysis has been widely used by studies on market entry mode as a method to extract the constructs (or factors) of a set of ordinal or interval scaled items (or variables) (e.g. Klein & Roth, 1990; Klein et al, 1990; Agarwal & Ramaswami, 1992; Hoang, 1995). As can be seen in Table 5.6, the majority of the independent variables in the present study are binary or categorical. Because of this, factor analysis could be used to analyse items involved in just three constructs. These three constructs are firm size, international business experience and host market business system.

The first factor analysis was applied to establish the construct of firm size. Two items were suggested to measure the effect of firm size - number of employees (in the home market) (FIRMINZ) and total sales in previous financial year (TOTALSAL) (Hoang, 1995). The result of this factor analysis suggested a unidimensional construct for this factor. The standardised alpha of this construct was 0.6784.

The second factor analysis was conducted to analyse the dimensionality of the international business experience construct. The two items used to capture the influence of this factor included number of years in international business (INTEXWOL) and number of countries operated in (NUMCOUTR). Again a single unidimensional construct was extracted from this round of factor analysis to represent the effect of international business experience. The standardised Cronbach's alpha for this construct was 0.8013. The third factor analysis was conducted to group variables associated with the host market business system. As discussed before, four items were used to measure the effect of this factor. One unidimensional construct was suggested by the outcome of this factor analysis. The standardised Cronbach's alpha was extremely low, 0.0108.

When checking the item-to-total value of this construct, it was discovered that it was the item FAMILY which had caused this low value and therefore this item was deleted from further factor analyses. Adopting the practice of Agarwal & Ramaswami (1992), the three items remaining were re-tested by another factor analysis and a unidimensional construct was extracted. The standardised alpha value of this construct increased to 0.5540.

In conclusion, from the results of the three factor analyses, it appears that the results exceed the standards suggested by previous studies, except with the construct of the host market business system where the Cronbach's alpha value was weak yet is still above the cut-off point of 0.5.

However the overall results of the factor analyses were still unsatisfactory. This was mainly because there were a very small number of independent variables which were ordinal or interval scaled and worthy of testing in the factor analyses. In total, only 8 out of 62 (13%) independent variables were entered and examined in the three factor analyses. If the prediction analysis (logistic regression analysis) was only based on these three factors (ie only the three factors were entered into logistic regression analysis), their representativeness might be doubtful - they only represented a minor proportion of the variables in the study. By compromising with the nature of the data set, it appeared that the results of the factor analyses might be more useful if they were used to test the reliability of the research measurement. Because of this consideration, the outcomes generated by factor analyses were not included in further statistical analysis (logistic regression analysis).

6.6 LOGISTIC REGRESSION ANALYSIS RESULTS

Based on the unsatisfactory results of factor analyses, and considering the nature of the majority of the data (binary or categorical scaled), it was decided to treat each variable listed in Table 5.6 as an independent variable in logistic regression analysis.

In total, three types of logistic regression analyses were conducted in this research. At first, all independent variables were entered into a SPSS Logistic Regression Analysis (1993, Release 6.0). However, due to the high number of missing values cases, the logistic regression process failed to complete. As indicated in Section 6.2, variables containing high missing values included FIRMOUNZ, DOMARSHA, WHOLFRAG, WHOLCOMP, WHOLMULT, WHOLCOM, REFRAGME, RECOMPLE, REMULTI, and REDIFFER. Because logistic regression analysis would exclude cases which contain any missing value from further analysis, this nature of the method meant that these variables would need to be removed from the data set, otherwise the number of cases entered in the logistic regression analysis would be very limited. Based on this consideration, these variables were excluded from further logistic regression analyses.

Method One

Two other methods were then used to examine the relationships between the dependent variable and independent variables. The first method examined the relationship between individual variables of each category and the dependent variable. Variables in each category were entered into SPSS Logistic Regression Analysis individually to test their ability to predict the occurrence of the dependent variable. Variables were entered into the logistic regression based on the category of firm size, international experience, competitor's choice, market potential, market size, Taiwan's business systems, product type, retailing, wholesaling, and ownership and industrial category.

Significant variables identified by this method included TOTALSAL, JAPAN, NORTHAME, MARKSIZC, INFTWNBU, PRODSERV, WHOINDE, WHOLOMEA, RETAGNDI, RETOWNMA, OWNERSHI, and INDUSCA. These significant variables were then entered into logistic regression analysis at once to examine their overall relationships with the dependent variable. MARKSIZC is a categorical variable. It consists of 4 categories (ie only operated in Taiwan, smaller, similar, and larger, refer to chapter 5 for details). In order to understand the exact relationship between each sub-category and the dependent variable, MARKSIZC is recoded using an indicator method (SPSS Advanced Statistics, 1993, p.12) and it will be represented in the subsequent analyses by three indicator variables; MARKSIZ1 (0="smaller" vs 1= "only operated in Taiwan"), MARKSIZ2 (0="smaller" vs 1="similar"), MARKSIZ3 (0="smaller" vs 1="larger"). The reference group of these indicator variables is "smaller" (refer to previous chapter for details).

The result of Method One's final round of logistic regression analysis suggested that INFTWNBU, MARKSIZ1, MARKSIZ2, NORTHAME, PRODSERV, RETAGNDI, RETOWNMA, and WHOLOMEA are *Variables in the Equation*. All variables in the equation were significant at $p<0.05$ level (**INFWNBU, MARKSIZ1**, **MARKSIZ2**, **NORTHAME**, **RETAGNDI**, **WHOLOMEA**, and **PRODSERV**) except the variable, RETOWNMA which was not significantly associated with the choice of entry mode (see Table 6.10). The logit model generated by the first method is as below:

P (mode choice = 1) = $e^Y / (1+e^Y) = 1/(1+e^{-Y})$,
where Y = b0 + b1*INFTWNBU + b2*MARKSIZ1 + b3*MARKSIZ2 - b4*NORTHAME + b5*PRODSERV - b6*RETAGNDI + b7*RETOWNMA + b8*WHOLOMEA, or

Y = -2.2069 + 1.5179*INFTWNBU + 3.6751*MARKSIZ1 + 4.1710*MARKSIZ2 - 3.4926*NORTHAME + 3.5025*PRODSERV - 4.1780*RETAGNDI + 10.1375*RETOWNMA + 6.0422*WHOLOMEA

The result of Method One suggested RETOWNMA as a variable in the equation but it is highly insignificant in the prediction of the choice of market entry mode. RETOWNMA does not appear to qualify as a variable in the equation. One way to deal with a model which has included an insignificant variable is to take the variable out of the model and to compare the change of likelihood of having it in the model. The likelihood would not change a significant amount if the variable was not significant in the equation and vice versa (Carr, 1998). The test of the hypothesis should be based on the change in the log likelihood (Hauck and Donner, 1977 cited in SPSS Advanced Statistics, 1993, p.5). The result excluding RETOWNMA is presented in Table 6.11. As shown in the table, the likelihood of the model excluding RETOWNMA has been slightly reduced. The change of likelihood is often expressed in terms of -2 Log Likelihood. A good model is one that results in a high likelihood of the observed results. This translates to a small value for -2 Log Likelihood (SPSS, 1993, p.10). The -2 Log Likelihood of the model without RETOWNMA and the one with the variable is 23.081 and 21.790 respectively.

The overall classification rate of the model which excluded RETOWNMA has also been reduced slightly (from 94.44% to 93.52%). However, the significance level of variables in the equation of the model excluding RETOWNMA is much better than the model with the variable. The highest significance level is .0527 compared to .8836 of the model with the variable. Thus it appears that the result generated by the model excluding RETOWNMA is better than the one including the variable.

However, when examining the correlation coefficient matrix of this model (presented in Table 6.16), it is evident that a number of variables are highly correlated with each other. The highest coefficients are 0.91213 which is higher than the rule of thumb suggested by Cohen and Cohen (1975) and Green and Tull (1978) (both cited in Ramaseshan and Patton, 1994). After some experimentation, it was found that the variable, WHOLOMEA, was causing the high interdependence and needed to be removed. The result after removing WHOLOMEA from the model is presented in Table 6.12.

The equation of the model without the variables of RETOWNMA and WHOLOMEA is expressed as below:

P (mode choice = 1) = $e^Y / (1+e^Y) = 1 / (1+e^{-Y})$,
where Y = b0 + b1*INFTWNBU + b2*MARKSIZ1 + b3*MARKSIZ2 + b4*NORTHAME + b5*OWNERSHI + b6*PRODSERV + b7*RETAGNDI or

Y = -4.5521 + 1.0156*INFTWNBU + 5.0517*MARKSIZ1 + 4.322*MARKSIZ2 - 3.8144*NORTHAME - 3.0646*OWNERSHI + 3.7969*PRODSERV - 4.7815*RETAGNDI

Method Two

In the second method, independent variables were divided into two parts. The first half included variables representing firm size, international experience, competitor's choice, market potential and size, Taiwanese business system, product type, and company's business type and ownership. The second half were variables representing retailing and wholesaling. Variables in these two parts were entered into SPSS Logistic Regression Analysis separately. Again, a number of variables were suggested as significant by these two separate logistic regression analyses. These included INFTWNBU, NORTHAME, OWNERSHI, PRODSERV, WHOINDE, RETOWNMA, and WHOLOMEA. These significant variables were then entered at once and their relationship with the dependent variable was examined. The final result, as presented in Table 6.13, revealed that variables in the equation include **INFTWNBU**, **NORTHAME, PRODSERV, WHOLOMEA**, and **RETOWNMA.**

Based on the results of the logistic regression, the logit model for choosing high-resource commitment entry modes is constructed as below:

P (mode choice = 1) = $e^Y / (1+e^Y) = 1/(1+e^{-Y})$,

where Y = b0 + b1*INFTWNBU + b2*NORTHAME + b3* PRODSERV + b4*RETOWNMA + b5*WHOLOMEA

Similar to the situation with Method One, this model has also included an insignificant variable in the equation. The variable, RETOWNMA, does not appear to affect the equation. The result of excluding RETOWNMA is presented in Table 6.14. The model suggested by this round of logistic regression is presented as below:

P (mode choice = 1) = $e^Y / (1+e^Y) = 1/(1+e^{-Y})$,

where Y = b0 + b1*INFTWNBU + b2*NORTHAME + b3*PRODSERV + b4* OWNERSHI or

Y = -2.1906 + 0.4650*INFTWNBU - 2.5080*NORTHAME + 3.2158*PRODSERV - 2.8037*OWNERSHI

Overall

As discussed above, the models produced by excluding the variable of RETOWNMA are superior to those generated by including the variable.

As can been in Tables 6.12 and 6.14, the two models excluding RETOWNMA produce quite similar results. The four significant variables suggested by Method Two as variables in the equation were confirmed by the results of Method One. However when compared to the predictive ability of the two methods, it is found that the model generated by Method One provided higher explanatory power. The classification rate of the first method is better than that of Method Two (93.52% vs 90.60%). Method One's log likelihood value is also superior to that generated by Method Two (31.977 vs 53.373). Method One also suggested more variables which were significantly associated with the choice of entry mode.

Based on the above comparisons, this study adopts the equation generated by Method One as the research model on which the research interpretation and discussion will be based. Because of its central role in the study, the logistic regression model is listed below again.

P (mode choice = 1) = $e^Y / (1+e^Y) = 1 / (1+e^{-Y})$,

where Y = b0 + b1*INFTWNBU + b2*MARKSIZ1 + b3*MARKSIZ2 + b4*NORTHAME + b5*OWNERSHI + b6*PRODSERV + b7*RETAGNDI

or

Y = -4.5521 + 1.0156*INFTWNBU + 5.0517*MARKSIZ1 + 4.322*MARKSIZ2 - 3.8144*NORTHAME - 3.0646*OWNERSHI + 3.7969*PRODSERV - 4.7815*RETAGNDI

Table 6.10 Logistic Regression Results (Method One)

Dependent variable is entry-mode choice (0 = low resource commitment entry mode; 1 = high resource commitment entry mode)					
Variable	**Coefficient Label**	**Parameter Estimate**	**Standard Error**	**df**	**Significance**
Constant	b0	-2.2069	.7485	1	.0032
INFTWNBU	b1	1.5179	.7425	1	.0409
MARKSIZ1	b2	10.1265	4.4633	1	.0233
MARKSIZ2	b3	9.3160	4.4319	1	.0356
NORTHAME	b4	-8.1448	3.9769	1	.0406
PRODSERV	b5	8.5625	4.2674	1	.0448
RETAGNDI	b6	-9.3209	4.2675	1	.0290
RETWONMA	**b7**	**12.0097**	**82.0335**	**1**	**.8836**
WHOLOMEA	b8	9.7367	4.2380	1	.0216
N =	108				
-2 Log Likelihood =	21.790				
Goodness of fit =	19.752				
Model chi-square =	61.517	Significance =	.0000		
Classification rate: Low resource: 98.94%; High resource: 64.29%; Overall: 94.44%					

Table 6.11 Logistic Regression Results (Method One excluding RETOWNMA)

Dependent variable is entry-mode choice (0 = low resource commitment entry mode; 1 = high resource commitment entry mode)					
Variable	**Coefficient Label**	**Parameter Estimate**	**Standard Error**	**df**	**Significance**
Constant	b0	-8.4950	3.6913	1	.0214
INFTWNBU	b1	1.5528	.6643	1	.0194
MARKSIZ1	b2	9.0800	3.9001	1	.0199
MARKSIZ2	b3	9.3654	4.1968	1	.0256
NORTHAME	b4	-8.3826	3.8339	1	.0288
OWNERSHI	b5	-2.6839	1.3855	1	.0527
PRODSERV	b6	8.0754	3.8134	1	.0342
RETAGNDI	b7	-9.1211	3.8678	1	.0184
WHOLOMEA	b8	7.2417	3.5469	1	.0412
N =	108				
-2 Log Likelihood =	23.081				
Goodness of fit =	19.992				
Model chi-square =	60.226	Significance =	.0000		
Classification rate: Low resource: 97.87%; High resource: 64.29%; Overall: 93.52%					

Table 6.12 Logistic Regression Results (Method One excluding RETOWNMA and WHOLOMEA)

Dependent variable is entry-mode choice (0 = low resource commitment entry mode; 1 = high resource commitment entry mode)

Variable	**Coefficient Label**	**Parameter Estimate**	**Standard Error**	**df**	**Significance**
Constant	b0	-4.5521	1.8838	1	.0157
INFTWNBU	b1	1.0156	.3968	1	.0105
MARKSIZ1	b2	5.0527	2.0893	1	.0156
MARKSIZ2	b3	4.3222	1.9151	1	.0240
NORTHAME	b4	-3.8144	1.5140	1	.0118
OWNERSHI	b5	-3.0646	1.1830	1	.0096
PRODSERV	b6	3.7969	1.6216	1	.0192
RETAGNDI	b7	-4.7815	1.8645	1	.0103
N =	108				
-2 Log Likelihood =	31.977				
Goodness of fit =	48.149				
Model chi-square =	51.331	Significance =	.0000		

Classification rate: Low resource: 97.87%; High resource: 64.29%; Overall: 93.52%

Table 6.13 Logistic Regression Results (Method Two)

Dependent variable is entry-mode choice (0 = low resource commitment entry mode; 1 = high resource commitment entry mode)

Variable	CoefficientLabel	Parameter Estimate	Standard Error	df	Significance
Constant	b0	-5.2591	1.5522	1	.0007
INFTWNBU	b1	.6056	.2653	1	.0224
NORTHAME	b2	-2.4302	1.0419	1	.0197
PRODSERV	b3	3.1032	1.0034	1	.0020
RETOWNMA	**b4**	**11.4684**	**33.8396**	**1**	**.7347**
WHOLOMEA	b5	3.4460	1.3486	1	.0106
N =	111				
-2 Log Likelihood =	45.572				
Goodness of fit =	184.090				
Model chi-square =	42.348	Significance =	.0000		

Classification rate: Low resource: 98.96%; High resource: 60.00%; Overall: 93.69%

Table 6.14 Logistic Regression Results (Method Two excluding RETOWNMA)

Dependent variable is entry-mode choice (0 = low resource commitment entry mode; 1 = high resource commitment entry mode)

Variable	CoefficientLabel	Parameter Estimate	Standard Error	df	Significance
Constant	b0	-2.1906	1.0409	1	.0353
INFTWNBU	b1	.4650	.2107	1	.0273
NORTHAME	b2	-2.5080	1.0286	1	.0148
PRODSERV	b3	3.2158	.9887	1	.0011
OWNERSHI	b4	-2.8037	.8181	1	.0006
N =	117				
-2 Log Likelihood =	53.373				
Goodness of fit =	152.642				
Model chi-square =	36.240	Significance =	.0000		

Classification rate: Low resource: 96.08%; High resource: 53.33%; Overall: 90.60%

6.7 GOODNESS OF FIT OF LOGISTIC REGRESSION ANALYSIS

There are a number of ways to measure the goodness of fit of a logistic regression model. Besides the likelihood value (-2LL) (discussed in Section 5.5.4.1), two other methods often used to determine how a logistic regression model fits are; correct prediction rate and model chi-square statistics (Anderson and Coughlan, 1987; Erramilli, 1991, p.492; SPSS Advanced Statistics, 1993; Hair et al, 1995).

As indicated previously, a low -2LL value means a model fits the research data well. Similarly, high correct prediction rates also represent a good fit. Erramilli (1991) indicated that the explanatory of a logistic regression model can also be examined by its model chi-square statistics. This is a method to test whether inclusion of one or more variables improves the prediction rates (Afifi and Clark, 1984, p.299). Large chi-square values and small *p* values (significance levels) indicate a good fit (i.e. the variables in the model are useful in classification) (Afifi and Clark, 1984; Erramilli, 1991).

The results of the adopted model's correction rate and model chi-square value are presented in Table 6.12.

As reported in Table 6.15, the correct prediction rate for the first method (excluding RETOWNMA and WHOLOMEA) is 97.87% for low resource commitment entry modes and 64.29% for high resource commitment entry modes respectively. The overall correct prediction rate is 93.52%. When comparing the prediction rate produced by this study to those generated in previous studies in the same field, this model produces a better result (ie 82%, Anderson and Coughlan, 1987, p.78; 69%, Erramilli and Rao, 1993, p.30).

With respect to the model chi-square statistics, as can be seen in Table 6.12, the level of model chi-square of this model is highly significant (p=0.0000 in most cases) and the value of model chi-square is reasonably large. Also shown in the table, the value for -2LL is low. Based on these results, the model suggested by the logistic regression analysis appears to fit the data quite well.

Table 6.15 Classification Rate - Method One (excluding RETOWNMA & WHOLOMEA)

		Predicted 0	Predicted 1	Correct rate
Observed	0	92	2	97.87%
	1	5	9	64.29%
			Overall	93.52%

6.8 BIVARIATE CORRELATION ANALYSIS RESULT (MULTICOLLINEARITY)

The correlation matrix of the independent variables in the logistic regression model is presented in Table 6.17. As can be seen in the table, the highest correlation coefficient, 0.68039, occurs in the relationship between RETAGNDI and MARKSIZ2.

When comparing these results with the rule of thumb for multicollinearity (0.9) as suggested by Cohen and Cohen (1975) and Green and Tull (1978) (both cited in Ramaseshan and Patton, 1994), it does not appear that this study has a problem of multicollinearity. Variables used to predict the dependent variable are not strongly correlated to each other.

Table 6.16 Correlation Matrix of Independent Variables
(Method One excluding RETOWNMA)

	Constant	INFTWNBU	MARKSIZ1	MARKSIZ2	NORTHAME	OWNERSHI	PRODSERV	RETAGNDI	WHOLOMEA
Constant	1.00000	-.95916	-.77771	-.75854	.75886	.31779	-.80761	.73037	-.76060
INFTTWNBU	-.95916	1.00000	.76220	.76785	-.79440	-.50641	.80138	-.76179	.61404
MARKSIZ1	-.77771	.76220	1.00000	.77593	-.74081	-.35486	.74921	-.78378	.68762
MARKSIZ2	-.75854	.76785	.77593	1.00000	**-.90491**	-.45336	.86798	**-.91213**	.80656
NORTHAME	.75886	-.79440	-.74081	**-.90491**	1.00000	.41426	**-.90758**	.88596	-.80752
OWNERSHI	.31779	-.50641	-.35486	-.45336	.41426	1.00000	-.41240	.38512	-.14153
PRODSERV	-.80761	.80138	.74921	.86798	**-.90758**	-.41240	1.00000	-.81747	.77021
RETAGNDI	.73037	-.76179	-.78378	**-.91213**	.88596	.38512	-.81747	1.00000	-.82144
WHOLOMEA	-.67060	.61404	.68762	.80656	-.80752	-.14153	.77021	-.82144	1.00000

Table 6.17 Correlation Matrix of Independent Variables
(Method One excluding RETOWNMA & WHOLOMEA)

	Constant	INFTWNBU	NORTHAME	OWNERSHI	PRODSERV	RETAGNDI	MARKSIZ1	MARKSIZ2
Constant	1.00000	-.90650	.28044	.30450	-.32443	.33609	-.56538	-.38127
INFTTWNBU	-.90650	1.00000	-.43960	-.57349	.34541	-.47373	.54543	..43648
NORTHAME	.28044	-.43960	1.00000	.34702	-.54464	.52484	-.29220	-.57379
OWNERSHI	.30450	-.57349	.34702	1.00000	-.39497	.35848	-.31000	-.42340
PRODSERV	-.32443	.34541	-.54464	-.39497	1.00000	-.30180	.30356	.46299
RETAGNDI	.33609	-.47373	.52484	.35848	-.30180	1.00000	-.53005	**-.68039**
MARKSIZ1	-.56538	.54543	-.29220	-.31000	.30356	-.53005	1.00000	.46989
MARKSIZ2	-.38127	.43648	-.57379	-.42340	.46299	**-.68039**	.46989	1.00000

6.9 TESTING FOR RELIABILITY AND VALIDITY

6.9.1 Validity

Validity of a study has been cited as "the extent to which a test measures what we (researchers) actually wish to measure" (Thorndike and Hagen, 1969 cited in Emory and Cooper, 1991, p.179). It refers to the problem of whether a measure measures what it is supposed to measure. Several validity tests are used to test the goodness of measures. The three often cited methods are content validity, criterion-related validity and construct validity (Sekaran, 1992).

