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**Strategic Decision-Making Process Characteristics, Confucian
Values and their Effects on International Entry Mode Decisions:
A Study of Chinese Private Firms**

Junzhe JI

A thesis submitted in fulfillment of the requirements for the Degree of Doctor of
Philosophy

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Department of Management

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Abstract

Based on the literature of SDM (strategic decision-making), cultural studies, and international entry mode, this study examines the effects of managerial cultural values and characteristics of SDMP (strategic decision-making process) on the Chinese private firms' international entry mode decisions. Although the international entry mode decision is one of most frequently studied strategic decisions in the domain of international business, prior studies tend to neglect the effects of the decision-maker and decision-making process by assuming a rational decision model employed in the entry mode decision-making. However, SDM literature indicates that the decision-maker and decision process also play important roles in making a strategic decision. In order to address two aforementioned less explored elements, this study develops an integrative framework by introducing managerial cultural values - Confucian dynamism - and characteristics of SDMP into the extant rational framework to explain Chinese firms' international entry mode decisions.

This study adopts a mixed-method research approach by employing the survey method as the main design, supplemented by a follow-up case study method. Following a pilot paired questionnaire mailing, a large-scale mail survey was carried out in China, which generated 233 usable replies. CFA (confirmatory factor analysis) and binary logistical regression techniques were used to conduct construct validation and hypothesis testing respectively. In order to further understand the phenomenon in the real setting, a case study approach was conducted in four Chinese firms, which used different entry modes in their most important international entries.

The findings of this study largely confirm the theoretical arguments of SDM literature and cultural studies that managerial value and decision process affect the outcome of strategic decision. Confucian dynamism was found to have both direct and moderating effects on the international entry mode decision. Characteristics of SDMP were also found to exert a moderating role in adjusting the effect of managerial value on the perceived situation. The evidence of case study also reflects that managers with varying degrees of Confucian dynamism tend to evaluate situational conditions differently, and different decision process dimensions are likely to limit or increase the chance of the subjective treatment of situational information.

The major contribution of this study is that seemingly for the first time, Confucian dynamism, a traditional Chinese cultural trait, was found to have a directly negative influence and a moderating effect on international entry mode decision. In addition, characteristics of SDMP also were found to play an important role in adjusting the cultural preferential treatment of situational information. In short, besides the impacts from environmental and firm conditions, this study found that the decision-maker and the SDMP can also explain entry modes.

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To Jing

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Declaration of Originality

I declare that the thesis presented here is my own work, except where explicit reference is made to the contribution of others.

This thesis has not been submitted for any other degree at the University of Glasgow or any other institution.

Abbreviations

ADF	Asymptotic Distribution-Free
CCPIT	China Council for the Promotion of International Trade
CCTV	China Central Television
CEO	Chief Executive Officer
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Index
CNKI	China National Knowledge Infrastructure
CR	Composite Reliability
CVS	Chinese Value Survey
DA	Devil's Advocacy
DI	Dialectical Inquiry
EFA	Exploratory Factor Analysis
EMs	Emerging Markets
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GLOBE	Global Leadership and Organizational Effectiveness
GNP	Gross National Product
HSCCC	High-Speed Counter Current Chromatography
IBM	International Business Machines
IDP	International Development Path
JVs	Joint Ventures
KMO	Kaiser-Meyer-Olkin
MBA	Master of Business Administration
MBTI	Myers-Briggs Type Indicator
MCAR	Missing Completely at Random
ML	Maximum Likelihood
MNEs	Multinational Enterprises
MTMM	Multitrait-Multimethod
NICs	Newly Industrialised Countries
NNFI	Non-Normed Fit Index
OLI	Ownership, Location, and Internalisation
PCA	Principal Component Analysis
PRC	People's Republic of China
R&D	Research and Development
RBV	Resource-Based View
RMSEA	Root Mean Square Error of Approximation
S.D.	Standard Deviation
SDM	Strategic Decision-Making
SDMP	Strategic Decision-Making Process
SEM	Structural Equation Modeling
SMEs	Small and Medium Enterprises

SOEs	Stated-Owned Enterprises
SRMR	Standardized Root Mean Square Residual
TCA	Transaction Cost Analysis
TCE	Transaction Cost Economics
TMT	Top Management Team
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor
WOS	Wholly-Owned Subsidiary
WTO	World Trade Organization

Chapter 1: Introduction

1.1 Background of the research

This thesis focuses on addressing the roles of managerial cultural values and characteristics of the strategic decision-making process (SDMP) in the Chinese private firms' international entry mode decision. Based on SDM (strategic decision-making) literature (Mintzberg et al., 1976; Rajagopalan et al., 1993; Hambrick and Mason, 1984; Papadakis et al., 1998) and cultural studies (Chinese Culture Connection, 1987; Hofstede and Bond, 1988; Fang, 2003), this study examines the largely overlooked impacts of the decision-maker and decision process (Brouther and Hennart, 2007; McNaughton, 2001) on the outcome of the decision.

International entry mode choice is a critical decision of institutional arrangement for overseas operations. Entry modes usually can be classified as equity-based modes (solo venture and joint venture) and non-equity-based modes (contractual modes and exporting) (Uhlenbruck et al., 2006; Brouthers and Nakos, 2004; Nakos and Brouthers, 2002; Domke-Damonte, 2000). In past thirty years, various studies have attempted to explain factors affecting this choice from different perspectives, such as TCA (transaction cost analysis) (Anderson and Gatignon, 1986; Erramilli, 1990), RBV (resource-based view) (Barney, 1991; Wernerfelt, 1984; Madhok, 1997), institutional theory (Gomes-Casseres, 1990; Meyer, 2001), and an eclectic view (Dunning, 1988; Agarwal and Ramaswami, 1992; Hill et al., 1990; Kim and Hwang, 1992). These studies have greatly advanced our knowledge of the impact of conditions of foreign market and characteristics of firm on the decision outcome. However, in a recent comprehensive review of international entry mode studies, Brouthers and Hennart (2007) indicated that scholars should pay greater attentions to the influences of decision-maker and decision process, as their effects become more obvious when the decision has significant strategic implications for firms.

The role of the decision-maker

Indeed, prior literature of international entry mode makes only three explicit assumptions concerning decision-makers in terms of bounded rationality, risk neutral, and opportunism (Geyskens et al., 2006). Simply based on above three assumptions, almost all extant studies tend to make analyses on contextual and firm-specific factors through a systematic pattern, and the results of analyses will automatically determine the outcome of the decision without reference to managerial preferences (McNaughton, 2001). As a result, the role of the manager is largely bypassed. In addition, the decision-maker model in prior studies was taken as the universal model, although some scholars were aware of its limitations. For instance, Kogut and Singh (1988) and Shane (1993) found that the characteristics of home national culture, including uncertainty avoidance and power distance have an impact on the international entry decision. In fact, they implied that national cultural traits of managers exert influences on decisional attitude and style in making international entry mode decisions, which is consistent with the latest finding (Dimitratos et al., forthcoming). However, both Kogut and Singh (1988) and Shane (1993) employed Hofstede's index of national cultural dimensions and two limitations are associated with the approach. To begin with, it is unrealistic to suppose managers in a nation have the same degree score on a particular cultural trait, and as a result, intra-cultural variations are largely ignored (Au, 2000; Shenkar, 2001). Moreover, Hofstede's study itself (1980a) is also culture-bound, as the instrument and interpretation for the survey were developed and conducted by scholars immersed in the western culture (Steenkamp, 2001). It may not be truly valid for investigating respondents in non-western settings, as some values are unfamiliar or irrelevant to informants in other cultural settings (Chinese Culture Connection, 1987).

The role of the decision process

Another limitation is related to the decision process. Most of the extant studies assume that decision-makers are fully informed about the conditions of foreign markets of interest, are able to assess correctly the resources available to their company to conduct the entry, and can evaluate how internal and external factors affect the entry mode decision (Maignan and

Lukas, 1997). This assumption of absolute decisional rationality excludes the effect of decision process, but it may not be the case when making non-routine, complex, and uncertain decisions (Cyert et al., 1956). In making a strategic decision, the decision process exerts significant influences on the attributes of the final outcome through the information provision, cognitive capabilities, and interactions of decision-makers, to judgment base (Mintzberg et al., 1976; Bourgeois and Eisenhardt, 1988; Fredrickson and Mitchell, 1984). A totally rational decision process is rare as information is usually not complete, cognitive capabilities are limited, and different decision criteria are employed (Simon, 1955). In addition, prior international entry studies focus exclusively on the decisional content (e.g. environmental uncertainty, firm size etc.), and few have considered decision content and process together, although process and content are largely intertwined and affect each other during the decision (Hendron and Fredrickson, 2006). Scholars (Pettigrew, 1992; Hendron and Fredrickson, 2006) had already called for researchers to better integrate both streams of research.

Chinese private firms

Although this last gap is the contextual one, it is also important. Most extant studies have concentrated on examining the international entry mode decisions of firms from the triad area (US, EU, and Japan), and less attentions has been paid to the firms from the emerging markets. It is important to study Chinese firms' international entry behaviours in the context of China having emerged as an increasingly important source of outward FDI (Foreign Direct Investment) (Buckley, et al. 2007; Yiu, 2007). Recently, through the case study approach, merger or acquisition behaviours of large Chinese stated-owned firms have been examined (Deng, 2007; Child and Rodrigues, 2005; Luo and Tung, 2007). However, a large sample survey of Chinese private firms' international entry mode decision is still largely lacking, in spite of the call from Young, Hood, and Lu (1998) to encourage scholars to cast light on the international entries made by Chinese private firms.

Thus, this study intends to address the aforementioned key theoretical and contextual gaps by answering the two major research questions: (1) How do the managerial cultural traits as captured through Confucian dynamism, affect Chinese private firms' international entry

mode decision? (2) What is the role of SDMP characteristics in terms of procedural rationality, problem-solving dissension, and hierarchical centralisation of decision-making, in Chinese private firms' international entry mode decision? The first question focuses on examining the effect of decision-maker, while the second question concentrates on investigating the influence of characteristics of SDMP on the international entry mode decision. Confucian dynamism has been chosen to explore Chinese decision-makers' unique culture values, as Confucianism has been playing a major role in shaping the Chinese culture for a very long time. It is also believed still to exert a predominant influence upon today's Chinese business culture and management practices (Ghauri and Fang, 2001; Robertson and Hoffman, 2000; Ahmed and Li, 1996; Yeung and Tung, 1996). Three dimensions of the decision process have been widely used in SDMP literature (Papadakis et al., 1998; Dean and Sharfman, 1993a) and were introduced in this study to discover the effect of the decision process.

Two clarifications are required for these variables. Firstly, unlike prior studies addressing cultural traits at the societal level, this study examines managerial cultural traits at the individual level in order to investigate intra-cultural variations among Chinese managers of private firms, by following the approach of Triandis (1995), Triandis et al. (1988; 1995), Singelis (1994), and Jaw et al., (2007). Secondly, this study focuses on characteristics or dimensions of decision process, rather than each step of the decisional process stage model proposed by Mintzberg, et al. (1976) or other scholars (Aharoni, 1966). This arrangement enables statistical analyses to be carried out to examine the magnitude of impacts from these decisional dimensions on the final outcome of the decision.

1.2 Theoretical foundations for the study

Three streams of literature underpin this study: literature of strategic decision-making, cultural studies, and international entry modes.

Firstly, strategic decision-making literature provides theoretical foundations for the

inclusions of decision-makers and characteristics of SDMP, which was benefited from the behaviour theory of the Carnegie school (March and Simon, 1958; Cyert and March, 1963). Unlike economic theory, it indicates that decision-makers are often unable to make economically rational decisions since: (1) they are cognitively limited, and (2) the “unstructured” or “non-programmed” decision is usually associated with multiple and conflicting goals in a complex social context.

The effects of decision-makers and processes are likely to increase as “satisfying decisions” rather than the best decision are usually pursued (Cyert et al., 1956; Cyert and March, 1963) in a strategic decision-making. Two streams of literature in SDMP provide direct theoretical supports for this study. Firstly, upper echelon theory developed by Hambrick and Mason (1984) stresses that the outcome of strategic decision-making is based on both managerial values and eventual perception. It indicates that the values of decision-makers can explain partial variations in the outcome of the decision. Secondly, the literature on the characteristics of decision processes (Fredrickson and Mitchell, 1984; Dean and Sharfman, 1996; Amason, 1996; Dooley and Fryxell, 1999; Miller, 1987) has indicated that process characteristics help to explain process outcomes (Rajagopalan et al., 1993; Papadakis et al., 1998).

Secondly, in order to operationalise the perspective of upper echelons in the Chinese context, this study has introduced the Chinese traditional cultural values of Confucian dynamism at the individual level to represent managerial values based on the finding of cultural studies. Cultural studies stress that national culture forges managerial assumptions (Ralston et al., 1993) and also differentiates work values and their priorities (Jaw et al., 2007). These Chinese cultural values (Confucian dynamism) were identified by the Chinese Value Survey (CVS) (Chinese Culture Connection, 1987) and have a great influence in Chinese business practices. They are unique to Chinese society and have no correlation with any of Hofstede’s dimensions (Hofstede and Bond, 1988), which were identified in western culture.

Finally, this study takes a holistic approach to examining the extant literature of

international entry mode studies, as international entry mode decision is a multi-faceted choice (Brouther and Hennart, 2007). However, except for firm size and environmental hostility, which are two basic internal and external conditions for the decision, most factors identified by prior studies have been taken as control variables in order to examine the effects of newly introduced variables.

In sum, the literature of strategic decision-making, cultural studies, and international entry mode provide the theoretical foundation for this study to address the roles of decision-maker and decision process, which are to a great extent lacking in the extant international entry mode studies. In the next section, we present an integrative framework to synthesise the aforementioned theoretical perspectives and also to identify their types of effect in explaining Chinese private firms' international entry mode decisions.

1.3 Research framework, elements, and research objectives

An integrative framework is proposed to examine the impact of decision-makers, the decision process, and their interactions with internal and external conditions. The integrative framework, main components, and the types of effect in explaining the international entry mode decision are illustrated below:

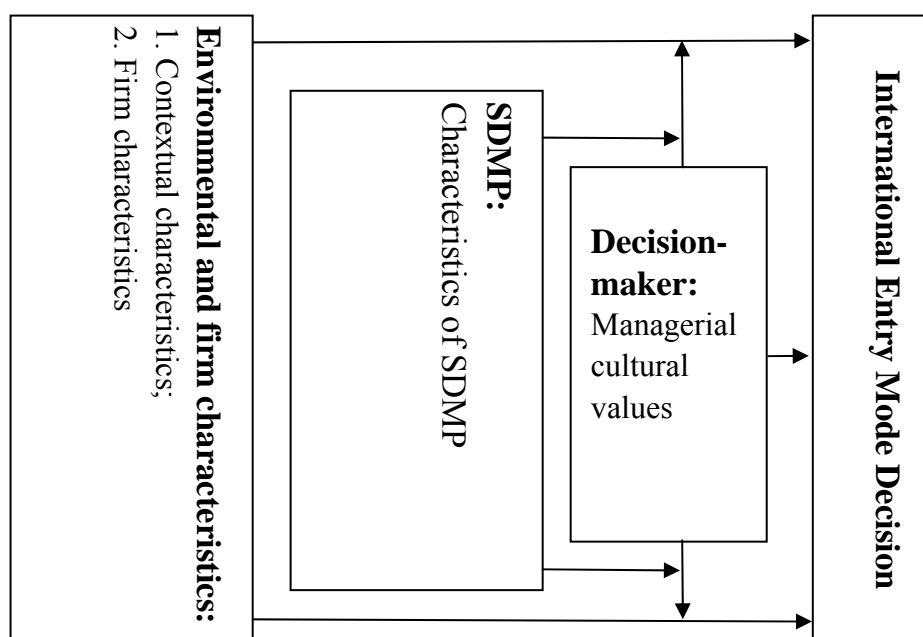


Figure 1-1: The integrative framework of the study

1.3.1 Components of the framework and justification for the integration

Environmental and firm characteristics

Currently, most of the determinants of international entry mode choice identified by prior studies have fallen into the category of environmental and firm characteristics. According to this perspective, the choices of international entry mode are considered in terms of the adaptation to characteristics of the host environment (e.g. opportunities, threats, and constraints), or the facilitation of exploitation or development a firm's unique resources (Anderson and Gattinon, 1986; Agarwal and Ramaswami, 1992; Barney, 1991). For instance, TCA and institutional theory stress the impacts of transaction cost and institutional constraints exerted by the host environment on the outcome decision, while according to RBV, the decision result should reflect the development or deployment of a firm's internal unique resources. Following these rational rules minimises the roles of decision-maker and decision process. These approaches consider top managers to be passive agents with negligible impacts on strategic decision and corporate development (Aldrich, 1979), as internal and external conditions largely determine the outcome. In addition, rationales for the decision rather than internal SDMP are relevant to the explanation of the decision result (Papadakis et al., 1998). According to this logic, environmental and firm characteristics automatically determine the decision outcome without the interference of decision maker and decision process. However, in general, managerial decisions can seldom be completely rational. The decision outcome is generated by the decision-maker having inherent preferences and a limited cognitive capability (Hambrick and Mason, 1984) and the process being associated with incomplete information and involvement of other social elements, e.g. power and interaction among decision makers (Fredrickson and Mitchell, 1984; Dean and Sharfman, 1996; Amason, 1996; Miller, 1987).

In order to address the effects of decision-maker and decision process, this study contributes two new elements in terms of decision-maker and decision process into current rational models of mode choice.

Decision-maker

To begin with, SDM literature indicates the necessity of the incorporation of a perspective of strategic choice (Child, 1972; Hambrick and Mason, 1984). The perspective suggests that the outcome of strategic decision is not simply determined by environmental constraints and firm characteristics, but also relies on the preferences and perceptions of power-holders who have the power to decide the direction of organisation. It emphasises that decision-makers can also partly explain the variations in the choice of governance structure (Child, 1972). As the role of decision-maker has not been extensively addressed in the extant literature of international entry mode decision, Brouthers and Hennart (2007, p416) suggested that the inclusion of the decision-maker 'will bring a level of realism to our understanding of the international mode choice decision'. Empirically, there is considerable evidence to support the effects of the decision-makers in different types of strategic decision-making, e.g. competitive move or global strategic posture (Hambrick et al, 1996; Carpenter and Fredrickson, 2001). However, little effort has been made to investigate this issue in the domain of international entry mode decision. Consistent with Brouther and Hennart's (2007) observation, we find only that only two studies (Herrmann and Datta, 2002; Herrmann and Datta, 2006) have attempted to examine the impacts of demographical characteristics (used as the proxies of managerial values or cognitive capability) of decision-makers on the outcome of international entry mode decision. More directly, this study focuses on examining the effects of managerial cultural values of decision-maker on international entry mode choice for three reasons. Firstly, it may reflect the arguments of the upper echelon theory more accurately. Secondly, to the best of the researcher's knowledge, no attempt has been made directly to detect the effect of managerial cultural value in international entry mode decision. Finally, it also builds on the contributions of prior studies (Kogut and Singh, 1988; Shank, 1994) examining the impacts of home nation cultural characteristics on international entry mode decision.

SDMP

The inclusion of the SDMP effect is also important. Traditionally, research into strategic decision making can be categorised into two types: content research and process research.

Content research deals with issues of strategy content, while process research deals with the process through which a strategic decision is made and implemented (Elbanna and Child, 2007, p.561). Although these two types of research are naturally complementary, most prior research has focused only on content research (Rajagopalan et al., 1993) ignoring the fact that the decision process may also exert an influence on decision content (Hendron and Fredrickson, 2006; Mintzberg and Waters, 1985; Dean and Sharfman, 1996). Concerning international entry mode decision, which is a strategic decision for international market entry, McNaughton (2001) indicated that extant literature provides rationales for the decision content of international entry modes but offers little insight into the nature of the decision-making process itself. Brouther and Hennart (2007) argued that extant entry mode studies have overlooked the effect of the decision process and called for scholars to incorporate elements of the decision process into an existing framework. Besides the appeals from scholars, the findings in the field of SDMP also lend support to its effects on many attributes of decision outcomes including decision quality, firm performance, and decision speed (Rajagopalan et al., 1993; Eisenhardt and Bourgeois, 1988; Dean and Sharfman, 1996). This study intends to employ characteristics of SDMP to reflect the impact of SDMP. Apart from their effectiveness (Rajagopalan et al., 1993), this also enables the detection of the magnitude of their impact.

1.3.2 Effect type of each perspective

Effect type of environmental and firm characteristics

It has been suggested that environmental and firm characteristics have a direct or main effect on international entry mode decision for several reasons. (1) The extant literature of international entry mode studies (Brouther and Nakos, 2004; Hennart, 1991; Agarwal and Ramaswami, 1992; Tatoglu and Glaister, 1998; Nakos and Brouthers, 2002; Yiu and Makino, 2002; Davis et al., 2000), no matter which theory, be it TCA, location advantage, institutional theory, RBV, or OLI, was applied, predominantly suggests that external or internal conditions of a firm directly impact on the entry mode choice. (2) The literature of strategic decision-making (Child, 1972; Papadakis et al., 1998) also suggests that firm and

environmental characteristics place resource and contextual constraints on firms' strategic decisions. They serve as filters in a natural selection process, which directly determines the outcome of decision.

Effect type of managerial values

In the framework, it is suggested that managerial values have both a direct and moderating effect on international entry mode decisions, based on the upper echelon theory and cultural studies (Hambrick and Mason, 1984; Hambrick et al., 1996; Kirkman et al., 2006).

The upper echelon theory (Hambrick and Mason, 1984; Hambrick et al., 1996) indicates that the outcome of a strategic decision relies on both the decision-maker's eventual perception of the situation and his/her values, and values and perceptions are not necessarily independent. Notably, values can affect perceptions and can also directly influence the decision outcome (Hambrick and Mason, 1984). In fact, this theory argues that the unique role of managerial values can impact the decision directly or may have a joint effect in combination with the perceived situation (Schwenk, 1984; Das and Teng, 1999). Empirically, Kirkman et al. (2006) conducted a comprehensive literature review to examine the link between cultural values and organisational outcomes over the previous 22 years. At the individual level, they found that cultural values were used both as main effects (64 studies) and as moderators (23 studies) in business research. Thus, both theoretical argument and empirical evidences support the relationships between Confucian dynamism and decision outcome proposed in this study.

Effect type of SDMP

In this framework, characteristics of SDMP are suggested to adjust the moderating effect of cultural values on the entry mode decision. This moderating effect is proposed based on the following arguments.

Firstly, in reviewing SDMP empirical studies, Rajagopalan et al.(1993) summarised that characteristics of SDMP were mainly found to have a direct impact only on the attributes

of decision outcome (e.g. quality, speed, and timeliness), rather than the outcome of the decision per se. As stated previously, perceptions of a situation and managerial values are determinants of the outcome of strategic decisions (Hambrick and Mason, 1984).

Secondly, if the decision outcome is purely determined by environmental and firm constraints (the most rational decision), or managerial value (the most subjective decision), ignoring the perception of situation, the decision process will be less important (Aldrich, 1979; Pfeffer and Salancik, 1978). In reality, most strategic decision outcomes are determined by both managerial values and perception of situation (Hambrick and Mason, 1984). Indeed, rationality and subjective elements (e.g. competing interests or preferences) are intertwined during the decision process (Fahey, 1981; Pettigrew, 1992). Decision processes vary according to the involvement of information of contextual and firm constraints, the knowledge and interaction of decision-makers, and the bases of final choice (objective analysis or value) (Dean and Sharfman, 1996; Fredrickson and Mitchell, 1984). Different decision processes may determine how much deliberate rationality (Dean and Sharfman, 1993) is involved and to what degree the decision relies on the culturally-determined preferences for information collection, interpretation, and final choice (Tse et al., 1988). That is, the decision process determines the balance between rationality and subjective preference in treating contextual or firm information to arrive at a decision. In other words, it diminishes or enhances the effects of subjective information processing and choice through varying degree of rationality. This suggests that the characteristics of the decision process play a moderating role in international entry mode decision-making.

1.3.3 Research objectives

The main purpose of this study is to examine the effects of the decision-maker and SDMP in international entry mode decisions, as well as the influences of contextual and firm characteristics. More specifically, the research objectives of this study are the following:

- To build and test a more complete theoretical model to explain international entry mode decisions by adding the roles of decision-maker and decision process into the

currently mainstream rational model;

- To examine the direct and indirect effects of Confucian dynamics in explaining Chinese private firms' international entry mode decisions;
- To assess the impacts of characteristics of SDMP, taking into account key theoretical perspectives such as SDMP, strategic choice, and environmental and firm constraints.
- To examine the relationship between decision content and decision process in the choice of international entry mode.

1.4 Research method

In order to address the research topics, a mixed-method approach was taken for this study. The main objective of the study is to test the hypothetical effects of managerial cultural values and SDMP characteristics on international entry mode decisions and, to a certain extent, generalise the findings. A survey design involving the collection of many cases should be appropriate for detecting patterns of association (Scandura and Williams, 2000; Bryman, 2004) and for arriving at generalisable findings. However, the researcher is aware that the survey design lacks contextual and historical information on the phenomenon of interest (Ghauri and Firth, 2009; Yin, 2003). In order to achieve the cross-validation of both quantitative and qualitative data and better explanations of potentially statistically unconfirmed hypothetical relations, a follow-up case study method was further employed in four Chinese private firms after the survey.

In the first stage, a large scale survey of 550 privately-owned manufacturing firms in China was conducted by postal questionnaire, using two-round mailing. These generated 233 replies, giving a response rate of 42.4%. After completion of construct validation by employing EFA (exploratory factor analysis) and CFA (confirmatory factor analysis), a binary logistic regression was used for testing the hypotheses, as the dependent variable for this study is dichotomous.

In the second stage, in order to achieve the purposes of cross-validation and in-depth

explanations (Bryman, 2004; Yin, 2003), three criteria were applied to identify appropriate firms for case study, i.e. (a) they should be among the sample firms in the survey; (b) they should vary in terms of entry mode used, and; (c) they should be located in either Beijing or the Yangtze delta. Qualitative data were collected through eight semi-structured interviews in four Chinese firms, as well as through company documents and archival data. After completing the thematic analyses of qualitative data, both quantitative and qualitative findings and their implications were discussed in an integrated manner, together with hypothetical relationships.

1.5 Main contributions of this study

This thesis contributes to both business research and managerial practice (more detailed contributions and implications are given in the concluding chapter).

Firstly, for the field of international business research,

(1) This study introduces two new elements in terms of decision-maker and decision process to the explanation of international entry mode decision based on SDM literatures and cultural studies. It stresses that besides environmental and firm constraints, decision-makers and SDMP can also partly explain variations in this important decision, which extends current dominant rational decision-making model and content-oriented research in international entry mode studies.

(2) To the best of the researcher's knowledge, this is the first examination of the impact of Confucian dynamism - a traditionally Chinese cultural trait - on international entry mode decision. This enriches prior findings of the impacts of cultural values identified in western culture (e.g. uncertainty avoidance and power distance) on entry mode decision, thus enhancing the understanding of the behaviours of Chinese private firms' in international market entry.

(3) The inclusion of SDMP characteristics in this study brings realistic elements into the current rational model in international entry studies. This supplements and facilitates

current content-oriented research in international entry mode studies.

Secondly, for SDM research, this study increases the understanding of the relationship between SDMP and decisional content by examining the effects of procedural rationality, problem-solving dissension, and hierarchical centralisation of decision-making in the international entry mode decisions.

Finally, for managerial practices, it is advisable for Chinese managers to be aware that they are culturally bound as they make strategic decisions. Conservatism in the traditional culture may constrain their innovative decisions and behaviour during the process of internationalisation. It is also advisable for them to focus on the decision process, and employing a different decision process may produce a very different decision outcome. Their western counterparts may also benefit from understanding traditional Chinese cultural preferences when engaged in cross-cultural cooperations, which will facilitate cross-cultural communication and trust building.

1.6 Structure of the thesis

The thesis consists of nine chapters, which are structured as follows:

Chapter One, i.e. the current chapter, firstly indicated the background of the research that identifies the main theoretical and contextual gaps for this study. Then, based on theoretical foundations, the integrative framework was presented by integrating environmental and firm characteristics, decision-maker, and decision process in the study of the international entry mode decision. The type of effect of each component in the framework was also discussed and specified. Moreover, research objectives and methods were illustrated. Finally, following the presentation of main theoretical and practical contributions, this chapter illustrated the structure of the thesis.

Chapter Two initially reviews existing major theoretical perspectives, covering theoretical

reasoning and limitations in explaining international entry mode decisions. These include TCA, the eclectic paradigm, RBV, and institutional theory. It then examines the positions of decision-maker and decision process in prior theoretical frameworks and empirical studies. Based on determinants identified in prior empirical studies of international entry mode choice, it synthesises these factors into a proposed framework. Finally, it examines determinants of entry mode choices of firms from emerging markets or newly industrialised countries in prior studies.

Chapter Three provides an intensive review of the decision-maker and decision process in SDM literature. Firstly, it reviews the upper echelon theory and associated empirical studies. It then describes the basic phases of the strategic decision process identified by Mintzberg et al. (1976) and other scholars. Subsequently, it examines the literature on the characteristics of SDMP in terms of decision rationality, conflict and consensus, centralisation of decision-making, political behaviours, and cognitive biases in the decision process. Finally, it reviews antecedents of SDMP, including decision-specific characteristics and environmental and organisational factors.

Chapter Four starts by reviewing major cultural frameworks proposed by Hofstede (1980a) and other scholars (Schwartz, 1992; 1994; House et al., 2004; Inglehart and Baker, 2000) and their implications. It then examines the studies of cultural findings in the international entry mode field and their limitations. It then proceeds to examine the Chinese Value Survey (Chinese Culture Connections, 1987) and criticisms of it. To clarify issues arising from the criticisms, it reviews the literature of Confucianism and makes comparisons with the results of the Chinese Value Survey. Finally, this chapter focuses on individual-level studies and intra-cultural studies.

Chapter Five firstly synthesises the reviewed literature, and then identifies the explained variable, explanatory variables, and control variables. Based on theoretical foundations and empirical evidence, several hypotheses are developed by linking several key explanatory variables and their interactions with the equity mode decision.

Chapter Six firstly introduces the research design and its operationalisation. Specifically, the quantitative data collection method covers four aspects: (1) dataset; (2) data collection technique; (3) research instrument; and (4) survey administration. The qualitative data collection method includes case selection criteria, and primary and secondary data collection methods.

Chapter Seven mainly explains the initial measurement of variables, construct validation, and hypotheses testing in this study. Firstly, it addresses the sources of initial measures and selection process. Furthermore, after using principle component analysis to purify the measurement, a confirmatory factor analysis is employed to test the dimensionality of the constructs (Gerbing and Anderson, 1988). Then, reliability, within-method convergent validity and discriminant validity of constructs are also examined. Finally, after reporting the demographic characteristics of replies, a binary logistic regression method is used to test hypotheses developed in the former chapter. As a result, most of hypotheses are fully or partially supported by the tests, particularly the strong moderating effect of firm size and Confucian dynamism.

Chapter Eight reports the results, after quantitative analysis, of the case-studies carried out in four private Chinese firms. As mentioned in the methodology chapter, a qualitative approach serves as a complementary method for the survey design. It is employed mainly to provide richer information and in-depth analysis to enhance the understanding of the roles of manager and decision process in international entry mode decision. Then, based on relevant theories, both quantitative and qualitative findings and their implications are discussed in an integrated manner in order to examine further the results of the statistical analysis of the hypotheses testing.

Chapter Nine firstly summarises the findings associated with the general framework and key factors, including Confucian dynamism, characteristics of SDMP, and environmental and firm characteristics. It then outlines the theoretical, contextual, methodological, managerial, practical, and public policy-making implications of this study. Finally, it specifies the limitations of the study and offers directions for future research.

Chapter 2: Literature on International Entry Mode Decision and its Determinants

2.1 Introduction

This chapter reviews the literature related to international entry mode decision - the phenomenon of interest for this study. It examines the four main theories in the domain, which are transaction cost analysis (TCA) (Williamson, 1985, Anderson and Gatignon, 1986; Hennart, 1991; Brouthers and Brouthers, 2003), the eclectic paradigm (Dunning, 1988; Agarwal and Ramaswami, 1992; Hennart and Park, 1994; Hill et al., 1990; Kim and Hwang, 1992), resource-based view (RBV) (Luo, 2002; Madhok, 1997), and institutional theory (Gomes-Casseres, 1990; Meyer, 2001). Based on the assessment of two common limitations that have been suggested as being associated with the aforementioned frameworks, this review provides further evidence for scholars' observations that the roles of decision-maker and decision process have seldom been addressed in the extant literature (Brouthers and Hennart, 2007; McNaughton, 2001). As this study adopts a holistic approach to factors identified in prior studies, the review also synthesises determinants of international entry mode at different levels.

The literature review is organised as follows. Firstly this study gives a brief introduction of international entry mode decision, and then it reviews and evaluates each academic perspective referred to above in explaining entry mode selection. After examining the treatments of decision-maker and decision process in the main theoretical frameworks and with reference to relevant empirical evidence, it confirms scholars' observations of the gap that this study intends to fill. It proceeds to examine determinants developed from various empirical studies of international entry mode choice, and attempt to synthesise these factors into a proposed framework. Finally, it studies the entry mode choices of firms from emerging markets or newly industrialised countries in prior studies.

2.2 Background of international entry mode studies

When a firm intends to expand its operations outside of the domestic market, a critical decision has to be made on an institutional arrangement – the entry form (Anderson and Gatignon, 1986), by which the firm can enter and operate in the foreign market, exert control, offset risk, and transfer firm-specific knowledge. Generally, international entry mode choice includes exporting, contractual modes (licensing or franchising), joint venture (JV), and wholly-owned subsidiary (WOS) (Agarwal and Ramaswami, 1992), which can be broadly classified into non-equity modes (exporting and contractual mode) and equity modes (joint venture and wholly-owned) (Brouthers and Nakos, 2004) or high control modes (WOS) and low control modes (JV, contractual modes, and exporting).

Different entry modes involve varying level of risk, resource commitment, and return. Anderson and Gatignon (1986, p.3) argue that control is “the single most important determinant of both risk and return”. According to this view, international entry mode choice is a trade-off between cost of resource commitment and control (Anderson and Gatignon, 1986; Erramilli and Rao, 1990). A specific international mode is associated with the certain level of control, thus, international entry mode choice can be viewed as a continuum from exporting to sole venture by increasing control level. High control modes increase both risks and returns by committing more resources, and low control modes reduce the level of resource commitments and risks, but simultaneously constrain returns. However, Hennart (2000) disagrees with the view that joint venture is the middle point of control between non-equity and full ownership mode. He argues that entry modes should be classified into non-equity and equity categories, and joint venture should be included into the equity domain since input owners are paid *ex post* from the profits of the revenue, which is a significantly departure from the *ex ante* payments in non-equity modes (Brouthers and Hennart, 2007).

International entry mode decision is considered as the “frontier issue” (Anderson and Gatignon, 1986), and has been an important topic in the international business academic domain since the 1980s, being intensively studied over the past three decades for several

reasons. Firstly, from the perspective of some scholars, the decision on entry mode determines the survival or failure of a foreign operation, since entry mode represents the way of gaining legitimacy in the foreign institutional context (Gomes-Casseres, 1990; Meyer, 2001). Secondly, the choice is believed to impact significantly on the long-term performance of the overseas operation (Brouthers et al. 2000; Brouthers, 2002; Anderson and Gatignon, 1986) due to the involvement of the efficiency consideration of the overseas operation. Furthermore, a firm's adoption of an inappropriate entry mode may cause possible disseminations of firm-specific assets to local partners (Brouthers and Nakos, 2004; Brouthers and Brouthers, 2003; Yiu and Makino, 2002; Williamson, 1985; Anderson and Gatignon, 1986), which may undermine the competitive advantages of the firm. Moreover, it is also that this institutional arrangement choice affects the effectiveness of organisational learning and the accumulation of valuable knowledge and/or resources (Cohen et al., 1990; Madhok 1997) which are important in sustaining the firm's long-term competitive advantage. Finally, the choice is also considered to be an important element in the implementation of organisational strategy, e.g. global synergy, which may affect the overall organisational performance (Hill et al., 1990; Kim and Hwang, 1992).

Scholars have attempted to explain international entry mode choice from various perspectives, due to the multi-faceted nature of this choice. The influential academic strands include transaction cost analysis (TCA) (Williamson, 1985, Anderson and Gatignon, 1986; Hennart, 1991; Brouthers and Brouthers, 2003), eclectic paradigm (Dunning, 1988; Agarwal and Ramaswami, 1992; Hennart and Park, 1994; Hill et al., 1990; Kim and Hwang, 1992), resource-based view (RBV) (Luo, 2002; Madhok, 1997), institutional theory (Gomes-Casseres, 1990; Meyer, 2001), bargain power theory (Palenzuela and Bobillo, 1999) and the Uppsala school's stage of development theory (Johanson and Vahlne, 1977). The first four theories account for the 90% of published contributions on entry mode studies, according to a comprehensive literature review by Brouthers and Hennart (2007), and can therefore be considered the dominant theoretical perspectives in explaining international entry mode choice.

Table 2-1: Selective studies of international entry mode choice

Entry modes studied	Selected studies	Applied theory
WOSs / dominant JVs / equal JVs / minority JVs	Gatignon and Anderson (1988); Erramilli et al. (1997); Demirbag et al. (2009)	TCA / institutional theory / multi-perspectives
Acquisition/ joint venture / greenfield	Kogut and Singh (1988); Woodcock et al. (1994); Anand and Delios (1997); Somlev and Hoshino (2005); Bhaumik and Gelb (2005)	Institution theory / OLI
WOSs / JVs	Gomes-Casseres (1989); Gomes-Casseres (1990); Hennart (1991); Shane (1994); Agarwal (1994); Chan (1995); Padmanabhan and Cho (1996); Hennart and Larimo (1998); Kaynak et al. (2007); Gil et al. (2006); Meyer and Nguyen (2005); Cho and Padmanabhan (2005); Tatoglu et al. (2003); Brouthers and Brouthers (2003); Brouthers et al. (2003); Yiu and Makino (2002); Tsai and Cheng (2002); Luo (2002); Lu (2002); Chen and Hennart (2002); Brouthers (2002); Shi et al. (2001); Luo (2001); Cho and Padmanabhan (2001); Brouthers and Brouthers (2001); Makino and Neupert (2000); Padmanabhan and Cho (1999); Tatoglu and Glaister (1998); Mutinelli and Piscitello (1998); Brouthers et al. (2008)	Multi-perspectives / TCA / institutional theory / OLI / RBV
Full control / share control	Erramilli (1991); Erramilli and Rao (1993); Ekeledo and Sivakumar (2004)	RBV (international experience) / modified TCA
Exporting / licensing / joint venture/ sole venture	Agarwal and Ramaswami (1992); Tan et al. (2001); Meyer (2001); Davis et al. (2000); Brouthers et al. (1999)	OLI paradigm / TCA and institutional theory
Licensing / joint venture / wholly owned (independent / cooperative / integrated)	Kim and Hwang (1992); Brouthers (1995); Brouthers et al. (1996); Chen and Hu (2002); Brouthers et al. (2002); Brouthers et al. (2000); Taylor et al. (1998)	Hill et al.'s eclectic framework / Institutional theory / OLI paradigm / TCA
Exporting & non-equity / JVs / WOSs	Ahmed et al. (2002)	Institutional theory
Greenfield / acquisition	Hennart and Park (1993); Demirbag et al. (2008); Brouthers and Brouthers (2000)	Multi-perspectives
Joint ventures / acquisitions	Hennart and Reddy (1997)	Multi-perspectives
FDI / licensing	Shane (1994)	Institutional theory
Franchise / wholly-owned	Fladmoe-Lindquist and Jacque (1995); Arora and Fosfuri (2000)	TCA and Agency theory
Majority-ownership / lower degrees of ownership.	Erramilli (1996)	Institutional theory

Cooperative (classified into three level export deals, contractual joint ventures, equity joint ventures) / independent	Pan and Tse (1996)	Multi-perspective
Majority equity / equal equity / minority equity	Pan (1996); Pan (2002)	OLI paradigm / institutional theory
Independent agency/ contractual or EJVs / WOSs	Aulakh and Kotabe (1997); Burgel and Murray (2000)	Multi-perspectives
Equity/ non-equity	Uhlenbruck et al. (2006); Brouthers and Nakos (2004); Nakos and Brouthers (2002); Domke-Damonte (2000)	TCA / OLI
Franchising / management service agreements.	Contractor and Kundu (1998); Erramilli et al. (2002); Dev et al. (2002)	Multi-perspectives / RBV
Representative office /JVs / WOSs	Claver and Quer (2005)	Multi-perspectives
Minority JVs / majority JVs / WOSs	Delios and Henisz (2000)	RBV and Institutional theory

Note: WOSs: Wholly-Owned Subsidiaries; JVs: Joint Ventures

Source: Literature review of various studies

Selective studies in the past 30 years on different entry modes are shown in Table 2-1, and it can be seen that various entry modes have been studied. It is apparent that the comparison between the wholly-owned and joint venture entry modes has been the most intensively studied.

2.3 A review of the main theoretical perspectives

2.3.1 Transaction cost analysis

Transaction cost analysis (TCA) applies transaction cost economics (TCE) (Williamson, 1985; Coase, 1937) to international entry mode study. Transaction costs refer to the costs of negotiating a contract, monitoring performance of the venture, and monitoring the behaviour of those who entered into the contract (Taylor, et al. 1998). TCA suggests that a firm should adopt a governance structure generating the least transaction costs (Williamson,

1985) when conducting an international market entry. Parties in the transaction are assumed to fall into the following categories “bounded rationality”, “opportunism”, and “risk neutral”. Bounded rationality refers to individuals’ limited memories and cognitive processing power, while opportunism refers to the possibility of guileful self-interest seeking behaviour (Williamson, 1985). Risk neutral indicates “indifference between a prospect of uncertain profits and a certain profit, provided that the expected average of the prospective fluctuating profits is equal to the certain profit” (Aoki, 1984, p.15).

According to the logic of TCA, in a perfectly competitive market where transaction costs are low, a transaction through the market is more efficient than that through hierarchy, which enables the parties to the transaction to enjoy a scale of economy derived from an efficient market and also to avoid bureaucratic costs through internal transfer. Thus, the market vehicle is considered as the default option for conducting transactions (Hennart, 1988). However, the market is seldom perfect, due not only to the market structure reasons (eg. monopoly, tariffs), but asset specificity, uncertainty (including environmental and behavioural uncertainty), and frequency of transaction (Gatignon and Anderson, 1988).

Asset specificity refers to situations where assets are tailored to a particular transaction and cannot be easily redeployed without loss of the value (Geyskens and Kumar, 2006). These idiosyncratic assets are at risk of potential opportunism from other parties in the transaction and cause a safeguarding problem, especially when making an international investment. External uncertainty indicates the inability of an organisation to predict future contingencies surrounding an exchange (Geyskens and Kumar, 2006), which often results from the volatility and dissimilarity of environmental conditions in a host country. Internal uncertainty arises when the performance of a firm’s agency cannot easily be assessed by readily available output measures (Anderson and Gatignon, 1986). Transaction frequency has received very limited attention in the international entry mode literature. Although Williamson (1985) indicated that it provides an incentive for firms to integrate the operation because the overhead cost of hierarchical governance is relatively easy to recover from recurring transactions, Brouthers and Nakos (2004) argued that in entry mode studies, transactions are considered continuous, thus precluding the need for a separate measure of

frequency. According to TCA, transaction cost is likely to increase when asset specificity, environmental uncertainty, and internal uncertainty increase. A firm responds to this by internalising an imperfect market of intermediate products and using hierarchy to replace market exchange.

In sum, the underlying logic of TCA is that transaction cost through an imperfect market overrides the bureaucratic cost of hierarchy, and the firm intends to internalise the international operation to gain efficiency (Anderson & Gatignon, 1986).

2.3.2 Institutional theory

Institutional theory emphasises on the impact of a country's institutional environment on international entry mode choices, as firms have to follow the formal and informal rules in a host country to gain legitimacy in the overseas operation (North, 1990; Brouthers and Hennart, 2007).

Studies investigating institutional environments can be classified into three categories (Brouthers and Hennart, 2007). The first concerns how the risk or uncertainty of a host country environment affects the international entry mode choice. Five types of risk or uncertainty are usually examined, including government policy, macroeconomic, product, resource, and competition (Brouthers, et al. 2002). The second is more systematical and applies Scott's (1995) institution framework to examining the relationship between institutional environment and international entry mode choice. It argues that an institutional environment is comprised of three dimensions, in terms of regulatory, normative, and cognitive dimensions. These dimensions are relatively consistent, which exerts an isomorphic pressure on foreign firms that enter the market (Davis et al., 2000; Meyer 2001; Yiu and Makino, 2002). The last focuses on the impact of institutional differences between home and host countries. For instance, culture distance (Kogut and Singh, 1988; Brouthers and Brouthers, 2001) between the home and the host countries has been frequently used to examine the effects of national cultural differences on international

entry mode choice.

2.3.3 RBV (Resource-Based View)

Barney (1991, p.101) defined firm resources as including “*all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness.*” Following this definition, in this review, no differentiation is made between organisational capability and a firm’s resources, although some scholars argue that certain differences exist (Teece et al., 1997).

RBV indicates that the source of sustained competitive advantage of a firm is rooted in the heterogeneous and immobile resources that it possesses (Penrose, 1958; Wernerfelt, 1984; Barney, 1991). These resources are valuable, rare, imperfectly imitable, and have no commonly available substitutes. This perspective supplements the view that focuses on the impacts of competitive environment on a firm’s performance (Porter, 1980) by addressing the important effect of the unique attributes of firm on competitive advantages and performance.

Some scholars (e.g. Madhok, 1997; Luo, 2002; Peng, 2001) have suggested that firms can exploit their unique resources in foreign markets or use foreign markets as a source for acquiring or developing new resource-based advantages (Brouthers and Hennart, 2007). As for international entry mode choice, RBV shifts the emphasis from individual, isolated transactions to the deployment or development of firms’ unique resources, which provides a more dynamic perspective. According to RBV, each international market entry may add new experiential and other resources to the firm’s knowledge and resource stocks through learning or acquisition, and the next entry will be based on newly acquired knowledge and resource stock. This is consistent with the Uppsala school’s model, but is not confined only to international experiential knowledge accumulation.

RBV theorists (Madhok, 1997; Peng, 2001) also argue the reason that a multinational owning superior resources or capabilities is likely to take the decision to use a

wholly-owned entry mode to enter a foreign market is not because of the failure of the market due to opportunism, but rather because of the heterogeneity of firm resources. The nature of immobility or complexity of these unique resources hamper the firm's effort to transfer them to a potential partner through licensing (Kogut and Zander, 1993), since a firm's unique knowledge is usually tacit, hard to codify, and context- or path-dependent. Moreover, the limitations of resources or capability of the potential local partner make absorption or integration inefficient or ineffective. All of the above factors make the transfer of firm-specific knowledge through the internal method more efficient and effective.

Unlike the asset-exploitation orientation of TCA or OLI (Madhok, 1997), RBV emphasises both firm-specific resource exploitation and development. For instance, Mutinelli and Piscitello (1998) argue that the inability of firms to acquire or build complementary resources will influence the propensity of the firm to go abroad through joint venture rather than through a wholly-owned initiative.

2.3.4 Eclectic paradigm

Since international entry mode choice is a multi-faceted phenomenon, a single theoretical perspective may not be adequate to provide a fully comprehensive explanation (Shi et al., 2001). An eclectic approach integrates various complementary theoretical perspectives to address the complexity of international entry mode decision. There are two main streams of eclectic paradigm: one is Dunning's OLI paradigm (1988; 1993) and the other is Hill, Hwang, and Kim's (1990) framework.

Dunning's OLI paradigm

The OLI paradigm (Dunning, 1988; 1993) takes an exploitation view to argue that a firm's overseas operation should consider three types of advantage - ownership, location, and internalisation. Entry mode choice can be explained by these three factors and their interactions. Dunning's paradigm actually synthesises three theoretical perspectives to

explain international production: Hymer's (1960) oligopolistic advantages, Vernon's (1966) location consideration to match the life cycle of product, and Buckley and Casson (1976)'s internalisation theory.

Ownership advantage suggests that MNEs (multinational enterprises) must possess superior assets and skills that can earn economic rents high enough to offset the higher cost of serving international markets (Agarwal and Ramaswami, 1992). Dunning (1988; 1993) classifies ownership advantages into two types: one is asset advantages (Oa), and the other is transaction cost-minimising advantages (Ot). The Oa advantages refer to the possession of firm-specific assets, including the firm's international experience, size, ability to differentiate its products or services, brand, and so on. The Ot advantages refer to benefits deriving from the ability of a firm to coordinate multiple product lines and global geographically-dispersed value-added activities; for instance, benefits from economies of scale or global synergy. Dunning (1988; 1993) suggests that in order to exploit its firm-specific advantages fully, a firm may take full or major equity when entering a foreign market.

Location-specific factors include market potential, sufficient or qualified labour, raw materials, the institutional context, and infrastructures. Location advantage refers to the direction and market selection of international expansion for which MNEs are expected to use a selective strategy and favour entry into more attractive markets to have a greater possibility of higher returns (Luo, 2001). Location advantages serve as pulling forces to attract a firm to enter a market and may also have an impact on international entry mode choice (Tatoglu et al, 2003).

Internalisation advantage occurs when firms internalise an imperfect market; this actually comes from internalisation theory (Buckley and Casson, 1976), a theory applying TCA logic to MNE. Typical internalisation advantages include minimising negotiation and transaction costs, ensuring adequate quality control, avoiding the risk of dissipation of knowledge, and avoiding property right enforcement costs.

Hill, Hwang, and Kim's Eclectic Framework

Hill et al. (1990)'s eclectic model identifies three broad groups of variables: strategic, environmental, and transaction-specific. Strategic-specific factors are newly introduced (Shi et al., 2001) to respond to suggestions that entry mode choice of a subsidiary is likely to be affected by the strategies of the parent companies (Gatignon and Anderson, 1988; Gomes-Casseres, 1989). Hill et al. (1990) argue that a firm's choice of entry mode at least partially depends on the strategic relationship of coordinating operation locations among different countries. A particular entry decision should not be treated in isolation and it ought to be considered in relation to the overall strategic posture of the firm. Strategic factors exert their influence on choice of entry mode primarily through control requirements since different strategies require different degrees of control over the operations and strategic decisions of foreign affiliates (Kim and Hwang, 1992).

2.4 Possible limitations of main theoretical frameworks

By reviewing the main theoretical frameworks outlined above, it can be seen that international entry mode decision is a multi-faceted issue and subject to the effects of multiple environmental and firm factors. Each perspective enriches the understanding of rationales of the decision from different stances, which may serve to emphasise the influences of one or a few aspects (Malhotra et al., 2003). Thus, each of them may contain possible limitations.

2.4.1 Potential limitations associated with the individual perspective

Possible limitations of TCA

Firstly, TCA explains international entry mode based on the logic of minimizing the transaction cost, which may lose sight of the impact of the value side consideration of international entry mode (Tsang, 2000; Madhok, 1997).

Secondly, transaction cost is only one part of international operation cost; transaction cost deals with constant production costs (Barney, 1999) in market and hierarchy. However, different host countries may provide different input costs, together with idiosyncratic productive capabilities, eg. scale of economy, processing technology, and routines of firms (Barney, 1991), which produce significantly different production costs and may affect international entry mode choice significantly.

Thirdly, TCA is static in nature as it ignores the impact of a firm's development path (Madhok, 1997). Both Teece et al. (1997) and Johanson and Vahlne (1977) indicate that the past path may limit the firm's present behaviours or influence the firm's current interpretation of external information and decision on international market entry. Moreover, the scope of TCA is limited to isolated individual international transactions, rather than extending to the overall global strategy of the firm (Hill et al, 1990; Kim and Huang, 1992).