Content validity

Content validity ensures that the measure includes an adequate and representative set of items that would tap the concept. The more the scale items represent the domain or universe of the concept being measured, the greater the content validity. In other words, content validity is concerned with the adequate coverage of the topic studied (Churchill, 1996).

Criterion validity

Criterion validity concerns the ability of a measure to correlate with a particular external measure. It often consists of two forms of validity - predictive and concurrent. Concurrent validity is established when the scale discriminates individuals who are known to be different; that is, they should score differently on the test. Predictive validity is the ability of the test or measure to differentiate among individuals as to a future criterion.

Construct validity

This validity testifies to how well the results obtained from the use of the measure fits the theories around which the test is designed. Two methods often used to assess a study's construct validity are convergent and discriminant validity. Churchill (1996, p.405) defined convergent validity as "the confirmation of a relationship by independent measurement procedures". In other words, convergent validity is established when the scores obtained by two different instruments measuring the same concept are highly correlated. Discriminant validity occurs only when a measure has a low correlation with measures of dissimilar concepts (Zikmund, 1991; Churchill, 1996). Emory and Cooper (1991) further noted that discriminant validity is established when two variables are predicted to be uncorrelated and the scores obtained by measuring them are indeed empirically found to be so.

In this study every effort has been made to ensure the above discussed conditions of the validity are met. To achieve this objective, a comprehensive literature review on market entry modes, and studies on the host market especially on its business system and distribution systems was conducted. In addition, research on the Japanese distribution system was also reviewed in order to generate research propositions. The establishment of the measurement of constructs used in the study was designed based on those adopted in the existing empirical literature. For those constructs which were not tested empirically such as business systems, distribution systems, extra efforts have been made to ensure their validity. The items used to build these constructs were established based on a comprehensive review of the theoretical literature. Two pilot studies were conducted to help finalise these constructs. Questions used to capture the various facets of the constructs were reviewed and confirmed by academic staff and managing directors of 11 New Zealand companies and their distributors or agents in the host market.

6.9.2 Testing of Reliability

Thorndike and Hagen (1969 cited in Emory and Cooper, 1991, p.179) defined reliability as "to do with the accuracy and precision of a measurement procedure." Thus, the reliability of a measure refers to a high degree of consistency of research outcomes. A study's reliability represents its ability to obtain a similar result by measuring an object, or construct with independent but comparable measures. It is concerned with estimates of the extent to which a measurement is free of random or unstable error. The three often used methods to measure the reliability of research are: test-retest, equivalence and split-halve (Nunnally, 1978; Emory and Cooper, 1991; Hoang, 1995; Churchill, 1996).

Test-retest

This method assesses the stability of a measure of the study. This approach compares the degree of reliability of a measurement instrument. Churchill (1996) indicated that one way to assess the reliability of a measure is to measure the same objects or individuals at two different points in time and to correlate the obtained scores. If the objects or individuals have not changed in the interim, the two scores should correlate perfectly.

Equivalence

This technique is concerned with the internal consistency of a measure. In the equivalent-form method, two alternative instruments are designed to be as equivalent as possible. Each of the two measurement scales is administered to the same objects. If there is high correlation between the two forms, the researcher can conclude that the scale is reliable (Zikmund, 1991).

Split-Half

This method is the most widely used for assessing internal consistency. In the split-half method, results from a survey are separated by items into even and odd numbers or into two randomly selected halves (Zikumnd, 1991). In the split-half method, researchers often take the results obtained from the first half of the scale items and compare them with the results generated by the other half of the items. If the results of the two halves are significantly related, the measurement instrument is claimed to be highly reliable in internal consistency.

Due to the nature of the research raw data, the split-half method was adopted to examine internal consistency of the study. As reported earlier in the chapter, the Cronbach's alpha of the three constructs which were suggested by factor analyses were all higher than the cut-off point, 0.5. This is an indication that the measures used to make up these constructs were internally consistent although these items only represented a small part of the variables used in the study. Furthermore, the high internal consistency of items used in the study can also be seen from the results of the two logistic regression analyses. As reported earlier in this chapter, the results produced by these two analyses were similar. The result of the second method was confirmed by the findings of Method One. Based on the outcomes generated by factor analyses and logistic regression analyses, it is believed that this study has strong internal consistency.

6.10 SUMMARY

In this chapter, the results of different analyses were presented. Company profile and other relevant information was discussed first. The majority of the respondents studied were classified as small or medium-sized companies. Almost half of the companies conducting business with Taiwan were manufacturing goods marketers. The three most often used entry modes by New Zealand companies were distributors, international trading companies and agents. This research result is similar to the result produced by other New Zealand studies. Chi-square and logistic regression analysis results were reported next. These two methods produced a quite similar result.

The goodness of fit of the logistic regression model was determined by correct classification rate and model chi-square. Results showed that the model fitted the data quite well. From an examination the correlation coefficient of significant variables associated with the choice of entry mode, this study did not appear to have a multicollinearity problem. Variables were not strongly correlated to each other.

In the next chapter, each significant variable will be discussed in detail. Discussion of the initial suggested propositions will also be offered in the chapter. Based on the results of chi-square and logistic regression analyses, the initial propositions will be amended. Factors which influence the choice of market entry mode will also be presented. The theoretical and managerial implications will also be discussed in the last sections of the chapter.

CHAPTER 7: DISCUSSION

7.1 INTRODUCTION

The research findings have been reported in the previous chapter. The results of the chi-square and logistic regression analyses were discussed and analysed there. In this chapter, significant variables are discussed in-depth in section 7.2. The next section, 7.3, discusses the research propositions. Based on the results of statistical analyses, possible modification of the initial propositions are considered. Modified research propositions are presented in section 7.4. A summary of the chapter is offered in the last section, 7.5.

7.2 DISCUSSION OF SIGNIFICANT VARIABLES

Table 7.1 Summary of Variables and their Significance Levels

Variable	Coefficient Label	Parameter Estimate	Significance
Constant	b0	-4.5521	.0157
OWNERSHI	b5	-3.0646	.0096
RETAGNDI	b7	-4.7815	.0103
INFTWNBU	b1	1.0156	.0105
NORTHAME	b4	-3.8144	.0118
MARKSIZ1	b2	5.0527	.0156
PRODSERV	b6	3.7969	.0192
MARKSIZ2	b3	4.3222	.0240

As reported in the previous chapter, the seven significant variables identified by Logistic Regression Analysis with the choice of market entry modes were OWNERSHI, RETAGNDI, INFTWNBU, NORTHAME, MARKSIZ1, PRODSERV, and MARKSIZ2. These variables are listed in terms of their significance level (Table 7.1). Each variable is discussed below.

OWNERSHI is the most significant variable. Its significance level is 0.0096. It is negatively associated with the choice of high resource commitment market entry modes. This result suggests that if a New Zealand registered company was not wholly New Zealand owned (ie controlled from overseas), it was more likely to adopt a high resource commitment entry mode at the time it first entered the Taiwanese market. This is likely because foreign controlled firms have more financial and managerial resources, therefore they are more capable of choosing a high resource commitment entry mode than their New Zealand wholly owned counterparts. More resources often also allow these companies to use a higher risk entry mode (high resource commitment). Foreign controlled firms might also wish to receive a higher return from, and exercise higher control over their operations in Taiwan, therefore, adopting a high resource commitment entry mode would enable them to have a better chance of achieving such goals. Other reasons could be related to companies' international business strategy. Foreign controlled companies might want to integrate their operations in Taiwan within their global operations. By choosing a high resource commitment entry mode, these companies' operations in Taiwan can be more easily integrated into their global business structure.

Among those foreign controlled New Zealand companies, a number were established and controlled by Taiwanese immigrants at the time they first entered Taiwan. OWNTAIWA is the variable created to represent if a New Zealand registered company is controlled by Taiwanese immigrants at the time it first entered Taiwan. This variable is significantly related to the choice of market entry mode (as seen in Table 6.9 in previous chapter). This group of companies was classified as foreign controlled although these immigrants might become New Zealand citizens eventually. The explanation for these companies' choice of market entry mode is likely related to their links with the host country.

The effect of immigrants on business in general has been discussed in a number of studies. A survey-based study (Lever-Tracy et al, 1991) conducted in Australia about businesses established by Chinese or Indian immigrants indicated that a large proportion of the respondents had financial resources and business experience when they migrated to Australia. The findings of this study further noted that nearly half of its respondents had

had prior experience as owner operators and a number of their businesses were direct branches or offshoots of a family business in other countries. Likewise, the study by Chappel et al (1995) on the economic impact of immigration also pointed out a similar result. Their study found that entrepreneurship was more commonly observed in immigrants than in the base population. Some explanations for this tendency included their business experience in the originating country and networks of collaborators in the host markets. Also in a study of the role immigrant links played in facilitating trade between the destination country and the originating country of immigrants, Gould (1994) revealed that immigrant links to their originating country including knowledge of the market, languages, and business contacts, had a positive impact on bilateral trade flows between these two countries. Furthermore, a New Zealand study (Duncan et al 1997) on the interaction between trade, investment and migration concluded that immigrants often bring with them important skill sets, knowledge and networks which have provided a foundation for New Zealand to build international trade and investment relationships with immigrants' source countries or regions.

In conclusion, immigrants from Taiwan are likely to have knowledge of the host market, languages, culture, and business contacts before they started their business in New Zealand. Therefore, when doing business with Taiwan, they are more likely to adopt a high resource commitment entry method because Taiwan was not viewed as a risky market or a new market to them. Adopting a high resource commitment entry mode would also enable the company to capture the best business opportunity there. The decision of this group of companies on the choice of market entry mode does not necessarily follow the incremental internationalisation progress theory which was initiated by Johanson & Vahlne (1977). An example of this group of companies was a natural health food company which was established by a group of recent Taiwanese immigrants. When it started doing business with Taiwan, Taiwan was their only market. It established a marketing subsidiary in Taiwan to distribute its products to the market. The reason for this choice was to have the highest level of control and profit. The findings of this study have confirmed the views of those who oppose the incremental process theory (e.g. Sullivan and Bauerschmidt, 1990). A study conducted by Sullivan and Bauerschmidt

(1990) of a European forest industry found no support of Johanson and Vahlne's theory. The findings of their study have led these two authors to question whether "psychic distance" is a logical measurement for internationalisation process.

RETAGNDI is the second most significant variable in the prediction of the choice of entry mode. Its significance level is 0.0103. It is negatively signed. This variable represents whether a firm's products were distributed to independently owned retailers through agents, distributors or importers. As can be seen in the questionnaire, New Zealand products marketed in Taiwan could be distributed to independently owned retailers through four different ways (ie via own marketing subsidiary, agents, distributors, or importers, independent wholesalers, or other means). The fact that this particular way of distributing products to retailers has been identified as a significant variable might reveal something special - ie only those whose products were distributed to retailers by agents, distributors or importers tended to use a low resource commitment entry mode. This result might imply that because if a firm's products were distributed to retailing outlets through a marketing intermediary based in the host country, this organisation might already have a good knowledge about the host market and it perhaps also has a well established distribution network. It is, therefore, logical for the New Zealand company to use the intermediary to enter the host market because of these attractions and to use this organisation to distribute its products to the independently owned retailers.

The third significant variable as identified by the logistic regression analysis is INFTWNBU. Its significance level is 0.0105. This result reveals that New Zealand companies' market entry mode decision was positively associated with their key Taiwanese trading counterpart's business system. In other words, this result indicated that the more a New Zealand company's choice of market entry mode decision is influenced by its key Taiwanese counterpart's business system, the more likely it would be to adopt a high resource commitment entry mode. On the other hand, it is likely that a New Zealand firm would adopt a low resource commitment entry mode if its choice of market entry mode decision is less influenced by its counterpart's business system.

This finding is unique. Unlike other significant variables which are factual statements about physical attributes - size of the market (industry) in Taiwan, marketing of a service or good, and ownership of the New Zealand company - the result of this significant variable is different. Respondents were asked to rate the degree of influence that the Taiwanese trading partner's business system had on choice of entry mode. Thus it is a perceptual variable. It is the respondent's perception of the influence of family-owned structure, personal authority of the owner and decision-making structure. Did the business system of the trading partner influence choice of market entry mode?

Explanations for this research result are likely to be that at the time the New Zealand company first entered the market it had already acknowledged the importance and influence of the Taiwanese business system (via previous experience of doing business with other Chinese Family Countries or other sources such as marketing research). The company believed that the best way for it to succeed in this market was to choose a high resource commitment entry mode. This is because the commitment to the market is a way of showing sincerity to the market and to the Taiwanese business partner. The more commitment to the market (via choosing a high resource commitment mode), the more sincerity is demonstrated, and the more people are willing to do business with you.

Other explanations for this finding might be that those companies which choose a high resource commitment plan to stay in Taiwan for a long time. Taiwan is an important market for their business. One way to stay in Taiwan for a long time is to build up relationships and personal trust. As Kao (1993) indicated, the Chinese like doing business with someone they know and trust. It is important to establish a good relationship and trust with the firm's local business partner and one way to cultivate such a relationship and trust is to choose a entry mode which requires the New Zealand company to have frequent contact with its Taiwanese counterpart.

High resource commitment entry modes often entail the New Zealand company having a high level of interaction with their Taiwanese counterpart(s). One illustration of this is the entry strategy adopted by a New Zealand immigration company. It entered the market by joint venture with a local Taiwanese company. The New Zealand firm and its Taiwanese partner have a high level of interaction due to their close relationship. The closeness of these two companies has brought benefits for both parties. Through its Taiwanese partner, the New Zealand firm knows its Taiwanese end customers' needs and wants. The Taiwanese joint venture partner has also received up-to-date information about New Zealand immigration policy from its partner. Through frequent communication, both sides are able to pass market intelligence to each other. As a result of this close relationship, the company was able to provide a better service to their customers and their business was more successful than that of their competitors.

Adopting a high resource commitment entry mode would also assist the New Zealand company to serve its customers in the local distribution system better. The example of ANZCO illustrates this. Asian New Zealand Meat Company (ANZCO) established a Taiwanese marketing subsidiary in the early 1990s to assist its importers to market New Zealand meat to their Taiwanese customers. The role of ANZCO's Taiwan branch is to help its meat importers to resolve any marketing problems and to promote New Zealand meat. By creating a marketing subsidiary in Taiwan, ANZCO was able to demonstrate its commitment to the market and its customers. The Taiwanese importers were able to get their problems resolved in a short time. This marketing subsidiary in Taiwan is to benefit both sides. The more the importers sell the products, the better for ANZCO. The marketing subsidiary of ANZCO has conducted a high level of contact with its key customers. Thus, it was able to receive first hand marketing information.

As discussed in Chapter Two, one major characteristic of Taiwan's business system is the high personal authority of the owners (Whitley, 1992). The key decision makers of the company are still very likely to be the owners. A high resource commitment entry mode will enable New Zealand firms to build a good personal relationship with the Taiwanese company's owners. Frequent face-to-face communication is also the best way to earn these owners' trust. It has been noted that Taiwanese firms like to deal with foreign firms which have a local presence (Hoadley, 1993).

Research results indicated that NORTHAME is another variable which significantly distinguishes responding firms using either a low or high resource commitment entry mode. NORTHAME is the fourth significant variable suggested by the logistic regression analysis. It is negatively signed. The significance level for this variable is 0.0118. The research findings indicate that if New Zealand registered firms did not have business experience with North America (ie USA and Canada) prior to their entry to Taiwan, they are more likely to adopt a high resource commitment entry mode. This finding is consistent with the finding of MARKSIZ1. As discussed below, if a New Zealand firm has only operated in Taiwan at the time they first entered the market, this firm is likely to adopt a high resource commitment entry mode. Firms which had only operated in Taiwan were likely to be established or controlled by Taiwanese immigrants. These firms were very likely to have experience in Taiwan before they started their business operations in New Zealand and Taiwan is not seen a risky market to do business with. The relationship between NORTHAME and OWNTAIWA was examined by a chi-square test. None of the 7 Taiwanese controlled companies had business experience with North America prior to their entry into Taiwan. On the other hand, the chi-square result has also indicated that companies which have conducted business with the USA or Canada before their entry into Taiwan tend to choose a low resource commitment entry mode. Potential explanations for this result are most likely related to the cultural dissimilarity of the two economies. The respondents might view the business system of these two economies as quite different, thus their business experience with North American countries is not that helpful for their entry into Taiwan. They still prefer to start with a low resource commitment and a low operational risk entry mode although they had operated in North American countries before.

The research finding on business experience in North America may suggest that the influence of cultural dissimilarity on the choice of entry mode is greater than cumulative international business experience.

The finding on business experience with North America is further strengthened by the relationship between the firm's ownership (OWNOTHER) and the choice of market entry mode. In this study five companies indicated that they were controlled by a USA or Canadian company at the time they entered the Taiwanese market. These five companies all chose a low resource commitment entry mode at the time they first entered the market. This is another indication that the experience of doing business with North America did not encourage the company to choose a high resource commitment entry mode.

The variables MARKSIZ1 and MARKSIZ2 were also significantly associated with the choice of market entry mode. They are the fifth and seventh significant variables. Their significance levels are 0.0156 and 0.0240 respectively. These two are categorical variables. MARKSIZ1 is a sub-category of MARKSIZC. With categorical variables, the only statement a researcher can make about the effect of a particular category is in comparison to some other category (SPSS Advanced Statistics, 1993, p.12). MARKSIZ1 is designed to distinguish whether or not a respondent had only operated in Taiwan. The comparison group for this variable is companies which operated in an industry in Taiwan whose market size was smaller than the size of the company's largest other market. This variable was positively associated with the choice of high resource commitment market entry modes. This result suggested that a firm was likely to choose a high resource commitment entry mode if it only operated in Taiwan at the time it first entered the market. One potential explanation for this tendency is that these companies were established by Taiwanese immigrants. The relationship between Taiwanese ownership (OWNTAIWA) and MARKSIZ1 was examined by a chi-square test. The chi-square test result confirmed that companies controlled by Taiwanese were more likely than their counterparts to operate in Taiwan only. As explained above, these immigrants were from Taiwan originally and they know the market well. It is very likely that they already had business experience with Taiwan before they started their business operations in New Zealand. Thus they were more likely to select a high resource commitment entry method. It is easy to understand why these immigrants start their international business with a country that they are most familiar with. A number of companies in this study were established purely to serve the Taiwanese market and they did not even operate in the

New Zealand domestic market or any other overseas markets in their initial stage of operations. These companies might expand their operations into other countries (for example, Japan) and the domestic market at a later stage. But Taiwan was the first target market, or at least among the first countries they did business with, when they started their international operations.

MARKSIZ2 is another sub-category of MARKSIZC and was designed to distinguish whether the industry a respondent had operated in Taiwan had a similar size compared to the company's largest other market. Due to this particular reason, the discussion about this variable is presented here although it is the least significant variable. MARKSIZ2 was positively associated with the choice of a high resource commitment market entry modes. This result suggested that if a firm operated in an industry in the host country whose size was similar to the firm's largest other market, it was likely to choose a high resource commitment entry mode. Reasons for this tendency are likely to be related to the business potential of the host market. If the host market's industrial size was similar to the firm's largest market, this market is likely to provide lots of business opportunities for the firm. Therefore this firm is likely to choose a high resource commitment entry mode in order to capture these business opportunities.

The finding of a relationship between the size of the industry and the choice of market entry mode concurs with the findings of Davidson (1980), Terspstra and Yu (1988), and Yu and Ito (1988) whose findings suggested that the inflow of a country's foreign direct investment is positively related to its market size. However it fails to concur with the findings of Gomes-Casseres (1990) whose study used the size of an industry to measure the host country's market size. Gomes-Casseres's (1990) research was to study whether a joint venture or wholly owned subsidiary was preferred by the respondents. His evidence indicated that market size was positively associated with the use of joint ventures (a relatively low resource commitment entry mode). His explanation for this result was that large markets might have attracted large number of competitors which reduced the attractiveness of wholly owned subsidiaries.

As indicated in Chapter 4 of the thesis, unlike most of the previous studies (ie Davidson, 1980; Terspstra and Yu, 1988; Yu and Ito, 1988) whose focus was on examining their respondents' worldwide operations, the present study is designed to examine New Zealand firms' international business activity in one host country only. Due to this nature, the variables suggested by previous studies to examine the influence of market size and market potential need to be amended. Market size is measured in terms the size of a industry that a respondent has operated in the host market.

The sixth significant variable is whether or not a New Zealand company's main product marketed in Taiwan was a service product. The significance level of this variable is 0.0192. A New Zealand company is likely to adopt a high resource commitment entry mode if its main product line marketed in Taiwan is a service product. Reasons for this are likely to be the special characteristics of service products (i.e. inseparability, intangibility, perishability, and variability. See Berry, 1980; Carman and Langeard, 1980; Nicoulaud, 1989; Erramilli and Rao, 1993; Kotler et al, 1994) which often require service providers to market their products more directly to their overseas end customers than their manufacturing or primary produce counterparts. Due to these characteristics, service marketers would often need to adopt a higher resource commitment or control entry mode in order to meet the needs of their overseas customers. The findings of Carman and Langeard (1980) suggested that service marketers, in contrast to products marketers, must go to the host country, face the customer and produce the service in that country. Similarly, Nicoulaud (1989) noted that, unlike tangible goods, services cannot be exported because they cannot be stored.

This characteristic of services has a great impact on the internationalisation process of services firms, especially on the decision to expand abroad and on the choice of market entry method. Furthermore, Zeithaml et al (1985 cited in Erramilli and Rao, 1993, p.24) pointed out that inseparability is a feature that distinguishes service marketers from manufacturing goods marketers. Inseparability often forces the buyer into intimate contact with the production process and necessitates close buyer-seller contact (Gronroos, 1983 cited in Erramilli and Rao, 1993, p.24). The findings of this current research are consistent with the findings of Carman and Langeard (1980) and Nicoulaud (1989) - the nature of their products often require the service providers to adopt a higher resource commitment entry mode.

Immigration services were the service most frequently offered by New Zealand companies in Taiwan. In order to sell immigration services to their Taiwanese customers, most New Zealand immigration companies adopted either an overseas marketing subsidiary or a joint venture market entry mode in order to serve their customers better. By adopting a higher resource commitment entry mode, these immigration companies can be seen to have a long-term commitment to the market. Therefore, more Taiwanese customers are willing to do business with them. Also by adopting a high resource commitment entry mode, these companies will enjoy a higher quality control over the services they market in Taiwan. A high resource commitment entry mode will also enable the service marketers to acquire first hand market intelligence. High resource market entry modes are also often associated with a higher profit return and risk.

7.3 DISCUSSION OF PROPOSITIONS

7.3.1 Introduction

This study is the first in which a research model has been applied to explain levels of resource commitment entry mode of New Zealand firms in international markets.

As can be seen above, the results generated by chi-square and logistic regression analyses are similar. It was decided that the research model was to be based on the results of Method One of logistic regression analysis. The discussion of the testing of propositions will also be based on this model. The variables suggested as significantly associated with the choice of market entry mode are whether the product marketed in Taiwan is a service product, whether the company is New Zealand wholly owned, whether Taiwan was the only market the company operated in, whether the Taiwanese industry was similar in size to the size of the largest market the firm had operated in, whether the company had operated in North America prior to its entry into Taiwan, whether the company's products were distributed to independently owned retailers via agents, distributors or importers, and the influence of key Taiwanese trading partner's business system on the choice of market entry mode.

Among the initial 11 propositions, only firm's international business experience with North America, a firm's retailing structure, and Taiwan's business system and market size are significantly associated with the choice of market entry modes but these propositions need to be modified. The other propositions are not supported. The initial propositions will need to be modified based on the final results of logistic regression analysis and they will be discussed in detail in the next section.

7.3.2 Discussion of Proposition 1

"Firm size is likely to influence the choice of market entry mode. Small size New Zealand firms are more likely to adopt entry modes that involve low resource commitment, while large size New Zealand firms are more likely to adopt entry modes that involve high resource commitment."

The first proposition is not supported. The research findings do not support those studies which have found that firm size is associated with the choice of market entry mode (Amine, 1987; Chan, 1992; Levy, 1988; Li and Guisinger, 1992; Terpstra and Yu, 1988). However, this research finding is consistent with those studies which have shown a non significant relationship (i.e. Cavusgil, 1984a; Cavusgil, 1984b; Czinkota & Johnston, 1983; Weinstein, 1977) between entry mode choice (level of resource commitment) and the size of the firm.

Also, unlike previous New Zealand studies which have produced some significant evidence about firm size and their research subject (the dependent variable), this current study does not produce any significant evidence about New Zealand firms' international business activities and their size. Hoang (1995) confirmed that New Zealand firms' choice of marketing strategy is positively influenced by the size of the firm. Harrison (1990) reported that firm size is one of the most important descriptive variables of New Zealand firms' internationalisation process. Based on the findings of New Zealand studies, it was expected that the international marketing behaviour of current respondents would be similar to those in previous New Zealand studies. New Zealand firms' choice of entry mode were expected to be related to the size of their firms.

Reasons why this variable did not produce significant evidence on the choice of market entry mode might be complicated. One potential explanation is that although large firms often have larger resources, they might view Taiwan as a new and foreign market, and so they tend to start with a low resource commitment entry mode because of the lower operational risks. On the other hand, a number of small or medium sized firms which are often short of resources tend to choose a high resource entry mode. This might be because they already have knowledge of doing business with the host market. Taiwan is not a strange market to them and they are more willing to choose a high resource commitment entry mode than the large sized firms. To support this statement, the relationship between firms controlled by Taiwanese immigrants (OWNTAIWA), firms' total sales (TOTSALEC), and employees hired in New Zealand (FIRMSZIN) were examined by a chi-square test. In terms of total sales, it is found that all firms controlled by Taiwanese immigrants were classified as small sized firms. In terms of employee size, all Taiwanese controlled firms were classified as small or medium sized firms. As reported in the previous chapter, about 57% of firms (four out of seven firms) controlled by Taiwanese adopted a high resource commitment entry mode.

7.3.3 Discussion of Proposition 2

"Cumulative international business experience (as measured by number of years the parent company has been in international business and number of foreign markets the parent company is operating in at the time the firm first enters the Taiwanese market) is likely to influence the choice of market entry mode. New Zealand firms which have high cumulative international business experience are more likely to adopt entry modes that involved high resource commitment at the time they first enter the Taiwanese market. The reverse holds as well."

A number of items have been used to measure the effect of firm's international business experience. These include respondents' international experience prior to their entry to Taiwan, number of years of operating in Taiwan, number of countries they were operating in at the time they entered Taiwan, and specific countries (or regions) they had operated in prior to their entry of Taiwan. As discussed in Chapter 6, the only variable which is significantly associated with the prediction of the choice of entry mode is respondents' business experience in North America (NORTHAME). This research does not support the view that when firms accumulate enough international business experience, they normally adopt entry modes which involve higher resource commitment. Therefore this research fails to support those empirical studies which have revealed a positive relationship between a firm's international experience and the choice of high resource commitment or high control market entry modes (i.e. Davidson, 1980; Davidson, 1983; Gatignon & Anderson 1987; Gatignon & Anderson, 1988; Klein & Roth, 1990; Terpstra and Yu, 1988; Weinstein, 1977). Much of the existing international management literature indicates that experienced international marketers are more willing than inexperienced firms to choose a higher resource commitment entry mode (Stopford and Wells, 1972, cited in Anderson & Coughlan, 1987, p.80).

Studies on the influence of cumulative international experience on New Zealand firms' international business have generated limited results. Hoang's (1995) study on New Zealand manufacturing firms' international marketing activity confirmed that his respondents' choice of marketing expansion strategy was positively associated with their international business experience. This study has produced a different result. It could be that respondents' cumulative international business experience was not a factor of the choice of market entry mode due to their short international business experience. As reported in previous studies (eg Akoorie and Enderwick, 1992) late entry into world markets is one characteristic of New Zealand international marketers. Akoorie and Enderwick (1992) indicated that 64.2% of their responding companies had been engaged in international operations for ten years or less. This study produced a similar result - 62.1% of respondents have been in international business for 5 years or less in prior to their entry into Taiwan. Most New Zealand firms' international business experience might not be long enough to encourage them to choose a higher resource commitment entry mode.

As discussed in Chapter 5, among the items which were used to measure firms' international experience was the countries or regions they had operated in prior to entering Taiwan. One of the items is firms' business experience with Chinese Family Business (CFB) countries. It was expected that this experience would have some influence on the entry decision into Taiwan. It is surprising that respondents' experience in other CFB countries does not appear to have any influence on the choice of market entry mode. One explanation for this finding was perhaps that Taiwan was considered by the respondents as different from other CFB countries. In addition it was also seen perhaps as a country with a higher political risk, thus their previous experience in these countries did not encourage them to choose a high resource commitment entry mode. They started with a low resource commitment entry mode.

However although it is surprising that the experience of doing business with Chinese speaking countries had no influence on the choice of market entry mode, it is even more surprising to learn that the experience of doing business with North America was negatively associated with the choice of entry mode. One potential explanation for this tendency is that of the cultural dissimilarity of the two economies. Detailed analysis on this aspect has been reported above.

7.3.4 Discussion of Proposition 3

"New Zealand firms' choice of market entry mode is likely to be influenced by the decisions of New Zealand competitors in their industry. For instance, New Zealand firms whose major competitor(s) have entered the Taiwanese market with a strategy of high resource commitment, are likely to pursue a similar strategy."

Previous studies (Knickerbocker, 1973; Terpstra and Yu, 1988; Yu and Ito, 1988; Li and Gusinger, 1992) have suggested that "following the leader" might have an effect on the choice of market entry mode. The results of the current study suggest that New Zealand firms' decisions on the choice of entry mode do not follow their competitor's pattern. Reasons for this result are likely to be that there were only a small number of firms which already had competitors operating in the host market. Among the 124 respondents, only 54% of firms (or 67 firms) indicated that at the time they first entered the market, there was at least one New Zealand competitor already operating in the market. Forty five per cent of firms (or 56 firms) indicated that they had no New Zealand competitors operating in Taiwan when they first entered the market, therefore their choice of entry mode was not influenced by their competitors' choice. In terms of the choice of entry mode of competitors, 51 firms indicated that their competitors chose a low resource commitment entry mode while only seven competitors adopted a high resource commitment entry mode.

The ability of the variables in the "competitors" segment to predict the use of a particular type of resource commitment entry mode has been limited due to this small useable sample size. In logistic regression analysis, a case will be excluded from the analysis if it contains missing data in any of the analysis variables.

7.3.5 Discussion of Proposition 4

"Degree of dominance in the New Zealand domestic market is likely to influence New Zealand firms' choice of market entry mode. A strong and successful New Zealand domestic presence is likely to provide the New Zealand firm with more resources to support its international operations. Therefore, New Zealand companies who dominate their domestic market (as measured by share of the market) are more likely to choose entry modes that involve high resource commitments. The reverse holds as well."

The research findings did not indicate that a strong domestic position has led New Zealand companies to adopt a high resource commitment entry mode. Therefore the findings of Hirsch and Lev (1971 & 1974) which indicated that a strong domestic market presence was a prerequisite for a firm's entry into international markets was not supported.

The findings generated by this study also contradict the findings of a number of New Zealand studies. The findings of Lindsay (1989; 1990) were not supported by this study. Her studies found that successful manufacturing goods exporters often had a dominant position in the domestic market. Lindsay (1989) revealed that many of her research firms were reliant on their domestic market base to support their export business. A stable home market position was particularly important in the start-up period. It is likely that this study produced different results due to the industry background of the research respondents. Unlike Lindsay's studies which focused on examining the exporting behaviour of New Zealand manufacturers only, responding firms within this study were from three sectors - manufacturing, primary produce and services. It may be that firms in each industrial category vary in the extent to which they require domestic market presence to support their international marketing activity (e.g. the choice of market entry mode). For example, manufacturing operators may need a higher domestic market presence in order to be a successful international marketer. A strong domestic position may be a pre-requisite of many New Zealand manufacturing international operators. However, in contrast to their manufacturing counterparts, primary producers and service marketers may not necessarily need a strong domestic presence to support their international marketing programme. In general it was noted that the total investment of manufacturing operators was higher than their primary produce and services counterparts. Therefore most manufacturers start their operations within their domestic market. When they have a considerable position in the home market, they will then enter the international market. On the other hand, due to the relatively lower investment required it is easier for primary produce and services marketers to enter the international market without a strong domestic market position. It is common for operators in these two categories to operate in the domestic market and the international market at the same time. This is especially true when the home market size is relatively small, such as New Zealand.

Although a number of manufacturing firms within this study have a strong domestic presence, they still prefer to choose a low resource commitment entry mode. This is likely due to Taiwan being seen as culturally dissimilar to New Zealand by these companies. Consequently their choice of market entry mode is not necessarily related to their position in the domestic market. The psychic distance between these two economies appears to have a greater influence on their decision on the choice of market entry mode.

7.3.6 Discussion of Proposition 5

"Product-related characteristics are likely to affect New Zealand firms' market entry mode choice. Those companies whose products require higher before or after sales service are more likely to adopt entry modes that involve high resource commitment. The reverse holds as well."

The findings of Ramaseshan and Patton (1994) suggested that a firm's product service aspect is positively related to that firm's overseas channel selection. Firms whose products require more back-up support services are more likely to adopt a high resource commitment entry mode (integrated channel). Wiedersheim-Paul et al (1978) and Root (1994) also reached a similar conclusion. Root's (1994, p.34) study asserted that firms with service-intensive products are more likely to adopt branch/subsidiary exporting or local production entry modes than other less committed entry methods. However, these findings are not supported by this present study. Before and after sales service is not an important factor for predicting the choice of market entry mode. This finding is consistent with Anderson and Coughlan (1987) whose study did not find a significant relationship between the choice of market entry modes and service requirement of the products.

It is likely that this study did not produce a significant relationship between before or after sales service and the dependent variable due to the nature of New Zealand products marketed in Taiwan. New Zealand companies doing business with Taiwan, tend to start with products which require low or moderate before or after sales service so they do not need to commit too much of their resources to the host market. The majority of New Zealand products marketed in Taiwan do not require a high before or after sales service as can be seen from the frequency distribution of the variable SERVICE. About 85% of the respondents indicated that the level of before or after sales service required for their products was medium or less. This result indicated that there were only a small number of respondents whose products required a high level of before or after sales service. Thus it appears that there is no need for New Zealand firms to adopt a high resource commitment entry mode. As suggested by previous studies (ie Ramaseshan and Patton,1994), international marketers often adopt a high resource commitment entry mode when their products require high before or after sales service. This is because a high resource commitment entry mode will help the international firm to ensure that their services are performed properly.

Those firms whose products require high before or after sales service may still prefer to use a low resource commitment entry mode. The possible reason for this is that there were already qualified marketing intermediaries available in the host market to carry out New Zealand firms' before or after sales service. Therefore it was not necessary for these firms to adopt a high resource commitment entry mode in order to provide such services. Although it may be preferable for the New Zealand firm to establish its own marketing subsidiary to provide such service, it is also the most expensive way to enter the market. As discussed above, this type of entry mode requires the firm to highly commit its resources to the market when it first enters. Thus it is likely to be the best option to have a Taiwanese distributor to distribute its products and one who is also able to provide a reasonable before or after sales services when it first entered the market. In Taiwan distributors of imported goods often have a well established service network. For example, Fisher & Paykel's (F&P) Taiwanese distributor had been importing whiteware products for more than 10 years before beginning to distribute F&P products. They had been distributing Bosch whiteware for a number of years before they become the sole distributor of F&P. This distributor already had a well established before and after sales service network before F&P entered the market. Thus although its products required a high before and after sales service, F&P entered the host market using a low resource commitment entry mode.

7.3.7 Discussion of Proposition 6

"Product-related characteristics are likely to affect New Zealand firms' market entry mode choice. New Zealand firms whose exported products are more differentiated from other companies operating in the same industry are more likely to adopt entry modes that involve high resource commitment. The reverse holds as well."

This research found no support that product differentiation determines the choice of a low or high resource commitment entry mode. Therefore the findings of those studies which found higher control modes were associated with higher levels of product differentiation (Anderson & Coughlan, 1987; Caves, 1982; Coughlan, 1985; Coughlan & Flaherty, 1983; Davidson, 1982; Stopford and Wells, 1972, cited in Agarwal and Ramaswami, 1992, p.202) were not supported.

There could be various reasons why this variable was unable to significantly predict the choice of entry mode. One explanation is likely to be related to the nature of New Zealand products marketed in Taiwan. Only a small number of respondents (15.3% of total respondents) indicated that their products were highly different from their competitors'. Yet these companies' choice of market entry mode was not much different from other respondents (i.e. starting with low resource commitment entry modes). It was expected that firms which rated their products as highly differentiated from their competitors' would be advantaged by adopting a high resource entry mode. One possible explanation for these firms' behaviour is that although a firm's products were highly differentiated from its competitors', Taiwan was viewed as a risky country to do business with. Therefore these New Zealand firms were not prepared to highly commit themselves to the market at their first entry. Also although their products were highly differentiated, these firms might not have the capability to choose high resource commitment entry modes. It was suggested that "niche marketing" was one characteristic of New Zealand firms' internationalisation process. "Niche marketing" was mainly used by small-medium sized international marketers although large firms also used this strategy to enter international markets.

7.3.8 Discussion of Proposition 7 & 8

"Market size of the industry in the host country is likely to affect New Zealand firms' market entry mode choice. The larger the market size of the industry in Taiwan, the more likely the New Zealand firm will choose entry modes which involve high resource commitment. The reverse holds as well."

The influence of market size on the choice of market entry mode has been well discussed (see discussion in Chapter 4). The current study's findings on the relationship between the market size of the industry and the choice of market entry mode partially supports those of Green & Cunningham (1975), Davidson (1980), Terspstra & Yu (1988), and Yu & Ito (1988). These studies' findings revealed that a country's foreign direct investment inflows are positively related to its market size. The research findings point out that when a host market size is similar to the largest market that the international company had operated in, the company is likely to adopt a high resource commitment entry mode. Also if a firm has only operated in the host market, it is likely that this firm will adopt a high resource commitment entry mode. As discussed already, the reason for this result might be because of immigration effects. Details of these two results have been well discussed above.

However this research disagrees with the result of Gomes-Casseres (1990). His study used the size of the industry to measure the host country's market size. Gomes-Casseres's research investigated whether a joint venture or a wholly owned subsidiary (binary choice) was preferred by his respondents. His findings indicated that market size was positively associated with the use of joint ventures. His explanation for this result was that large markets might have attracted a large number of competitors and this discouraged the use of wholly owned subsidiaries.

A difference between this study's finding and previous studies' (ie Green & Cunningham, 1975; Davidson, 1980; Terspstra and Yu, 1988; Yu and Ito, 1988) is, as indicated before, that the focus of this study is on New Zealand international marketers' operations in a single foreign market and market size is measured in terms of the size of the industry that a New Zealand company has operated in the host market.

"Market potential of the industry in the host country is likely to affect New Zealand firms' market entry mode choice. The larger the market potential of the industry in Taiwan, the more likely the New Zealand firm will choose entry modes which involve high resource commitment. The reverse holds as well."

The research findings indicated that the market potential of the industry in the host market was not able to predict the respondents' choice of market entry mode. Therefore the findings of Agarwal and Ramaswami (1992) are not supported. One thing worth noting about market potential is that the high percentage of respondents view Taiwan as a most promising market when compared to other markets in which they were operating. About 41% of respondents rated Taiwan as one of their most promising markets. However, this belief had not been converted to the respondents' choice of high resource commitment entry modes. A possible explanation for this result is that Taiwan is seen as a country which is highly culturally dissimilar to the home market, therefore it is viewed as a risky country to do business with. Therefore although Taiwan is viewed as a highly promising market, New Zealand firms still start their operations in this market with a low resource commitment entry mode. This result seems to indicate that the cultural similarity effect is far greater than the market potential of the host market. A high market potential is not necessarily associated with the choice of a high resource commitment entry mode if the country it is intended to enter is culturally distant from the home country.

7.3.9 Discussion of Proposition 9

"Taiwan's family business system is likely to influence New Zealand firms' choice of market entry mode. New Zealand firms are more likely to adopt entry modes that involve high resource commitment if their key Taiwanese business counterparts' business structures are not family structured business. New Zealand firms are more likely to adopt entry modes that involve low resource commitment if their key Taiwanese counterparts' organisational structures are family orientated."