Finally, the TCA framework may provide an entry mode choice that a firm desires, but what it actually obtains may be different, since potential interventions or restrictions of a host country government may make the optimal choice unavailable (Gomes-Casseres, 1990; Davis, et al. 2000; Meyer, 2001; Yiu and Makino, 2002).

Possible limitation of institutional theory

Institutional theory highlights the impact of formal and informal environmental forces on international entry mode choice, and may ignore the effect of a firm's specific factors. Since MNEs' attributes (bargaining power and international experience) are heterogeneous (Palenzuela and Bobillo, 1999), they may provide certain strengths for firms to alleviate the isomorphic pressure.

Possible limitations of RBV

Firstly, the most serious challenge is proposed by Priem and Butler (2001), who maintain that that RBV is tautological. Barney (1991, p.106) argue that a "firm's resources can only

be a source of competitive advantage or sustained competitive advantage when they are valuable". A competitive advantage or sustained competitive advantage that creates *value* is based on resources that are *valuable*. Priem and Butler (2001, p.58) criticise this as "circular reasoning" and "operationally invalid".

Secondly, since firms' unique resources are heterogeneous and cause ambiguity, it is difficult to identify, measure (Madhok, 1997), and generalise the findings of empirical studies.

Finally, RBV does not address to any great extent the impact of institutional context on entry mode choice. The stakeholders in the home institution context may influence the international entry mode (Brouthers and Hennart, 2007), and regulative, norm, and cultural factors in the host country are also expected to affect the choice (North, 1990).

Possible limitations of Eclectic paradigm

Firstly, although Dunning's OLI paradigm introduced ownership advantages and location advantages to deal more successfully with issues of competition, gain side, institutional environment, and production cost than TCA, it is still a static model, since little is included of the impact of the past development of a firm. Moreover, the framework still treats entry mode in isolation, the strategic relationship of headquarters and overseas subsidiaries is ignored, and the synergetic relationship among subsidiaries is also missed (Hill et al, 1990; Kim and Huang, 1992).

Secondly, Dunning's OLI paradigm tends to be oriented towards the exploitation of existing assets, and as Dunning (1988, p.2) indicated, "in order for firms of one nationality to compete with those of another by producing in the latter's own countries, they must possess certain advantages specific to the nature and/or nationality of their ownership". Disagreeing with that point, supporters of the resource-based or knowledge-based view suggest that international entry can represent the exploitation of existing assets, and can also take the form of the development of future advantages by absorbing tacit knowledge unavailable in the domestic market (Madhok, 1997).

Finally, Hill, Hwang, and Kim's (1990) eclectic framework shares certain drawbacks with the OLI paradigm in terms of static nature, being asset exploitation oriented, and neglecting the effects of the decision-maker. The firm-specific factor, which is of the most important factors, is lacking in this model (Shi et al, 2001).

2.4.2 Two common potential limitations suggested by scholars

Besides possible limitations associated with each perspective, almost all the above perspectives are exclusively "synoptic" (Child, 1972; Fredrickson and Mitchell, 1984) focusing on rationales for the decision (Kumar and Subramaniam, 1997), and behaviour and process elements are apparently absent. In particular, some scholars (e.g. Brouthers and Hennart, 2007; Reid, 1981; McNaughton, 2001) observed that the studies of *decision-maker* and *decision process* in international entry mode decision are very weak and should be strengthened. In order to examine the above scholars' observations, this study reviews and assesses the treatments of these topics in the main theoretical frameworks and progress achieved by empirical evidence.

The assessment of decision-maker and decision process from the main theoretical perspectives

By reviewing the main theories of international entry mode choice, only TCA explicitly makes three assumptions regarding the decision-maker in terms of bounded rationality, opportunism, and risk-neutral (Geyskens, et al., 2006). Other theories seem to either adopt these assumptions, or a part of them, on this issue (Malhotra et al., 2003), and no other efforts have been made concerning decision-makers. In addition, it seems that besides decision criteria (e.g. the least transaction cost for TCA), no element of decision process has been addressed, which may reflect the negligible role of the decision process in the extant frameworks, in spite of the fact that entry mode choice is a strategic decision.

These observations largely confirm Brouther and Hennart's (2007, p.415) comments that "entry mode research has almost exclusively focused on rational choice models". These

dominant theoretical frameworks almost exclusively emphasise how decision-makers rationally assess and respond to the impacts from external environmental forces, internal firm characteristics, or their interactions in determining the international entry mode choice (Kumar and Subramaniam, 1997; McNaughton, 2001). As a result, the roles of decision-maker and decision process are apparently less important (Brouthers and Hennart, 2007) in these models, as the choice is largely determined by rational responses to internal and external conditions. Indeed, there are two implicit assumptions of decision-maker and process treated by in these rational models. Firstly, the decision-maker is value-free, based on the simplified assumptions of risk-neutral and opportunism, by ignoring differences in national cultural values (Hofstede, 1980a; Kogut and Singh, 1988). In other words, managerial preferences are largely ignored in the rational decision-making model. Secondly, all necessary external and internal information required for the decision has been obtained, and decision-makers have enough cognitive capabilities to calculate the risk adjusted return associated with each entry mode rationally and make a final choice (McNaughton, 2001; Kumar and Subramaniam, 1997).

However, these assumptions may not be true in a real setting of strategic decision-making (Rajagopalan et al., 1993), as a strategic decision-making cannot be said to be completely rational. For instance, the upper echelon theory in SDM literature stresses that managerial values play an important role in SDM as they can affect a managerial decision, directly or with combined with managerial perception (Hambrick and Mason, 1984). In addition, cultural studies (Hofstede, 1980; Chinese Culture Connection, 1987) indicate that managerial values are culture-bound and the universal assumptions of managerial values are not real. Cyert et al. (1956) also found that in the real world, elements of the decision process are also important since information, alternatives, and even problems usually need be sought rather than “given”. Consequently, it is necessary for scholars to pay greater attention to the effects of the decision-maker and process in order to add more realistic elements to international entry mode studies (Kumar and Subramaniam, 1997; Brouther and Hennart, 2007). The summary of the main theoretical perspectives and their treatments of the decision-maker and decision process are shown in the following Table 2-2.

Table 2-2: Summary of the main theoretical perspectives and their treatments of the decision-maker and decision process

	TCA	Institutional theory	RBV	Eclectic view
Emphasized rationales of mode choice decision	Efficiency (Anderson and Gatignon, 1986; Madhok, 1997); Firms should adopt the entry mode which generates the least transaction cost (Zhao et al., 2004; Hennart, 1989; Hennart, 1991)	Legitimacy (Yiu and Makino, 2002; Brouthers and Hennart, 2007); Besides economic concerns, the international entry form has to follow the requirements of institutional environment (Lu, 2002; Brouthers and Hennart, 2007)	Value (Barney, Madhok, 1991; 1997); Firms should choose the entry mode to facilitate the transferring or development of their unique resources (Brouther and Hennart, 2007)	Considerations of multi-perspective factors (Dunning, 1988; 1993); An international entry decision should consider factors in terms of ownership, location, and internalisation advantages (Brouthers et al., 1999; Nakos and Brouthers, 2002; Agarwal and Ramaswami, 1992; Dunning, 1988).
Theoretical reasoning	Internalisation is necessary as the market is serious imperfect for structural and transactional reasons (Buckley and Casson, 1976; Geyskens, et al., 2006).	Isomorphic pressures exist as there are relatively uniform institutional influences in a given host environment (Davis et al., 2000; Yiu and Makino, 2002)	Internalisation is necessary as market failure for inherent differences in the idiosyncratic resource of firms (Madhok, 1997; Brouthers et al., 2008)	The entry mode choice is multi-faceted decision, a combination of established theories and their interactions helps to explain the choice (Brouthers and Hennart, 2007; Agarwal and Ramaswami, 1992).
Theoretical foundation	Economics and behaviour study (Williamson, 1985; Coase, 1937)	Institutional theory (North, 1990; Scott, 1995)	Strategic management (Barney, 1991; Wernerfelt, 1984)	Resource based (firm-specific), institutional (location), and transaction cost (internalisation) theories (Dunning, 1988; 1993)
Assumptions of decision-makers	Risk-neutral; boundedly rational; opportunism (Geyskens, et al., 2006; Zhao et al., 2004)	Boundedly rational and cognitive legitimacy (Yiu and Makino, 2002)	Boundedly rational (Madhok, 1997; Malhotra et al., 2003)	Risk-neutral; boundedly rational; opportunism (Malhotra et al., 2003)
The role of decision process	Almost no element of the decision process is addressed. All theoretical frameworks above focus on the decisional content, which stress the rationales of the decision. Due to the rational model employed in decision-making, there is very limited space given to the decision process in these international entry mode decision models (McNaughton, 2001; Brouthers and Hennart, 2007; Kumar and Subramaniam, 1997).			

The empirical studies of decision-maker and decision process in the international entry mode decision

Unsurprisingly, very few empirical studies address the two issues mentioned above. As for decision-makers, only two studies have been found, those of Herrmann and Datta (2002) and Herrmann and Datta (2006). Herrmann and Datta (2002) examine the main effects of characteristics of CEO (chief executive officer) successors in terms of position tenure, educational level, functional background, and international experience on international entry mode choice. They found that the CEOs who have longer tenure in their position, a background in throughput function, and more international experience, are prone to choose wholly-owned entry mode. Moreover, Herrmann and Datta (2006) further tested the relationship between entry mode choices and other characteristics of CEO successors including age, firm experience, function experience, and international experience. They found that the age of the CEO had a negative relationship with greenfields and joint ventures, and international experience increased the possibility of choosing an entry mode associated with greater commitments and risks. They also found that a CEO's background in throughput function positively affects the choice of acquisitions over joint ventures, and a CEO's experience in a firm exerts negative influences on acquisitions over joint ventures, or greenfields over joint ventures. Although these studies stress the role of the decision-maker by providing evidences to link the backgrounds of CEO and international entry mode choice, these attempts still have certain limitations. Background characteristics are observable and help to identify the impacts, but they are mixed with certain knowledge and values that are believed to contain chaos (Hambrick and Mason, 1984) and underlying constructs of these characteristics are not known. The real causational relationship cannot be identified by these studies.

With regards to the decision process, empirical studies are also limited and primitive. Practically, no main theoretical perspectives have been applied to studying the entry mode decision process as the majority of studies are based on the rational model. Most of them employ the case study approach to explore the decision process of one or few international entry modes. McNaughton (2001) employed a descriptive statistical approach to study the

characteristics of the decision process in terms of intuitive, mixed or structured style in channel selection. He concluded that the majority of the export mode decisions of Canadian software firms were made by an intuitive process rather than a structured process. However, mode change decisions employ a more mixed approach with both intuitive and structured processes. Doherty (2009) used a qualitative case study method to examine retailers' franchising decision processes. He proposed a conceptual framework including both strategic and opportunistic behavior in the process. Koch (2001) applied a stage model including screening, identification, and selection process to studying international entry mode decision-making through a case study approach. Larimo (1995) studied 5 manufacturing firms' FDI decision processes and suggested that the final choice is based on three factor types, including the background of investing firms, decision process, and situational conditions. Sykianakis and Bellas (2002) applied Mintzberg et al.'s (1976) stage model to studying an illustrative case's FDI decision process and suggested that the process is cyclical in nature. These studies enrich the understanding of the general process of international entry mode decision; however, most of them only employ the descriptive stage model and case study approach, which may limit the generalisation of their findings. In addition, most of them only focus on elements emerging in the decision process of international entry mode but fail to examine the extent to which these elements affect the final outcome of decision.

In sum, each of main theoretical frameworks seems to have certain limitations due to its theoretical stance and emphases. More importantly, by reviewing the main theoretical perspectives and empirical evidence, it can be seen that the roles of decision-maker and decision process are largely simplified or overlooked in the international entry mode studies, which provide further evidence of scholars' observations (Brouther and Hennart, 2007; McNaughton, 2001; Kumar and Subramaniam, 1997). It also appears that SDM literature (Rajagopalan et al., 1993) indicates that the effects of decision-maker and decision process become overt in the process of strategic decision-making, while extant studies have paid scant attention to them.

2.5 Main determinants of entry mode choice identified in prior empirical studies

As international entry mode choice is probably one of the most frequently studied topics in the domain of international business (Asmussen et al., 2009), prior studies have identified many determinants for the entry mode choice from different theoretical perspectives. As stated previously, this study attempts to examine the largely overlooked effects of decision-makers and decision process in international entry mode decision. Identified determinants in prior studies are largely employed as control variables. This study adopts a holistic approach to treat these determinants, as the entry mode decision is a multi-faceted decision and a single perspective may not be sufficient. It is necessary to review and summarise them from prior studies for several reasons. Firstly, this can provide a more complete picture on the progress of empirical studies. Secondly, it helps this study to choose control variables appropriately. Finally, it is also important to examine their effects in prior studies in order to obtain potential comparisons for this study in the Chinese context.

This study identifies and categorises main determinants into five types: environmental, firm-specific, strategic, transaction-specific, and managerial, with reference to main theories and empirical evidence (Luo, 2001). The details are shown in the Figure 2-1.

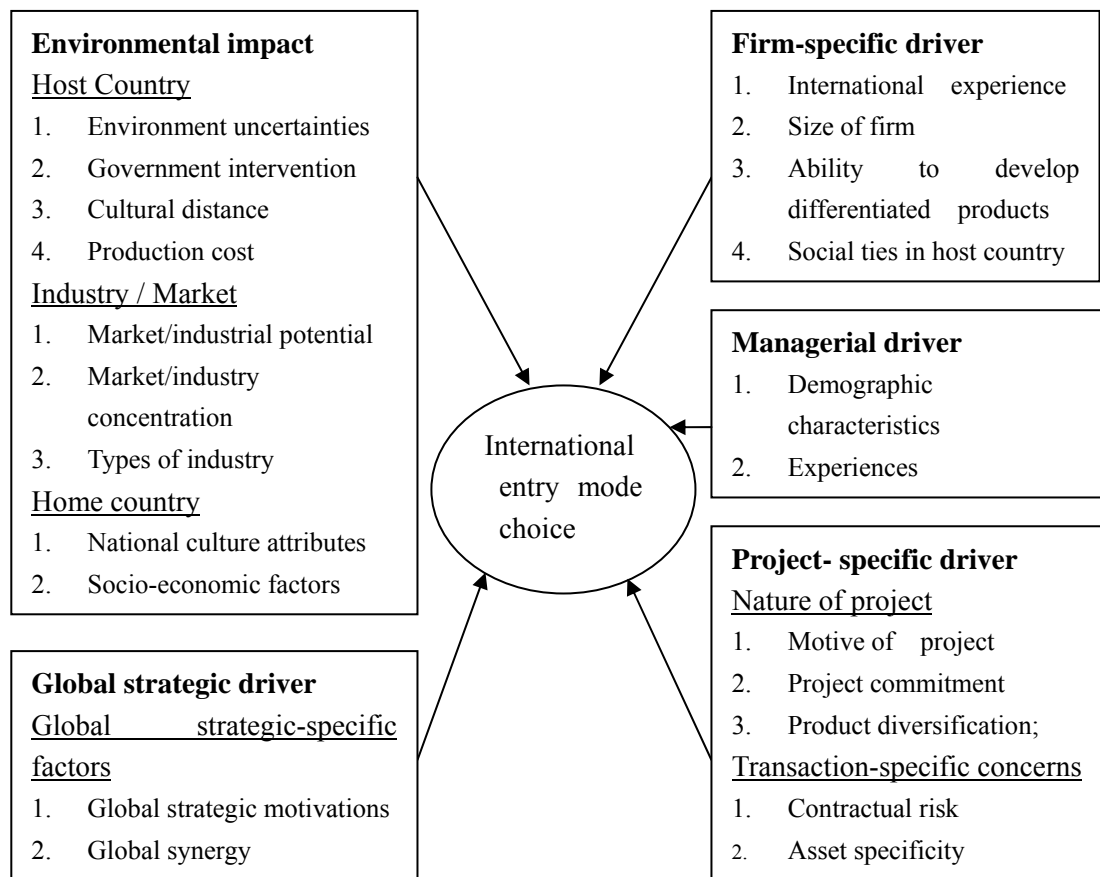


Figure 2-1: Main determinants of international entry modes
(Source: A synthesis of past studies)

2.5.1 Environmental impacts

Host country-specific factors

Environmental uncertainty

The first type is uncertainty of environment or country risk. In international operations, Anderson and Gatignon (1986) indicate country risk as one of the key factors affecting MNE managers' entry mode decisions. Volatility of environment (Williamson, 1985) will make it difficult for MNEs to predict future contingencies, and also increase difficulties in enforcing and monitoring contracts (Brouthers and Nakos, 2004). MNEs generally have two ways to deal with perceived risks. The first is to opt for a lower involvement mode to reduce commitments and keep flexibility, and the second is to have a sufficient ability to mitigate against uncertainties (Luo, 2001). Since this type of risk is usually out of a firm's control, lower involvement modes are preferable to keep flexibility when the country risk

is perceived to increase (Anderson and Gatignon, 1986; Agarwal and Ramaswami, 1992). The results of most empirical studies (Brouthers and Nakos, 2004, Luo, 2001; Kim and Hwang, 1992; Palenzuela and Bobillo, 1999; Pan and Tse, 1996) support the argument that MNEs adopt lower involvement modes when environmental risks increase.

However, contradictory results are also found; for example, Nakos and Brouthers (2002) and Delios and Beamish (1999) found that the negative relationship of environmental uncertainty and entry mode is not significant. Brouthers et al. (2002) found that greater governmental/political risks lead to increased use of integrated modes for both service and manufacturing firms.

Government intervention or restrictions

In transitional or emerging markets, the government often intervenes in firms' operations (Luo, 2001). This typically occurs in resource-intensive industries (Tatoglu et al., 2003) or in industries that local government desires to promote, but local firms lack the necessary technologies or know-how to do so (Gomes-Casseres, 1990). Luo (2001) suggests that a cooperative strategy is advisable for MNEs. The benefits of operating with a local partner can come in two ways. Firstly, the local partner can utilise its network or personal connections to lobby against local government's unfavourable influences, which may be costly and time-consuming for MNEs to attempt to do by themselves. Secondly, the knowledge and connections of the local partner are essential for MNEs to operate in a turbulent environment, which will significantly reduce transaction cost.

Empirical studies (Luo, 2001, Brouthers, 2002; Meyer, 2001) largely support the argument for the importance of a cooperative strategy to deal with the intervention of local government.

Culture distance

Brouthers and Brouthers (2001) and Wei et al. (2005) argue that differences in national culture influence entry mode choice greatly and this is widely recognized in the literature (Tihanyi et al., 2005; Anand and Delios, 1997; Padmanabhan and Cho, 1996; Shane, 1993, 1994; Erramilli and Rao, 1993; Kim and Hwang, 1992; Erramilli, 1991; Gatignon and

Anderson, 1988; Cho and Padmanabhan, 2005). Unfamiliarity of a context will incur high costs in searching for information, negotiating with other institutions, and monitoring and communicating with local dealers. As cultural differences between the home and host country increase, investment in specific assets in the host country becomes riskier (Kogut and Singh 1988; Gatignon and Anderson, 1988; Erramilli and Rao 1993), and joint venture mode seems to be preferable in order to be able to rely on a local partner to reduce the risks (Wei et al., 2005) for initial entry.

The results of several empirical studies support this view, as many scholars (Kogut and Singh, 1988; Erramilli and Rao 1993; Barkema and Vermeulen, 1997; Hennart and Larimo, 1998) found that as the cultural distance between countries increases, the tendency to choose a joint venture over wholly-owned mode or another low involvement entry mode such as licensing over JVs or wholly-owned subsidiaries increases (Kim and Hwang, 1992). However, contradictory results are also reported, Erramilli (1996) and Gatignon and Anderson (1988) indicated that there was no significant relationship between cultural distance and mode choice. Furthermore, other studies showed that as cultural distance increases, Japanese firms seem to have a tendency to choose greenfields (Anand and Delios, 1997) or wholly-owned subsidiaries (Padmanabhan and Cho, 1996) over shared ownership. Erramilli et al. (2002) reported that hotel firms' tendency to choose management-service contracts over franchising increases to daily operation control as cultural differences increases.

Recently, certain scholars have become aware of the paradox and attempted to explain it. Brouthers and Brouthers (2001) argued that the investment risk moderates the relationship of cultural difference and entry mode. As investment risk increases, higher cultural distance is related to preferences for wholly-owned entry modes rather than JVs. Moreover, Cho and Padmanabhan (2005) suggested that experience, especially decision-specific experience, moderates the relationship between cultural difference and entry mode choices.

Production cost

Production cost is usually referred to as an important location factor to attract FDI, and

Narula and Dunning (2000) indicated that relatively low production cost in terms of natural resources, labour cost, and infrastructure are motivators of FDI from developed countries in developing countries at stages one and two in their IDP model (International Development Path). Very limited studies of entry mode choice address this issue and Shi et al. (2001) suggested that production cost in terms of abundant and low-cost labour, cheap land, and preferential treatment (e.g. tax reduction and tax exemptions) may affect Hong Kong's firms' choices between WOSs and JVs in China. However, results of empirical studies are not consistent, and Somlev and Hoshino (2005) found that labour cost is not significantly related to the adoption of WOSs of Japanese manufacturing firms investing in Europe. Similarly, Meyer and Nguyen (2005) found that transportation cost is negatively related to WOSs adopted by MNEs in Vietnam.

Industry-specific factors

Market/industrial potential

Market or industry potential are expected to impact entry mode choice since a high potential market or industry will create a favourable environment, reduce risk of investment failure, and absorb the high cost of high control mode (Agarwal and Ramaswami, 1992), so that higher control mode is likely to be chosen in a higher potential market or industry to gain long-term profitability.

Empirical evidence is not consistent with this view. Some scholars (Agarwal, 1994; Chen and Hu, 2002; Nakos and Brouthers, 2002) have found that wholly-owned subsidiaries or relatively higher control mode are more likely to be chosen when multinationals expand into markets with high regional growth and/or high industrial growth. However, Brouthers (2002), Tatoglu and Glaister (1998), Somlev and Hoshino (2005), and Luo (2001) found no significant positive relationship between market potential and higher control mode.

Market/industry concentration

Market concentration indicates competition level and the barrier of market entry (Caves, 1982). The findings of prior studies are conflicted on this issue, Kim and Hwang (1992) and Hennart and Park (1994) found that foreign investors are more likely to choose a JV

when industry concentration is low to keep flexibility when the environment is more volatile. Luo's (2001) study result showed marginal support for this view and Kogut and Singh (1988) argued that foreign firms are less likely to choose a wholly-owned mode in highly concentrated target industries.

However, Kim (2004) found that industry concentration has a negative impact on the propensity to license out technology, meaning that a high control mode is preferable when market concentration is higher. Tatoglu et al. (2003) provided evidence that there is a U-shaped relationship between the industry concentration and the likelihood that MNEs prefer a majority to a minority JV when concentration is either very high or very low, which offers an alternative explanation for the conflicting evidence.

Types of industry

The final type of determinant is the industrial sector. Erramilli and Rao (1993) proposed that MNEs in service and manufacturing may respond differently to transaction cost. Madhok (1997) argued that TCE was unable to explain the increasing contractual or joint ventures in the R&D (research and development) area. Brouthers and Brouthers (2003) found different response patterns on entry mode choice between MNEs in manufacturing and service. They attribute this to the characteristics of the service industry, as it is more labour-intensive and less capital-intensive than manufacturing. Thus, it is affected by behaviour uncertainty more than manufacturing is. It tends to use the wholly-owned entry mode when there is environment uncertainty to increase the adjustment of operational process to external change, and at the same time, to avoid concern about the lock-in effect of fixed asset investment.

In terms of R&D, Han (2004) reported that his study is generally not consistent with TCE explanations. He found that larger pharmacy companies have been continuing to increase their internal R&D activities, while at the same time the rate of R&D alliance formation also increased, rather than decreased. He attributes this to the structure of the industry, speed of change, and the uncertainty of technological innovation.

Home country-specific factors

National cultural attributes

Although most studies pay attention to cultural distance between home and host countries, several studies also show the possible impact of national cultural attributes of the home country on international entry mode decision.

Kogut and Singh (1988) argued that cultural factors influence differentially the perceived costs and uncertainty associated with mode of entry, and firms from a particular country may have a propensity to engage in one type of entry mode as opposed to others. Tse et al. (1988), comparing managers from China, Hong Kong, and Canada, found that several home culture values do affect managerial decisions in risky situations.

Based on Hofstede's (1980a) work, Kogut and Singh (1988) in a study of several countries investing in the US, found that one attribute of national culture - uncertainty avoidance - is significantly related to choosing joint venture or greenfield over. Furthermore, Shane (1993) argued that power distance – another attribute in Hofstede's index - affects the degree of trust, and thus affected entry mode choice. He suggested that managers in low power distant societies would have a higher incidence of cooperative modes of international business operations, while managers in high power distance societies would prefer sole ownership of their subsidiaries. Erramili (1996) conducted a comparison study of MNEs in the US and in EU countries on relationships of entry mode choice and two cultural attributes - power distance and uncertainty avoidance. He found that a majority favoure ownership and control of subsidiaries, which is associated with higher UAI (uncertainty avoidance index) and PDI (power distance index) values. However, Hennart and Larimo (1998), studying Japanese and Finnish firms investing in the US, found that cultural characteristics of the home base do not affect international entry mode choice. The result of a recent study by Makino and Neupert (2000) is consistent with Erramilli's argument. The study, studying Japanese and US firms investing in counterpart countries, shows that the propensity to choose JV or WOS differs significantly different between Japanese and U.S. firms when controlling cultural distance.

Socio-economic factors

Although FDI theorists have shifted focus from macro-environmental conditions to individual firm-specific factors, a few scholars still argue that socio-economic factors in the home country may partly explain the variances of international entry mode choice. Pan (2002) found that exchange rate, cost of borrowing, export capability, and management orientation have an impact on the equity level of JVs in China. Erramili (1996) argued that home market size also affected the international entry mode choice, because a large and sophisticated market provide firms with economies of scales, a “halo” effect in the eyes of foreign buyers, tacit knowledge of competition, the ability to satisfy the most demanding of buyers, and self-confidence (Porter 1990). Erramili (1996) also found evidence that US firms prefer majority ownership in international entry.