As reported in previous chapters, four items have been used to examine this proposition. These include the Taiwanese business organisation's business structure (i.e. family or professional), the importance of the personal authority of the owners, the decision making structure, and the overall influence of that organisation's business system on the choice of market entry mode. As discussed and reported in Chapters 5 & 6, each item is viewed as an individual variable in predicting the choice of market entry mode. The final logistic regression analysis results suggest that only the last variable (INFTWNBU) is significantly associated with the choice of market entry mode and it is positively signed. This finding indicated that the more the respondents' choice of market entry mode decision was influenced by their key Taiwanese business counterpart's business system, the more likely they would adopt a high resource commitment entry mode. Detailed explanations for this tendency have been discussed above.

7.3.10 Discussion of Proposition 10-1 & 10-2

"New Zealand firms whose products are marketed through a multi-layered wholesaling system (e.g. fruit or agricultural items) are likely to adopt entry modes that involve low resource commitment. New Zealand firms whose products are marketed through a single-layered wholesaling system (e.g. whiteware) are likely to adopt entry modes that involve high resource commitment."

A number of items were used to measure the influence of wholesaling on the choice of market entry mode (see Chapter 5). It was suggested that different types of industries have different distribution channel structures in the foreign market (Czinkota and Ronkainen, 1988 cited in Ramaseshan and Patton, 1994). This study has proposed that firms' choice of entry mode were likely to be influenced by the wholesaling system of the host market. However, no items used to measure the influence of wholesaling are listed in the *variables in the equation*, therefore the effect of wholesaling on the choice of market entry mode is not confirmed. This study does not find any evidence that New Zealand firms' choice of market entry mode is influenced by how their products are distributed in Taiwan's wholesaling system.

There could be a number of reasons why wholesaling variables do not produce any significant influence on the prediction of the choice of entry mode. These reasons are likely related to the nature of the New Zealand products marketed in Taiwan. The research findings suggested that New Zealand firms whose products were often marketed through a Taiwanese wholesaling system were consumer and manufacturing products suppliers. Because of the nature of their products, only a small number of service firms were selling their products through a wholesaling system. Therefore the service firms' contribution to prediction of the dependent variable was minimum. As reported earlier, the first two groups of operators (consumer and manufacturing goods) tended to use low resource commitment entry modes. The choice of service firms tended to be high resource commitment entry modes. The research findings suggested that regardless of their wholesaling structure (i.e. multi-layered or single-layered wholesaling system) consumer and manufacturing goods marketers tended to use a low resource commitment entry mode. This tendency is likely due to the complexity of the Taiwanese wholesaling systems. It is easier for New Zealand firms to have Taiwanese agents or distributors handle the wholesaling job for them. At least this is the situation when they first enter the market. Often these agents or distributors are adopted because they have a well established distribution network.

Overall the research findings indicated that the original suggested proposition is not supported. This study finds no relationship between the wholesaling system in the host market and the choice of market entry mode.

"New Zealand firms whose products are marketed through numerous independent owned retailers are likely to adopt entry modes that involve low resource commitment. New Zealand firms whose products are marketed through a limited number of independent owned retailers are likely to adopt entry modes that involve high resource commitment."

Similar to the case of wholesaling, a number of items were used to measure the influence of retailing on the choice of market entry mode (see Chapter 5). Among these items only the variable RETAGNDI is listed in the logistic model. This variable is negatively associated with the choice of entry mode. As discussed above, this finding suggests that if a firm's products are distributed to independently owned retailers via agents, distributors or importers, it is likely that this firm would adopt a low resource commitment entry mode. Besides this variable, no other retailing variables have been suggested to have an influence on the choice of market entry mode.

One explanation of why other retailing variables did not generate any influence on the choice of entry mode is that of the limited number of respondents using the system. Among 124 respondents, only 74 companies (or 59.6% of total respondents) indicated that their products were distributed in Taiwan's retailing system. Among those firms whose products were distributed in Taiwan's retailing systems, only 20 respondents indicated that they had knowledge of the number of independently owned retailing outlets which had distributed their products. This small sample size has reduced the predictive ability of retailing variables. It is unlikely that variables with this small sample size would be able to generate any significant predictive power.

The small number of respondents who had knowledge of the number of their independently owned retailers is an indication that New Zealand firms operating in Taiwan lacked understanding of how their products were distributed in the retailing system, therefore it is difficult to measure the effect of retailing on the choice of market entry mode.

7.4 FACTORS INFLUENCING CHOICE OF MARKET ENTRY MODE

After reviewing the initial research propositions, the research outcomes have suggested that these propositions need to be amended. Based on the statistical results of the study, the following factors have been shown to influence choice of entry mode for New Zealand firms doing business in Taiwan. The revised conceptual model is presented in Figure 7.1.

1. Taiwan's business system influence

The host market's business system - including business structure of the organisation (family business vs professional management), personal authority of the owner, decision making structure - is an influence on the choice of market entry mode. Respondents who rated the influence of this factor more highly, are more likely to adopt a high resource commitment entry mode.

2. Product related influence

Product type is an influence on the choice of market entry mode. A respondent whose major product line marketed in the host market is a service product, is likely to adopt a high resource commitment entry mode.

3. Ownership influence

Ownership of the company is an influence on the choice of market entry mode. Respondents whose companies are wholly locally owned, are more likely to adopt a low resource commitment entry mode at the time they first enter the host market, while firms registered in the home country but controlled by foreign companies are more likely to adopt a high resource commitment entry mode.

4. Market size influence

Market size of the industry is an influence on the choice of market entry mode. At the time when they first enter the host market, a responding firm which operates in

an industry of the host market whose market size is similar to the largest market it has operated in, is more likely to adopt a high resource commitment entry mode.

5. Market portfolio influence

At the time when they first enter the market, whether or not the respondents have only operated in the host market is an influence on their choice of market entry mode. A high resource commitment entry mode is likely to be adopted by a respondent if it only operates in the host market at the time it first enters the host market.

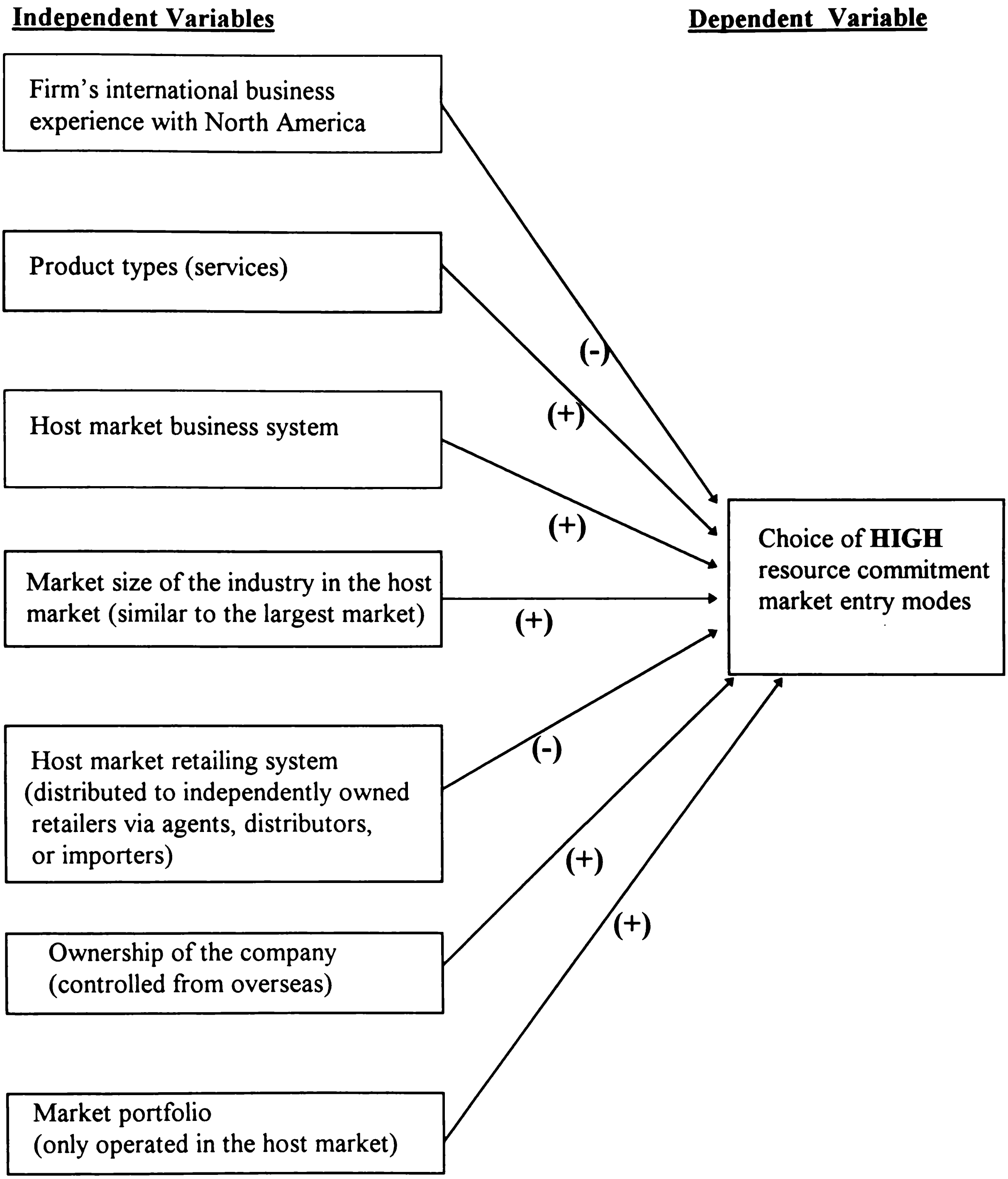
6. International Business Experience Influence

A respondent's international business in North America is likely to be an influence on its choice of market entry mode. Respondents who had operated in North America prior to their entry into the host market, are likely to adopt a low resource commitment entry mode. The reverse holds as well.

7. Retailing Structure Influence

A responding firm's retailing structure in the host market is likely to influence its choice of market entry mode. A respondent is likely to adopt a low resource commitment entry mode if its products marketed in the host market are distributed to independently owned retailers via international marketing intermediaries such as agents, distributors or importers. The reverse holds as well.

Figure 7.1 REVISED CONCEPTUAL MODEL



7.5 SUMMARY

In this chapter, each significant variable was discussed in detail. The empirical results of the research revealed that the choice of market entry mode was influenced by firms' international business experience with North America, ownership of the company, the firms' retailing structure, the host market's business system and the size of the industry. Potential reasons for the research results were also explored and analysed. Based on the research outcomes, the initial propositions were examined and analysed in the chapter. Reasons why a specific proposition was not supported by the research findings were also analysed and discussed in detail. Although the research findings supported a number of the initial propositions, some modifications were necessary. The modified research propositions were presented in the chapter.

In the next chapter, conclusions and implications of the study will be offered. The theoretical implications generated by the study will be presented in the first part of the chapter and the second half of the chapter will be devoted to discussing contributions and limitations of the research study and suggestions for future research.

CHAPTER 8: CONCLUSIONS AND IMPLICATIONS

8.1 INTRODUCTION

Discussion of the significant variables was detailed in the previous chapter. Initial research propositions were also examined and analysed there. Based on statistical results, modified propositions were also offered in Chapter 7. This chapter summarises the major findings of the empirical research. The research implications are also be presented here. In addition, potential contributions of the study will be considered in this chapter. Research limitations of the study and suggestions for future research will also be discussed and offered in this chapter.

This research is unique. This research began with analysing the general background of the host market. Its culture, history, political situation, and relationships with its trading partners were thoroughly explored. The host country's economic and business system were then reviewed. Based on these analyses and revision, the uniqueness of the host market was drawn. The literature of various entry modes was then reviewed. As a result of the review, the first dimension of research propositions were proposed. Key research variables identified by previous studies included firm's size and international business experience, competitor's choice, home market presence, product-related characteristics, market size and potential. In addition to these variables, literature on Taiwan's wholesaling systems and retailing systems was also reviewed. Because of its close relationship with Japan and the limited literature published on Taiwan's distribution system, Japanese distribution system literature was also reviewed in order to generate research propositions. Thus the second dimension of research propositions were drawn based on the literature of the Japanese distribution system, the Taiwanese distribution system and business system.

The two statistical methods used in the study were logistic regression analysis and chi-square test. Findings generated by these two methods were similar. Because of its higher predictive power and better goodness of fit, the equation suggested by Method One of logistic regression analysis was adopted as the research model.

The logistic regression analysis outcome suggested a number of variables which were significantly associated with the respondents' choice of market entry mode. Consistent with a number of studies, the research findings confirmed that market size of the host country is an influence on the choice of market entry mode.

Besides the variable of market size, the research results also suggested a number of other variables which were significantly associated with the entry mode decision. These included ownership of the company. If a firm is controlled or established by foreign companies or ethnic groups originating from the host country, it is more likely to adopt a high resource commitment entry mode than a wholly local owned counterpart.

The influence of the respondents' market portfolio on the choice of entry mode was also confirmed by the findings of this research. Firms operating only in the host market at the time they first entered the market were more likely to use a high resource commitment entry mode. This is likely due to the companies' familiarity with the market. The statistical results indicated that firms which only operated in the host market were likely to be established or controlled by immigrants from the host country.

The host country business system is also confirmed to be positively associated with the choice of market entry mode. It is the first time that this variable has been confirmed as a significant variable on the choice of market entry mode.

A firm's business experience in North America was also found to influence the choice of entry mode. One possible explanation for this factor is that the effect of cultural dissimilarity is greater than the impact of firms' international business experience.

In conclusion, this study by focusing on examining international business behaviour in a single foreign market has produced a number of new insights into the theory of internationalisation and market entry mode decision.

8.2 THEORETICAL IMPLICATIONS

The research findings have a number of implications for research on market entry mode selection.

Firstly, the research findings support previous studies which found that market size is a factor in the choice of market entry mode. Consistent with findings in other Western industrialised countries, this research has reached a similar conclusion - when a host market size is similar to the largest market the firm had operated in, international marketers are likely to enter the market by choosing a high resource commitment entry mode. The research findings indicated that when choosing a market entry mode, firms would need to consider the size of the industry of the host market their company intends to enter. If the size of the industry is similar to the firm's largest market, it is more likely to consider entering the market using a high resource commitment entry mode. This is because of the ample business opportunities provided by the market. To choose a high resource commitment entry mode will allow the company to capture such business opportunities. The size of the industry is also often big enough to allow the firm to cover the costs of high resource commitment entry modes.

Secondly, the choice of high resource commitment entry mode is associated with the ownership of the company. At the time when it first enters the host market, if a company is controlled from overseas, it is more likely to adopt a high resource commitment entry mode. As discussed already, this might be due to the foreign firm's ample financial and managerial resource, or perhaps its cumulative international business experience (although this variable is not supported by research findings). Also a number of companies in this category are established or controlled by immigrants who originated from the host market. These companies' international marketing behaviour may not necessarily follow the incremental internationalisation theory due to their familiarity with the market. The influence of these ethnic groups on the choice of market entry mode is further strengthened if the host market is the only market that a respondent firm had operated in at the time it first entered the market. Respondents who operated in the host market only are more likely to adopt a high resource commitment entry mode. The companies which only operated in the host market are likely to be established or controlled by immigrants from the host market.

These findings provide researchers in this field with an important implication - **decisions on the choice of market entry mode are likely to be different for overseas controlled firms than for those who are locally owned. The decision on the choice of market entry mode of firms controlled or established by foreign companies or by ethnic groups originating from the host country did not necessarily follow the incremental internationalisation theory.** This research finding might also suggest that there is a link between immigration and subsequent outward foreign direct investment. This finding has added new insights into the theory of international market entry mode and internationalisation processes.

Thirdly, the research findings suggested that the entry mode decision of service firms is different from those of manufacturing goods or of primary produce marketers. By conducting a cross-industry study of international operators in three categories, the research results indicated that **service marketers tended to choose a high resource commitment entry mode**. The current study, however, does not support that manufacturing goods or primary produce marketers have a preference to choose either a high or low resource commitment entry mode. **Service marketers' choice of market entry mode behaviour is different from that of their manufacturing or primary produce counterparts'.** As explained above, the decision on the choice of high resource commitment entry modes is probably due to the special characteristics of services.

Fourthly, **the influence of the host market's business system is confirmed**. This is the first time that this variable has been confirmed in the study of choice of market entry mode. The research findings suggest that respondents' choice of market entry mode is positively influenced by their key host market trading partner's business system. The higher the influence on the respondents' choice of market entry mode, the more likely they are to adopt a high resource commitment entry mode. Therefore when choosing a entry mode, firms would need to consider the structure of their counterpart's business system. This research finding indicates that a firm's decision on the choice of market entry mode is often associated with the length of time it plans to operate in the host market. Choice of a high resource commitment entry mode could provide international firms with the best opportunity to succeed in the host market in the long run. The longer a firm plans to stay in the host market, the higher the commitment it needs to make to the market. High resource commitment entry modes will provide the firm with the means to demonstrate such commitment to its business partners. High resource commitment entry modes could also provide the firm with the opportunity to conduct a high level of interaction with its local counterparts. It is acknowledged that a personal relationship is the key to the success of a business, especially when a firm plans to conduct international business in a Chinese Family Business country for a long time. Also in terms of return on investment, the longer the firm expects to operate in the host market, the easier it is for the firm to recover the high (fixed) costs of high resource commitment modes.

Overall, this last finding has added a new dimension to the study of the choice of market entry mode. When making a decision to choose a particular entry mode, it is important that a foreign firm considers its local counterpart's business system, especially when dealing with Chinese society.

Fifthly, the influence of international business experience seems to be less important than cultural dissimilarity. The research findings revealed that firms which had operated in markets which are culturally dissimilar to the country they intend to enter are more likely to adopt a low resource commitment entry mode. This study suggests that a western firm's business experience with other western countries does not encourage this firm to choose a high resource commitment entry mode when it first enters an Asian market. On the other hand, a home market firm, often established by immigrants from the host market and which usually has knowledge of doing business with the host market, is more likely to adopt a high resource commitment entry mode than other groups of companies in the study. It is likely that this firm has only operated in this host market when it starts its international business. The implication of the findings on international business experience and cultural distance is clear - **the effect of cultural similarity on the choice of market entry mode is greater than the influence of international business experience**.

Sixthly, how a firm's products are distributed in the host market's retailing system is an influence on the firm's market entry mode choice. If a firm's products are distributed to independently owned retailers via international marketing intermediaries (ie agents, distributors, importers), the research findings indicate that it is likely to enter the market by choosing a low resource commitment entry mode. This is probably because these intermediaries already have a well established distribution network and knowledge of the host market. This finding indicates that if there are well established agents or distributors in the host market, the international firm is likely to use them to enter the market and also have these intermediaries distribute their products to organisations in the final stage of the distribution channel (retailing). Therefore **well established agents or distributors in the host market is an influence on a firm's choice of market entry mode**. It is likely the international marketer would adopt a low resource entry mode if there are well established agents or distributors available in the host market. The international firm's products are also likely to be distributed to independently owned retailers by these marketing intermediaries.

8.3 CONTRIBUTIONS OF THE RESEARCH

The choice of market entry mode has been well discussed by previous studies. The present study has expanded the scope of research on entry mode to include a number of variables which were not suggested by previous studies. These factors include the host market's business systems, wholesaling and retailing systems, product types, and ownership of the company. The research findings have revealed a number of factors which are useful for predicting the choice of entry modes.

The first key contribution of this study is to confirm that the decision on market entry mode of firms controlled (or established) by immigrants originating from the host market does not necessarily follow the incremental internationalisation theory. These firms often choose a high resource commitment entry mode when they first enter the host market they originated from. This is likely due to their familiarity with the market. The effect of immigration on the choice of entry mode can also be shown from these companies' market portfolio. When they start their international business operations, this group of companies are likely to operate in the host market only.

A second important finding of this study is that the effect of international business experience is less important than the effect of cultural distance. This can be seen from the respondents' business experience with North America. A responding firm's experience with other western countries does not appear to contribute to the firm choosing a high resource commitment entry mode. On the other hand, firms which have business experience with the host market but did not operate in a western economy (i.e. USA or Canada) are more likely to adopt a high resource commitment entry mode.

Another contribution of this study is to confirm that a firm's retailing structure in the host market is also an influence on the choice of entry mode. If there are well established agents or distributors in the host market, it is likely that the foreign firm will enter the market by using them. The foreign firm's products are also likely to be distributed to independently owned retailers by these marketing intermediaries.

Fourthly, the influence of the host market's business system on the decision of entry mode is also confirmed by this study. A firm's choice of entry mode decision is positively associated with its key local partner's business system. This is the first time that this variable has been tested empirically.

By agreeing with the findings of a number of previous studies, the research has confirmed the influence of market size on the choice of entry mode. If a firm's industry market size in the host market is similar to the largest market that this firm has operated, it is likely to adopt a high resource commitment entry mode.

Finally, by examining the behaviour of marketers in three major sectors together, the research findings have revealed that service marketers are more likely to adopt a high resource commitment entry mode than their primary produce and manufacturing counterparts. This tendency is likely related to the special characteristics of service products.

8.4 LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

There are a number of limitations to this research. First, though a large number of variables have been included in the study, it is likely that some potential relevant variables have not been explored. The present study has only investigated the behaviour of international marketers' operations in one foreign market. Therefore some important factors such as psychic distance are not operationalised. Investigations of the choice of market entry mode of New Zealand firms operating in other parts of the world should be conducted. Also this study has only focused on examining New Zealand international marketers' operations in one Chinese Family Business (CFB) country. It would be interesting to compare the findings of this study with findings on other CFB countries. The differences/ similarities between them are worth investigating. Therefore future studies about New Zealand firms operations in other CFB countries should be encouraged.

Second, given that international business operations are a continuous and dynamic process, a longitudinal research design spanning a number of years could be used to enrich the understanding of the theory of the choice of market entry mode. This study by examining the behaviour of the respondents only at the time they entered the host market, was not able to produce suggestions about which choice of entry mode was more likely to lead to successful operation in the host market. Future studies should investigate the relationship between successful and unsuccessful operations and their choice of entry mode. This can only be done through a longitudinal study.

Third, this study focuses on respondents' first entry into the host market. In fact, a large number of respondents have changed their entry modes since their first entry. It would be useful to examine the relationship between firms' first choice and their later choice. What motivates a company to change its choice of entry mode is worthy of research.

Fourth, because of the nature of the study, respondents were asked to provide information about their first entry. There is a risk that some information provided by the respondents was not the most accurate because it might be a while since their company first entered the market.

Fifth, although it was beyond the original research scope, one of the key findings of the current study is the possible influence of immigrant links on the choice of market entry mode. As discussed in the study, immigrants originating from the host market have knowledge of the market. They understand its languages, culture and often have business contacts and networks. Thus they are more likely to highly commit themselves to the market. The influence of immigrants links to trade, investment, imports and exports have been examined by a number of studies (e.g. Bollard, 1997; Duncan et al 1997; Gould, 1994). Gould's empirical study (1994) identified that immigrant links to the host market (originating country) had a strong positive impact on imports/ exports between the destination country and the countries where the immigrants originated from. However none of the past studies specifically focused on examining firms' international operations (eg choice of market entry mode) and their immigrant links. It is hoped that the findings of this study will provide a foundation for further studies which are devoted to examining the influence of immigrant links to international management or marketing theories. It would be interesting to know how a firm's immigrant links with a foreign market have affected its marketing programmes in the country. Other interesting research areas might be: Are firms with immigrant links with a host market more likely to succeed in the market than those which do not have such a link?

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APPENDIX A

DETAILED DISCUSSION ON THE GENERAL BACKGROUND OF TAIWAN

THE GENERAL BACKGROUND OF TAIWAN

TAIWAN: BEFORE AND NOW

The History of Taiwan and its Geographical Location

Taiwan, which is also called Formosa, literally meaning "beautiful island", has the size of approximately 36,000 square kilometres. This size is just more than Belgium, but slightly less than the Netherlands (Long, 1991, p.1). Taiwan's current population is about 21 million people. The density of population per square kilometre in Taiwan is the second highest in the world, next to Bangladesh (Ching, 1995). Chen (1963) described Taiwan's geographical location as "among the islands which form the festoons bordering the western North Pacific, the one nearest to the Asiatic continent and rising on the edge of the continental shelf is the island of Taiwan or Formosa. It is the largest island between Japan and the Philippines. The island is separated from the China mainland by the 150-kilometre-wide Taiwan Strait and situated midway between Shanghai and Hong Kong." Taiwan's geographical location is strategically important in that it is located at the crossroads of the Western Pacific (with only the Hawaiian islands between Taiwan and the west cost of Mexico), adjacent to China's eastern provinces (100 miles away), and midway between Northeast Asia (700 miles away from Japan's Kyushu Island), Indonesia and Southeast Asia (200 miles away from the northern part of Philippines) (Klintworth, 1992; Long, 1991).

Taiwan has three major metropolitan areas: Taipei, the capital of Taiwan, Taichung and Kaohsiung. Taipei is in the north, Taichung is in the centre and Kaohsiung is a southern port city. The population of Taipei is about 3 million. Taichung has 1 million residents and Kaohsiung about 2 million. Taipei is the financial and commercial centre and the most important and the wealthiest city on Taiwan, although it only comprises less than 1 per cent of the island's land area (*Asiaweek*, 1995, July 7, p.29). Taichung is the base for many manufacturing industries, while Kaohsiung hosts many heavy industries including refineries, plastics, steel mills, shipyards, petrol-chemicals, cement, and motor vehicle assembly. Most international companies set up their offices in Taipei when they first arrive on the market, then expand to other cities. New Zealand companies also adopt this strategy. At the moment, all New Zealand company offices are located in Taipei. In fact, the only international company which started from the South is the French chain hypermarket store, Carrefour. It established its first store in Kaohsiung then expanded to the rest of the island.

In terms of Taiwan's history, reports revealed that the first Chinese settlers did not arrive on this island until the fifteenth century (Klintworth, 1992). Taiwan was occupied by the Spanish, Portuguese, Dutch and Japanese. Taiwan had belonged to the Manchu Dynasty until 1895 when it was ceded to Japan after Manchu lost the 1894/95 Sino-Japan War (Klintworth, 1992; Long, 1991, p.24; Wright, 1965). After the War, Manchu signed a peace agreement, called the "Treaty of Shimonoseki", with Japan. Taiwan and Pescadores Islands were agreed to be ceded to Japan in the treaty. From then, Taiwan was a Japanese colony until 1945, the year it returned to the authority of the Republic of China (ROC). A discussion on the ROC will be presented in the next section. A brief chronology of the Republic of China in Taiwan is listed in Table 1.

Table 1 Brief Chronology of the Republic of China on Taiwan

Year	Major Event
1895	Taiwan was ceded to Japan after Manchu Dynasty lost the 1894/95 Sino-Japan War
1911	The Republic of China was founded by Dr. Sun Yat-sen
1937	Sino-Japanese War erupted
1941	China officially became a member of the Allied nations
1945	World War II ended. Taiwan was returned to the rule of China
1949	The central government of the Republic of China was transferred to Taipei after losing the civil war to the Chinese Communists
1951	Land reform programme started
1954	The Republic of China in Taiwan and the United States signed a mutual defence treaty
1966	The first export processing zone was launched in Kaohsiung
1971	The Republic of China withdrew from the United Nations as the result of the seat taken over by the PRC
1972	Japan, one of Taiwan's most important supplying nations, ceased its diplomatic relationship with Taiwan
1973	The announcement of 5% appreciation of New Taiwan Dollar (NTD, Taiwan's currency) which later became one of the strongest currencies in the world
1973	The Ten Major Construction Projects were launched
1978	The Ten Major Construction Projects were completed
1979	The United States terminated its diplomatic relationship with the ROC and switched recognition to the PRC
1980	A Silicon Valley-style science-based industrial park was established in Hsinchu
1987	Taiwan's foreign currency reserve reached US$88 billion. It became the world's 13th biggest trading country. Also the same year, people in Taiwan were for the first time since 1949 allowed to visit China for family reunions
1991	Taiwan together with Hong Kong and China joined the Asia-Pacific Economic Cooperation forum. For the first time the three Chinas attended an international organisation simultaneously

Table 1 Brief Chronology of the Republic of China on Taiwan

- continued

Year	Major Event
1995	In June, president Lee Tung-hui was allowed to give a speech at his alma mater, Cornell University. Lee became the first president of the ROC to visit the US since 1979, a major breakthrough of its relationship with its most important trading nation. After the visit by Lee Teng-hui, China conducted several missile tests and military exercises in East Sea, about 160 km away from north Taiwan. Tensions between these nations were suddenly raised to the highest level since the conflict of Quemoy in 1958. PRC's intention was to warn Taiwan not to become an independent state, otherwise it would use its military forces to invade Taiwan.
1996	In March, 1996, under the threats of China's numerous military exercises in the waters around the island, residents in Taiwan elected their own President and Vice-President, the first time ever in the 5,000-year Chinese history. President Lee Teng-hui was elected as the President of the ROC. He acquired 54 per cent of the votes.

(Sources: Li, 1988, pp.415-416; Baum, 1995, Aug. 24; Einhorn et al, 1995; Spaeth, 1995b; Baum, 1996; Berfield et al, 1996; *Free China Review*, 1996, May, p.8; Prager et al, 1996; *The Economist*, 1996, March 30th)

The People and Culture

There are four groups of people living in Taiwan. These are Aborigines, Hokkiens, Hakkas and Mainland Chinese. Time spans are difficult to judge, however, Aborigines have been living in Taiwan since time immemorial. The Hokkiens arrived on the island about 200 years ago with the Hakkas coming to Taiwan from Guangdong province soon after the Hokkiens. There were serious conflicts among these groups in the early years of Taiwan's history, mainly because of cultural and language differences. The proportion of the population is about: 80 per cent Hokkiens, 15 per cent Hakkas, and the rest Aborigines and Mainland Chinese. One estimate is that the population of the Aborigines make up less than 1 per cent of the whole island's population (Long, 1991, p.3).

Both the ancestors of Hokkiens and Hakkas migrated to Taiwan because of the lack of opportunities in their homeland. Most of them were peasants. However, because of the advantage of early arrival, the Hokkiens are very much more entrepreneurial and politically-orientated than the other groups. The Hokkiens had the best part of the island. They quickly established for themselves a geographic advantage - close and easy access to the island's harbours after their arrival. Most private firms in Taiwan are owned by the Hokkiens. The Hokkiens in Taiwan focus mainly on business (Hartland-Thunberg, 1990, p.113). However, after the lifting of martial law in 1987, increased freedom has been given to people in Taiwan. Lots of Hokkiens have entered Taiwan's politics and they have become a new majority in the Legislative Yuan (the Parliament). Large numbers of Hakkas, on the other hand, are employed in government agencies or educational institutes, while Aborigines are the poorest among these four races. Because of their close links with the ruling party, the Kuomintang or KMT, many trading (import-export) businesses are controlled in Mainland Chinese hands. Mainland Chinese and their descents used to dominate the Taiwanese government before Lee Teng-hui was appointed as the president. He became the first ever ROC president who was born in Taiwan (Hartland-Thunberg, 1990, p.112). When Chiang Kai-shek was defeated in the civil war by the Communists, he brought to Taiwan about 2 million Mainland Chinese, who were the better educated people when compared with the other Chinese at that time.

Taiwan is now ruled by the Kuomintang (KMT) party, a party established by the founding father of the ROC, Dr. Sun Yat-sen in 1911. Dr Sun was a Hakka of Guangdong province. The policies of KMT are based on the "Three Principles of the People", propounded by the founding father. These are the Principle of Nationalism (of the people), the Principle of Democracy (for the people) and the Principle of People's Livelihood or well-being (of the people) (*US Department of State Publication*, 1959, p.15).

The official language of Taiwan is Mandarin Chinese, which is identical to the official spoken language in Mainland China. However, besides Mandarin, different groups still keep their own mother tongues: Hokkien, Hakka and Aborigine. Because of the language differences and because of the KMT's persecution of high-educated local Taiwanese (Hokkiens, Hakkas and Aborigines) when the Mainland Chinese first came to Taiwan, there were serious conflicts between local Taiwanese and the Mainlanders. One of the most often cited event by Western observers is the 2/28 incident or "February 28th Incident" (Long, 1991, p.54; Walker, 1973).

Although there are four spoken languages in Taiwan, there is only one written system, the Characters. This system is shared by every language system in Taiwan. In fact, the same written system is also used in China where hundreds of dialects are spoken. For example, when speakers cannot communicate orally with the other Chinese groups, they will be able to understand each other by writing Chinese characters.

With the exception of a minority of Christians and Muslims, Buddhism is the major religion. Besides these, the philosophy of Taoism and Confucianism are also important to the Taiwanese people.

TAIWAN'S POLITICAL SITUATION AND ITS POLITICAL AND ECONOMIC RELATIONSHIP WITH TRADING PARTNERS

Taiwan's Political Situation: Before and Now

As mentioned in previous sections, Taiwan was returned to the authority of the Republic of China after World War II. In 1949, the central government of the ROC was shifted to Taiwan after the setback of the Civil War. The current official name of Taiwan is the Republic of China (ROC) on Taiwan, which was often cited in the West as Free China, in order to distinguish it from the Communist China or the People's Republic of China (PRC). In this thesis, the names of the Republic of China, Republic of China in/ on Taiwan, Taiwan or Chinese Taipei are used interchangeably. If no other indication is provided, the term "Taiwanese" is used to represent all races of people living in Taiwan.

Taiwan used to have only one political party, the Kuomintang (KMT), which controlled most political life before the formation of the Democratic Progress Party (DPP) and China New Party. The KMT controlled the island in almost every aspect after it withdrew from China. Recently, however, two opposition parties, the DPP and the China New Party, have been formed. The DPP is a party formed by former Taiwanese dissidents during the era of President Chiang Ching-kuo.[1] Most of its members are Hokkiens. The China New Party was formed by former Kuomintang members. Most of its supporters are mainland Chinese and their descents.

Both the KMT and the China New Party support the concept of reunification of China, while the DPP insists that Taiwan should become an independent country (Tyson, 1995). According to the DPP, if it gained power, a national referendum would be held on the issue of independence (*The Economist*, 1994b, Nov. 12th).

Because of its unique relationship with China, to be discussed in the next section, Taiwan has only been recognised by 29 nations such as El Salvador, Costa Rica, Liberia,

[1]Chiang Ching-kuo is the oldest son of Chiang Kai-shek. He became the President of the ROC after his father's died in 1975. He was the president of the ROC upto 1987 in which year he died of heart attacked.

Lesotho, Tonga, Nauru, etc. Most of them are small countries and have little international influence. However, Taiwan has attended 11 government and nearly 800 non-governmental international organisations under a new compromised title, the Chinese Taipei (Barber, 1994a; Spaeth, 1995a). Its representatives are now able to sit down together with the PRC's delegates at the Asia-Pacific Economic Co-operation (APEC) forum meetings under this title.

The Republic of China was a founding member of the United Nations (UN). However, the government of the ROC on Taiwan left the UN in 1971, the year that the Communist China took over its seat in the UN. Since then Taiwan and its people have been looking for a forum through which to return to this international organisation which they were forced to leave more than two decades ago (Barber, 1994a; Sheng, 1995).

Taiwan's Political and Economic Relationship with the People's Republic of China (PRC) and Hong Kong

Basically, the people of Taiwan, the PRC and Hong Kong share the same origins. But their destinies are all different from each other. Mainland Chinese have been totally controlled by the Communists since 1949. There is not much freedom in China. Hong Kong was ceded to Britain in the 19th Century. Hong Kong has returned to China's rule since July 1, 1997. Although it has been promised to keep its current situation (high degree of autonomy, capitalism, free speech) unchanged for 50 years, people in Hong Kong are still wondering about their future (Cable News Network, 1997). Although its economic situation is bright, people in Taiwan are concerned about the certainty of their future. Its political relationship with China still remains unclear (Crock et al, 1996).

People in Taiwan have mixed feelings about the PRC[2]. China still regards Taiwan as a rebel province. The PRC still maintains itself as one of the strongest communist countries in the world. It has one of the most powerful military forces on earth and has doubled its defence spending in the last five years and still keeps buying new weaponry, mainly from the former Soviet Union (Barber, 1994c). If the PRC wants, it is able to blockade Taiwanese coasts in a short period of time with its powerful submarines and warships. In fact, China's threats to Taiwan have been demonstrated in its recent military exercises which were aimed at intimidating Taiwan's first direct presidential election. Taiwan voters for the first time in Chinese history are able to electe their own head of the state. The first presidential election was held on March 23, 1996 and President Lee Teng-hui was elected by winning 54 per cent of the votes. With the intention to prevent Taiwan pursuing its international profile and ultimately becoming an independent country, China conducted numerous missile tests and war games in the waters around Taiwan from June, 1995 to March 1996. In response to China's provocative moves, the US government sent two aircraft carriers to Taiwan to monitor China's military exercises and perhaps to protect Taiwan if China invaded Taiwan again. The tension between China and Taiwan was raised to the highest level since China's invasion to the two offshore islands of

[2]China invaded Taiwan's two offshore islands, Quemoy and Matsu in the early 1950s but failed to take them over. Since then, people in Taiwan are still concerned that it could happen again. See Flannery, R. (1993a). Taiwan: A Difficult Balance. Asian Business, Dec., pp.26-29. The 1995/96 military exercises conducted by China's PLA in the waters around Taiwan has intensified people's worry about China's attack.

Taiwan in the 1950s (Baum, 1996; Berfield et al, 1996; Prager et al, 1996; *The Economist*, 1996, March 30).

However, even with the political tension between Taiwan and the PRC has been raised to the highest level (since the 1958 Quemoy invasion), these two nations are economically much closer now than at any other time in their history. In 1987, President Chiang Ching-kuo lifted the ban on contacts with China. For the first time since 1949 Taiwanese people were allowed to visit their families or relatives in China. Later this policy was amended so that indirect trade and investment in China (via a third place such as Hong Kong) were also allowed. Klintworth (1992, p.12) indicated "in 1979 two-way (China and Taiwan) trade was US$70 million. In 1982 it was US$230 million. In 1987 it was US$1.5 billion. In 1989 it reached US$3.8 billion. In 1991 it was US$5.79 billion, with a surplus in Taiwan's favour of US$3.5 billion and a cumulative surplus in Taiwan's favour since the mid-1980s of around US$11 billion." These figures indicate that Taiwan-China trade had been growing at a fast rate. Taiwan's exports to China as a ratio of total commodity exports rose from 1.4 per cent in 1984 to 6.12% in 1991 which meant China was Taiwan's fourth largest export market behind the US, Hong Kong and Japan. Taiwanese manufacturers now also very much depend on their manufacturing facilities in mainland China. One estimate claimes that Taiwan is China's number two largest foreign investor. The total investment from Taiwan to China was about US$8 billion in 1994 and the figure was increased to US$25 billion in 1996 (Bucknall, 1994, p.2; Baum, 1996). Many Taiwanese manufacturers have shifted their production sites across the strait to the Chinese coastal provinces, attracted by cheaper labour costs and common languages (Mandarin Chinese and Hokkien), and the pressure of the appreciation of the NT Dollar. These Taiwanese investments in China include Yue Loong Motor, one of the largest Taiwanese auto makers, have teamed up with its Japanese partner, Nissan to set up production plants in China. Sanfu Motor together with its French strategic alliance partner, the Renault Auto, are also activly investing in China. Taiwan's plastic industry tycoon, Y. C. Wang, is seriously negotiating with the Chinese government to open up a petrochemical plant in China in reply to competition from South Korea and Japan (Klintworth, 1992, p.11).

Nevertheless, the PRC still often blocks Taiwan's efforts to gain international recognition. One of the most recent events was the PRC's attempt to stop the visit of the President of Taiwan, Lee Teng-hui to the USA. Mr. Lee was granted permission to visit his alma mater, Cornell University, in June, 1995 (Su, 1995). Lee became the first ROC president to set foot on US territory since the US switched its recognition from Taipei to Peking (Beijing) in 1979 (Yu, 1995). The PRC government's reaction to this new development between the US and Taiwan was to cancel several planned cooperation programmes with the US (*Asiaweek*, 1995, June 23; Chanda, 1995; Yu, 1995). Furthermore, China's People's Liberation Army (PLA) conducted a series of provocative military exercises in reply to Mr. Lee's visit to the US (as discussed above). The PRC maintains that it will terminate or downgrade its relationship with any country which attempts to associate with Taiwan. It always stresses that it represents the only legitimate Chinese political state and that Taiwan is part of China. The PRC government has attempted to regain control over Taiwan without exercising military power under a proposed framework, "one China, two systems". This proposal has been officially rejected by the Taiwanese government.

Hong Kong returned to China's authority in 1997. The future of Taiwan, therefore, appears uncertain. However, it is clear that if China, Hong Kong, and Taiwan can cooperate together and become one economic body, the world's attention would be focused more on these three areas. A recently presented theory about the three Chinas (Hong Kong, Taiwan, and PRC), called the New Golden Triangle, utilises Hong Kong and Taiwan's financial, management, technology, economic and other resources plus the Mainland's natural supplies and inexpensive labour and proposes this economic triangle will become a new star of the 21st Century (Klintworth, 1992, p.10).[3] Therefore, if there is any disruption to this triangle, not only will New Zealand's economy be affected but

[3] Also can be seen in the study by Weidenbaum, M. (1993). "Greater China: A new economic colossus?", Vital Speeches of the Day, Oct. 4, 1993, p.103-106. For more detailed information about this cooperation, refer to Section 2.5 of the thesis, under the title Greater China.

also the entire region's peace and security. Taiwan, Hong Kong and China are New Zealand's sixth, eighth and tenth important export market, respectively. These three markets combined are the fourth largest buyer of New Zealand products. The total export sales to this combined market was $1.3 billion in 1993 (Barber, 1994c; McArthur, 1995). Taiwan still bans any direct trade links with China, but much indirect trade has been undertaken through Hong Kong (Bucknall, 1994). So far, Hong Kong acts as a bridge between Taiwan and China's international trade and investment but its role as a bridge between China and Taiwan is diminishing. In 1995, the Taiwanese government, for the first time in its history, has agreed to open its Kaohsiung port as an offshore transhipment centre for conducting direct shipping links between Taiwan and China. Under this new plan, foreign ships including those owned by Taiwanese but registered in other countries will be able to ply between Kaohsiung port and mainland Chinese ports (*The Economist*, 1995, April 15th, p.65).