2.5.2 Firm-specific drivers

International experience

International experience is considered to be the critical factor in determining further international commitment according to the Uppsala school’s model (Johanson and Vahlne, 1977), and international experiences help firms to overcome barriers of culture distance (Kogut and Singh, 1988) and other institutional context differences between home and host country, as well as facilitating information flow, and identifying opportunities in the overseas market.

TCA tends to take international experience as a proxy to measure internal uncertainty, and as international experience increases, firms’ perceived internal uncertainty decreases, and higher control modes are less likely to be chosen (Anderson and Gatignon, 1986). However, RBV and OLI take different views, and international experiences are believed to be one type of a firm’s unique resources or ownership advantages, which enable firms to exploit other firm-specific factors by themselves. In short, more operational experiences in foreign markets encourage MNEs to choose higher control modes (Hennart, 1991). International experience is usually measured by four variables, which are length of international

operation, scope of operation, country-specific experience, and decision-specific experience (Padmanabhan and Cho, 1999; Cho and Padmanabhan, 2001).

The results of empirical studies on the impact of international experience on entry mode choice are also contradictory. Gatignon and Anderson (1988), Hennart (1991), and Tatoglu et al. (2003) found that international experience is related to high control mode; however, results of studies by Gomes-Casseres (1989) and Padmanabhan and Cho (1996) reached the opposite conclusion and showed that international experience is related to low control mode. Scholars have two explanations for these contradictions. Castellani and Zanfei (2004) argue that country-specific experience increases the probability of using high control mode, and general international experience (scope) has a positive relationship with strategic alliances. Erramilli's (1991) study provides another explanation, as he suggests that a U-shaped relationship between length and scope of experience and mode choice, and a lower levels of experience and greater experience lead to the use of full control modes, whereas intermediate levels of experience are related to low control modes.

Size of firm

The size of a firm represents a certain type of resource advantage over competitors (Brouthers and Hennart, 2007), thus Agarwal and Ramaswami (1992) and Shi et al. (2001) argue that size of the firm reflects its ability to absorb the high cost of overseas operations and the size of the firm is expected to be positively related to choose high control mode.

However, results of empirical studies are mixed, in that some scholars (Nakos and Brouthers, 2002; Erramilli and Rao, 1993; Ekeledo and Sivakumar, 2005) found that the relationship was not significant. However, other scholars' findings (Agarwal and Ramaswami, 1992; Shi et al., 2001) generally support the argument. Ekeledo and Sivakumar (2005) suggest that the size of firm differentiates its effects among different types of industry, and may not be a good predictor of high control mode of entry in the presence of other independent variables.

The ability to develop differentiated products

A firm needs to balance the benefit from economy of scale from market vehicle and possible risks from leaking its proprietary knowledge when it possesses the ability to develop differentiated products (Nakos and Brouthers, 2002). It is argued that higher control modes are preferred in international market entry (Agarwal and Ramaswami, 1992). There are several reasons to explain this, from different perspectives, and the first is the need to protect proprietary knowledge from potential opportunistic behaviour on the part of other parties involved in the transaction, which may cause the loss of competitive advantage and revenues, according to the TCA perspective. The second argument comes from RBV or the knowledge-based view. Here it is argued that the tacit nature of knowledge makes it difficult to codify, transfer and assimilate, and the imperfect immobility arising from context and path-dependent development, which makes it difficult for a firm to find an appropriate partner for transfer. Inappropriate partners increase the cost of transferring and devalue the knowledge due to an imperfect understanding of it; a firm may find that it has to use hierarchy to exploit the tacit knowledge. The final one is the hazard of the imperfect property system which exists in most developing countries and some transferable knowledge can be easily infringed without legal punishment, which leads firms to use them internally.

Results of empirical studies generally support this view, as many studies (Erramilli and Rao, 1993; Agarwal and Ramaswami, 1992; Nakos and Brouthers, 2002; Brouthers, Brouthers, and Werner, 1996) confirm the argument that high control mode is preferred, as a firm has the ability to develop differentiated products.

Social ties in host country

Social ties and international entry mode choice have been given very limited attention by scholars, and social factors are considered to have been largely overlooked in the study of foreign market entry decision (Zhao and Hsu, 2007). A few studies (Axellson and Johnason, 1992; Ellis, 2000; Zhao and Hsu, 2007) indicate that social ties affect international market entry decisions.

Social capital is defined as “resources embedded in a social structure that are accessed and/or mobilized in purposive actions” (Lin 2001, p.29). Social capital theorists argue that existing theoretical frameworks have been developed by large MNEs owning sufficient financial, technological, and human resources to exploit overseas market; however, SMEs (small and medium enterprises) and companies from developing countries are usually constrained by limited resources, low brand recognition, and management (Zhao and Hsu, 2007). Social capital may be the non-traditional resource that enables SMEs to access information and local resource holders in the host country.

As for international entry mode choice, social ties can affect the decision through the following three aspects (Zhao and Hsu, 2007). Firstly, they provide sources of information on the host market to the managers, which reduces perceived uncertainty by overcoming and weakening external dependencies (Pfeffer and Salancik, 1978). Secondly, social ties may offer managers of SMEs a unique opportunity for information collection, verification, business negotiation, and persuasion through continuously interactive information flows and from various information resources. Thirdly, social ties may also provide the managers of SMEs with other resources, such as financial resources, when making an entry decision. All the above possibilities indicate, to some extent, that social ties are positively related to high control modes. Although no study has explicitly studied entry mode choice and social ties, scholars have referred to this issue in other aspects of entry decisions. Zhao and Hsu (2007) found that the greater the extent of the social ties that Taiwan executives possess, the more resource commitments are made in China. Ellis (2000) found that Hong Kong firms use social ties rather than systematical market research to collect information on opportunities in international markets.

2.5.3 Global strategic drivers

Global strategic motivation and Global synergies

Traditionally, many studies tend to treat each foreign market entry in isolation (Hill et al., 1990), and strategists argue that each foreign entry has to follow its global strategies to

pursue overall performance of MNEs, rather than a performance of subsidiaries (Hill et al., 1990; Kim and Hwang, 1992). Usually, empirical studies examine how two kinds of global strategies, global strategic motivation and global synergy, impact international entry mode choice.

Global strategic motivation is defined as motivation to fulfil pre-designed strategic aims at the corporate level for the purpose of the maximisation of overall corporate performance (Kim and Hwang, 1992). Global strategic motivation usually includes the establishment of a strategic outpost for future global expansion, development of global sourcing sites, and attack against actual or potential global competitors. Global synergies arise from interdependencies of subsidiaries at multi-locations, since inputs from different subsidiaries or headquarters are complementary or shared to achieve overall efficiency (Hill et al., 1990).

Kim and Hwang (1992) and Rajan and Pangarkar (2000) found that both strategy types increased the possibilities for MNEs to adopt high control modes. Tsai and Cheng (2002) found that global strategic motivation is one of the most important decision criteria for the ownership control entry mode choice for Taiwanese manufacturing firms in the United States. Aulakh and Kotabe (1997) found that global integration (similar to global strategic motivation) and differentiation strategies influence channel integration decision.

2.5.4 Managerial drivers

Demographic characteristics

Although Hambrick and Mason (1984) argued that demographic characteristics of executives can be used partially to predict a firm's strategic behaviours, few empirical studies of international entry mode decision confirm the argument. Herrmann and Datta (2002) found that position tenure was positively related to full control mode and Herrmann and Datta (2006) found that age of CEO was negatively related to the choice of wholly-owned mode over joint ventures. However, the result of a study by Ellis (2000) indicated

that the age of Hong Kong decision-makers did not affect the choice between direct export and indirect export. Furthermore, Herrmann and Datta (2002) found that the education level of CEOs did not appear to affect the decision between full control and share-control. These results suggest that demographic characteristics may not be a good proxy for the value and international knowledge of CEOs.

Personal experience

Compared with demographic characteristics, a CEO's various experiences are found to affect the international entry mode decision. Herrmann and Datta (2006) found that firm experience negatively affect two mode choices: acquisitions over joint ventures and greenfields over joint ventures. The results also showed that international experience positively affects three entry mode choices: acquisitions over joint ventures, greenfields over joint ventures and acquisitions over greenfields, which is consistent with their finding that the international experience of CEOs is positively related to the choice of full control mode (Herrmann and Datta, 2002). CEOs with throughput functional experience are likely to positively impact the choices of full control over share control mode (Herrmann and Datta, 2002), and acquisitions over joint ventures (Herrmann and Datta, 2006).

2.5.5 Project drivers

Nature of project

Motive of project

Brouthers and Hennart (2007) stated that while only a few studies have addressed the reason (motive) for international entry, these motives may affect perceived uncertainty and needs of control.

Results are mixed in the limited number of studies on this topic. Aulakh and Kotabe (1997) found no significant differences in new venture mode choice for firms pursuing a market-seeking strategy and firms pursuing other strategies. Gil et al. (2006) supported the view that firms following market-seeking are likely to adopt the wholly-owned mode. However, some scholars, including Erramilli and Rao (1990), Shi et al. (2001) and Meyer

and Nguyen (2005), found that firms pursuing market-seeking strategies prefer joint venture forms of foreign entry over new venture forms. As for client-following motives, Erramilli and Rao (1990) suggested that client-following firms are more likely to create wholly-owned new ventures. However, Gil et al. (2006) found that the relationship was not significant. Gomes-Casseres (1989) suggested that firms seeking resources are likely to establish joint ventures, since these sectors are sensitive and protected by local government. The results of empirical studies (Tatoglu et al., 2003; Hennart and Larimo, 1998; Kaynak et al., 2007; Gil et al., 2006) generally support the view. Shi et al.'s (2001) study shows that Hong Kong SMEs following an export-oriented strategy prefer solo ventures over joint ventures. However, the result from Luo's (2001) study suggests that the relationship is not significant. Finally, as for strategic asset-seeking motives, Hennart and Reddy (1997) argue that complementary asset seeking can be solved through acquisition or joint venture. Other authors (Tsang, 2000; Mutinelli and Piscitello, 1998; Luo, 2002) have indicated that a joint venture mode is preferred when an MNE is seeking to build its capabilities in a host country. The results of empirical studies (Ekeledo and Sivakumar, 2004; Luo, 2002; Mutinelli and Piscitello, 1998) largely support the view.

Project commitment

Agarwal and Ramaswami (1992) argue that a large investment is generally related to higher start-up, switching, and exit costs, thus involving greater financial and operational risks. As stakes increase, firms tend to enter foreign market more cautiously (Gatignon and Anderson, 1988). Luo (2001) argued that a cost-sharing mode may be adopted when the investment project is too large.

Results of empirical studies are mixed. Kaynak et al. (2007) and Luo (2001) found that the project size is independent of foreign investors' preference for a particular equity based mode of entry. However, Pan (1996) and Gatignon and Anderson (1988) found that project size is positively related to the major equity mode of joint venture or to the wholly-owned mode.

Product diversification

When a firm wishes to manufacture a product away from its main product line in a foreign market, it may find that a joint venture is an appropriate way to gain necessary product-specific knowledge that is difficult or costly to replicate or acquire, since JV is the most efficient way to gain it (Hennart 1991).

However, empirical evidence is mixed. Some authors (Stopford and Wells 1972; Hennart 1991; Tatoglu et al. 2003) found that when firms diversify into new product areas that are outside of their core businesses, they tend to share the ownership of their foreign affiliates. Other studies (Gomes-Casseres 1989; Padmanabhan and Cho 1996; Hennart and Larimo 1998) indicated that the diversification of product has no impact on the probability of setting up a JV.

Transaction-specific concerns

Contractual risk

Contractual risks are conceptualised by Agarwal and Ramaswami (1992) and others (Brouthers, Brouthers, and Werner, 1999; Nakos and Brouthers, 2002; Shi et al. 2001) as the reasoning to gain internalisation advantages. Contractual risks are specified as follows:

- (1) The relative costs of producing and enforcing a contract;
- (2) The risk of dissipation of proprietary know-how;
- (3) The costs of controlling and monitoring the quality of a product/service.

It is argued that a firm tends to internalise its operations to gain relative benefits from integration as contractual risks increase.

Empirical studies show mixed results. Agarwal and Ramaswami (1992) and Brouthers, Brouthers and Werner (1999) found that as contract risks increase, firms usually prefer exporting rather than equity investment, and tend to use equity modes only when possessing the ability to develop differential products. Shi et al. (2001) found that firms do not show any preferences for entry modes when presenting contractual risks. Nakos and Brouthers (2002) supported the theoretical argument. Firms perceiving high contractual risks in a target country tend to use equity modes of entry more than firms perceiving lower contractual

risks.

Asset specificity

Asset specificity indicates that the investment in physical and human capital that is employed to complete a specific task is transaction-specific and loses value when redeployed (Williamson, 1985).

Asset specificity represents two concerns of a firm when conducting an international transaction. Firstly, tacit knowledge and know-how are usually involved in transaction-specific assets (Brouthers and Nakos, 2004; Anderson and Gatignon, 1986). When asset specificity is high, the risk of dissemination is great. Firms are concerned about protecting their knowledge from competitors, and a high control mode may be adopted. Secondly, the switch cost is expected to be high when presenting high asset specificity. Switching costs may include the costs of re-locating, negotiating with, and training a new agent, and also the opportunity costs resulting from lost sales (Brouthers and Nakos, 2004). When asset specificity is high, the replacement of a foreign agent can be a fairly difficult task, since the resources involved are specific to the project (Erramilli and Rao, 1993; Anderson and Gatignon, 1986), and are very costly to re-deploy.

Most of the results from empirical studies generally support the theoretical argument that high asset specificity will result in high control entry modes (Erramilli and Rao, 1993; Gatignon and Anderson, 1988; Brouthers and Brouthers, 2003; Brouthers et al., 2003; Makino and Neupert, 2000). However, Delios and Beamish (1999) reached the opposite result when studying Japanese firms investing in the US, and some scholars (Kim and Hwang, 1992; Taylor, Zou, and Osland, 1998; Hennart, 1991) also found that the relationship between asset specificity and international entry mode is not significant.

2.6 International entry mode studies on firms from newly industrialised or emerging countries

Unlike most of the extant studies which study firms from the triad area (US, EU, and Japan), this study intends to examine Chinese private firms' international entry mode decisions. This is in response to calls from scholars (Young et al., 1998; Hoskisson et al., 2000) to gain a better understanding of the international entry behaviours of firms from the emerging markets.

The review of studies on the international entry mode decision of firms from developing countries is important for several reasons: Firstly, as dominant theories on international entry mode choice have been developed from firms from industrial nations, their applicability to firms from emerging markets (EMs) or newly industrialised countries (NICs) needs to be examined. Secondly, firms from NICs and EMs are usually considered to be technologically disadvantaged, with limited international experience, and having an immature home institutional context (Moon and Roehl, 2001). Little is known as to whether or not they share same determinants of international entry mode as firms from developed countries.

The review attempts to find some indications to answers to these queries. Several studies on firms from NICs or EMs have been selected and shown in Table 2-3.

Table 2-3: Selective studies of NIC or EM firms' international entry mode decisions

Authors	Theoretical Framework	Source Country	Research Question	Relevant conclusions
Pan and Tse (1996)	TCA and Institutional theory	Hong Kong, the U.S., Japan, German, and Britain	The cooperative strategies between two overseas firms in China	Hong Kong firms were valuable foreign partners because of their expertise, knowledge, connections, and flexibility in China.
Erramilli et al.(1997)	Ownership and local advantages	Korea	The impacts from interactions of firm-specific advantages and location characteristics on entry mode choice	The influence of firm-specific advantages may be contingent upon the both home- and host-country locational conditions.
Ellis (2000)	Social capital theory	Hong Kong	Social ties and foreign market entry mode decision	Foreign market opportunities are commonly acquired via existing interpersonal links rather than collected systematically via market research.
Rajan and Pangarkar (2001)	Eclectic framework of Hill, Hwang and Kim (1990)	Singapore	Strategic, location, and transactional factors and entry mode choice	Strategic considerations, country risk, firm specific assets, and host country experience significantly affect entry mode choice.
Shi et al. (2001)	OLI and Hill et al's eclectic framework	Hong Kong	Strategic, location-specific, firm-specific, and transaction-specific factors and entry mode choice	Strategic considerations, firm size, host country experience, relationship, government policy, and location of investment impact the entry mode choice.
Tan et al.(2001)	TCA, RBV and strategic considerations	Australia and Hong Kong	Dissemination risks, strategic control, global management skills, and international modal decision	Besides global management skills and dissemination risks, control over competitive pricing significantly affects the entry mode choice.
Ahmeda et al. (2002)	Integrated international risk framework	Malaysia	International risks and entry mode choice	Perception of greater international risk is associated with lower levels of resource commitment and a preference for control of the foreign business unit, and vice versa.

Tsai and Cheng (2002)	Hill et al's eclectic framework, OLI, and TCA	Taiwan	Strategic, environmental, firm-specific, and transaction-specific factors and entry mode choice	Strategic motivation, overseas investment environment, ownership advantage, and asset specificity are found to impact entry mode choice significantly.
Kaynak et al. (2007)	Institutional theory and TCA	Anglo-American, Continental European, Confucian, and former socialist investors	Institutional & TCA factors and entry mode choices	Confirming the impact of nationality and normative distance on the ownership mode choice of foreign investors.
Thomas et al. (2007)	Organization learning theory	Latin America	Alliance experience with firms from developed market, failure experience in developed market, and total developed market experience, and entry decision & survival	Emerging market firms entering developed markets are primarily engaged in knowledge seeking rather than knowledge exploiting FDI
Zhao and Hsu (2007)	Social capital theory	Taiwan	Social ties and entry decision	The greater the extent of social ties, the more the resource commitment in China

All the studies in Table 2-3 reported that the models they used were significant in explaining international mode choice of EM or NIC firms, which may indicate that existing theories or modified frameworks can be applied to explain EM or NIC firms' entry mode decision. However, it is noteworthy that most of the studies listed in the table employed more than one type of academic perspective in explaining the decision, which indicates the entry mode choice is a multi-dimensional and eclectic phenomenon to firms from NIC and EM.

More specifically, strategic considerations are reported frequently (Rajan and Pangarkar, 2001; Shi, Ho and Siu, 2001; Tan, Erramilli and Liang, 2001; Tsai and Cheng, 2002) in determining NIC and EM firms' international entry mode choice, which may reflect their latecomer status (Mathews, 2002) and also possibly one type of cultural attribute, i.e. Confucian dynamism, that indicates long-term orientation (Kirkman et al. 2006), considering that firms in these studies are all from the Chinese cultural cluster..

Relationships or social ties are reported to be a determinant when conducting an entry into China (Pan and Tse, 1996; Shi et al. 2001; Zhao and Hsu; 2007; Ellis, 2000). Zhao and Hsu (2007) argue that SMEs or companies from developing countries are usually constrained by limited resource, low brand recognition, and management. Social capital may be the non-traditional resource that enables SMEs to access information and holders of local resources in the host country, which enable these companies to compete with local enterprises.

The impacts from location factors are tremendous in international entry mode decisions. Firstly, Erramilli et al. (1997) argued that the influence of EM or NIC firm-specific advantages may be contingent upon the characteristics of both home- and host-country locations since they generally do not gain absolute competitive advantages as in their western counterparts, and they may carefully consider their comparative competitive advantages when investing in developing and developed markets. Secondly, due to lack of international experience, investment risks are reported to affect EM or NIC firms' entry mode decisions (Rajan and Pangarkar, 2001; Shi, Ho and Siu, 2001; Tan, Erramilli, and Liang, 2001; Ahmeda, Mohamad, Tan, and Johnson, 2002; Tsai and Cheng, 2002).

Institutional and cultural attributes of the home market are also reported to affect their international entry modes (Kaynak, Demirbag and Tatoglu, 2007; Thomas, Eden, Hitt and Miller; 2007). For instance, Kaynak, Demirbag, and Tatoglu (2007) found that firms from Confucian countries and former socialist countries were most likely to adopt WOSs over JVs, which may imply the high power distance in Confucian countries (Makino and Neupert, 2000) and the imprint of control in the past planning economy (Morck et al. 2008).

In sum, prior literature indicated that modified extant theoretical frameworks can be applied to firms from developing countries and a holistic approach may be effective. It is noteworthy that determinants identified in the international entry mode decisions of firms from industrial nations may not be all relevant to the decisions of firms from developing countries.

2.7 Conclusions

From the literature review, it can be seen that research on the choice of international entry mode has progressed greatly since the early 1980s, and a few theoretical perspectives (TCA, OLI, RBV, institutional theory e.g.) have been introduced to understand the decision. Based on past works, several major conclusions may be drawn as follows:

Firstly, the roles of decision-makers and the decision process are largely overlooked in the main theoretical frameworks through theoretical assumptions or simplifications. Specifically, rational decision models employed by these frameworks reduce the importance of the decision-maker and decision process. In general, empirical studies examining the effects of decision-makers and decision process are scarce and primitive.

Secondly, international entry mode choice is a multi-faceted phenomenon influenced by various factors at different levels in terms of environmental, strategic, firm-specific, managerial, and project specific drivers. As many theoretical perspectives are complementary rather than conflicting (Madhok, 1997), a holistic approach seems to have advantages in conducting entry mode choice research, since a single perspective may not be sufficient to explain the complex choice.

Finally, modified extant theoretical frameworks can be applied to firms from developing countries, but determinants identified in the international entry mode decisions of firms from industrial nations may not all be relevant to the decisions of firms from developing countries. Strategic consideration, social ties, and institutional factors are reported to affect the international entry mode decision of firms from developing countries.

Chapter 3: Literature on Strategic Decision-making:

Decision-maker and Decision Process

3.1 Introduction

The previous chapter confirmed the observation of researchers (Brouthers and Hennart, 2007; McNaughton, 2001) that the roles of decision-maker and decision process have scarcely been addressed in the literature of international entry modes. This chapter responds to this by reviewing the progress of studies on decision-makers and decision process in SDM (strategic decision-making) literature. Due to the fragmentation of studies on SDM, this review focuses on examining two major segments of this academic domain, which are literature of the upper echelon (decision makers) and literature of the characteristics of SDMP (strategic decision-making process), which directly address the aforementioned gaps .

This literature review is organised as follows. Firstly, it provides a brief introduction to basic strategy formulation models and background of SDM studies. Then, it examines the studies associated with the upper echelon theory. The review of literature on characteristics of SDMP is organised into two parts. In the first part, after a brief overview of the basic phases of SDMP suggested by Mintzberg, et al. (1976), it concentrates on examining the main dimensions or characteristics of SDMP, including procedural rationality, conflicts and collaboration in decision process, centralisation of decision-making, biases, and political behaviour, and their impacts on the consequences of decisions. In the second part, in order to obtain the whole picture of SDMP, an overview is given of the antecedents to SDMP identified in the past studies (Papadakis et al., 1998; Elbanna and Child, 2007). Finally, there will be a summary of the review.

3.2 Formulation of strategy and SDM research

3.2.1 Two basic models of strategy formulation

Strategy affects an organisation's direction and scope over the long-term, which is usually concerned with achieving advantage for the organisation by configuring or reconfiguring its resources or competences within a changing environment (Johnson and Scholes, 2001). Theoretically, there is considerable controversy on how strategy is shaped. There are two basic models for the formulation of strategy. The first one is the "synoptic" perspective (Fredrickson and Mitchell 1984; Andrews, 1971; Ansoff, 1965). This normative model can be described as follows. Executives carefully examine the firm's external environment and internal conditions and search for alternatives for seeking opportunities or tackling problems. By using the set of objective criteria derived from these analyses, they make a rational choice on the strategy. The second one reflects the style of incrementalism (Mintzberg, 1973; Quinn, 1980; Lindblom 1959). It concludes that the development of strategy is more an adaptive fashion than a choice, and it builds on existing strategy and changes gradually. This perspective is built on observations as to how companies really make a strategy and holds that, to some extent, no organisation revises its direction and operating field frequently. These two viewpoints are mainly based on different assumptions of strategic information availability and information process capability of an organisation. The first assumes that an organisation can acquire or obtain and analyze all necessary external and internal information for strategy, and also intends to exert systematic analysis and synthesis efforts, thus demonstrating "rational or bounded rational comprehensiveness" in making strategic choices (Fredrickson and Mitchell, 1984). Incrementalism reflects the organisation's inability or unwillingness to collect and utilise crucial information needed, due to the velocity of high environment (Bourgeois, 1980a) or lack of slack resources (Fredrickson and Iaquinto, 1989). The learning process is critical for organisation to adapt to the dynamism of the environment. Strategy-making following incrementalism is less systematic and mainly depends on past experience, and strategic goals evolve over time. No matter what style of strategy formation is intended to be used by organisations, Mintzberg et al. (1976) and Fredrickson and Mitchell (1984) argue that

organisational strategy is formed by a serial of decisions and thus is decision-based. Elements of both of the above perspectives (i.e. procedural rationality and cognitive bias) are found to be meaningful in SDMP studies (Fredrickson and Mitchell, 1984; Dean and Sharfman, 1996; Wally and Baum, 1994; Eisenhardt and Bourgeois, 1988), as they are helpful in explaining various decision outcomes.

3.2.2 Strategic decision-making and SDMP research

According to Dean and Sharfman, (1996, p.389), strategic decisions involve “committing substantial resources, setting precedents, and creating waves of lesser decisions” (Mintzberg et al., 1976). Strategic decision is considered to be different from the programmed decision (Cyert et al. 1956) made by lower or middle levels of organisations. It is usually ill-structured and non-routine (Mintzberg et al., 1976; Dean and Sharfman, 1996). It is also complex (Elbanna, 2006) since it has to be made within an uncertain external environment and difficult to manage internal or external relationships, and with a large commitment of organisational resources. Top managers are responsible for such decision-making and characteristics of SDMP are found to have a great impact on decision outcomes and implementations (Rajagopalan, et al. 1993).

Prior research in strategic decision-making mainly focuses on its content, which typically includes portfolio management, diversification, or acquisitions and mergers (Elbanna and Child, 2007; Rajagopalan et al. 1993). Unlike content research, SDMP study “deals with the process through which a strategic decision is made and implemented, and the factors which affect that process” (Elbanna and Child, 2007, p.561). SDMP study has received less attention (Mintzberg, et al. 1976; Rajagopalan et al. 1993; Elbanna, 2006; Schwenk, 1995) in spite of the fact that SDMP affects both the quality of the decision (Dean and Sharfman, 1996) and other attributes of decision outcome (Rajagopalan et al. 1993). There are several reasons for this insufficiency. Firstly, the lack of integrative models in strategic decision process research causes the fragmentation of studies in this area. Rajagopalan et al. (1993) argue that the absence of integrative models increases the difficulties in cumulative theory building and empirical tests. Moreover, due to differences in recognising and measuring

process variables, researchers usually have difficulty in conducting process research (Elbanna, 2006). Finally, there are contradictions among existing research results; for instance, Fredrickson and Mitchell (1984) found that comprehensiveness of strategic decision-making processes has a negative relationship with performance in an unstable environment, while Bourgeois and Eisenhardt (1988) argued that in high velocity environments, the more analytic the SDMP, the better the performance of the firm.

In short, organisational strategy formulation is likely to be decision-based (Fredrickson and Mitchell, 1984) and thus strategic decision-making is critical to an organisation's direction. The concepts of the "synoptic" and "incrementalist" strategy formulation models are reflected in SDMP studies, which help to measure decision process and explain various outcomes of decisions. In general, SDMP has received little attention in prior studies and its literature is in fragments.

3.3 Decision-makers (upper echelons)

3.3.1 Theoretical background and description

SDM literature attaches great importance to the top managers, who are responsible for strategic decision-making (Elbanna, 2006). Upper echelon theory is rooted in the Carnegie school's behavioural theory of the firm (March and Simon, 1958; Cyert and March, 1963) and strategic choice perspective (Child, 1972). Unlike economic theory, it stresses that decision-makers are often unable to make economically rational decisions since they are cognitively limited and encounter multiple and conflicting goals in a complex social context. As a result, when making a strategic decision associated with ill-structured, non-routine, and complex conditions, the effect of the decision-maker will be reflected in the outcome of the decision (Child, 1972).

More systematically, Hambrick and Mason (1984) proposed an upper echelon theory. They suggested that organisational outcomes - strategic choices and performance levels - are

partially predicted by managerial background characteristics. Specifically, they argue that decision-makers cannot scan all environmental or firm conditions, but rather selectively perceive and interpret situation based on their cognitive bases and values. The decision is made based on decision-maker' final perception of situation combined with his or her values. It should be noted that managerial values play a unique role in the decision-making, and can directly affect the decision outcome through serving as judgment bases and also indirectly affect it through their effect on managerial perception. This is consistent with Daft and Weick's (1984) argument that management's beliefs affect the organisational interpretation of a situation.

Empirically, there are generally two approaches to applying the upper echelon theory to study the relationship between top managers and decision outcome or performance. The first attempts to link observable background characteristics of decision-makers and decision outcome or other organisational behaviors. The other adopts a more social psychological viewpoint to studying the relationship. Both ways have their advantages and limitations. Hambrick and Mason (1984) prefer the first approach for several reasons. (1) The cognitive perceptions and process of upper level managers are covert and difficult to measure directly. (2) Standard psychological dimensions (e.g., locus of control, tolerance for ambiguity, or cognitive style) may not be sufficient to reflect all the characteristics of managers. (3) Practical difficulties may also restrain its application as managers may be reluctant to take part in psychological tests. However, they also acknowledge the limitations which the second way attempts to overcome. Firstly, the background characteristics inevitably contain noises, some of which may reflect both the knowledge bases and values of managers. Secondly, it is difficult to understand clearly the underlying reasons for the relationship between background characteristics and decision outcome.

3.3.2 Empirical evidence for the two approaches

The approach of the use of managerial background characteristics

This approach usually employs demographic characteristics including age, functional background, education, tenure, and international experience at individual and group level

to examine various decisional or organisational outcomes. These outcomes usually include strategic orientation, firm performance, international diversification, and strategic change as well as international entry mode. At group level, besides the average degree of these demographic characteristics, their heterogeneities are also used to detect the effect of the amount of dispersion of the top management team (TMT) on decisional or organisational outcome (Hambrick et al., 1996), which emphasises on the diversity of these characteristics. According to the literature reviewed, most of these studies were conducted in North America. Several characteristics of this approach can be seen from the review.

Studies of CEOs

At the individual level, characteristics of CEOs have been studied intensively, as the position is hierarchically superior to other members in the TMT (Athanassiou and Nigh, 2002). The CEO not only has more legitimate power and influence than other executives, but also exerts this influence on TMT member selection. Thus, Finkelstein and Hambrick (1996) argued that the magnitude of the impact of the CEO on the outcome of strategic decisions is much greater than that of other members of the TMT. Empirical evidence tends to support the argument. Carpenter et al. (2001) found that CEOs with international assignment experience have positive impacts on the firm's performance, especially when combined with a higher degree of international experience of non-CEO executives and firms' global posture. Athanassiou and Nigh's (2002) finding is consistent with the conclusion that a CEO's international business experience affects the extent of a firm's internationalisation. Jensen and Zajac (2004) observed that a CEOs' background in finance is positively related to diversification and acquisition. In addition, background characteristics and experiences of CEOs are found to be related to international entry mode choice (Herrmann and Datta, 2002; 2006).

Studies of TMT

Hambrick et al. (1996) argue that the organisation could be a reflection of its top executives who have the power to direct it. Due to the complexity of uncertainty involved in strategic decision-making, CEOs cannot handle it by themselves; hence, the background characteristics of the TMT have far greater potential for predicting organisational outcomes

than the characteristics of the CEO do (Athanassiou and Nigh, 2002; Hambrick et al., 1996). In operationalisation, most studies (Sambharya, 1996; Tihanyi et al., 2000; Carpenter and Fredrickson, 2001) employ both the average level and heterogeneity of the TMT's characteristics, although some studies (Finkelstein and Hambrick, 1990; Sambharya, 1996; Reuber and Fischer, 1997) only use one or the other (Hambrick et al., 1996).

Most of empirical evidence supports above the argument that the TMT affects decision and organisational outcome. Specifically, both average and heterogeneity indicators are largely found to be related to organisational outcomes. Detailed results of these studies can be seen in Table 3-1. However, contradictory results were also found, i.e. that the TMTs do not or only partially affect organisational outcome (Jensen and Zajac, 2004; Murray, 1989; Heijltjes et al., 2003). Pitcher and Smith (2001) provided several reasons for the inconsistent results that contextual moderators or group processes had not been fully considered in the aforementioned studies. Consistent with that interpretation, quite a few studies (Finkelstein and Hambrick, 1990; Carpenter, 2002; Combs et al, 2007; Lee and Park, 2006) found that TMT effects also depended on other contingent contexts, including managerial discretion, contextual complexity, and team tenure, and so forth.

In sum, by reviewing empirical literature which links background characteristics with organisational outcome, we find that the effectiveness of the upper echelon perspective is largely confirmed at both individual and group level. Both characteristics of CEOs and TMTs are reported to affect decisional or organisational outcome (see Table 3-1). It should be noted that contradictory results (Jensen and Zajac, 2004; Murray, 1989; Heijltjes et al., 2003) were also found. Although this approach yields fruitful results in general, the employment of background characteristics as proxies has an inherent limitation in that the underlying construct of characteristics is not understood (Hambrick and Mason, 1984). Thus, theoretical reasoning of the relationship between these characteristics and organisational outcome is equivocal, as these characteristics contain too much noise.

Table 3-1: Selective empirical studies using managerial background characteristics

Studies	Explanatory factors	Explained outcome	Main Findings
Chaganti and Sambharya (1987)	Proportion of executives recruited from outside and function background in upper echelons	Strategic orientation	Prospectors compared to analysers, tend to have greater outsider and marketing orientation; compared to defenders, prospectors or analysers tend to have greater outsider, R&D and production orientation and less finance orientation.
Murray (1989)	Top management group heterogeneity	Firm performance	Partial support was found that group heterogeneity has an impact on the firms' long-term performance in oil the industry.
Finkelstein and Hambrick (1990)	Top management team tenure	Strategic persistence, conformity, and performance	Executive-team tenure has a significant effect on strategy and performance. Managerial discretion positively moderates these relationships.
Hambrick et al. (1996)	Top management team heterogeneity (functional, educational, and tenure)	Firms' competitive moves and performance improvement	Heterogeneity was positively related to competitive action propensity and magnitude, but it is related to the slower action execution and response. It exerts overall net effect on airline performance in the industry.
Sambharya (1996)	International experience (average length, heterogeneity, and proportion)	International diversification	TMTs with longer foreign experience, greater heterogeneity, and a higher proportion of managers with foreign experience are positively associated with international involvement.
Reuber and Fischer (1997)	International experience of management team	Foreign partnerships and delay of internationalisation	Management teams with long international experience have a greater propensity to develop foreign strategic partners and to delay less in obtaining foreign sales after start-up.
Tihanyi et al. (2000)	Top management team characteristics and heterogeneity	International diversification	Lower average age, higher average tenure, average elite education, average international experience, and tenure heterogeneity are related to firm international diversification.
Carpenter and Fredrickson (2001)	Top management team characteristics and heterogeneity	Global strategic postures	TMT international experience, educational heterogeneity, and tenure heterogeneity were positively related to firms' global strategic postures, and functional heterogeneity exhibited a negative association.
Carpenter et al. (2001)	International assignment experience	Firm performance	Firms performed better with CEOs with international assignment experience, especially which was bundled with higher degree of international experienced non-CEO executives and firms' global posture.

Wiersema and Bantel (1992)	The demography of top management teams	Corporate strategic change	Top management teams characterised by lower average age, shorter organizational tenure, higher team tenure, higher educational level, higher educational specialization heterogeneity, and higher academic training in the sciences are likely to initiate strategic change.
Carpenter (2002)	Top management team heterogeneity	Firm performance	Complexity and team tenure positive moderate the relationships between background characteristic heterogeneity and firm performance.
Athanassiou and Nigh (2002)	International business experience of top management team and CEO	Firms' internationalisation extent	Positive relationship is found between TMT or CEO international business experience and internationalisation extent. Individual member's prominence and influence strengthen the relationship.
Heijltjes et al. (2003)	National diversity of top management	Internationalisation of companies	The national diversity of top management teams has not progressed to the same level as the internationalisation of companies in general.
Wei et al. (2003)	Average age and demographic diversity	Firm performance	Average age is positively related to firm performance, while no consistent relationship is found between TMT member diversity and firm performance.
Jensen and Zajac (2004)	Finance background of CEO, non-CEO executive, and elite	Diversification and acquisition	No support is for the suggested relationship that corporate elites' functional background experiences affect diversification and acquisition activities; however, positive finance CEO effect and a negative finance non-CEO effect are found on diversification and acquisition.
Lee and Park (2006)	Job-related diversity	Firm internationalisation	International alliances partially mediate the relationship between TMT international exposure diversity and firm internationalisation.
Combs et al (2007)	Proportion of outsiders of board composition	Firm performance	CEO ownership and duality negatively moderate the relationship between proportion of outsiders and firm performance
Herrmann and Datta (2002)	Background characteristics	International entry mode	CEO position tenure, throughput functional background, and international experience are related to full-control entry modes.
Herrmann and Datta (2006)	CEO Experiences	International entry mode	CEOs with less firm experience or more international experience or throughput functional experience preferred acquisitions and greenfield investments to joint ventures, and, older CEOs were more likely to opt for joint ventures over greenfield investments.

The approach of the use of social psychological findings

Recently, an increasing number of scholars have been attempting to combine social psychological theories with the upper echelon perspective to improve the accuracy of managerial background characteristics as proxies of cognitive bases and values. Consistent with the theoretical foundation (Hambrick and Mason, 1984), studies of the approach focus on two elements in terms of managerial cognition and value. Quite a few social psychology-based constructs are employed to measure managerial or TMT cognition and values.

Regarding cognition, West (2007) found that two structural characteristics of collective cognition (differentiation and integration) are strongly related to a firm's performance. Specifically, only a moderate level of differentiation or integration cognition exerts a positive impact on a firm's performance. Hough and Ogilvie (2005) used the MBTI (Myers-Briggs type indicator) to examine cognitive style and decision outcome (manager decisiveness, decision quality, and perceived effectiveness). They found that managers who preferred to use intuition in perceptual processes and thinking in judgment processes achieved decisiveness and higher quality of decision-making. Levy (2005, 2007) observed that TMTs with attention patterns of external attention orientation and external attention breadth were more likely to pursue expansive strategic posture. Wally and Baum (1994) found that a CEO's cognitive ability and use of intuition were related to decision speed.

With regard to value, Miller et al. (1998) replaced the demographic heterogeneity of TMTs with cognitive diversity (preference and belief diversity) in their study. They found that diversity inhibits rather than promotes comprehensive examinations of current opportunities and threats. Wally and Baum (1994) indicated that a CEO's tolerance for risk and propensity to act were positively related to with speedy decisions. Their finding is consistent with Westerberg et al.'s (1997) result that a CEO's tolerance for ambiguity and need for cognition tend to have a considerable impact on a firm's performance and orientation. Besides the main effects of values, some studies also address their moderating effects. Olson et al. (2007) found that both affect-based and cognition-based trust had moderating effects on cognitive diversity and decision outcomes. However, Hitt and Tyler

(1991) did not find a moderating effect of risk propensity on the relationship objective criteria and the strategic evaluation of acquisition candidates.

In sum, studies following this approach are largely still at an early stage, and depend on the development of cognitive theory (Kellermanns et al., 2008) and studies from other academic domains. Extant evidence (see Table 3-2) provides fairly solid support for the upper echelon perspective that managerial cognition and values directly or indirectly affect organisational outcome, although some exceptions are also found (e.g. Ensley and Pearce (2001)).

Table 3-2: Selective empirical studies using psychological findings

Studies	Explanatory factors or moderators	Explained phenomenon	Main Findings
Miller et al. (1998)	Cognitive diversity (Preference and Belief diversity)	Extensiveness of strategic planning	Cognitive diversity of TMT inhibits rather than promotes extensive long-range planning.
Ensley and Pearce (2001)	Shared strategic cognition	Firm performance	No support for the suggested relationship between shared cognition and firm performance.
Hough and ogilvie (2005)	Cognitive style	Decision quality, decisiveness, perceived effectiveness	Intuiting/Thinking managers craft more decisions of higher quality than other managers; perceived extraverted managers as being more effective than introverted managers. No findings for decisiveness.
Hitt and Tyler (1991)	Cognitive complexity and risk orientation	strategic evaluation of acquisition candidate	Risk propensity and cognitive complexity were not found to moderate the relationship objective criteria and the strategic evaluation of acquisition candidates
Wally and Baum (1994)	Cognitive ability, use of intuition, tolerance for risk, and propensity to act	Pace of decision	Chief executive officers' cognitive ability, use of intuition, tolerance for risk, and propensity to act are positively related to with speedy decisions
Westerberg et al. (1997)	Self-efficacy, tolerance for ambiguity, and need for cognition	Firm orientation and performance	CEO characteristics tended to have a considerable impact on firm performance and on firm orientation
Levy (2005)	Top management team attention patterns	Global strategic posture	Top management teams with external attention-orientation and external attention breadth are more likely to pursue expansive strategic posture
Olson et al. (2007)	Cognitive diversity and trust	Decision quality	Cognitive diversity has a strong negative relationship with commitment and decision quality. Affect-based and cognition-based trust, have moderating effects on cognitive diversity and decision outcomes.
Rau (2006)	TMT transactive memory	TMT perceptual accuracy	Transactive memory increases perceptual accuracy about environmental volatility
West (2007)	Collective cognition	Performance	New venture performance will be positively associated with moderate levels of differentiation and integration.
Kellermanns et al. (2008)	Mental model similarity and constructive confrontation	Decision quality	Mental model similarity and constructive confrontation improves decision quality. Constructive confrontation moderates the relationship between mental model similarity and decision quality

There are two other issues worth addressing further. Recently, certain studies have focused on the impacts of the group process and the information processing structure on decisional or organisational outcomes, which stress how well members of a TMT can utilise their cognitive capacity. Concepts of behavioural integration and transactive memory are most frequently referred to.

Behaviour integration was proposed by Hambrick (1994). This is a metaconstruct constituted by both two task dimensions and one social dimension. It includes the three components of information exchange, collaborative behaviour, and joint decision-making. It attempts to introduce dynamic group process into the static characteristics of a team as knowledge stock. There have been a few studies of its antecedents and outcomes. For instance, Simsek et al. (2005) found that the characteristics of the CEO (collectivistic orientation and tenure), team (goal preference and education diversity), and firm (performance and size) shape behavioural integration. Carmeli and Schaubroeck (2006) employed TMT behavioural integration to explain the quality of strategic decisions and organisational decline. They observed that higher behavioural integration generated better quality strategic decisions and was negatively related to organisational decline. In addition, transactive memory is more task-oriented, and includes two dimensions: the knowledge stock of team members and an awareness of who knows what (Rau, 2006). It refines our understanding of the use of a TMT's knowledge stock by adding the retrieving function, which is expected to improve task coordination and performance (Wegner, 1987). Rau (2006) found that a TMT's transactive memory increases perceptual accuracy about environmental volatility.

Secondly, besides decisional and organisational outcomes, some studies have suggested that some characteristics of CEOs and TMTs have an impact on SDMPs. For instance, Papadakis et al. (1998) and Papadakis and Barwise (2002) found that the characteristics of CEOs and TMTs have certain impacts on different dimensions of SDMP. Moreover, Talaulicar et al. (2005) found that the characteristics of TMT organisation and processes (debate and trust) significantly influenced the comprehensiveness of start-up decisions. In addition, Forbes (2005) observed that entrepreneurial self-efficacy also affects decision

comprehensiveness. Finally, Knight et al. (1999) found that TMT diversity negatively affects the strategic consensus formation. All the evidence supports managers as being one type of antecedent of SDMP.

In summary, the perspective of upper echelons emphasises that decision-makers can partially explain the variations of decisional and organisational outcomes besides environmental determinants and firm characteristics. It stresses the importance of managerial cognition and value in selective scans, perceptions, and interpretation of information (Hambrick and Mason, 1984). Empirical studies largely support this perspective of using both approaches of demographic characteristics and social psychological findings to measure managerial cognition and values. Recent progress discloses that besides managerial value and cognitive knowledge stock, group processes in TMT, including information change and social integration, also have significant impacts on the outcomes of strategic decisions.

3.4 SDMP studies

SDMP studies can be broadly classified into two types. The first attempts to depict the main phases of the decision process and the other stresses on the dimensions or characteristics of SDMP (Rajagopalan et al., 1993).

3.4.1 Basic phases of the strategic decision process

In order to understand the strategic decision process, scholars have made great efforts to identify major phases of the decision-making process and to categorise the strategic decisions. Based on Cyert et al.'s (1956) and Carter's (1971) studies, Mintzberg et al. (1976) proposed a general model to describe basic phases with subroutines. It consists of three main phases, which are the identification phase, the development phase, and the selection phase. In the identification phase, opportunities, problems, and crises arising from inside and outside of the organisation are recognised and identified, which evokes decisional activity. Then, different types of search, modification, or design behaviours are

involved in the development phase to find alternatives for the situation. The final phase of selection narrows down ready-made alternatives and selects one based on the evaluations of a few feasible ones. Eventually, it ratifies the one chosen one for action.

Mintzberg et al. (1976) emphasise that these phases are placed in logical order, and may not necessarily be sequential, since of them are cyclical and iterative, and and some routines cross several stages. Berresford and Dando's (1978) study confirmed this argument by finding that the various aspects of the process ran simultaneously and were certainly not independent of each other.

Besides Mintzberg et al's (1976) model, other scholars have also proposed similar frameworks to profile the strategic decision process. For instance, Aharoni (1966) suggested that strategic decision-making comprises three stages: (1) initiation and preliminary thinking; (2) investigation; and (3) evaluation and final decision-making. Shrivastava and Grant (1985) categorise strategic decision making process into two types of activities: problem-familiarisation activity and solution-building activity.

Some empirical studies have brought some meaningful insights by studying the main phases of organisational decision process. Fahey (1981) investigated eleven large multi-divisional firms on energy management to understand the interactions between the decision process and organisational structures. He suggests that intellectual/analytical and behavioral/political processes are involved in organisational strategy-making, which needs to be further explored integrally. Shrivastava and Grant (1985) also identified the learning process as supporting the strategic decision process. Larimo (1985) utilised the case study method to investigate the FDI decision process in five foreign manufacturing investments made by Finnish firms. By following Mintzberg et al.'s (1976) decision-making process framework, he found that the process was characterised by non-comparative investment analysis, acceptable level decision-making rather than maximisation behaviour, and multiple objectives as a guide to behaviour.

In sum, all the works referred to above concentrated on general processes of strategic

decision-making. In general, the results of empirical studies on the decision process indicate that the process involves not only a rationally analytical process, but also a behavioural process. Another stream of SDMP literature attempts to examine the impacts from characteristics or dimensions of SDMP (Papadakis, 1998; Dean and Sharfman, 1996; Bourgeois and Eisenhardt, 1988) on decisional outcomes. This approach enables scholars to study a large number of different strategic decisions on SDMP generic characteristics, and, to some extent, generalise their findings.

3.4.2 Characteristics or dimensions of SDMP

Decision rationality

The rational level involved in strategic decision-making is recognised as one of key dimensions of SDMP (Elbanna and Child, 2007). Procedural rationality and comprehensiveness are usually employed to measure the rationality in decision (Elbanna, 2006). Procedural rationality refers to “the extent to which the decision process involves the collection of information relevant to the decision, and the reliance upon analysis of this information in making the choice” (Dean and Sharfman, 1993a, p.589). It stresses the efforts of intended rationality during the decision-making process. Similarly, Fredrickson and Mitchell (1984, p.402) proposed the concept of “comprehensiveness”, indicating “the extent to which an organization attempts to be exhaustive or inclusive in making and integrating strategic decisions”. Besides exhaustive information collection and analysis efforts, it also stresses the integrative efforts of individual strategic decisions to overall organisational strategy.

Studies related to procedural rationality can be categorised into two types. One type concentrates on examining the relationship between rationality and decisional or organisational outcome, and the other focuses on the antecedents of rationality. Due to the research interest of this study, this review focuses on the former, although a brief discussion of the second type of study will be conducted in a later section.

Decision rationality and organisational outcomes

A rational decision process includes more complete situation information, intensive analyses, and objective judgment, which are expected to generate a high quality decision (Dean and Sharfman, 1996). Most of empirical evidence supports a positive relationship between decision rationality and decision effectiveness or organisational performance (Dean and Sharfman, 1996; Fredrickson, 1984; Goll and Rasheed, 1997). For example, both Jones et al. (1992) and Papadakis (1998) found that rationality was positively related to the performance or organisational effectiveness. However, conflicting results are observed when studies introduce the environmental contingency. For instance, Fredrickson and Mitchell (1984) found a negative relationship between the comprehensiveness of strategic decision processes and performance in an unstable environment, and Fredrickson (1984) also found that a positive relationship between comprehensiveness and performance exists in a stable environment. However, Bourgeois and Eisenhardt's (1988) study drew a different conclusion - that in the high velocity environments, the more analytic the strategic decision-making process, the better the performance of the firm. Dean and Sharfman's study (1996) indicated that environmental instability will moderate the positive relationship between procedural rationality and decision-making effectiveness, and this relationship becomes stronger in unstable environments than in stable environments. This also support Bourgeois and Eisenhardt's (1988) conclusion, and later evidence (Goll and Rasheed, 1997; Hough and White, 2003) also lends support to Bourgeois and Eisenhardt's (1988) stance.

Elbanna (2006) summarised several reasons to explain the contradictory results. The first reason for the differences in results may reside in the different industries studied in defining the velocity of environment. Fredrickson's (1984) study uses the forest product industry as an unstable environment while Bourgeois and Eisenhardt's (1988) research utilises microcomputers as a high velocity environment. Moreover, the different operationalisation of decision rationality may also contribute to the differences. As stated previously, the construct of comprehensiveness used by Fredrickson and Mitchell (1984) contains both analytical and integrative components, while procedural rationality employed by Dean and Sharfman (1996) only includes the analytical component. Finally, the

outcomes studied are operationalised at the decisional level and the organisational level. Fredrickson and Mitchell's (1984) study focuses on the effect of rationality on organisational performance, while the studies of Hough and White (2003) and Dean and Sharfman (1996) examine its effects on decision effectiveness and quality respectively.

Recently, scholars have attempted to address the relationship between the comprehensiveness of strategy process and certain content of decisions. Hendron and Fredrickson (2006) conducted a study to examine the link between the comprehensiveness of decision processes and types of strategic action. They concluded that the more comprehensive the decision-making norms in a firm, the more likely it is that the risks and costs associated will be identified during the decision process, and thus, the greater is the likelihood that incremental strategic actions will be pursued. Moreover, they also suggested that information source would affect the firm's strategic action. When a firm has the comprehensiveness norm, external information sources will be persuasive when recommending radical action. In addition, Hitt and Tyler (1991) found that objective criteria used in the rational decision process affect the strategic evaluation of acquisition candidates. However, Miller et al. (1988) did not find the proposed relationship between decision rationality and product innovation strategy.

Constraints of decision rationality-seeking

Although most results show that the comprehensiveness of the decision process has a positive impact on outcomes, there are criticisms of rationality-seeking in strategic decision-making. There are also criticisms of the feasibility of absolute comprehensiveness in decision-making. Several constraints in real decision-making situations have been identified to address the importance of balancing rationality and practicality. Firstly, due to cognitive limits in terms of bounded capacity of information collection and processing, it is generally difficult for decision-makers to pursue the best decision, rather than the "satisfying decision" (Cyert and March, 1963). Moreover, cognitive simplification or biases of cognition are likely to emerge when decision-makers face uncertain or complex situations. They also are expected to exert an impact in choosing the decision absolutely rationally (Schwenk, 1984; Hodgkinson et al. 1999). Besides cognitive issues,

comprehensiveness of the decision process also requires more resources to acquire necessary information or conduct intensive analyses, which place a requirement on organisation slack (Bourgeois, 1981), which is usually impossible for SMEs.