Taiwan's Political and Economic Relationship with the United States

The United States has always played an important role in developing Taiwan's prosperity. One report suggested that "it is virtually impossible that Taiwan could have risen to the upper ranks of world leaders without its linkage to two of three world's largest trading nations, the United States and Japan" (Klein, 1992, p.262). The US economic aid to Taiwan in the 1950s had assisted the country to build its military strength and economic stability (*US Department of State Publication*, 1959). "In the process of trade expansion, the US has played a vital role. In the early stages of Taiwan's industrialisation, US economic aid had helped to finance the bulk of Taiwan's annual imports", one observer pointed out (Cheng, 1986, p.87). The following first reviews these two countries' economic relationship, then examines their military and political perspectives.

Cheng (1986), in the study of U.S.-Taiwan economic relations between 1952 and 1984, reported that the economic relations had changed dramatically during this period. In the 1950s, Taiwan was a minor importer of U.S. commodities and in 1984 it became its sixth largest trading partner and value of this trade had reached US$20 billion. In terms of investment, over this period, 41.6 per cent of total foreign investment in Taiwan was from the US and about 26 per cent was from Japan. American investment was concentrated on electronics, electrical appliances, chemicals, and services. Between 1952 and 1984, Taiwan's trade with U.S. rose 221 times with a growth rate of 18.4 per cent annually. Despite this growth in trade, there had been complaints from the American government and business enterprises. These concerned the barriers facing American products marketed in Taiwan and included high tariffs, counterfeiting, and legal barriers to deter US banking, insurance and other service business. These issues had been discussed many times during the R.O.C. - U.S.A. trade negotiations.

During the 1950s, U.S. exports to Taiwan accounted for about 40 per cent of Taiwan's total imports. During this period, U.S. companies started to invest in Taiwan. They were concentrated in labour-intensive industries, such as fisheries and animal husbandry, food and beverage processing, textiles, garments and footwear. At this time labour costs in Taiwan were still very low compared to America's. Three free-trade zones were set up in

Taiwan in these years (Li, 1988, p.49). American and Japanese firms were the major overseas investors in these zones, and established assembly plants to take advantage of cheap labour costs and free duties. Even now in the 1990s, some American and foreign companies from other nations are still continuing their operations in the zones. But they are more concentrated in high value-added industries such as electronics and computer components.

After the 1970s, because Taiwan's industries were getting stronger and had the ability to export their products to the rest of the world, the American market was the first market that the Taiwanese manufacturer's tackled. American companies had assisted Taiwan's export capability in different aspects. They came to Taiwan to invest at this time, in three major fields: electronics and electrical appliances, chemicals and services. Compared to the 1950s, they were now interested in Taiwan's highly skilled labour, well-developed infrastructure, geographical location, political stability, and government encouragement, not simply labour costs. Taiwan's labour costs were not as cheap as before. In fact, one famous U.S. toy manufacturer, Mattel, the maker of Barbie Doll, closed its Taiwan factory and shifted it to the Philippines because of rising wages.

One observer (Klein, 1992) of Taiwan's economic development concluded that in the ten years after the termination of formal diplomatic relations, Taiwan exported a remarkable US$136 billion goods to the American market. By 1988, Taiwan was America's number fourth largest supplier and it was the fifth largest American farm products buyer. By 1996, Taiwan was the US' sixth-largest import source, the seventh-largest export market, and the eighth-largest trading partner (Chu and Kuo, 1998). USA, on the other hand, was the largest recipient of Taiwanese exports in 1996. In this year, Taiwan's total export volume was worth US$116 billion and about 25% of this volume was to the USA (Foxworthy et al, 1998).

Recently, because of the easing of foreign-exchange controls and the uncertain future of Hong Kong after 1997, Taiwan is trying hard to become the leading financial service centre in the Far East Region. Some American financial institutions have already set up their offices or branches in Taiwan. These include Citibank, Chase Manhatten, and Manufacturers Hanover. Securities companies such as Fidelity and Merril-Lynch have established offices in Taiwan.

Besides these economic aspects, many researchers believe that the mutual defence agreement signed with the US was also another factor behind Taiwan's rapid economic development. Without the protection from the U.S. Seventh Naval Fleet, Taiwan might not have been able to concentrate on developing its industry and economy. The R.O.C.-U.S. Mutual Defence Treaty was signed in late 1954 (Klein, 1992).

In the political area, people in Taiwan had always had a positive attitude towards America and its assistance to Taiwan. The U.S. had always been their faithful supporter. However, this perception changed in 1979, the year that America ceased its recognition of Taiwan and switched to recognise the PRC. Taiwanese felt that they had been betrayed by their oldest ally and friend. Serious anti-American demonstrations were held following by a comment from its President, Chiang Ching-kuo, "(U.S.A.) the biggest sinner in history" (Klein, 1992, p.262). The Mutual Defence Treaty was also terminated following the recognition switch. Taiwan suddenly lost a key supporter and protector within the international community. However, the observations by Cheng (1986) indicated that this diplomatic shock did not interrupt the U.S.A.-Taiwan economic relationship. The two-way trade volume had been more than doubled between 1979 and 1984. Taiwan's trade with the U.S.A. increased from 29 per cent to 38 per cent of its total international trade and in the same period, investment from the U.S.A. to Taiwan also increased dramatically (p.95).

Since 1979, Taiwan and the US have maintained a quasi-diplomatic relationship. Quasi-official liaison offices were established in Taipei and Washington. However, there have been some improvements in this relationship. These include the approval to sell F-16s to Taiwan after many years of negotiation, support for Taiwan's application to join WTO from the US government, and permission for the president of Taiwan, Lee Tung-hui, to visit Cornell University, the university where he completed his PhD in 1968. Taiwan's reliance on American military protection from the threats of China is clearly demonstrated in the 1995/96 military exercies conducted by China with the aim to intimidate Taiwanese voters in their first presidential election in March, 1996.

Taiwan's Political and Economic Relationship with Japan

As indicated above, Taiwan was a colony of Japan.[4] Because of this colonial relationship, Taiwan and Japan have had very close business links. Like the United States, Japan has always played an important role in Taiwan's economic development (Klein, 1992, p.262). Researchers believed that the infrastructure and systems left behind by the Japanese were the backbone of Taiwan's economic miracle (Liu, 1969 cited in Silin, 1976, p.12; Kiltworth, 1992, p.1). Another report suggested that the economic programme developed by the Japanese in the colonial period generated substantial means for improving Taiwan's living standards. The well established petroleum and aluminium industries left by the Japanese had also helped to develop Taiwan's economy to a large extent (*US Department of State Publication*, 1959, p.9).

After World War II, Japanese firms came to Taiwan to establish their marketing and manufacturing branches. These included the textile industry in the 1950s, the TV assembly in the 1970s and the auto and retailing joint ventures in the 1980s. Well-known Japanese MNCs all had set up their manufacturing facilities or retailing outlets in Taiwan at different times: National (Matsushita), Sharp, Sony, Sanyo, Mitsubishi, Nissan, Honda, Fuji Heavy Industry (the producer of Subaru cars), Daihatsu, Suzuki, Shiseido, Sogo department stores, Kasumi supermarkets, and Family Mart convenience stores. Japan is one of the Taiwan's closest neighbours. It is natural for the Japanese to have factories or even conduct some market testing there. Entry methods used by Japanese companies into Taiwan included licensing, franchising, joint ventures, foreign assembly, foreign manufacturing, and most recently, strategic alliance.

The Japanese, like the Americans, at first came to Taiwan because of cheap labour costs. But as time has passed and Taiwan is no longer a haven for cheap labour, a number of labour-intensive industries have either begun producing higher value-added products or

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[4] As discussed, Taiwan was occupied by Japan from 1895 till 1945. A lot of Taiwanese, especially the old generation, were educated under the Japanese system. Most of them are still able to speak Japanese and they prefer to do business with Japan. This is one of the reasons why Sino-Japan balance of payment has always had a lot of deficits. Japanese and the Chinese are from the same origin. There are many similarities between these two countries - culture, tradition, diet habit, languages (Kanji). Japan has always played an important role in Taiwan's economic development (Kuo, Ranis, and Fei, 1981; Long, 1991, p.76). One study quoted that President Lee Teng-hui speaks Japanese better than he does Mandarin Chinese (*The Economist*, 1996, March 30). Lee was educated in Japan.

have withdrawn from Taiwan and moved to lower cost sites elsewhere in Asia. More recently, a group of Japanese retailing opertors such as Sogo department stores and 7-eleven convenience stores have entered Taiwan because of its affluent residents (Chang & Sternquist, 1993). As indicated, Taiwan's GNP per capita had reached over US$12,000 in 1995 (Shen, 1996).

Politically, after World War II, Japan had maintained its diplomatic relations with the ROC until 1972 when it established a formal relations with the PRC region. Since then, Japan and the ROC have maintained quasi-diplomatic relations. Taiwan has a trade representative office in Japan to handle economic, political, cultural and other issues.

Besides their economic relations, Taiwan and Japan have other similarities. One similarity is the language. The Japanese language system was heavily affected by Chinese. One feature is the sharing of Chinese characters, known as Kanji in Japanese. Chinese characters are quite often used in Japanese business correspondences. If the Japanese people and Chinese people cannot communicate in English or in their languages, the best solution is to use Kanji to talk to each other. Religion is another common aspect between Japanese and Chinese. Three main religions in Japan are Shinto, Buddhism and Confucianism. These three religions were Chinese in origin (Terpstra and Sarathy, 1994, pp.115-116).

In addition to the above similarities, Japan has also influenced its former colony in other ways. Today, these influences are still widely apparent in areas such as business practices, medical systems, educational systems, distribution systems, manufacturing management, banking, diet and language. Detailed discussion on the similarities of these nations are presented later on.

Taiwan's Political and Economic Relationship with New Zealand

Taiwan, as stated above, is an island of about 36,000 square kilometres. This is approximately eight times smaller than New Zealand's area (270,500 square kilometres), but it has 21 million residents which is about six times larger than New Zealand's total population. The Taiwanese government is very enthusiastic about setting of formal diplomatic relationships with the international community because of its unique political status. To have as high as possible a diplomatic relationship with New Zealand is part of the Taiwanese government's international efforts. Because of this concern and its intention to become a member of the WTO (Barber, 1994b), Taiwan has opened its market to New Zealand products in order to gain more diplomatic assistance from New Zealand. New Zealand and Taiwan still have not re-established a formal relationship since the termination of the diplomatic relationship in 1972 (McGowan, 1992; Hoadley, 1993). The Taipei Economic and Cultural Offices in Wellington and Auckland are the only two official Taiwanese offices in New Zealand. By the same token, New Zealand has not set up an embassy in Taiwan. The equivalent office is the New Zealand Commerce and Industrial Office, which issues visas and handles both regular commercial and trade affairs. It is located in Taipei. The current office was established in 1987. Hoadley (1993) detailed the history of trade representation in both countries after New Zealand ceased its diplomatic relationship with Taiwan.

Despite the lack of formal recognition, the mutual development on both sides has been encouraged through a variety of business cooperation. Major Taiwanese computer MNCs such as Acer, Mitac and Teco have set up marketing offices in New Zealand, while there are many other Taiwanese companies which have been doing business with New Zealand traders for a period of time through other methods of entry. On the other hand, several New Zealand companies have already set up their offices in Taiwan together with many other New Zealand marketers who have been doing business there through other market entry means. The companies which have offices in Taiwan include: New Zealand Dairy Board, ANZCO, NZKMB (now known as Zespri) and a number of immigration and investment consultant companies. Detailed examination about their operations is the main course of this study and it is presented later in this thesis. Overall, New Zealand products are marketed in Taiwan through New Zealand-owned offices, local importers, distributors or agents.

In trade perspective, Barber (1994a) indicated "Taiwan is more important to New Zealand than vice versa". In 1993, New Zealand's exports to Taiwan totalled NZ$485 million, a 73 per cent increase over four years. The two main export categories were food and beverages. These two categories of products together with dairy products contributed 22 per cent of total New Zealand exports to Taiwan in this year.[5] Another research conducted by the *National Business Review* (1994) revealed a similar result. It stated that New Zealand's exports to Taiwan increased 15.8% in 1993 and amounted to NZ$510 million compared to only NZ$382 million to Mainland China which was the 10th largest trade partner (Barber, 1994a). In 1997, New Zealand exports to Taiwan totalled NZ$567 million which only accounted for 0.4 per cent of Taiwan's total imports in that year (Lee, 1998).

Today, New Zealand's Fernleaf full-cream milk powder is Taiwan's number two brand. It has reached this within two or three years of its launch. Anchor non-fat powdered milk is a market leader in that product segment. Anlene is also a market leader in the calcium non-fat skim milk powder category, as is Bate's goat milk powder. Chesdale cheese and Anchor butter are also popular brands in their segments (*New Zealand Dairy Board*, 1994, p.23; Barber, 1994b). New Zealand kiwifruit is also available in Taiwan. Its special flavour is particularly welcomed by Taiwan's consumers. Another New Zealand fruit, the royal gala apple is also available in the Taiwanese market now. However, both apples and kiwifruit are subject to a 50 per cent tariff. Apples are also under a quota limit of 2608 tonnes a year. Fruit from North America has no import limit under a special arrangement from the Taiwanese government. New Zealand imported beef is taxed 75 NZ cents per kg more than beef imported from America. Also, the government of Taiwan still bans the imports of New Zealand's persimmons, nashi pears, offal, and UHT milk (Barber, 1994b). However, a recent report indicated that New Zealand offal, liquid milk, deer velvet, squid, markerel, sardines, pears and persimmons will have access to Taiwan after its

[5]*NZ Herald*, 1993, Sep. 30.

accession to the World Trade Organisation (Lee, 1998). Today, people in Taiwan see New Zealand as a clean and green paradise after the launch of an extensive TV advertisement campaign by the NZ Dairy Board. Taiwan is the Board's second most profitable market after Britain (Barber, 1994b).

With New Zealand's open policy towards immigrants, more and more Taiwanese immigrants are allowed to live in New Zealand permanently. This also helps promote New Zealand products to Taiwan. In 1993, Taiwan was the third largest source of permanent immigrants to New Zealand following Britain and South Korea. There were 2,500 new immigrants from Taiwan in 1993. Also in the same year, nearly 45,000 Taiwanese visited New Zealand and the number was predicted to grow to 100,000 in two or three years (Barber, 1994b). One report (Laxon, 1995, p.2) updated these statistics by stating Taiwan as New Zealand's fourth biggest source of immigrants after Britain, South Africa and South Korea in 1994. However the number of Taiwanese immigrants to New Zealand has been reduced dramatically after New Zealand altered its immigration policy in October 1995. The new policy requires immigrants to have a certain level of English fluency before they launch their applications.

TAIWAN'S ECONOMY

Background to Success

The previous section has examined Taiwan's political situation and its political and economic relationship with its main trading nations. This section chapter focuses on Taiwan's economy. Taiwan's economy was heavily dependent on agricultural sectors before the 1950s (Silin, 1976, p.14). One observation of Taiwan's early development indicated that, in 1957, agricultural production contributed 28 per cent of the whole nation's gross product which was about $1 billion (*US Department of State Publication*, 1959). At this time, the majority of the population was involved in farming, forestry, or fishing. Only 9 per cent of the work force were engaged in industrial production. Production was not a significant sector of the island economy at this early stage. However, between 1967 - 1969 the percentage of the work force related to industrial production had increased dramatically, to 11.7 per cent (Silin, 1976, p.14). Cheng's study of Taiwan's transition from being an agricultural goods exporter to an industrial goods supplier found that in the 1950s agricultural and processed agricultural products accounted for 85 per cent of Taiwan's total exports. By 1984, more than 95 per cent of exports to America were industrial goods (Cheng, 1986, p.88).

Since the end of Second World War, Taiwan's economy has grown dramatically. Previous studies have examined the factors behind this success. Since 1953 the KMT has implemented many measures to stimulate the Taiwanese economy including a three-stage land reform (*US Department of State Publication*, 1959, pp.27-32; Li, 1988, pp.26-28). This three-stage land reform programme was made up of the reduction of the farm rent, the sale of government lands to the farmers and the land-to-the-tiller project (*US Department of State Publication*, 1959, pp.27-32; Li, 1988, pp.26-28). It is generally agreed that it was these reforms which helped develop Taiwan's economy in the early stages. The combination of Chinese industriousness, the land reforms and the help from the U.S. has contributed to strong growth. Taiwan is a significant trading country now. In 1998, its foriegn exchange reserves were US$84.11 billion, ranked third worldwide (Wu, 1998).

In conjunction with the emphasis on education of Confucian philosophy (Kao, 1993; Kraar, 1994, Oct.31), the KMT has promoted the raising of education levels as the nation's first priority since human resources are Taiwan's most significant resource. Multinational companies such as Acer, Mitac, Teco, Tatung, and Formosa Plastic Ltd. have benefited from the government's efforts to upgrade Taiwan's education level. It was the highly educated computer specialists who underpined the success of Taiwan's information industry, according to Wang (1995, p.9). In 1994, total sales revenue of Taiwan-made computer products was over US$11.5 billion, the 4th largest supplier in the world behind the US, Japan and Germany (*The Economist* ,1995, April 15th, p.65; Wang, 1995). Taiwan now has abundant well-trained technicians and engineers who are capable of mastering modern technology in computers, robotics and electronics. In 1984, computer components and electronic products for the first time overtook textiles as Taiwan's number one export items (Cheng, 1986).

Asiaweek (1995, June 30) indicated that forty-five years ago, Taiwan's GNP per capita was about US$100. In 1980, the figure was US$2,344 and it has reached to US$12,439 in 1995, according to the World Bank's calculation (*Asiaweek*, 1995, June 30; Shen, 1996). The Gross National Product (GNP) per head is about to overtake New Zealand's. The Taiwanese government sets US$16,000 per head as their goal in the year 2000. Barber (1994a) indicated that this number could reach even higher, closer to US$20,000, by the turn of the century.

Taiwan's Economic Structure: Past, Present and Future

One very successful strategy employed by the Taiwanese government in upgrading the economy is an export-led policy. In contrast to most developing countries' pursuing an inward-looking and import substitution strategy, the Taiwanese government pursued an outward-looking and export-expansion policy to stimulate its economic growth. Between 1952 and 1988, Taiwan's exports increased from $120 million to $ 61 billion. This was about a 19 percent growth rate per year. One reason for the high trade growth rate was a tax rebate on industrial goods. The government proposed this system in order to promote the export of certain industrial goods. Another measure was the establishment of export-processing zones (Cheng, 1986). This matter has been reviewed in previous sections.

Partially because of the appreciation of the New Taiwan Dollar and rising labour costs, Taiwan's manufacturers had upgraded the products they exported. The exchange rate was NT$40 to US$1 in late 1960s (Silin, 1976, p.xvii). Today it is about NT$33 to US$1. Taiwanese currency was even stronger before the Asian financial crisis. In 1995, the exchange rate was about NT$26: US$1.Taiwan was formerly a supplier of cheap plastic toys. Today it has heavily invested in much more sophisticated industries (Barber, 1994a). Computers and other high value-added electronic products are part of Taiwan's many current export items. Acer, Mitac and other Taiwanese computer companies have become today's major global computer products suppliers (Kraar, 1994a). Taiwan's small-medium sized enterprises have generated much flexibility to meet the up-to-minute changing international marketing environment. Now, many overseas companies come to Taiwan not looking for low-end price products but for the speed of meeting delivery deadlines. Few firms around the world can provide the same flexibility as many Taiwanese enterprises do.

Another economic strategy was and continues to be the support of the government, which has assisted its private enterprises in many aspects. One of the most important tasks completed by the Taiwanese government was the Ten Major Construction Projects which included an extension of the railway trunk line to the east coast, railway electrification, a second international airport, two new sea ports, nuclear power stations, a modern steel mill, a giant ship yard and a petrochemical complex (Li, 1988, p.15). This programme was initiated and supported by the late President Chiang Chin-kuo and was launched in 1973 and completed in 1978. After these projects were finished, the private sector had gained many benefits, particularly export businesses. The transportation time from north and south was reduced to about 4 and a half hours from about 10 or more hours. Raw materials such as steel no longer needed to be imported from overseas. These projects were designed to improve Taiwan's international competitiveness. Following their completion, Twelve New Development Projects which included six infrastructures, five transportation and one nuclear power generation project were launched and were successfully completed. These projects were designed to further solidify the foundation for economic development (Li, 1988, pp. 51 & 86). The current project is the National Six-Year Project which includes a mass transit system for two major cities, Taipei and Kaohsiung, a super speed railway system between Taipei and Kaohsiung, and expansion of the Kaohsiung International Airport, the second international airport located in the south.