Conflict and consensus

Conflict is an important characteristic of strategic decision processes that receives a great deal of attention (Schwenk, 1995). It focuses on disagreements or dissensions among decision-makers (Papadakis et al., 1998), which is contradictory to consensus that stresses agreements. Besides their antecedents, studies of conflict or consensus in decision-making also examine their effects on organisational outcome, e.g. decision quality (Chen et al., 2005).

Conflict and organisational outcomes

One core organisational outcome that conflict studies examine is decision quality. There is a paradox between conflict and decision quality (Dooley and Fryxell, 1999). On the one hand, conflict increases interaction and exchange of information among decision-makers, which could improve decision quality, while on the other hand, serious conflicts will cause problems of decision acceptance and implementation, which could decrease performance of strategic decision (Amason, 1996). Several laboratory studies on decision-aids (Cosier, 1982; Schweiger et al., 1986; Schweiger and Sandberg, 1989; Schweiger et al., 1989) generally support Dialectical Inquiry (DI) and Devil's Advocacy (DA), which structurally introduce conflicts into the decision process, as generating better decision quality than the consensus approach. However, the consensus approach is likely to be associated with greater acceptance and satisfaction among decision-making team members (Wooldridge and Floyd, 1990).

In order to understand the function of conflict, Amason (1996) suggested dividing conflicts into cognitive conflict (functional conflict) and affective conflict (dysfunctional conflict). Cognitive conflict is task-oriented and focuses on judgmental differences about how best to achieve common objectives, which is supposed to improve decision quality (Forbes and Milliken, 1999). When conflict tends to be emotional and focused on personal

incompatibilities or dispute, it becomes affective conflict, which is deemed to decrease decision quality and acceptance. However, Ensley and Pearce (2001) found that cognitive conflict is positively related to affective conflict when studying new venture performances, and the group dynamic variable of strong cohesion can constrain the affective conflict during strategic decision-making.

Some studies have also indicated that conflict itself is not sufficient to produce a high quality decision, which depends on other contingent conditions. For instance, Dooley and Fryxell (1999) investigated a sample of 86 strategic decision-making teams in U.S. hospitals and found that only with perceived high-level loyalty and competence does conflict enhance decision quality in decision teams. Schwenk (1990) found that high conflict is associated with high decision quality only for the executives of not-for-profit organisations, but not for executives of for-profit organisations. Chen et al. (2005) surveyed 378 executives from 105 organisations in China and found that productive conflict enhanced management team effectiveness, depending on the conflict management approach, as a cooperative rather than a competitive conflict management approach promotes productive conflict in China.

Consensus and organisational outcomes

Another stream of studies focuses on the role of consensus or agreement of decision makers. Most studies have indicated that consensus is not related to high quality decision-making. As stated previously, laboratory studies (Cosier, 1982; Schweiger, Sandberg, and Ragan, 1986) reported that consensus in decision-making produces an inferior decisional outcome. Janis (1972) stated that high consensus in decision-making leads to groupthink. Schweiger et al. (1986, 1989) indicated that although consensus is important for group members' satisfaction and desire to continue to work together, a simple harmony-seeking approach is inferior to others with technically-structured conflicts (e.g. Dialectical Inquiry and Devil's Advocacy) in producing a high quality decision.

However, some scholars have different findings or hold different opinions on contingency. Bourgeois (1980b) investigated twelve non-diversified public corporations and observed

that top management consensus on both organisational goals and the means to achieve goals was positively related to economic performance, while agreement on goals without consensus on means correlates with poor performance. Consistent with this, Iaquinto and Fredrickson (1997) and West and Schwenk (1996) found that TMT (top management team) agreement on decision comprehensiveness had a positive impact on organisation performance. Priem (1990) suggests it is important to make the distinction between the consensus process and the consensus outcome. Disagreement (cognitive conflict) during the decision-making process is positively related to the group consensus outcome. In stable environments, higher levels of TMT consensus will be associated with good decision quality and performance, and in dynamic environments, cognitive conflict (low consensus) will be associated with high performance. Thus, the relationship between consensus and decision quality is curvilinear rather than linear.

In sum, from the evidence given above, it may be concluded that decision quality depends not only on aggregate levels of knowledge assets (diversity of knowledge background), but also depends on characteristics of the decision process. Cognitive conflicts are believed to encourage information exchange and generate more alternatives; however, affective conflicts caused by emotional and personal incompatibilities or disputes will decrease the decision quality. Effective conflict management in the decision process is critical (Chen et al., 2005). Consensus is largely found to be associated with satisfaction with and acceptance of the decision (Schweiger et al., 1986). Some evidence (Priem, 1990; Dooley and Fryxell, 1999) suggests that the relationship of cognitive conflicts/consensus and performance also depends on other contingent conditions. Some scholars (Kim and Mauborgne, 1995; 1998) implied that fairness in decision-making may be an effective way to solve the paradox of positive affective attitude and decision quality; however, Schweiger et al. (1986; 1989) argue that it is difficult to achieve a positive attitude and decision quality simultaneously.

Hierarchical centralisation of decision-making

Centralisation of decision-making is also one of most frequently used SDMP dimensions (Papadakis and Barwise, 2002) in SDMP studies, and emphasises the role of participation

in decision-making (Papadakis, 1998). Centralisation of decision-making refers to the concentration of authority or decision-making power in the decision-making (Wally and Baum, 1994). It is usually reflected by the level and relative amount of participation in decision-making in an organisation (Hage, 1980; Wally and Baum, 1994). There are both benefits and drawbacks to centralisation in decision-making. As for the benefits, firstly, it is expected to boost decision speed, as few people involved in a decision process reduce the chance of conflict, communication time for consensus building, and need for consultation (Pfeffer, 1981). Secondly, centralisation may also encourage top managers to be assertive, venturesome and proactive (Miller, 1987) because centralisation of decision power enables them make a choice without many challenges from different opinions. This is important in situations requiring quick responses. However, organisations also suffer losses from centralisation of decision-making. Firstly, it may decrease the rationality of decision-making. Centralised decision-making involving few people reduces the cognitive pool and information sharing, and thus decreases the possibilities for an analytical approach to and innovative ideas for problem-solving (Smith et al., 2006; Miller, 1987). Secondly, Eisenhardt and Bourgeois (1988) also found that political activities may arise from centralisation of the power of CEOs, which block information exchange and commitment.

Empirical evidence on the centralisation of decision-making and organisational outcomes

Empirical evidence shows that studies of the centralisation of decision-making focus on its effects on two organisational outcomes, decision speed and organisational performance. However, many conflicting results are obtained through examining prior findings. Centralisation is found to have both a positive impact and no impact on decision speed, and a positive, a negative, and no impact on organisational performance.

Regarding decision speed, Wally and Baum (1994) found that centralisation promotes the speed of strategic decision-making in studying 151 U.S. firms. Huber et al. (1990) also observed that centralisation is related to efficiency in doing things rather than effectiveness. He further found that centralisation of decision-making is more effective in

non-professionalised or manufacturing organizations than in professionalised or service organizations. However, Eisenhardt (1989) generally did not support the view that centralisation enhances decision speed, based on his findings from a multiple case approach. He argued that only with experienced counselors can centralisation increase decision speed. The possible reasons for this are that an experienced counselor accelerates the development of alternatives and helps decision-makers tackle the ambiguity associated with strategic decision-making.

Empirical evidence is more contradictory regarding the relationship between centralisation/decentralisation of decision-making and organisational performance. For instance, Papadakis (1998) found that decentralisation rather than centralisation of decision-making was positively related to profitability, return on assets, and return on sales, when he investigated Greek manufacturing firms' strategic decision-making. Singh (1986) supported this view, finding that a firm's performance has a positive relationship with decentralisation of decision making in his study of U.S. and Canadian firms. However, Miller (1997) failed to find this positive relationship between the decentralisation of decision-making and firms' success. Surprisingly, Baum and Wally (2003) found that the more centralised the firm' strategic management, the better the firm's performance of growth and profitability. They argued that centralised strategic management by a skilled TMT and decentralised operational management contributed to better performance. Smith et al.'s (2006) finding indirectly supported the possible positive effect of centralisation, and indicated that uneven power distribution among members of TMTs is positively related to a firm's performance.

There are several possible explanations for these contradictory results. Firstly, there is no uniform definition of or agreement as to the degree of centralisation/decentralisation (Baum and Wally, 2003), which may lead to different operationalisations of centralisation. Secondly, contextual conditions are largely ignored. National cultural effect is not considered. Hall et al. (1993) found that the Chinese organisations tend to use much more centralised decision-making than those studied in the United States. The environmental situation is likely to be ignored. Eisenhardt (1989) found that fast decision making is

associated with superior performance in volatile environments, which may imply that environmental conditions potentially contribute to the effectiveness of the centralisation of decision-making. Finally, the direction of causal relationship between the centralisation of decision-making and performance is not clear. For instance, it is not clear whether or not centralisation leads to poor performance or poor performance encourages the adoption of more centralised decision-making (Singh, 1986).

Political behaviour

Politicisation is also considered to be an important dimension of SDMP (Papadakis and Barwise, 2002; Elbanna, 2006). In reality, it is common to perceive political activities during strategic decision-making process (Dean and Sharfman, 1993b). Political behaviour refers to actions taken by executives to enhance their powers to influence decision-making, typically including private coalition formation, lobbying, withholding information, and controlling agendas (Pettigrew, 1973; Eisenhardt and Bourgeois, 1988). Eisenhardt and Bourgeois's study (1988) shows that politics are likely to arise from power centralisation. From the political perspective, the decision process is viewed as the resolution of competing preferences among decision-makers (Dean and Sharfman, 1993b; Eisenhardt and Zbaracki, 1992). There are three assumptions for the process, which are conflicting goals during decision-making; the final choice favouring the most powerful coalition; and people at least sometimes engaging in politics (Eisenhardt and Zbaracki, 1992).

As for politics and decision rationality, Fahey (1981) suggests that political behaviors are intertwined with rational analyses during the decision-making process. He indicates that conflicting views are likely to emerge in the phases of identification and early analysis of strategic options, which are associated with participants' different interests. This usually causes the delay in the decision process which may stimulate the formation of a coalition to forward the process. However, Dean and Sharfman (1993b) found that politics and procedural rationality are two independent dimensions during the decision-making process. They argue that they are conceptually distinctive and could coexist in strategic decision-making.

Political behaviour and organisational outcomes

Although some scholars (Daft, 1983) have argued that politics can be beneficial for rapid environmental adaptation, most prior studies show politics have a negative impact on decision effectiveness or firm performance. Studies from Dean and Sharfman (1996) and Eisenhardt and Bourgeois (1988) all suggest that the more politics is used in decision-making, the less effective is the decision or firm's performance. Walter et al. (2007) also report that politics negatively moderates the positive impacts of openness and procedural rationality on alliance performances, and simultaneously it also aggravates the negative impact of recursiveness on alliance performance. There is one exception, as Papadakis (1998) found no clear pattern between political behaviour and a firm's performance.

Possible reasons for the negative effect of political behaviours during decision-making are summarised as follows. Firstly, politics is usually associated with conflicts of an individual's or a group's goals with organisational goals and the resolution of this kind of conflict is time-consuming (Dean and Sharfman, 1996). Furthermore, it distracts executives' attention from external environments to inside power, and adds additional constraints to possible solutions. Moreover, restriction and distortion of information flow (Pettigrew, 1973) are likely to be used by managers or groups in politics to keep their power to influence decision-making. Finally, the stability of coalitions also distorts others' perceptions of options and dissipates their energy (Pearce and DeNisi, 1983).

Cognitive simplification and bias

As strategic decision-making requires substantial information process capabilities to deal with a great deal of situational information, scholars find that cognitive simplification - "heuristics" - is likely to result when information overload or decisional uncertainty occur (Hodgkinson, 1999). It is employed to reduce the burden of information processing. The dimension of SDMP is rooted in the literature of cognitive psychology. Schwenk (1984) listed a number of cognitive simplifications which may cause cognitive biases at each phase in SDMP.

Problem identification stage

Prior hypothesis bias

(1) Decision-makers tend to make decisions on the basis of pre-conceived erroneous beliefs despite abundant evidence in numerous trials that they are wrong; (2) Decision-makers usually overestimate the value of information which confirms their hypotheses and undervalue disconfirming information.

Adjustment and anchoring

Adjustments to present strategy are typically insufficient when decision-makers receive new negative information about a current successful strategy. Final estimates of values are biased toward the initial values.

Escalating commitment

Researchers have found that decision-makers, when committing significant resources to an investment project, tend to allocate more resources to the project if they receive more negative feedback on the project than positive feedback.

Reasoning by analogy

Decision-makers tend to apply analogies and images to guide problem definitions in order to reduce complexity and uncertainty in strategic decision-making (Steinbruner, 1974). However, the use of simple analogies may mislead the decision-makers into an overly simplistic view of the situation.

Alternative generation stage

Single outcome calculation

Decision-makers may focus on a single one of their goals or values and a single alternative course of action for achieving it when facing highly complex and uncertain decision environments.

Inferences of impossibility

Decision-makers deal with non-preferred alternatives through inferences of impossibility.

Denying value trade-offs

Decision-makers attempt to interpret the favoured alternative with several values simultaneously and have no costs associated with it.

Problem set

Repeatedly using one problem-solving strategy makes it more difficult to develop alternative strategies.

Evaluation and selection stage

Representativeness

Decision-makers tend to overestimate the extent to which a situation or sample is representative of the situation or population to which they wish to generalise.

Illusion of control

Decision-makers tend to have an illusion that the outcomes of a strategy are under their personal control and may assume that through additional effort they can make their strategy succeed when problems arise (Langer and Roth, 1975).

Devaluation of partially-described alternatives

Decision-makers tend to devalue the alternatives that are not fully described as they involve uncertainty for decision-makers (Yates et al., 1978). They tend to evaluate better described alternatives positively.

Schwenk's study mainly focuses on the contingent relationship between biases and each stage of SDMP. In contrast, Das and Teng (1999) conducted a study to examine the contingencies between four types of biases and five modes of strategic decision-making. They suggested that biases of prior hypotheses to decisions and the illusion of manageability were likely to occur in the rational mode of strategic decision. Prior hypotheses of decisions, exposure to limited alternatives, and insensitivity to outcome probabilities are likely to emerge in the avoidance of strategic decision mode. The illusion

of manageability and prior hypotheses to decisions are likely to occur in the modes of logical incrementalism and politics, respectively. Exposure to limited alternatives and insensitivity to outcome probabilities are likely to be observed in the 'garbage can' decision mode. More simplistically, Krabuanrat and Phelps (1998) categorised heuristics into 6 generic types: simplification, reference to past cases, imitation, risk aversion, satisfiying, and cooperation and found that these mental models were used in different strategic decisions.

Some studies have begun to examine ways to constrain these biases. For instance, Hodgkinson (1999) suggested that cognitive mapping may limit the damage from problem-framing biases. However, to date, most studies of bias or heuristics have been confined to experimental studies due to an inability to control a number of influential factors in the real settings of strategic decision-making. Moreover, the validity of these previous works and the impacts of cognitive biases are still under examination.

3.5 Antecedents of SDMP

In order to gain a greater understanding of SDMP, this review also gives a brief overview of the antecedents of SDMP. Besides the characteristics of CEOs or top managers presented in the section on decision-maker, prior studies also found that decision-specific, environmental, and firm characteristics affect SDMP (Papadakis et al., 1998; Papdakis and Barwise, 2002; Elbanna and Child, 2007).

3.5.1 Decision-specific characteristics

There are a few studies in this area (Elbanna and Child, 2007; Mintzberg et al., 1976; Papadakis et al., 1998; Papdakis and Barwise, 2002) that argue that the decision-specific factors may impact the decision process and sequential outcomes. Decision stimuli, decision importance, decision urgency, and decision uncertainty have been used to represent decision-specific characteristics, but little consensus has been achieved by prior

studies (Rajagopalan et al., 1993).

Decision stimulus

A few studies have focused on the impacts of decision stimulus on SDMP, which typically examine the effect of the nature of the decision on decision outcome.

Mintzberg et al. (1976) found that decision-makers may tend to initiate the decision process when an opportunity is matched with a problem. The manager is expected to search actively for opportunities when facing only mild problems. When problems escalate into crises, managers are fully occupied in dealing with emergencies. Fredrickson (1985) argued that the actions taken in making strategic decisions that are motivated by problems will be more comprehensive than those taken in response to opportunities. Managers tend to be cautious about the negative effects of problems on their organisations, and are more likely to conduct intensive analyses. As for opportunities, simply responding to these stimuli may ensure previously unexpected benefits. However, these arguments were confirmed by investigating MBA (master of business administration) students, rather than experienced managers. Thomas (1984) further explained the relationship between stimulus and comprehensiveness. He argued that comprehensive SDMPs are activated by crises or opportunities far less often than by problems. This is because problem situations require corrective measures, whereas opportunities may not require much problem definition, since only the improvement of existing conditions is sought. On the other hand, crises may induce temporal and cognitive pressures, which in turn discourage formal diagnosis.

However, Papadakis et al. (1998) did not find that the nature of decision (threat/crisis) was related to the comprehensiveness of decisions. Dean and Sharfman (1993a) even found that competitive threat (problem) is negatively related to procedural rationality. Moreover, the result from Larimo's study (1995) on Finnish firms' FDI decisions shows a contrast to the findings in several U.S. studies, as the FDI decisions were in the majority of cases triggered by different types of opportunities, not by problems, in the target country of the investment.

Other decision-specific factors

Other decision-specific factors include urgency of decision-making, uncertainty of decision-making, and importance of decision-making.

Decision urgency

Regarding the timing of decision-making, Bourgeois and Eisenhardt (1988) suggested that in high velocity environments, the shorter the time frame in which strategic decisions were made, the better the performance of the firm. The possible explanation for this is that a rapidly-changing environment leaves no room for a wait-and-nurture strategy. At same time, effective management team can make and implement decisions quickly. Fredrickson and Mitchell (1984) argued that the unstable environment required decision speed and flexibility. Speed enables fast and low-cost actions to exploit or overcome a changing list of opportunities and threats. Talaular et al. (2005) suggested that start-up decision made considerable demands on the comprehensiveness and speed of strategic choices in high-velocity environments.

Decision uncertainty, importance, and complexity

Regarding decision uncertainty and importance, Dean and Sharfman (1993a) found that the uncertainty of strategic decision was quite strongly related to procedural rationality. However, the importance of decision-making was not found to be related to procedural rationality in the study. Papadakis and Barwise (2002) drew the opposite conclusion from their study based on 70 strategic decisions in Greece, and the result shows that the magnitude of the impact of the decision appears to be a strong explanatory variable of decision comprehensiveness, hierarchical decentralisation, and lateral communication in the decision process. The findings of other scholars (Elbanna and Child, 2007; Papadakis et al., 1998) further supports Papadakis and Barwise's (2002) result by observing that decision specific characteristics including decision importance, decision uncertainty, and decision motive influence the decision rationality more significantly than environmental factors.

In addition, it is also suggested that decision complexity affects the strategic decision

process. Fahey (1981) studied energy management decisions among various firms and argued that the decision process was dependent on the complexity of the decision. Hodgkinson et al. (1999) and Schwenk (1984) found that decisions associated with complexity and uncertainty are also related to the use of heuristics in the decision process. In order to cope with the complexity and uncertainty of strategic decision, strategic decision-makers employ a variety of heuristics which enable them to cope with complex and uncertain information during the decision process.

In general, the association between decision-specific factors and strategic decision-making process was largely identified and confirmed by prior studies. The findings given above show that the characteristics of the strategic decision itself have a considerable impact on the decision process. However, the results of empirical studies on each decision-specific characteristic are far from consistent.

3.5.2 Environmental and organisational effects

Strategic decision-making is expected to be affected by the environmental and organisational characteristics which exert contextual constraints on it (Jemison, 1981; Papadakis et al., 1998).

Environmental influences on strategic decision-making

Strategic decisions and organisational processes are considered to be the adjustment of organisations to match opportunities, threats, constraints, and other characteristics of the environment (Hitt and Tyler, 1991). There are quite a few studies examining the impact of environmental conditions on SDMPs.

The effects of environmental uncertainty

Fredrickson and Mitchell (1984) found that environmental uncertainty moderates the relationship between decision comprehensiveness and performance. A negative relationship was found between the comprehensiveness of strategic decision processes and performance in an unstable environment, while a positive relationship was found in a stable environment (Fredrickson, 1984). However, Bourgeois and Eisenhardt (1988) found

that the moderating effects of environmental uncertainty were different. They argued that in high velocity environment, the more analytic the strategic decision-making process, the better the performance of the firm. Dean and Sharfman's study (1996) also supported Bourgeois's conclusion that rationality-performance relationship would be stronger in unstable environments than in stable ones.

It is also suggested that environmental uncertainty affects managerial perceptions and interpretation of information during the decision-making process. Levy (2005) suggests that in a dynamic environment, managerial attention plays a much more crucial role in shaping strategic choice for a firm's direction. Moreover, Carpenter and Fredrickson (2001) found that environmental uncertainty adjusted the relationship between heterogeneity of top management teams and global strategic posture. In addition, Iaquinto and Fredrickson (1997) suggested that firms in a stable environment were likely to achieve TMT agreement about the comprehensiveness of the strategic decision process than those in an unstable one. Finally, Hitt and Tyler (1991) suggested that industry characteristics not only directly affected target firm evaluations, but also moderated the relationship between objective criteria and the strategic evaluation of acquisition candidates.

Besides environmental uncertainty, Papadakis et al. (1998) and Elbanna and Child (2007) argued that the level of environmental munificence also affected the strategic decision-making.

Impacts of cultural characteristics

Cultural factors become salient when a firm makes strategic decision in an international context. Eisenhardt and Zbaracki (1992) also suggested that more SDMP studies should be conducted in a cross-cultural setting, as notions of priority and group dynamics vary in different cultures. Kosaka (2004) observed that Japanese companies present a high mimetic pattern to other Japanese companies in the same industry and argues that this may be explained by the high collectivity culture in Japan. Dimitratos et al. (forthcoming) systematically studied how national cultural characteristics affect the SDMP. The findings indicated that hierarchical decentralisation is related to power distance, while formalisation

is associated with uncertainty avoidance. Olson et al. (2007) suggested that the collective Chinese culture will negatively impact on the relationship of cognition diversity and decision quality, which is significantly different from results of studies carried out in western cultures (Amason, 1996; Miller et al., 1998).

Organisational effects on strategic decision-making

Prior studies have identified that organisational structure, firm size, and performance may affect SDMPs (Papadakis et al., 1998; Elbanna and Child, 2007).

Organisational structure

Traditionally, strategy theories support that organisational structure follows strategy; for instance, Chandler (1962) found that associated with major increases in unit volume, geographic dispersion, and vertical and horizontal integration, organisational structural form were eventually changed. However, relatively little attention has been paid to organisational structure as an inhibitor or facilitator of strategic change (Fahey, 1981).

March and Simon (1958) suggested that organisational structure impacted on strategy formulation by delimiting the responsibilities and communication channels which enable organisations to achieve rational outcomes. Moreover, Fredrickson (1986) suggested that organisational structural complexity, formation, and centralisation will impact on the strategic decision process. For instance, structural complexity will introduce conflicts and political behaviour, and decrease the comprehensiveness of the decision process. In addition, Miller et al (1988) suggested that structural formalisation and integration, but not centralization, were positively associated with strategy-making rationality. Shrivastava and Grant (1985) summarised four types of organisational learning systems and argued that different characteristics of these systems would have an impact on SDMP.

Other studies (e.g. Wally and Baum, 1994) also focused on how organisational structure affects decision speed. They suggested that the more centralised a firm's decision-making structures are, the faster the pace at which executives will evaluate an acquisition candidate and the more formalised a firm's decision-making structures, the slower the pace at which

executives will evaluate an acquisition candidate.

Impacts of firm size and performance

Besides the organisational structure, other organisational factors, including organisational performance and firm size have also been observed to influence strategic decision-making.

Fredrickson (1985) argued that organisational performance had a dual effect on the strategic decision process. On the one hand, a high level of performance produces slack resources that provide sufficient resource bases for extensive information search and elaborate analyses during the decision-making process. However, firms usually do not use slack resources to pay the costs of seeking optimal solutions, instead of simply obtaining satisfying solutions. Similarly, Cyert and March (1963) suggested that increased slack decreases the intensity with which organisations will “search” for information. Consistent with that argument, both Fredrickson (1985) and Papadakis et al. (1998) found that that past performance had a negative effect on the comprehensiveness of the strategic decision-making process. Moreover, past performance is also expected to impact on the TMT’s attitude to the comprehensiveness of SDMP. Iaquinto and Fredrickson (1997) argued that there was a positive relationship between a firm’s past performance and TMT agreement about the comprehensiveness of the strategic decision process.

Mintzberg (1973) argued that organisational size affected the nature of a firm’s strategic decision-making process, but the results of empirical studies are contradictory on this issue. Fredrickson and Iaquinto (1989) found that change in organisational size had a positive impact on the change in comprehensiveness. They argued that a comprehensive process required sufficient resources for the activities of searching widely for information, conducting extensive analyses, and using a formal planning process. Furthermore, as organisations grow, specialisation of organisational structure is usually adopted, which is likely to increase planning staff, sophisticated information systems, and formal controls. All these encourage an increase in rationality in decision-making. However, increased organisational size is likely to negatively impact on the agreements of TMT members on decision comprehensiveness (Iaquinto and Fredrickson, 1997). Because specialisation will

probably reduce the likelihood that members of the TMT will share common perceptions of a situation due to the heterogeneity of their functional background, it is worth noting that Dean and Sharfman (1993a) did not find a significant relationship between size and rational procedures, in contrast to Fredrickson and Iaquinto's (1989) findings.

3.6 Conclusions

From the two main theoretical fragments of SDM (decision-maker and decision process) reviewed above, it may be concluded that SDM literature is emerging from normative analysis into a more realistic stage (Dean and Sharfman, 1993a). Many elements from different disciplines have been introduced into the domain, typically including contributions from behaviour theory, political science, and cognitive psychology.

Based on the reviewed literature, it is suggested that both decision-maker and decision process have direct or indirect effects on the outcome of decisions. According to the upper echelon theory, besides a cognitive base, managerial values play a critical role. They exert their influence directly on the final selection, and indirectly through information scan, selection, and interpretation (Hambrick and Mason, 1984). Moreover, the decision process is also important to the decision outcome. A great number of decisional elements associated with the decision process, including information provision, information exchange, information analysis, social interaction, and power, are all believed to have an impact on the decision outcome (Rajagopalan, et al. 1993). Prior studies have provided fruitful information by studying the impact of dimensions or characteristics of SDMP on various decision outcomes. Finally, it is also necessary to realise that SDM is also culture-bound and that cultural characteristics will exert an overt influence on the decision-maker and decision process.

Chapter 4: Understanding Unique Cultural Traits of Chinese Business Decision-makers: the Confucian Values

4.1 Introduction

China has been experiencing rapid economic growth for more than 30 years, since launching the “open door” and reform policies. With recent WTO (world trade organization) entry, China has not only played an important role as a significant FDI recipient, but has also emerged as an increasingly important source of outward FDI (Buckley, et al. 2007; Yiu, 2007). Chinese firms have adopted a variety of modes to enter the international market. An essential step to understand Chinese managerial behaviours in international entry mode decisions is to understand the unique characteristics of Chinese culture, especially Confucian values (Robertson, 2000; Ralston et al., 1999).

National culture has continuously attracted great attentions from scholars in the domains of international business and cross-cultural management since last century. It has been recognised as an important environmental force in shaping systematic similarities and differences in organisational attitudes and behaviours during the process of internationalisation (Leung, et al. 2005; Steenkamp, 2001). Cultural norms, values, and beliefs are believed to have certain influences on a manager’s perception, disposition, and behaviours (Ralston et al. 1997). Cultural effects underlie managerial preferences for attention allocations, the interpretation of information, and responses (Tse et al., 1988) in making management decisions. The results of empirical studies show that national culture impacts on various aspects of management, including international entry mode decision (Kogut and Singh, 1988; Shane, 1993), partner selection (Zutshi and Tan, 2008), negotiation (Ghauri and Fang, 2001; Luo, 1999), justice and employee outcomes (Begley et al., 2002), managerial control (Chow, Shields, and Wu, 1999), leadership (Dorfman et al., 1997; Casimir and Waldman, 2007), strategic orientation (Hitt and Dacin, 1997), venture creation decision (Mitchell et al., 2000), conflict management (Chew and Lim, 1995),

and business relationships (Romar, 2004).

Although national culture is a crucial aspect of understanding organisational behaviours in internationalisation, its complexity and breadth make it difficult to operationalise and measure. Scholars have been puzzled as to how to extract a few key features of culture to enable comparisons among different cultures. There has been a certain progress over the past 30 years. Hofstede (1980a) introduced a cultural dimensions approach to conceptualise and measure key characteristics of national culture, which has become a benchmark for cross-cultural study. Quite a few other frameworks have been proposed by other scholars (Schwartz, 1994; Schwartz and Sagiv, 1995; Inglehart and Carballo, 1997; Inglehart and Baker, 2000; Chinese Culture Connection, 1987; House et al.; 2004) based on varied stances and samples. Besides different classifications of cultures, scholars (Singelis, 1994; Triandis et al., 1988) are also aware of the importance of different levels of analysis and have attempted to transform societal-level cultural patterns into the individual level of analysis.

It is therefore necessary to conduct a review of main theoretical frameworks, literature of Confucian values, and progress of individual level analysis in order to introduce Confucian values appropriately at the individual level into international entry mode study. This literature review serves this study in four ways. Firstly, it examines the main extant cultural frameworks that could offer solid theoretical foundations. Secondly, it examines the limitations of prior studies linking home cultural characteristics and international entry mode decision, which clarifies the directions that will be explored in this study. Moreover, the study will review and evaluate the origin, content, and extant studies of Confucian values, which provide direct theoretical and empirical justifications for the study. Finally, the progress of individual-level and intra-cultural studies are also discussed, which provide a practical basis for the study.

In order to achieve the above goals, this literature review is organised as follows. Firstly, there is a review and evaluation of the dominant cultural framework proposed by Hofstede (1980a), and a brief look at other cultural models suggested by Schwartz (1992,

1994), GLOBE (global leadership and organisational effectiveness) (House et al., 2004), and Inglehart and Baker (2000). Then, there will be a critical examination of the limitations of prior studies on the impact of home cultural characteristics on international entry mode choice. After this, in order to understand Chinese managerial cultural values, the Chinese Value Survey (Chinese Culture Connections, 1987) and its criticisms will be examined. To clarify issues arising from the criticisms, there will be a review of the literature of Confucianism and comparisons will be made between this and the results of Chinese Value Survey. The final part will examine the progress of individual-level studies and intra-cultural studies.

4.2 Major frameworks of culture

4.2.1 Definition of culture and cultural values

There is no general agreement on the definition of culture (Javidan et al., 2006), and even the recent GLOBE project did not reach an agreement on this issue (House et al., 2002). Culture is an elusive concept and hard to define (Triandis et al., 1986). Scholars tend to give definitions reflecting their own disciplines.

Various definitions can be obtained from past studies; from a very broad definition of culture as the human-made component of the environment (Herskovitz, 1955), to a less comprehensive one of culture as ‘values, beliefs, norms, and behavioral patterns of a national group’ (Leung et al., 2005, p.357), to very specific one, that ‘culture is a shared meaning system’ (Shweder and Levine, 1984, p.110). In order to improve our understanding, Bodley (1994) summarised many definitions of culture and classified them according to different facets of culture, as illustrated in Table 4-1.

As Hofstede’s study was based on work-related values, his definition is the most relevant one to this study. He defined culture as “the collective programming of the mind that distinguishes the members of one human group from another” (Hofstede, 1980a, p.25). It is emphasised in the core contribution of his work in terms of the extent of shared or

differentiated value system defines human groups. Ajiferuke and Boddewyn (1970) supplemented this definition by adding the dynamic element to it and suggested that culture refers to those beliefs and values that are widely shared in a particular society at a specific point in time. The critical point of their definition is that cultural changes occur over generations.

Table 4-1: Summary of definitions of culture

Topical	Culture consists of everything on a list of topics, or categories, such as social organisation, religion or economy
Historical	Culture is social heritage, or tradition, that is passed on to future generations
Behavioral	Cultural is shared, learned human behaviour; a way of life
Normative	Culture is ideals, values, or rules for living
Functional	Culture is the way humans solve problems of adapting to the environment or living together
Mental	Culture is a complex of ideas, or learned habits, that inhibit impulses and distinguish people from animals
Structural	Culture consists of patterned and interrelated ideas, symbols, or behaviors
Symbolic	Culture is based on arbitrarily assigned meanings that are shared by a society

Source: Bodley (1994, p.9)

Following on from Hofstede's work (1980; 1991), major frameworks (e.g. Schwartz, 1994; Chinese Culture Connections, 1987) tend to generate cultural values from the ecological factor analysis based on individual values in classified national groups. *Ecological factor analysis* is a procedure that uses a principal factor analysis on standardised culture means for each value in the instrument for each of the participating countries (Hofstede, 1980a; Chinese Cultural Connection, 1987). The term 'ecological' indicates 'something operating at the system level' (Hofstede et al., 1993, p.484). To date, generally accepted cultural values in a society are viewed as being "to do with general preferences as to what is good or bad, how things should be" (Browaeys and Price, 2008; p.4), which is consistent with the claim that "average value priorities of societal members point to the underlying cultural emphases" (Schwartz, 2006, p.142). Cultural values imply preferences or aversions taken for granted in society (Browaeys and Price, 2008).

4.2.2 Major culture frameworks

Based on the different operating definitions, a few frameworks of national culture, including Hofstede's (1980a) seminal work, have been proposed by anthropologists, social psychologists, and management scholars. A varied number of dimensions were suggested by these frameworks to classify and compare cultures. However, certain differences also exist among the frameworks.

Hofstede's dimensions

Hofstede (1980a) conducted a consulting project for IBM (International Business Machines) during two different time periods, between 1967 and 1979 and between 1971 and 1973. A total of around 116000 questionnaires containing 32 work-related value statements in 20 languages were allocated to employees of IBM's subsidiaries in 72 countries. Data from 40 countries that had more than 50 responses each were analysed by using the ecological factor analysis approach. Later, he expanded his data to 53 countries and regions.

Four distinctive dimensions explaining large inter-country variations were extracted; these were labelled 'power distance', 'uncertainty avoidance', 'individualism/collectivism', and 'masculinity/femininity'.

(1) ***Power distance*** is defined as "the extent to which the less powerful members of organisations and institutions (such as the family) accept and expect that power is distributed unequally" (Hofstede, 2004, p.62).

(2) ***Uncertainty avoidance*** deals with "a society's tolerance for ambiguity" (Hofstede, 2004, p.62). It emphasises the extent to which people in a society feel uncomfortable or comfortable with situations of uncertainty and ambiguity (Ng et al., 2007).

(3) ***Individualism/Collectivism*** creates a bipolar continuum. Individualism indicates "a loosely knit social framework in which people are supposed to take care of themselves and

of their immediate families only”, while, on the contrary, collectivism is “characterised by a tight social framework in which people distinguish between ingroups and outgroups; they expect their ingroup to look after them, and in exchange for that they feel they owe absolute loyalty to it” (Hofstede, 1980b, p.45).

(4) ***Masculinity/Femininity*** builds another bipolar continuum. Masculinity is defined as “a situation in which the dominant values in society are success, money and things”, while femininity is described as “a situation in which the dominant values in society are caring for others and the quality of life” (Hofstede and Bond, 1984, pp.419-420).

Hofstede and Bond (1988) added a fifth dimension - Confucian Dynamism or long-term time orientation/short-term time orientation, based on the work of the Chinese Value Survey (Chinese Culture Connection, 1987). The dimension is unfamiliar to western scholars and remains controversial (Fang, 2003). It will be discussed in details in the later section on Confucian values.

Assessment of Hofstede’s work

No doubt, Hofstede’s work provided a systematically operational approach to classify and compare national cultures on a large scale for the first time. Increasing attention has been paid to the effects of national culture and cross-culture management subjects since Hofstede’s publication (Trompenaars, 1993). The four-dimensional framework is the most widely cited of similar frameworks, according to Social Science Citations (Kirkman et al., 2006), due to its parsimony and applicability. Its reliability and validity have been widely examined, mainly by three methods, by Hofstede and other scholars.

(1) The first method is to make replications of the framework at different times or by using different samples. Hofstede (1983) replicated and extended his work to 53 countries or regions, and the validity of the four-dimensional framework was still found. Søndergaard (1994) reviewed results of 61 replication studies based on Hofstede’s framework, and found that most study results confirmed the cultural differences predicted by Hofstede’s work. Van Oudenhoven (2001) conducted a study based on 800 advanced

students in the business, management, and economics disciplines to cross-validate Hofstede's classification, and the results provided considerable support for Hofstede's four dimensions.

(2) The second method is to test consistencies with other, similar frameworks when samples overlap. Hofstede and Bond (1984) analysed Ng et al.'s study (1982) based on a modified version of Rokeach's value survey, and indicated that each of Hofstede's dimensions could be identified by Ng et al.'s data. The Chinese Culture Connection (1987) also found that three out of the four dimensions discovered by the Chinese Value Survey were significantly correlated to the dimensions of individualism/collectivism, power distance, and masculinity/femininity. Steenkamp (2001) employed factor analysis to examine four of Hofstede's dimensions and the seven Schwartz cultural domains for 24 countries included in both studies (Hofstede, 1991; Schwartz, 1994), and indicated that three of Schwarz's dimensions and two of Hofstede's dimensions were loaded on the first dimension generated from the analysis, with the third and fourth emerging factors being related to Schwartz's mastery dimension and Hofstede's masculinity dimension, and Schwartz's harmony dimension and Hofstede's uncertainty avoidance, respectively. Schwarz (1994) and Smith et al. (2002) also reported that Hofstede's four dimensions are fully and partially related to Schwartz's dimensions.

(3) The finally approach is to link the four dimensions with societal or national level indicators including GNP (gross national product) per capita and income inequality among countries. Hofstede and Bond (1988) indicated that individualism and national wealth (GNP per capita) are quite strongly related and the proportion of GNP allocated to foreign aid has a negative link with masculinity, while long-term orientation is related to economic growth.

Although Hofstede's framework has been widely validated, recently, increasing criticisms of the framework have emerged (McSweeney, 2002; Javidan et al., 2006; Smith et al., 2002). These are as follows.

- The concern of IBM sponsorship

The survey that Hofstede conducted was not initially designed to understand national culture; rather, it was largely based on IBM's needs and interests, and hence may not cover all relevant issues and include all relevant questions in the instrument (Javidan et al., 2006; Drogendijk and Slangen, 2006). Moreover, generally it was not a theory-driven study and the framework emerged from the data, which also increases the possibility of missing other dimensions, with the addition of the fifth dimension being an example of this (Javidan et al., 2006).

- The problem of the representativeness of the respondents

Hofstede took IBM employees as the study sample, which could be an advantage for the study in that it controlled the effects of the demographic variables of informants across countries; however, it also led to the problem of representativeness. Many scholars (McSweeney, 2002; Drogendijk and Slangen, 2006; Smith et al., 2002; Ng et al. 2007) have challenged the point that the sample used by Hofstede is not representative of the population in the respective countries, especially less-developed countries, and thus may contain certain biases in generating dimensions. Moreover, the sample size in some countries was only a little more than 50 (58 for Singapore), and it is doubtful that such a small sample can represent the national population (McSweeney, 2002).

- The neglect of intra-cultural variations

McSweeney (2002) criticised the ecological method that Hofstede took in generating dimensions on the grounds that it was based on the assumption of either the existence of national uniformity or that the average tendency of the IBM sample is also the national average tendency. IBM survey results rejected the assumption of uniformity and Hofstede failed to prove the latter.

- The concern of equivalence of item meanings across cultures

As respondents were from different cultures, it is not clear whether they understood the items in the same way (Steenkamp, 2001). Respondent bias may have resulted if equivalent items in different cultures were not provided.

Besides the above criticisms, Hofstede's work was also challenged due to outdated data collection and analysis techniques (Ng et al., 2007; Javidan et al., 2006). Specifically, the primary data of the work were obtained between 1967 and 1973, and significant cultural changes have occurred in some countries, e.g. the new generations of Chinese managers are reported to be more individualistic (Ralston, et al., 1999), which casts doubts on the applicability of his dimensions in these altered situations. Furthermore, the number of cases in a societal-level factor analysis is the number of societies, and it has been considered risky on Hofstede's (1980a) part to conduct a factor analysis of 32 items with only 40 cases (Javidan et al., 2006).

Other scholars' frameworks

There are other frameworks of national culture, particularly Schwartz's framework, the GLOBE project, and Inglehart's study.

Schwartz's work

Schwartz's work takes human values as playing the key role in national cultures (Schwartz, 2006; Schwartz and Sagiv, 1995). Schwartz (1992, 1994) systematically studied individual values based on three universal requirements for all individuals and societies, which are individuals' biological needs, society's requisites of coordinated social interaction, and groups' demands of group functioning. Schwartz (1994) surveyed 97 samples consisting of 25863 respondents in 44 countries between 1988 and 1993. He used 45 of the value items in the analysis, as they were found to have consistent meanings across cultures at the individual level.

In the culture-level analysis, three bipolar dimensions were found, which are embeddedness versus autonomy, hierarchy versus egalitarianism, and mastery versus harmony (Schwartz, 2006). In the individual-level analysis, Schwartz (1994) found that individual level values were organised along two basic dimensions, termed 'openness to change/conservation', and 'self-enhancement/self-transcendence'. Ten value types, in terms of power; achievement; hedonism; stimulation; self-direction; universalism; benevolence; tradition;

conformity; and security were also identified as lower order value dimensions.

GLOBE project

The GLOBE project is a collaborative effort of 170 international researchers to understand the impact of culture on leadership, organisational process, and effectiveness (House et al. 2004; House et al., 2002). The project attempted to distinguish values ('what should be') and practices ('what is' or 'what are') (Javidan et al., 2006). It collected data from 17000 managers in 951 local organisations in three industrial sectors, including food processing, finance, and telecommunications in 62 societies all over the world. Nine cultural dimensions were proposed and confirmed by confirmatory factor analysis, including uncertainty avoidance, power distance, institutional collectivism, in-group collectivism, gender egalitarianism, assertiveness, future orientation, humane orientation, and performance orientation.

Inglehart's study

Inglehart's work focuses on answering the question of whether economic modernisation and globalisation will lead to global cultural convergence (Inglehart and Baker, 2000) or have little impact on the traditional values. His ongoing World Values Survey project was conducted during the periods of 1981, 1990 to 1991, 1995 to 1996, 1999 to 2001 and 2005 to 2007. A total of 257000 respondents participated in the project in more than 80 countries, covering almost 85 percent of the world's population.

Two dimensions emerged from analysing aggregated national-level data, which explain large and consistent cultural differences across countries. These are traditional versus secular-rational orientations; and survival versus self-expression orientations (Inglehart and Carballo, 1997). However, the most important point of the study is the discovery of both cultural change and the persistence of distinctive traditional values among 38 societies over time. Economic development and industrialisation bring a pervasive cultural change from traditional to secular-rational values, and at the same time, the fact was also found that historical cultural heritage left by Protestantism, Confucianism or Islam still exerts a persistent effect on a country's subsequent development (Inglehart and Baker, 2000).

Implications of other frameworks for Hofstede's work

Other frameworks also contain certain limitations (Hofstede, 2006); however, different approaches and emphases may bring meaningful implications to Hofstede's work.

Firstly, Schwartz's approach has two implications for Hofstede's work. To begin with, Hofstede (1980a) insists that the level of analysis of cultural values is meaningful only at societal level. However, based on the works of Kluckhohn and Strodtbeck (1961) and Rokeach (1973), Schwartz's approach employs both social psychological and anthropological perspectives to study human values at both individual and societal level. Additionally, Schwartz (1994) was aware of the importance of consistency of item meanings in the survey instrument across cultures, which is a void for Hofstede's work (Steenkamp, 2001).

Secondly, GLOBE distinguishes values ('should be') and practices ('as is'), while Hofstede's work only focuses on the former. In addition, the GLOBE project is based on prior studies and is thus more theory-driven, while Hofstede's dimensions are criticised as being more data-driven (Javidan, et al., 2006), as the data are derived from a survey of IBM employees. Finally, GLOBE employed more advanced multi-level CFA (confirmatory factor analysis) to examine the construct reliability and validity, while Hofstede only employed an EFA (exploratory factor analysis) method to generate latent factors from data.

Finally, although the three aforementioned frameworks enrich our understanding of national culture, their dimensional approach mainly reflects a functionalist perspective (Fang, 2006). Inglehart's study examines whether or not economic modernisation contributes to the changes of cultural values. It reveals a dynamic model through a longitudinal perspective and confirms the view that cultural values can change (Inglehart and Baker, 2000), in contrast to Hofstede's relatively static model.

The summary of these frameworks

Hofstede's dimensional approach enabled scholars to classify and compare national cultures for the first time. By following Hofstede's pioneering work, great progress has

been made by Schwartz, GLOBE's researchers, Inglehart, and other scholars, to advance our understanding of culture. These frameworks complement and also compete with Hofstede's widely accepted framework. Schwartz's (1994) model builds on a strong theoretical conception of human values, and enables analysis at both individual and societal levels. GLOBE (House et al., 2002; 2004) expands cross-cultural studies by adding practice to the existing value approach, and it also employs a more advanced statistical technique. Inglehart's (1990) work emphasises the changeable aspects of culture. To date, however, Hofstede's (1980; 1991) framework is the model most tested for its validity and reliability due to its first-move advantage, parsimony, and applicability. Hofstede's data were drawn from business participants and may help assuage the concerns of business or management researchers' queries as to suitability of application. Key issues related to these four frameworks are summarised in Table 4-2.

Table 4-2: A summary of the main cultural frameworks

	Hofstede's framework	Schwartz's model	GLOBE project	Inglehart's framework
Cultural dimensions	Power distance; Uncertainty avoidance; Individualism/collectivism; Masculinity/femininity.	Embeddedness/autonomy; Hierarchy/egalitarianism; Mastery/harmony.	Uncertainty avoidance; Power distance; Institutional collectivism; In-group collectivism; Gender egalitarianism; Assertiveness; Future orientation; Humane orientation; Performance orientation	Traditional/secular-rational orientation; Survival/self-expression orientation.
Main Purposes of the study	To identify national cultural differences	Attempt to identify universal individual values and their structure, and identify cultural differences	To identify the cultural impact on leadership, organisational process, and effectiveness	To examine the impact of economic modernisation on cultural values change.
Studying Sample	IBM employees	Mainly teachers and students	Middle-level managers	Adult population (18 years old and over)
Analysis technique	Ecological factor analysis	Smallest Space Analysis	Confirmatory factor analysis	Ecological factor analysis
Unit of analysis	Only cultural level	Both cultural and individual level	Both cultural and individual level	Both cultural and individual level
Main Advantages	Parsimonious; Pioneering framework and the most cited; Widely validated effectiveness	Strong theoretical foundations and systematical individual value searching; Not limited to work-related values; Enables cross-level analysis; Relatively new data	Distinguishing values and practices; Building on past theories; Enabling cross-level analysis; Relatively new data	Parsimonious; Dynamic model; Revealing that culture can be learned; Large scale and ongoing project and data are new; Enables comparisons values between less developed and developed nations.
Main Limitations	Lacks theoretical foundations in studying values; Data only from one multinational company; neglect of intra-cultural variations; Relatively old data; Not clear on equivalence of item meaning across culture.	Validity of Schwartz's framework has not yet been widely proved	The validity has not widely proved; Too many dimensions and make it difficult to apply.	Suitable for sociological or political studies and unclear as to its applicability into other disciplines.

Source: Based on Hofstede's (1980a) framework;

Summary of section 2 (due to limitations of space, the relevant references may be found throughout section 2).

4.3 The limitations of the applications of Hofstede's findings in prior international entry mode studies

4.3.1 The effects of home culture in prior studies of international entry modes

Scholars have long been aware of cultural impacts on managerial attitudes in international entry mode decisions (Kogut and Singh, 1988; Shane, 1993; Erramilli, 1996). Two aspects of cultural effects, those of national cultural characteristics of home base and cultural distance have been most widely addressed (Brouthers and Hennart, 2007; Kirkman et al., 2006). Here only the prior studies examining the effects of home cultural characteristics on international entry mode are reviewed due to the research interest of this study. Intensive reviews of the role of cultural distance in cross-cultural management have been made by Tihanyi et al (2005) and Shenkar (2001). Scholars employ national cultural characteristics mainly to address institutional imprints on managerial attitude to risk and control for international entry mode decision (Kogut and Singh, 1988; Shane, 1993). This approach assumes that firms may have certain preferences or dislikes in the matter of international entry mode choice that are consistent with their cultural traits.

Through a review of the impacts of cultural characteristics in the prior studies of international entry mode (Table 4-3), mainly based on recommendations from Brouthers and Hennart (2007) and Kirkman et al. (2006), several interesting patterns on the effect of national cultural characteristics can be seen. Firstly, almost all the studies apply Hofstede's findings exclusively (1980a; 1991) to reflect national cultural attributes. However, the researcher found one exception. Shane (1994) also employs the Integration index from Chinese Cultural Connection (1987) as well as Hofstede's indices, to measure societal trust level. Secondly, there are only three cultural dimensions, uncertainty avoidance, power distance, and integration which were found to have an influence on international entry mode decision. Finally, as Hofstede's national cultural indices were intensively used, the level of analysis for all studies is limited to the country level (Kirkman et al., 2006). Individual-level or organisational-level analysis was not carried out.

Table 4-3: Effect of home cultural characteristics in the international entry mode studies

Studies	Cultural elements	Cultural theoretical foundation and unit of analysis	Findings
Kogut and Singh (1988)	Uncertainty avoidance	Hofstede's national indices; Country level	With increase of UA and cultural distance variables, firms demonstrate a tendency to use JVs or greenfields over acquisitions.
Shane (1993)	Power distance; Uncertainty avoidance	Hofstede's national indices; Country level	High power distance societies prefer sole ownership of their subsidiaries.
Shane (1994)	Power distance; Integration	Hofstede's national indices and Chinese Culture Connection (1987); Country level	Managers in high integration societies or low power distance societies are more likely to favor licensing to direct foreign investment.
Erramilli (1996)	Power distance; Uncertainty avoidance	Hofstede's national indices; Country level	Firms originating in high power-distance or high uncertainty-avoidance cultures are more likely to employ majority ownership modes.
Hennart and Larimo (1998)	Uncertainty avoidance; Power distance	Codify Hofstede's national indices into a dummy variable; Country level	Cultural distance between the home base of the investor and the target country influence ownership of subsidiaries, but cultural characteristics of home base do not.
Pan and Tse (2000)	Power distance; Uncertainty avoidance	Hofstede's national indices; Country level	Firms from countries with large power distance or low uncertainty avoidance prefer equity modes than non-equity modes.
Makino and Neupert (2000)	National cultural attributes	Hofstede's national indices of Japan and US; Country level	The propensity for investing firms to choose JV over WOS is higher for the U.S. firms (Low PD and UA) investing in Japan than for the Japanese firms (high PD and UA) investing in the U.S.
Pan (2002)	Uncertainty avoidance	Hofstede's national indices; Country level	Firms from high uncertainty avoidance countries have a higher equity ownership in international joint venture.
Nachum (2003)	Cultural index	Hofstede's national indices; Country level	When investment is undertaken via acquisition of an existing firm, the impact of the home country is weaker than it is via the establishment of new operations.