There are some additional reasons behind Taiwanese economic success. A close relationship between government and private business organisations could be another explanation. The effectiveness of both tariff and non-tariff barriers implemented by the government to protect local industry is also likely to be another factor. These regulations have also helped the growth of local enterprises. The set-up of the Hsinchu Science-Based Industrial Park has also contributed to the new wave of developing Taiwanese MNCs.

In order to maintain its future economic growth, one of the strategies the government of Taiwan is currently pursuing is to position Taiwan as the Asia-Pacific Regional Operational Centre (APROC) by the end of the century. *The Economist* (1995, April 15th, p.65) stated that this plan intends to transform Taiwan into a regional business and financial centre which would challenge the positions of Singapore and Hong Kong. This plan includes various government policy modification such as lowering tariffs, reducing restriction on the employment of foreign specialists and opening up Taiwan's financial markets. Two other major goals of this plan are to upgrade Taiwan's fundamental infrastructure and improve its manufacturing base. This project aims to establish Taiwan as a manufacturing, air transportation, sea transportation and media centre (*The Free China Journal*, 1995, June 9, p.7; *Free China Review*, 1995, June, pp.46-53). By completing this project, Taiwan will be able to upgrade its economy in a massive way.

Taiwan's Relations with International Economic Organisations

Because of its unique political situation (as discussed before), the government of Taiwan has intended to join international organisations such as APEC, WTO, ADB, Asia Free Trade Area, and ASEAN for two purposes: to increase its international political status and to maintain its international economic competitiveness. This section discusses Taiwan's position in these organisations and its relationship with them.

Taiwan became a member of Asia-Pacific Economic Co-operation (APEC) in 1991. Both China and Hong Kong were also admitted to this organisation at the same time. Under a delicate formula, the three Chinese states were allowed to be members of APEC simultaneously. Taiwan is trying to repeat this model for its applications to other international organisations, such as the United Nations and the WTO.

In response to the absence of President Lee Teng-hui at the 1994 annual APEC meeting, Liu's (1994) report suggested that the international community should not adopt double standards to justify Taiwanese efforts to become a member of the international organisations. Liu indicated that "the international community seems to have a two standards when it comes to the cause of democratisation - one that applies to every other country in the world, and a separate standard that applies only to the ROC." He pointed out that at the present time the people of Taiwan are pursuing three goals: the entrance into the WTO, diplomatic recognition by the U.S. and other countries, and a seat on the UN. These three aims have been blocked by the PRC publicly on many occasions. Taiwan has officially applied for membership of the WTO under the name, "Customs Territory of Matsu, the Pescadores and Taiwan" (Klintworth, 1992). China has also applied to join the WTO. Taiwan has agreed to become a member after China. It has opened its market through reducing import duties and restrictions on foreign imports in order to meet the requirements of the WTO (Klein, 1992). The relationship between Taiwan, Hong Kong, the PRC and WTO was well discussed in Hartland-Thunberg's work (1990).

Besides the above organisations, Taiwan is also a major member of and donor to the Asian Development Bank (ADB).

Taiwan's Market Potential for International Marketers

According to the World Bank, Taiwan is currently the 14th largest trading nation in the world (Foxworthy et al, 1998). It is one of the richest countries in the world. As indicated already, Taiwan's foreign exchange reserves have remained in the top three worldwide in the last several years. People in Taiwan are rich and also keen to buy products produced in other countries. Taiwan has provided an excellent opportunity for international marketers. In fact, in this recent round of Asian financial crisis, Taiwan is one of the very few countries whose economic growth is still strong. Now, people in the world seem to look to Taiwan for successful models (Moore, et al, 1998; *The Economist*, 1998).

Taiwan's succes is only reflected by the opportunities it provides for international marketers. It is also now a major source country of foreign direct investments now. Klein (1992) indicated that when a contemporary market-orientated country reaches a high level of foreign trade and accumulated levels of foreign currency reserves, its investment tends to flow to the rest of the world. Taiwan is such an example. Taiwan is now a major investing nation in many parts of the world. Taiwanese investors are heavily investing in ASEAN, Vietnam (joined ASEAN in 1995), and China. According to one report, Taiwan was the largest investor in Vietnam (US$2.6 billion); the second most important investor in Malaysia (US$7.3 billion); the third largest in the Philippines (US$737 million); the 4th largest in Thailand and the fifth most important investment source in Indonesia (Colmey et al, 1995). One recent report indicated that *The Economist* had ranked Taiwan as the seventh largest global investing country since 1995. This report further noted that currently the accumulated foreign direct investments conducted by Taiwanese firms were worth US$85 billion (*The Free China Journal*, 1998). Taiwan is also heavily investing in OECD members such as EU, North America, New Zealand and Australia (*The Free China Journal*, 1998). Taiwan's direct investment in Australia was more than US$300 million (Wu, S. 1998). While there had been a significant investment conducted by

Taiwan, Taiwanese interests in New Zealand were not well documented, according to the Chairman of New Zealand - Taiwan Business Council (Tothill, 1998). It is believed that Taiwanese direct investments in New Zealand include property, retailing, computers, forest, meat processing, and manufacturing (e.g. woolen duvet, fabric printing) (Barber, 1994b). One report (Barber, 1995) estimated that up to 1995, Taiwanese had invested about NZ$200 million in New Zealand.

THE UNIQUENESS OF TAIWAN

Previous sections have examined Taiwan's cultural, political, economic environments and business systems. This section aims to provide summarised information about Taiwan.

As indicated before, Taiwan was occupied by different nationalities including the Spanish, Portuguese, Dutch, and Japanese through different periods of its history. These countries had differing influences on Taiwan. This experience has created a Taiwan which is unique from the rest of the world in many aspects, particularly in comparison with its two other Chinese counterparts, Hong Kong and China. This last section of the chapter will review these unique aspects which are divided into four major areas: cultural, political, economic and business systems. Table 2 is a summary matrix showing the differences and similarities between Taiwan, Hong Kong and China.

Table 2 Summary of differences and similarities between Taiwan, Hong Kong and the PRC

	Taiwan	Hong Kong	PRC
Geographic size	36,000 km^2	1,000 km^2	9,573,000 km^2
Population	21 million	6 million	1.2 billion
Cultural origins of people	Hokkien, Hakka, Mainlander, and Aborigines	Cantonese	Many races
Cultural basis of languages (primary)	Mandarin Chinese, Hokkien	Cantonese, English	Mandarin Chinese and many other dialects
Cultural basis of educational system	Japanese, American	British	Russian, other Western nations since open door policy
Government (Ruling party)	KMT	A special administrative region (SAR) of the PRC. Chief executive is the head of the region.	Communist
Sovereignty status	Republic of China (independent state in the Taiwanese government; but it is viewed as a rebel province by the PRC)	Former British colony (returned to the PRC in July, 1997 under the agreement that it will remain unchaged in 50 years)	Peoples' Republic of China (independent state)
Period of government established	since 1911	since July 1, 1997	since 1949
GNP per capita[6]	US$13,303	US$26,400	US$738
Foreign currency reserves	US$84 billion	US$96.2 billion	US$140.6 billion
Currency	NTD (New Taiwan Dollars)	HK$	RMB (Reminbi)
Regional Economic Organisation: APEC	A member under Chinese Taipei	A member	A member under the People's Republic of China
Membership of the WTO	Under review; Name: Customs Territory of Matsu, the Pescadores and Taiwan	A full member since April, 1986[7]	Under review
Greater China economic alliance	A key member	A key member	Host of Greater China economic alliance
Roles in Greater China economic alliance	Capital, production and management	Capital and international marketing channel	Land, cheap labour
Business system uniqueness	Family orientated	Modified family oriented	State controlled

[6]Data of GNP per capita and foreign currency reservers were extracted from *Asiaweek*, 1998, June 19.

[7]See Hartland-Thunberg, P. (1990). *China, Hong Kong , Taiwan and the World Trading System.* Hampshire: Macmillan, p.102.

Geographic Size Uniqueness

Size is the first difference between Hong Kong, Taiwan and the PRC. As can be seen in the table, the size of China is about 260 times larger than Taiwan. However, Taiwan is much larger than the island state of Hong Kong.

Cultural Uniqueness

Population, People and Languages

As shown in the table, the population in China is about 57 times larger than Taiwan's and is approximately 200 times larger than that of Hong Kong's. This enormous gap contributes to another difference between Taiwan and China and Hong Kong.
In regard to the ethnic origin, the majority of Taiwanese were from China, mainly from Hokkien and Gunagdong province. In contrast, the majority of people in Hong Kong are Cantonese and their ancestors were from Guangzhou area, the capital of Gunagdong province. The ancestry of people living in China is difficult to summarise because of the number of races. The origin of ancestry is another difference of these countries.

With respect to languages, as stated before, there are four languages spoken in Taiwan (i.e. Hokkein, Mandarin Chinese, Hakka and Aborigine). The former two are spoken most widely in Taiwan. Besides these four languages, the usage of Japanese languages is also fairly common in Taiwan, especially in the older generations. By contrast, the languages spoken in Hong Kong are Cantonese and English although Mandarin Chinese is spoken more commonly now. In China, besides the most popular official language, Mandarin Chinese, there are numerous dialects spoken by people living in different areas (e.g. Shanghai). Languages spoken are another difference among these three nations.

Educational System

Through its colonisation, Japanese has had tremendous influence on Taiwan and its people. The education system in Taiwan for example was heavily influenced by the Japanese, especially in the primary school and high school level. The wearing uniform and the entrance examinations are similarities of these countries. As in Japan, students in Taiwan must qualify for entrance to senior high schools or universities by undertaking examinations. Currently, the percentage of students who are admitted to study at universities or colleges is about 40 per cent of total high school graduates.

Besides the Japanese influences, Taiwan's education system has also been heavily influenced by its most important trading partner, the United States. Many American-educated students return to Taiwan and bring back what they have learned or seen from America. The systems at higher education level such as university, Master's or PhD programmes are almost reproduction of their American counterpart. At this level, there are more American influences than Japanese.

Overall, the educational system in Taiwan is unique because of its combination of Japanese and American influences. The only nation whose education system has similar influence from both Japan and America is South Korea (Song, 1994). When compared with Hong Kong's and the PRC's, Taiwan's education system is different from these countries. As indicated in the table, Hong Kong's education system is still mainly based on the British system although it might be influenced by the PRC system some time in the future. Many Russian and some Western nations such as USA and Japanese influences have been adopted by the PRC's since its open door policy in 1978.

Political Uniqueness

Governments and sovereignty issues

The nature of each government is responsible for another significant difference of these three states. The KMT is pushing Taiwan towards a fully democratic country, while Communist China still remains as a strong socialist state. Democracy in China still has a long way to go. Hong Kong was governed by the British and it was returned to China's rule in July, 1997. The PRC government promised that Hong Kong would be treated as a Special Administrative Region (SAR) and its capitalism and lifestyle would remain the same for 50 years (Cable News Network, 1997). The Chief Executive is the highest government official in the SAR and the nomination of this position is recommendated by the PRC central government. Whether Hong Kong is able to remain its freedom and prosperity is still a question mark for people living in Hong Kong. The political situation in Hong Kong is not certain.

In terms of sovereignty issues, Taiwan claims itself to be a fully sovereign state, but the PRC does not agree with this claim. Unlike Hong Kong's relationship with China which is almost certain, the sovereignty issue of Taiwan is unsure. The issue of independence has been discussed previously in this document. This uncertainty has contributed to another difference between Taiwan and the other two states.

Economic Uniqueness

GNP per capita and foreign currency reserve

As indicate in the summary table, Taiwan's GNP per capita is in between that of Hong Kong and the PRC. Its foreign currency reserves are always among the highest in the world. In March, 1998, Taiwan's foreign reserves were about US$84.11 billion, the third largest foreign exchange reserves. The first two largest foreign exchange reserves countries in 1998 were Japan and China (Wu, 1998).

Currency

The major difference between China's currency, RMB, and Hong Kong's or Taiwan's is its convertibility. Unlike HK$ and NTD, the RMB cannot be fully converted into other major currencies yet. The RMB convertibility problems have affected foreign firms operations in China (see Hendryx, 1986).

Economic Organisations: APEC, WTO, and Greater China

APEC: As discussed in previous sections, Taiwan joined the Asia Pacific Economic Cooperation forum as an economic entity, Chinese Taipei, (Spaeth, 1995a; Klintworth, 1992) but this is not a sovereign state. Hong Kong is also in the same position as Taiwan. China, on the other hand, joined this organisation by using its full sovereignty title, the People's Republic of China. The name nomenclature constitutes another difference between Taiwan, Hong Kong and China. The PRC is the only one of the three Chinas who can use its national title in the APEC economic organisation.

WTO: Both Taiwan and China are applying to be members of this global trade organisation. Again, Taiwan is applying by using the name of "Customs Territory of Matsu, the Pescadores and Taiwan" instead of its full sovereignty name, the ROC. China insists it should become a member of WTO before Taiwan even though Taiwan's qualifications for entry into this organisation are superior to the PRC's. The name used in the WTO indicates another difference between China and Taiwan.

Greater China: As indicated above, the future cooperation between China, Hong Kong and Taiwan will be desirable. In addition to the aspects discussed already, this sub-section reviews new terminology about the cooperation of these three areas, the Greater China economic alliance. This is a new economic concept for the three Chinese societies.

The unofficial economic alliance of these triangular economies has been labelled by observers as "Great China" which was initiated by a Taiwanese businessman-professor in Spring, 1989 (Hartland-Thunberg, 1990, p.97). One study described the three elements of this economic alliance as "the vast, centrally planned economy of the PRC, the capitalist enclave on the (former) free-trading British colony of Hong Kong and the Japanese-inspired, newly industrialised economy of Taiwan" (Baldinger, 1992). The roles of these three divisions also are well defined: Taiwan and Hong Kong provide technology and management expertise, while China supplies cheap land and abundant labour. Firms in Hong Kong also act as marketers of products produced in Greater China region. One example of this triangular cooperation was illustrated in Kraar's study (1992). Toys were designed in Hong Kong, parts supplied by Taiwanese and assembled in South China and finally finished and delivered from Hong Kong to world markets. It is not only the domestic firms in Hong Kong and Taiwan which have sensed the potential of this arrangement. Foreign firms are also well aware of this development. For instance, Microsoft Corp., the world's largest software maker, has renamed its Taiwanese office "Great China's Office" in order to use its office in Taipei to cover the Greater China markets (Einhorn & Curry, 1992).

Business System Uniqueness

As discussed in Chapter 2, the overseas Chinese business system is family orientated, small sized and has the emphasis on personal relationship. China's business system is not considered to be a part of the CFB system at the present time because it is still heavily controlled by the Communists and is not yet a fully free economy. Therefore, the distinctions between China's and Taiwan's business systems are obvious.

Both Taiwan and Hong Kong are dominated by overseas Chinese and they are classified as members of the CFB. However, there are some differences between these two business systems. First, the Taiwanese business system is heavily influenced by Japan and the United States. The Japanese left behind an infrastructure that has been the backbone of modern Taiwan. For instance, Taiwan's distribution system was created according to Japan's blueprint. Like the early situation in Japan, 'Mum and Pop' stores and traditional markets (to be discussed in Chapter 3) used to be the main retailing outlets to supply Taiwanese consumers' daily needs and wants. The emphasis on personal relationships in business society is likely to be stronger in the Taiwanese business system than that of Hong Kong which has a strong British heritage. The system of Hong Kong is much more Westernised than Taiwan's although the gap is becoming closer. The emphasis on personal contacts is not as distinctive as it is in Taiwan's system.

Secondly, the English language is a major difference between these two systems. Unlike Hong Kong where English is used simultaneously with Cantonese, the unofficial language in Taiwan is Hokkien. There is only a small fraction of the population in Taiwan who are able to converse well in English. The total of English speaking population contributes to another difference between these two systems. Taiwanese manufacturers often rely on other trading companies to sell their products for them because of their lack of qualified English speaking personnel although this situation is beginning to change now. In contrast, most companies in Hong Kong have their own English speaking employees. Consequently they are able to handle their own international business within organisations much more readily than their Taiwanese counterparts.

Thirdly, because of its early contact with the West, firms in Hong Kong can more easily accept and apply professional management than their counterparts in Taiwan. This is another major difference between Taiwan and Hong Kong's business systems. Fourthly, the size of enterprise in Hong Kong is normally smaller than those in Taiwan although firms in those two economies are considered small by worldwide standards. Taiwan is much larger than Hong Kong in geographical terms and it provides a better opportunity (i.e. larger land area, lower land costs) for the establishment of larger business structures. The size differences may explain why there are more famous manufacturing firms in Taiwan than in Hong Kong. One study (Fukuda & Chu, 1994) of Japanese investment in Hong Kong and Taiwan pointed out that many Japanese investors viewed Hong Kong as an international financial and trade centre while they used Taiwan as a regional manufacturing base.

APPENDIX B

QUESTIONNAIRE PACKAGE

Faculty of Business
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30 April 1997

Mr David McMurchy
Superior Stone & Ceramics Ltd
PO Box 101-093
North Shore Mail Centre
AUCKLAND

Dear Mr McMurchy

My name is Henry Chung. I am undertaking a study of New Zealand companies that **are conducting business with Taiwan** or **have conducted business with Taiwan**, for my Doctor of Philosophy degree at Waikato University. This research is the first of its type in New Zealand and is intended to include all New Zealand companies who are conducting or have conducted business with Taiwan. The research has the endorsement of Mr Rick Christie, the former Chief Executive Officer of TRADENZ (letter attached).

Your company has been suggested to me as one which has business experience with Taiwan. It will be very much appreciated if you can complete the enclosed questionnaire at your earliest convenience, but no later than **21 May 1997**. Your company's participation in this survey is **very important** to the success of this project. In return for your assistance with this research, a copy of the research summary will be sent to you upon your request. Please provide your contact detail at the end of the questionnaire if you would like to receive a copy of the summary.

Any information provided by the respondents will be used strictly for research purposes only. All organisations involved with the research will be assured of anonymity and results will be published only in an aggregate form. Therefore, we will not ask your company name and **it will not be shown in the report.** If you have any concern or inquiry about this research please contact the chief supervisor, Professor Peter Enderwick, on 07-856-2889 or myself on 09-274-6009.

Please note that besides the questionnaire, a separate Appendix is also enclosed to help clarify the terminology used.

Thank you very much for your assistance in completing this questionnaire. I look forward to your response.

Yours sincerely

Henry Chung
Department of Management and Marketing
Manukau Institute of Technology

Faculty of Business
Huinga Tari Kaipakihi

MANUKAU INSTITUTE OF TECHNOLOGY
Te Whare Takiura o Manukau

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Manukau City
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Telephone 0-9-274 60
Direct Line 0-9-273 07
Facsimile 0-9-273 07

04 June 1997

Mr John Blundell
121 Marine Centre Ltd
PO Box 100-278
North Shore Mail Centre
AUCKLAND

Dear Mr Blundell

Last month a questionnaire was mailed to you seeking your support for a study on market entry strategies used by New Zealand companies doing business with Taiwan. The findings of the survey will be used as the basis for my Doctor of Philosophy thesis.

In order for the results of this study be as representative as possible, it is important that each firm in the sample completes and returns their questionnaire. Based on my record, the questionnaire that was sent to you has not been returned to me yet. It would be very much appreciated if you complete it and send it back to me as soon as you can. It is still not too late to answer the questionnaire and you will receive a copy of the research findings summary if your contact details are provided. In the event that your questionnaire has been misplaced or you have never received one please contact me on 09-274-6009 ext.7486. I will be very happy to send you a replacement copy right away.

If you have already returned or have replied to the questionnaire please consider this reminder letter as an appreciation for your assistance.

I am most grateful for your help.

Thank you very much for your time and attention.

Your sincerely

Henry Chung
Department of Management and Marketing
Manukau Institute of Technology

ANZ Bank
New Zealand Headquarters
215-229 Lambton Quay, PO Box 1492, Wellington New Zealand
Telephone 64-4-496 3879, Telex NZ 3335
Facsimile 64-4-496 3863

Rick G M Christie
General Manager International

24 February 1997

To whom it may concern

This letter supports the work being undertaken by Mr Henry Chung of Manukau Institute of Technology concerning market entry for New Zealand companies doing business in Taiwan.

Given the current high volumes of mutual trade between our two countries and the mulplicity of businesses undertaking the trade, I believe it would be valuable background to understand how trade links could be improved in the future and trade itself increased.

There is also potential spin-off in terms of how both countries approach trade policy issues.

I am sure Mr Chung would appreciate any assistance you can provide him with, including assisting with his questionnaire.

Yours sincerely

"There is a current Disclosure Statement published by ANZ Banking Group (New Zealand) Limited, under Section 81 of the Reserve Bank of New Zealand Act 1989 a copy of which may be obtained from any branch or agency of the Bank."

Postal Survey on

MARKET ENTRY STRATEGIES BY NEW ZEALAND COMPANIES DOING BUSINESS WITH TAIWAN

This is a study on market entry strategies employed by New Zealand companies which are conducting or have conducted business with Taiwan. Any information provided by the respondents will be used for the purposes of this research project only. All organisations involved with the research are assured of anonymity and results will be published only in an aggregate form. **Your company name will not be shown in the report and you will not be able to be identified in any way. The sole purpose of the number on the front page is to avoid sending a second questionnaire to companies which complete and return the first one.**

This questionnaire is designed for companies which are **based in New Zealand** and which **are conducting** or **have conducted business with Taiwan**. If your company does not belong to this category, please return the questionnaire in the envelope provided.

This questionnaire should be completed by the person who was responsible for the organisation's entry to the Taiwanese market or the most senior staff member of the company. **If you were not employed by the company at the time your company first entered the Taiwanese market, please pass this questionnaire to someone in authority who was employed by the company at that time.**

This questionnaire consists of 11 sections, 37 questions. Please try to answer all the questions as completely as you can. Where the space is not sufficient, please feel free to attach a separate sheet of paper.

Thank you very much for your time and effort in assisting with this research. It takes approximately 30 minutes to complete this questionnaire.

QUESTIONNAIRE

*Please answer the following questions about your product(s) marketed in Taiwan. If your company markets more than one product, please concentrate on your **major product line** only.*

SECTION A: MARKET ENTRY MODES

At the time when your company first entered the Taiwanese market

Question A1:
Which one of the following best describes the market entry mode that was used by your company? **(If you are not sure what "market entry mode" means, refer to Appendix A for definiton.)**

(Please tick one only)
Market Entry Mode

- *International trading company* ☐
- *Export management company* ☐
- *Piggybacking* ☐
- *Agents* ☐
- *Distributors* ☐
- *Overseas sales representatives* ☐
- *Overseas marketing subsidiary* ☐
- *Foreign assembly* ☐
- *Contract manufacturing* ☐
- *Licensing* ☐
- *Franchising* ☐
- *Joint venture* ☐
- *Strategic alliance* ☐
- *Overseas production subsidiary* ☐
- ***Other** (please state):* ....

SECTION B: FIRM SIZE

At the time when your company first entered the Taiwanese market

Question B1:
How many full-time employees or equivalent did your company have?

____________full-time employees (in New Zealand)
____________full-time employees (outside New Zealand)

Question B2:
What was the approximate range of your company's total sales in the relevant last financial year? **(please circle one of the numbers)**

1. Under NZ$5,000,000
2. NZ$5,000,000 - NZ$9,999,999
3. NZ$10,000,000 - NZ$14,999,999
4. NZ$15,000,000 - NZ$19,999,999
5. NZ$20,000,000 - NZ$24,999,999
6. NZ$25,000,000 - NZ$29,999,999
7. NZ$30,000,000 - NZ$34,999,999
8. NZ$35,000,000 - NZ$39,999,999
9. NZ$40,000,000 - NZ$49,999,999
10. NZ$50million or over

Question B3:
What was your company's international sales (including those produced and marketed in overseas markets) as a percentage of the total sales in the relevant last financial year?
(please circle one of the numbers)

1. Under 10%
2. 10% - 19%
3. 20% - 29%
4. 30% - 39%
5. 40% - 49%
6. 50% - 59%
7. 60% or over

SECTION C: INTERNATIONAL BUSINESS EXPERIENCE

Question C1:
Number of years your company had been involved in international business prior to entering the Taiwanese market:
_________________years.

Number of years your company has been conducting (or had conducted if applicable) business with Taiwan:
___________________years.

Question C2:
Number of countries your company had been operating in prior to entering the Taiwanese market:_________________.

Which of the following countries have you operated in prior to entering the Taiwanese market? **(Please tick as many as you wish).**

East Asia		***North America***		***South Pacific***		***Europe***	
China	☐	*Canada*	☐	*Australia*	☐	*Countries in Europe*	☐
Japan	☐	*USA*	☐	*Pacific Islands*	☐	*UK*	☐
Korea	☐						
Hong Kong	☐						
Singapore	☐						
Malaysia	☐						
Indonesia	☐						
Thailand	☐						
Philippines	☐						
Brunei	☐						
Vietnam	☐						

Other countries (please state): ....

....

SECTION D: COMPETITORS ANALYSIS

At the time when your company first entered the Taiwanese market

Question D1:
Had your major direct New Zealand competitor(s) already entered the Taiwanese market? **(please tick one)**

☐ Yes **(if yes, please go to Question D2)**
☐ No **(if no, please go to Section E)**

Question D2:
How many of your New Zealand competitors had already entered the Taiwanese market?
___________ (please indicate).

Question D3:
Which one of the following best describes the market entry mode that was used by your most direct New Zealand competitor operating in Taiwan?
(Please refer to Appendix A for detailed definition of each market entry mode.)

(Please tick one only)
Market Entry Mode

International trading company	☐
Export management company	☐
Piggybacking	☐
Agents	☐
Distributors	☐
Overseas sales representatives	☐
Overseas marketing subsidiary	☐
Foreign assembly	☐
Contract manufacturing	☐
Licensing	☐
Franchising	☐
Joint venture	☐
Strategic alliance	☐
Overseas production subsidiary	☐

Other *(please state):* ....

Question D4:
To what extent has your most direct competitor's choice of market entry mode influenced your choice of market entry mode?

Weak Influence			**Moderate Influence**			**Strong Influence**
1	2	3	4	5	6	7

<u>SECTION E:</u> <u>DOMESTIC MARKET SHARE</u>

<u>At the time when your company first entered the Taiwanese market</u>

Question E1:
What was your company's overall domestic market share in the New Zealand market?
____________ (%)

SECTION F: PRODUCT-RELATED CHARACTERISTICS

At the time when your company first entered the Taiwanese market

Question F1:
Regarding your major product line marketing in Taiwan, which of the following product types accounted for the greater percentage of your company's total sales?
(please tick one)

Consumer products ☐ Industrial products ☐ Services ☐

Question F2:
Generally, to what extent did your company's export products to Taiwan require before or after-sales services (i.e. installation, back-up support, repair, or maintenance)?
(please circle one of the numbers)

Little			Moderate			High
1	2	3	4	5	6	7

Question F3:
Generally, to what extent were your company's export products to Taiwan different from those of your major competitors' (from New Zealand, Taiwan or other countries)?
(please circle one of the numbers)

Not different			Moderately different			Extremely different
1	2	3	4	5	6	7

SECTION G: MARKET SIZE AND MARKET POTENTIAL OF THE INDUSTRY

At the time when your company first entered the Taiwanese market

Question G1:
How would you rate the market size of the industry you were operating in Taiwan when compared with the largest market you were operating in? **(please circle one of the numbers)**

Smaller			Similar			Larger
1	2	3	4	5	6	7

Question G2:
When you compared Taiwan with other markets for your most important product(s) how would you rate Taiwan's market potential of the industry? **(please circle one of the numbers)**

Among the least promising export markets			About average			Among the most promising export markets
1	2	3	4	5	6	7

SECTION H: TAIWANESE COUNTERPART'S BUSINESS STRUCTURE

At the time when your company first entered the Taiwanese market

Question H1:
How would you classify the structure of the business system of the most important Taiwanese business organisation which you were doing business with? **(please circle one of the numbers)** **(If you are not sure what "Taiwanese business system" means, refer to Appendix B.)**

Family business structured						Professional management structured
1	2	3	4	5	6	7

Question H2:
How would you rate the importance of personal authority of the owners of that Taiwanese organisation? **(please circle one of the numbers)**

Not important			Moderately important			Extremely important
1	2	3	4	5	6	7

Question H3:
How would you classify that Taiwanese organisation's decision making structure?
(please circle one of the numbers)

Decentralised decision making structured						Centralised decision making structured
1	2	3	4	5	6	7

Question H4:
Overall, to what extent has that Taiwanese organisation's business system (its business structure, personal authority of the owners, and its decision making structure) influenced your choice of market entry mode? **(please circle one of the numbers)**

Weak influence			Moderate influence			Strong influence
1	2	3	4	5	6	7

SECTION I: DISTRIBUTION SYSTEM (wholesaling)

At the time when your company first entered the Taiwanese market

Question I1A:
Were your products sold in Taiwan through a wholesaling system? **(Please tick one)**
(If you are not sure what a "Taiwanese wholesaling system" means, refer to Appendix C.)

☐ Yes **(if yes, please go to Question I2)**
☐ No **(if no, please answer Question I1B then go to Section J)**

Question I1B:
If no, please describe the distribution system that was used by your company.

....
....
....
.... **(Please go to Section J)**

Question I2:
What percentage of your products were distributed by multi-layered, single-layered or other types of wholesaling systems?
(If you are not sure what "multi-/ single-layered wholesaling system" means, refer to Appendix C.)

Multi-layered wholesaling system: __________%
Single-layered wholesaling system: __________%
Others (please specify below): __________%
(Please ensure your percentages add to 100%) 100 %

Question I3:
Who distributed your products to the wholesaling markets/ wholesalers?
(Please tick as many as you wish)

Your own marketing subsidiary ☐
Other independent marketing entities in Taiwan
(e.g agents, distributors, importers) ☐
Other means (please state below) ☐

Question I4:
How would you describe the wholesaling system for your products in Taiwan?
(Please tick as many as you wish but not both columns on the same line, e.g. do not tick both 'complex' and 'simple', together)

Fragmented	☐	Not fragmented	☐
Complex	☐	Simple	☐
Multi-layered	☐	Single-layered	☐
Very different from NZ	☐	Similar to NZ	☐

Question I5:
To what extent has the Taiwanese wholesaling system influenced your choice of market entry mode? **(Please circle one of the numbers)**

Weak influence			**Moderate influence**			**Strong influence**
1	2	3	4	5	6	7

SECTION J: DISTRIBUTION SYSTEM (retailing)

At the time your company first entered the Taiwanese market

Question J1A:
Regardless of means of distributing products to retailers (eg by your company directly or via wholesalers), were your products sold to end users through a Taiwanese retailing system?
(Please tick one) **(If you are not sure what "Taiwan's retailing system" means, refer to Appendix C.)**

☐ Yes **(if yes, please answer Question J1B then go to Question J2)**
☐ No **(if no, please answer Question J1C then go to section K)**

Question J1B:
If yes, who distributed your products to independently owned retailers?
(please tick as many as you wish)

Your own marketing subsidiary	☐
Agents, distributors, importers	☐
Independent wholesalers	☐
Other means (please state below)	☐

....
....

Question J1C:
If no, please describe how your products were distributed to end users in the Taiwanese market:

....
....
....
.... **(Please go to Section K)**

Question J2:
Do you know the number of independently owned retailers who handled your products in Taiwan?

☐ Yes
☐ No

If yes, please circle one of the following numbers then go to Question J3.
If no, please go to Question J3.

less than 20	**20-99**	**100-499**	**500-999**	**1000 or more**
1	2	3	4	5

Question J3:
Which of the following Taiwanese retailing outlets distributed your products?
(please tick as many as you wish)

- Supermarkets ☐
- Traditional/ wet markets ☐
- Department stores ☐
- Convenience stores ☐
- Pop and mum stores ☐
- Others (please state below) ☐

Question J4:
How would you describe the retailing system for your products in Taiwan?
(please tick as many as you wish but *not* both columns on the same line together)

Fragmented	☐	Not fragmented	☐
Complex	☐	Simple	☐
Multi-layered	☐	Single-layered	☐
Very different from NZ	☐	Similar to NZ	☐

Question J5:
To what extent has the Taiwanese retailing system influenced your choice of market entry mode? **(please circle one of the numbers)**

Weak influence			**Moderate influence**			**Strong influence**
1	2	3	4	5	6	7

SECTION K: PERSONAL & COMPANY DETAILS

At the time when your company first entered the Taiwanese market

Question K1:
What was your position in the company?
....
....

Question K2:
What was your role in selecting the market entry mode?
(e.g. key decision maker etc.)
....
....

Question K3:
In what field of business did your company operate? **(e.g. food, forestry, fishery, etc.)**
....
....

Question K4:
☐ Was your company wholly New Zealand owned?
☐ Was your company foreign controlled (ie 25% or more of equity)? **(please tick one)**

If foreign controlled, please state the nationality of principal investing company.
....

This is the end of the questionnaire. If you wish to receive a copy of research findings summary please provide your contact details below.

Name: ______________________________, Phone number: _______________

Contact address:____

THANK YOU VERY MUCH FOR YOUR ASSISTANCE

Please return the completed questionnaire using the enclosed pre-paid (free post) envelope to:

Manukau Institute of Technology
Free Post 3
Private Bag 94006, Manukau City
Attn: Henry Chung

APPENDICES

TERMINOLOGY TERMS

(This section is to help clarify terminology used in the questionnaire. If this clarification is not sufficient, please contact the researcher or the chief supervisor)

Appendix A

International Market Entry Modes definition:

Indirect Exporting

International Trading Company:	The first type of indirect exporting happens when manufacturers export their products through an international trading company. This trading company could be owned by locals or by foreign companies, but it is based in the manufacturers' home country. A trading company pays the costs of the products and owns the merchandise.
Export Management Company (EMC):	The second form of indirect exporting is through an export management company (EMC). EMCs act as the principals' representatives and use their letterhead. Many EMCs operate as contract export departments for their principals. EMCs often represent their principals in negotiations with overseas customers and they often represent several noncompeting principals at the same time. EMCs gets paid by commission from the principals.
Piggybacking:	This type of indirect exporting occurs when an exporter enters into a collaborative arrangement with one overseas major multinational enterprise (MNE) (located in the host country), or a major domestic manufacturer (the carrier) to market the exporter's goods (the rider) in the target foreign market along with their own products.

Direct Exporting

Agents:	An agent is "an individual or organisation that acts on behalf of a principal to bring the principal into a contractual relationship with third parties to whom the principal's products/services can be sold, i.e. they act as intermediaries between supplier and end-user." In general, agents do not normally own the goods which they are selling nor do they stock or take responsibility for credit risks. There are several different types of agents but the important ones are commission agent, service after sale agent, stocking agent and del credere agent, a type of agent that accepts credit risk plus agreeing to pay the principal in the case of a default by the customer.
Distributors:	Distributors are the customers of the principal and who have been given by the principal exclusive or preferential rights to sell and purchase its products in the overseas market. Under this definition, distributors own the title of the goods when they pay the principal.
Overseas Sales Representatives	International firm could also send home-based sales representatives abroad at certain times to expand its international business. This is another alternative to conducting direct exporting.
Overseas Marketing Subsidiary:	This occurs when an exporter establishes its own marketing subsidiary in the host country.

Appendix A - continued

Foreign Manufacturing

Foreign Assembly:	The first foreign production method is foreign assembly. In this method, the overseas producer shifts the parts from its home plant to an assembly site located in an overseas market to have them assembled into finished goods there.
Contract Manufacturing:	This type of foreign manufacturing method occurs when the international marketer's products are produced by another manufacturer located in the target market country under contract agreement.
Licensing:	Licensing is another method by which the international firm can employ a local production strategy but without heavy capital investment. Licensing can be viewed as an extension or development of contract manufacturing.
Franchising:	Franchising occurs when a parent company grants another independent organisation the right to conduct business in an agreed manner
Joint Venture:	A joint venture is defined as the sharing of assets, risks and profits, and participation in the ownership (i.e. equity) of a particular enterprise or investment project by more than one firm or economic 'group'.
Strategic Alliance:	This is a type of international corporate alliance between organisations from different countries who are often competitors. In this method, competitors from different countries contract together to meet a strategic need of each party. One example in New Zealand is Ford's alliance with Mazda. The objectives of strategic alliance would include: to gain market entry, to remain competitive on a global scale and to attain economic of scale.
Overseas Production Subsidiary:	Overseas production subsidiary represents the highest commitment to the host country market by the international firm. Two major forms of investment in foreign markets are portfolio investment and foreign direct investment. Because the former type of investment gives the international firm no management control, this research adopts foreign direct investment to refer to wholly owned foreign production. Ownership ranges from 100 percent down wards. The degree of ownership is not a major concern, but the actual managerial control that the international firm can exercise is far more important.

Appendix B

Taiwanese Business System (TBS)

Introduction: Due to its heavy Chinese influence, researchers have classified Taiwanese business system as part of the Chinese family business system.

Family Business Structured

In the Taiwanese (Chinese) business structure or **TBS** there is no separation between ownership and management. Taiwanese (Chinese) firms are heavily controlled by the patriarch and management positions are traditionally entrusted to family or clan members only. The key decision-making unit is **the family who owns the company**, usually the head of the family, not the managers of the individual firms. One example of this is the Formosa Plastics Ltd. Although this is one of the largest multinational companies in Taiwan, this group company is still heavily managed and controlled by the founder, Y. C. Wang and his children. Another example of **TBS** is the Tui Milk Products' Taiwanese partner, Yi Lo International Trading Co Ltd. This small-medium sized company is owned by Mr. Liu's family. Company's decisions are still made by Mr. H. C. Liu and his wife.

Professional Management Structured

The critical role of family ownership and control of the Chinese family business has provided Taiwanese firms the flexibility and the ability to respond to environmental changes. However, research has identified that this type of patriarchal management style has been challenged. When a Chinese company's size is small, this management style might work well. However, when it starts to grow, this management style becomes a competitive disadvantage to the company's growth. One reason is because of the lack of professional management. The two companies are believed to have adopted **professional management** in Taiwan are the President Enterprise, the largest food company in Taiwan, and Acer Computer. Acer's employees are encouraged to own shares of company stock. The company has placed a lot of emphasis on decentralisation and it is doing its own R&D. The President Enterprise has heavily relied on its professional managers to build itself into a world class food company.

Appendix C

The definition of Wholesaling: "Wholesaling is concerned with the activities of those persons or establishments which sell to retailers and other merchants and/ or to industrial, institutional and commercial users but who do not sell in significant amounts to ultimate consumers."

Wholesaling System in Taiwan:

Multi-layered wholesaling system

There are a number of ways to classify a country's wholesaling system. This study adopts a simplistic approach. It classifies Taiwan's wholesaling system into two categories, multi-layered and single-layered.

Wholesaling has played an important role in Taiwan's distribution system. The size of wholesaling markets varies among industries. Some large scale wholesaling markets exist in the fruit, vegetables, meat and sea food sectors. These wholesaling markets are available in different areas of the island. For example, in Taipei one famous wholesaling market is the Bean-Chang Wholesaling Market. It is a comprehensive wholesaling market and covers items from flowers, fruit, meat, vegetables to dry goods. Individual farmers, growers, and their middlemen (who purchase products from farmers and growers) and importers, bring their produce/ imported goods to this wholesaling market for auction. Customers of this wholesaling market include wholesalers and large scale-retailers. The wholesalers will then resell the products they purchased from the market to other wholesalers and/ or smaller scale retailers through their own distribution channels. **This type of wholesaling distribution system usually consists of more than one wholesalers, therefore it is classified as multi-layered wholesaling system.** New Zealand products which are distributed through this type of wholesaling market include kiwifruit, apples, pears and meat. These products are brought to this market by their Taiwanese importers or distributors and from there they are distributed to many other marketing intermediaries.

Single-layered wholesaling system

In contrast to this type of wholesaling market, some New Zealand products are distributed to wholesalers or directly to retailing outlets by New Zealand companies' agents, distributors or importers. For example, Douglas Pharmaceutical Ltd (D/P) Karicare brands were distributed to retailing outlets through two systems. One was importer --> regional wholesaler --> retailers. In this type of distribution system, the importer marketed D/P's products to its regional wholesaler who then resold them to retailers. The other one was importer --> retailers. This second type of distribution system was completed through the importer's own sales force. These two types of distribution structure usually involves one or none wholesaler, therefore it is classified as **a single-layered wholesaling system.** The single-layered wholesaling system is also available in other importing businesses such as home appliances, pharmaceutical, medical instruments and machine tools.

Appendix C - continued

The definition of retailing:

"Retailing consists of the activities involved in selling goods and services to ultimate consumers. Thus, a retail sale is one in which the buyer is an ultimate consumer, as opposed to a business or institutional purchaser. In contrast with purchases for resale or for business, industrial or institutional use, the buying motive for a retail sale is always personal or family satisfaction stemming from the final consumption of the item being purchased."

Retailing system in Taiwan:

Taiwan's retailing system can be divided into traditional/ wet markets, government owned chain stores (government employee welfare centres), department stores (e.g. Sogo Department store in Taipei, Ta-Shin Department Store in Kaohsiung), supermarkets (e.g. Ho-Pin Supermarket chains, Wellcome, etc), hypermarkets (e.g. Makro and Carrefour), convenience stores (e.g. 7-Eleven) and others (e.g. pop and mum stores). Imported products such as New Zealand kiwifruit and apples are distributed through numerous independently owned retailers while others such as Fisher & Paykel washing machine and refrigerators are distributed by a limited amount of independently owned retailers.

Please note:

The number of independently owned retailers which distributed your company's products is very important to this study. Although your company might not deal with independently owned retailers directly, please try your best to answer the question.

THANK YOU VERY MUCH FOR YOUR ASSISTANCE

IF THE ABOVE CLARIFICATION IS STILL NOT SUFFICIENT, PLEASE CONTACT ME ON 274-6009, EXT. 7486 OR THE CHIEF SUPERVISOR ON 07-856-2889.