4.3.2 Limitations of prior studies employing national cultural characteristics in international entry mode decisions

Limitations of prior studies

Although Hofstede's indices provide a convenient way to compare the differences of general preferences to risk and control for firms from different countries, the direct application of these indices inevitably reveals several inherent limitations of Hofstede's approach. An obvious consequence of this is the controversial results found in prior studies. For instance, although Kogut and Singh (1988) and Shane (1993) found that lower uncertainty avoidance and higher power distance were related to sole ownership adoption, Hennart and Lamino (1998) indicated that the cultural characteristics of the home base do not affect international entry mode choice. Additionally, Erramilli (1996) also argued that firms from high uncertainty avoidance countries were likely to adopt a higher equity ownership in international joint ventures. The conflicting results demonstrate that these limitations are not negligible. These limitations may be summarised as follows:

Firstly, the main purpose of Hofstede's dimensional indices is to enable the comparison of cross-cultural differences. As the result, the application of these indices in international entry mode studies assumes the homogeneity of these cultural dimensions within a national culture (Shenkar, 2001; McSweeney, 2002). However, Au (2000) found that intra-cultural variations explain cultural differences equally well as, if not better than, cultural means (differences of national cultures). In addition, the uniformity of indices for a nation excludes an opportunity to study the effects of national cultural characteristics on international entry mode decision for firms only from one country.

Secondly, as Hofstede's national cultural indices are only valid at national level (Hofstede, 1980a), the usage of national level preference to represent managerial attitude (Kogut and Singh) leads to the assumption of organisational and managerial homogeneity, which in fact lacks support (Shenkar, 2001). Indeed, Kogut and Singh (1988) acknowledged the limitation and justified the usage of these indices as stemming from the practical difficulty of data collection.

Finally, unsurprisingly, Hofstede's instruments evolved from western theoretical systems (Steenkamp, 2001). They may therefore not be truly valid to investigate respondents in non-western settings, as some values are unfamiliar or irrelevant to informants in other cultural settings (Chinese Culture Connection, 1987), especially in cultures that have significant differences to western cultures. Moreover, data in these studies were also interpreted and labelled by researchers long immersed in western cultures (Chinese Culture Connection, 1987). As they are also culture-bound, their interpretations may also call into question the validity of the works.

Implications for this study

This study intends to address the effect of Chinese cultural characteristics on international entry mode decisions in Chinese private firms. Several implications can be drawn from examining the prior studies mentioned above and their limitations. Recommendations by scholars (Tihanyi et al, 2005; Kirkman et al, 2006; Shenkar, 2001) can assist in operationalising Chinese cultural characteristics.

Firstly, Shenkar (2001) recommends that scholars should seek alternatives to Hofstede's widely-used cultural dimensions and also consider the cultural values of East-Asian countries in international business studies in order to gain better insights. For this study, Confucian dynamism from Chinese Culture Connection (1987) may be preferable to the cultural dimensions developed by Hofstede's (1980a) study. Confucian dynamism developed by the Chinese Value Survey contains values all from Confucius' teachings, which are indigenous Chinese cultural values and have enduring effects (Ralston et al., 1999) on managerial behaviour. This option is preferable for measuring Chinese managerial preferences, and also avoids the western culture-oriented tendency in the survey instrument and interpretation of Hofstede's findings (1980a).

Secondly, Ralston et al. (1999) suggested that the importance of within-cultural differences should be recognised in order to understand the business conditions of a national culture fully. Intra-cultural variations are important to understand many organisational behaviours

within a culture (Ralston et al., 1999; Wagner, 1995; Jaw et al., 2007). Prior studies of international entry mode that adopt Hofstede's indices uniformly eliminate opportunities to examine the impact of intra-cultural variations. In order to understand better the variations of Chinese firms' international entry mode choice in this study, it is necessary to detect the degree of heterogeneity of Chinese managerial cultural values. The approach follows the recommendations and practices of authors such as Ralston et al., (1999); Jaw et al., (2007); Triandis et al., (1988); and Begley et al., (2002).

Finally, other authors (Tihanyi et al., 2005; Kogut and Singh, 1988) also suggested developing measures of cultural values relevant to organisational decisions (e.g. international entry mode decision) in international business research. Organisational decisions are largely made by decision-makers (Child, 1972); thus, a scale measuring cultural characteristics at the managerial level would be preferable (Kogut and Singh, 1988). This arrangement is also consistent with Tihanyi et al.'s (2005) appeal that scholars should turn their attention to the measures for organisation-, group-, and individual-level research. Interestingly, compared to international entry mode studies exclusively focusing on cultural values at the country level, cultural elements in decision-making studies were all operationalised at the individual level, according to Kirkman et al.'s (2006) comprehensive review. This provides additional support for employing cultural values at the individual level, given that international entry mode decision is a type of strategic decision (Anderson and Gatignon, 1986).

In sum, by reviewing the effects of home culture in the prior studies of international entry mode, it is found that several inherent limitations are associated with the direct application of Hofstede's cultural indices. By following the suggestions from scholars for the improvement of the use of home cultural traits, this study intends to operationalise Confucian dynamism at the managerial level to capture Chinese managerial attitudes more accurately. In order to do so, it is necessary to review the literature about Confucian values, the progress of intra-cultural studies, and individual-level cultural studies in the following sections.

4.4 Confucian values

China is a country with a history of over five thousand years of civilisation. Chinese culture is considered to be a unique cultural system and has significant differences in some fundamental philosophical aspects (e.g. attitude to self, time, morality etc.) to western societies (Redding, 1980; Ralston et al, 1997; Rarick, 2007). Confucianism has been playing a major role in shaping the Chinese culture for many centuries and it is believed still to exert a predominant influence upon today's Chinese business culture and management practices (Robertson and Hoffman, 2000; Ahmed and Li; 1996; Yeung and Tung, 1996).

4.4.1 Chinese Value Survey and Hofstede's fifth cultural dimension

Inspired by Hofstede's work (1980a), Bond and his Chinese colleagues conducted a research project with the aim of understanding cultural dimensions from a Chinese perspective. It attempted to overcome one limitation of Hofstede's work, which is that the values in Hofstede's survey instrument apply to western culture (Chinese Culture Connection, 1987).

A total of 40 basic Chinese values were produced by Chinese social scientists written in Chinese. Then the English instrument was carefully generated to capture the core conception of each value. The study then surveyed 50 male and 50 female university students in each of 22 countries. Respondents were asked to rate the extent of importance of each value. An ecological factor analysis was employed to produce four factors (explaining 56.9% variance), which were labelled *integration*, *Confucian dynamism* (values in this dimension are all Confucian work ethics and come from the teachings of Confucius, which are illustrated in Table 4-4), *human-heartedness*, and *moderation* (Chinese Culture Connection, 1987). By analysing data from 20 countries with reference to Hofstede's work, the study found that integration, human-heartedness, and moderation were significantly correlated with Hofstede's dimensions of power distance, individualism, and masculinity. It should be noted that the second factor - Confucian dynamism has no

correlation with any of Hofstede's dimensions (Chinese Culture Connection, 1987). Later, Hofstede and Bond (1988) and Hofstede (1991) re-interpreted this factor and argued that some Confucian values (persistence, ordering relationships, thrift, and having a sense of shame), had positive loadings on the factor, are more future-oriented, and that other Confucian values (personal steadiness, protecting your face, respect for tradition, and reciprocation), had negative loadings, look toward the past and the present and thus represent short-term orientation. Hofstede (1991) introduced the factor as the fifth cultural dimension, labelled long-term orientation/short-term orientation. Hofstede and Bond (1988) claimed that Confucian values, in terms of the emphasis on saving, persistence, respect for status, and having a sense of shame, assist in the accumulation of wealth and boost economic growth.

Table 4-4: Values of Confucian dynamism

Confucian Dynamism	
Long-term orientation	Short-term orientation
<ul style="list-style-type: none"> ● Persistence (perseverance); ● Ordering relationships by status and observing this order; ● Thrift; ● Having a sense of shame. 	<ul style="list-style-type: none"> ● Personal steadiness and stability ; ● Protecting your face; ● Respect for tradition; ● Reciprocation of greetings, favors, and gifts.

Source: Hofstede and Bond (1988, p.17)

4.4.2 Criticisms of the interpretation of the dimension

The fifth dimension has received limited attention due to its unfamiliarity to western researchers and also because it is difficult to operate, since two extremely opposing types of values exist in one dimension (Fang, 2003; Roberson, 2000). It is not consistent with the first four dimensions featured as the bipolar continuum. Moreover, according to this differentiation of values, some inferences can be very controversial. Two typical examples were suggested by Fang (2003). Firstly, western countries, such as the US, Great Britain and Canada, are more short-term oriented, and were placed at the lower end of the

long-term orientation scale, which may suggest that the national cultures of these countries are more face-oriented. It is generally agreed that face-saving is an original Chinese concept and is salient in oriental societies. Another example is that, according to the cultural dimensions, Chinese society is more future-oriented, and puts less emphasis on the past. However, Chinese society was also reported by many scholars as past-oriented (Redding, 1990; Kao and Ng, 1995; Rarick, 2007), with the case in point that respect for Confucius's teachings has remained for 2000 years.

Moreover, Yeh and Lawrence (1995) also reported that the dimension of long-term orientation is not independent from other dimensions and is correlated to the dimension of individualism/collectivism. They also made the criticism that cultural factors alone are not sufficient to explain economic growth, as economic growth also relies on other factors (e.g. institution and policy) and their interactions with cultural factors.

Fang (2003) and Stening and Zhang (2007) listed the following possible reasons for challenging the conceptual and methodological flaws of the dimension. (1) Due to unfamiliarity with Chinese culture, the separation creates a philosophical flaw, as the Chinese 'Yin Yang' principle is violated. Yin Yang is an oriental philosophy that everything in the world contains constructive and destructive elements. (2) Redundancy among the 40 Chinese values, as having a number of values with the same meaning may cause the contradiction of values in the dimension of Confucian dynamism; (3) Possible exclusion of other unique Chinese values may also contribute to the controversy; (4) It is unclear whether or not the problems of translation equivalence and representativeness of the student sample endanger the validity of the study; (5) It is not compatible with Hofstede's (1991) first four dimensions and the fifth dimension in terms of different samples.

Indeed, controversial results regarding the fifth dimension may reflect similar problems to Hofstede's study. The CVS lacks a systematic study of Chinese values and the resulting interpretation is driven by empirical data and made by non-indigenous Chinese. Insufficiency of knowledge of Chinese philosophy and Confucian teachings may create a division of Confucian values which actually have consistency and harmony in Chinese

society.

4.4.3 A brief review of Confucianism

In order to understand the true meaning of Confucian values, it is advisable to review their origin, elements, and changes.

Origin of Confucianism

Confucius, the greatest ideologist and educator of China, was born in the state of Lu (Shandong province today) in 551 BC. He expounded his views on how to govern a state humanitarily and morally to kings of different states throughout his whole life. At that time, Confucianism was only one of several competing doctrines (Encyclopedia of CIHAI, 1989). Literature on of his thinking mainly consists of his teachings recorded by his students and supplements by followers such as Mencius. Later, Chinese emperors found Confucianism valuable in maintaining stability in society, as it advocates ren (kindness and forgiveness) and li (rites or social rituals). Eventually, other ideological streams were prohibited, and Confucianism was recognised as the only legitimate ideology in the Han Dynasty (Rarick, 2007). From then on, young people were asked to understand the literature of Confucianism from a very young age. The Analects of Confucius became compulsory reading material for young students sitting exams in order to enter into the government service (Rarick, 2008), and this continued for over 2000 years until the end of the last empire of China in 1911.

Essential elements and structures

Strictly speaking, Confucianism is an integrated ethical system rather than a religion. It consists of values to guide various social, economic, and political behaviours (Martinsons and Westwood, 1997) with the aim of pursuing social harmony. It stresses moral cultivation at an individual level and the management of relationships or ties at a higher level (family and society). Individual moral cultivation is the fundamental element of the ethical system. Only someone who meets the requirements of *wuchang* (virtues of morality) is deemed fit to deal with high-order (family and society) matters and relationships

appropriately and well. Confucius believed that people who are willing to behave morally are an essential part of a moral society, as well as are the rules of social relationships (Romar, 2004). A person (no matter what their status) seriously deficient in these virtues will face pressures from the group or society.

Confucian philosophical goals and principles

‘*Hexie*’ (harmony) can be viewed not only as the ultimate goal of Confucianism in terms of ‘*datong shehui*’ (harmonious society), but also considered as an important principle. This principle emphasises the processes or efforts to maintain these various relationships appropriately and peacefully (Chew and Lim, 1995). However, it should be noted that it stresses affective rather than cognitive harmony. The Analects of Confucius indicate that a virtuous man still maintains harmonious relationships with others, even with cognitive differences (Sun and Wang, 1993). The harmony principle advises people not to use competitive and conflicting affective methods to solve problems, as this may exacerbate the situation.

‘*Zhongyong*’ (moderation, following the middle way) is another Confucian principle (Chatterjee, 2001). It stresses that people should not go to extremes and that the middle point is the best way to achieve a balance. Too much risk-taking or overly conservative behaviour is not encouraged in Confucian society. It is similar to the pursuit of a “satisfactory solution” rather than “the best solution” in the strategic decision-making, as Chinese culture views the elements as interdependent and tends to use holistic thinking (Redding, 1980).

How to become a virtuous man? (*wuchang*: five virtues)

Wuchang includes 5 five virtues, named *ren*, *yi*, *li*, *zhi*, and *xin*. They are requirements for self-cultivation that people should follow in order to be virtuous (Rarick, 2007). According to scholars’ explanations (Zhu and Yao, 2008; Romar, 2004; Rarick, 2007), *ren* is commonly translated as ‘kindness’, ‘benevolence’ or ‘forgiveness’, and it stresses that you should treat other with the same concern and benevolence that you would wish them to use in their treatment of you. *Yi* is usually translated as a sense of ‘righteousness’, and it

emphasises that when individual's economic benefit is in conflict with *yi*, a virtuous man should pursue righteousness and abandon the economic benefit. *Li* is often translated as 'social ritual', and rituals are emphasised, not only in terms of appropriate behavior and roles, but also in ceremonies and other social events. *Zhi* means 'wisdom' and Chinese people usually show respect to wise people. *Xin* is usually translated as 'trustworthiness', and trust is a critical aspect in maintaining all kinds of relationships.

How to fulfill social role obligations? (*wulun*: five relationships)

Confucianism considers that a hierarchical relationship is necessary to maintain good order in a family and in society (Chew and Lim; 1995). Individuals should fulfil a range of social roles by the proper maintenance of various social relationships in the hierarchical system (Fang, 2003; Yeung and Tung, 1996). *Wulun* includes five basic relationships, which are mutual obligations between people in different roles at different positions in the social system. These include benevolence and duty and allegiance between emperor and subject, guidance and deference between father and son, the guidance and deference and loyalty between husband and wife, the seniority of the old over the young, and trust between friends (Rarick, 2007). The five basic virtues manifest themselves in appropriate behaviour when managing the five basic relationships.

Reexamination of Confucian values in Hofstede's fifth dimension

Chinese Culture Connection (1987) and Lim (2003) pointed out that the values of the fifth dimension all reflect Confucian work ethics or values. Extant literature tends to stress positive loading values (persistence, having a greater respect for status, thrift, and having a greater sense of shame) and label them as Confucian work ethics, but keeps silent on negatively loading values (personal stability, saving face, respect for tradition, and reciprocation). For instance, Rarick (2007, p.26) argued that "the Confucian work ethics consist of a belief in the value of hard work, loyalty to the organization, thrift, dedication, social harmony, a love of education and wisdom, and a concern for social propriety". Lim (2003, p.956) also indicated that Confucian work ethics emphasise "values of thrift and hard work, harmony and cooperation, respect for educational achievements and reverence for authority".

However, looking at the Confucian value system discussed above, it can be seen that all the values of the fifth dimension and the additional values suggested by the aforementioned scholars can be understood as the extensions of the Confucian value framework, including the five virtues (*wuchang*), five relationships (*wunlun*), pursuit of harmony, and *zhongyong*. All of them should be considered as work ethics or values.

Hard work, thrift, persistence, loyalty and personal steadiness are virtues advocated by Confucian society (Fang, 2003; Lim, 2003) to encourage people to make such efforts in their group, organisation, or country. In fact, they share a similar reasoning basis with the five basic virtues. For making such efforts, people are rewarded by the enhancement of their morality and their cultivation of themselves as virtuous people. Unlike Hofstede's suggestion, personal stability may not be contradictory to the values of hard work, thrift, loyalty, and persistence. In China, personal steadiness (*whenzhong*) is considered to be a personal virtue, with which a person is considered to be prudent, reliable, and trustworthy (Fang, 2003). A person with *whenzhong* takes a serious attitude towards obligations related to work, family, and society (Ahmed and Li, 1996). *Wenzhong* is also associated with a holistic approach that considers both positive and negative sides to generate a more sound approach to solving problems. Someone with *whenzhong* is believed to be able to handle uncertain situations calmly and confidently. It also indicates a person's consistent behavior and commitment within the family and business organization. An organization consisting of people with *wenzhong* is thought to have less likelihood of conflicts and enjoy enhanced harmony. In sum, Fang (2003) argued that a person of diligence, persistence, thrift, and loyalty is considered to be *wenzhong* in character. However, according to the *zhongyong* principle (moderation), a man with too much *wenzhong* is characterised as a 'stick-in-the-mud' who shows a lower tolerance for ambiguity and an absence of passion (Fang, 2003).

Elemental values of a *great respect for status, respect for tradition, and reciprocation* may come from *wulun*. The respect for status is the extended relationship of emperor and subject (Lockett, 1988). The emperor offers benevolence (*ren*) to the subject and the subject shows loyalty, deference, and respect (*li*) to the authority. Respect for tradition

extends to the relationship between father and son. The son shows respect and filial piety by a series of rites (*li*) to his father and his ancestors (Chatterjee, 2001). Reciprocation comes from all five relationships, and good maintenance of these five basic relationships will not only bring trust (*xin*) and harmony, but also generate mutual benefits to both parties (Romar, 2004). The contemporary *guanxi* approach (Yeung and Tung, 1996) is also based on the reciprocation of benefits and opportunities, is believed to reduce transaction costs (Romar, 2004) and is one of key success factors of overseas Chinese businesses (Yeung and Tung, 1996). In fact, reciprocation cannot conflict with the respect for status, as both parties can gain reciprocation only by fulfilling mutual obligations in their relationship.

Saving face and *having a sense of shame* are closely related to the sanctions on immoral behaviour that break mutual role obligations (Redding 1990). The differences between guilt in western society and shame in oriental society reside in the source of sanctions for inappropriate behaviour. Western cultures tend to rely on personal internal punishment by condemning the behaviour as a sin, while Confucian culture is based on the reaction to outside criticism – shame represents the sanction (Yeung and Tung, 1996). Redding (1990) indicated that the emphasis on face in Chinese culture is the manifestation of the fact that it is a shame-oriented culture. Face refers not only to individual reputation, but also affects family members or organisational members (Yeung and Tung, 1996). Saving face means taking care to avoid shame. Fang (2003) suggests that saving your face and having a sense of shame are not independent concepts, but rather share a common underlying construct, ‘face-caring’ or ‘face-need’.

In sum, firstly, all the values in Hofstede’s fifth dimension are derived from the key aspects of the Confucian system, in terms of *wunlun*, *wuchang*, *harmony* and the *zhongyong* principle. The values of *thrift*, *persistence*, *loyalty*, and *personal steadiness* are work virtues and closely related to *wunlun* (five basic virtues). In China, features of *thrift*, *persistence*, and *loyalty* all contribute to *personal steadiness* (*wenzhong*), which casts doubt on Hofstede’s divisions. The elemental values of a *great respect for status*, *respect for tradition*, and *reciprocation* are extensions of *wunlun* (five basic relationships), and

share the same source. It is perhaps erroneous to separate *reciprocation* from *respect for status*, as reciprocation is expected to exist at the maintenance of every type of the relationship. In addition, *saving face* and *having a sense of shame* are closely related and are not independent concepts; therefore it is inappropriate to include both of them (Fang, 2003). Finally, *diligence* and *an enthusiasm for education* are also important work ethics suggested by many scholars (Ornatowski, 1996; Rarick, 2007; Lim, 2003) but absent in the dimension.

Based on above analyses, it is clear that eight aspects of this dimension are all Confucian work ethics and emphasised in a Confucian society. Ahmed and Li (1996, p.276) stated that “*Confucian philosophy advocates the importance of commitment and patience, orders relationships by status, requires respect for tradition, frugality in consumption, reciprocation of greeting, favours and gifts, and imbues a sense of shame through its construction of the concept of ‘face’.*” It seems that scholars’ findings tend to support Fang’s (2003) criticism. Nevertheless, it is advisable to be cautious in drawing a conclusion, as the Chinese Values Survey is a cross-cultural survey from an etic perspective (Leung and Bond, 1989), and it could be different from an emic view - a Chinese culture-specific perspective (Fang, 2003). However, both Yin (2003) and Fang (2003) indicated that an interpretation of the result required a Chinese perspective as all the values come from Chinese indigenous values. It is possible that the poor theoretical preparation and an unsystematic study of Chinese values lead to repetition and absence of relevant values, which in turn possibly cause controversial contradictions among Confucian values in the fifth dimension, while these in fact share consistencies in Chinese culture.

4.4.4 Contemporary impacts on Confucian values in China

China has experienced dramatic changes in terms of the political, economic, and social system in the last century. Confucianism as the predominant value system was inevitably also subject to change (Leung, 2008).

The Cultural Revolution (1966-1976) challenged the hierarchical relationships emphasised by Confucianism and attempted to replace them by the ideology of comradeship, stressing equality among individuals (Yeung and Tung, 1996). It also attempted to shift personal focuses from traditional Chinese obligations of family to the party and leader (Chatterjee, 2001). It introduced certain alterations in Chinese culture. However, the cultural values derived from Confucius were so deep-rooted in the minds of the Chinese people that the Cultural Revolution could not uproot the infrastructure of the system (Rarick, 2007; Chatterjee, 2001). There has been a revival of Confucianism recently in China, one indication of which is the recent movie called “Confucius” and another one is that scholar named DanYu recently presented stories from the Analects, based on her research on Confucianism on CCTV (China Central Television).

Another impact on traditional cultural values is from economic development since the reform and the ‘open door’ policy initiated in China in 1978. In the economic domain, the system of general managers’ responsibility was established in Chinese firms; this system is consistent with traditional paternalistic management. However, as China is emerging as one of the leading markets and outsourcing sites, many foreign companies have invested in China. Their operations and managerial practices have attracted attention from Chinese scholars and Chinese managers. Many business schools have been founded in China to deliver managerial knowledge and skills, mainly based on western firms, and certain western managerial approaches and skills have been introduced into Chinese firms’ operations. Additionally, western cultural products in terms of Hollywood movies, pop music, and sports are popular among the younger generation of Chinese. With the globalisation of the world economy, Confucianism, a collectivism-oriented culture, is facing the influence of more individualism-oriented western cultures (Oyserman et al., 2002). For instance, Ralston et al. (1999) reported that the new generation of Chinese managers is more individualistic, less collectivistic, and less loyal to Confucian philosophy than the previous generations of Chinese managers. Leung (2008) argued that there is a pervasiveness of materialism, rather than traditional values, among Chinese managers in the economic sector in contemporary China. However, Tse (1988) indicated that the change rate for different cultural norms may not be consistent, and some norms may shift quickly,

while others may be more persistent.

4.5 Intra-cultural variations and individual level studies of national culture

Prior literature (Au, 2000; Ralston et al., 1999; Tihanyi et al., 2005) suggests the importance of intra-cultural variations and individual-level studies in understanding organisational behavior. In particular, due to the contradictory results of prior studies, Brouther and Hennart (2007) urge that future international entry mode studies should measure managerial cultural values more directly, rather than using Hofstede's index as proxies. In order to operationalise Confucian dynamism at the individual level appropriately, it is necessary to review the progress of intra-cultural variations and individual-level studies of national culture in cultural studies.

4.5.1 Intra-cultural studies

In the cross-culture research domain, a great deal of attention has been paid to the variations between cultures (Hofstede, 1980a; Inglehart and Baker, 2000), but the differences within cultures have also been recognised, and some scholars (Triandis et al., 1988; Begley et al., 2002) have suggested that it is inappropriate to consider a culture as a homogeneous unit. Indeed, Ralston et al. (1999) argued that one should realise the importance of within-culture differences to understand fully the business conditions of a national culture. Ralston et al. (1993) also reported that Hong Kong managers not only shared similarities in some cultural values with managers in the PRC (People's Republic of China), but also have some cultural values which are different from those of their PRC counterparts due to economic and institutional differences.

Au (2000) argues that there are three main reasons for the existence of intra-cultural variations, which are differences of cultural values, demographic factors, and institutional conditions. Finally, he reports that intra-cultural variations explain cultural differences to

almost the same degree as cross-cultural variations, by re-analysing data from the World Value Survey. The most interesting aspect is to identify cultural value variations at the individual level within a culture, as this is helpful in explaining much organisational behaviour within that culture (Ralston et al., 1999; Wagner, 1995). Particularly when business conditions are uncertain, unfamiliar, non-routine, and intertwining, cognitive limits make managers tend to rely on culture-bound individual values to make judgments.

4.5.2 Culture at the individual level

Although Hofstede (1980a) suggested that the level of analysis of cultural values is meaningful only at the societal level, empirical evidence tends to support the fact that individual cultural values also exist and have variations. Oyserman et al. (2002) conducted a comprehensive literature review on individualism/collectivism and argued that individuals vary as to individualism/collectivism traits and the value of individualism/collectivism has great variability at the individual level. Dickson and Weaver (1997) reported that individual cultural orientation in terms of individualism/collectivism is different among Norwegian managers. Ralston et al. (1999) also found that individual cultural values in terms of individualism/collectivism and Confucianism of Chinese managers, to some extent, vary between the new and old generations. Indeed, Kirkman et al. (2006) reviewed empirical studies based on Hofstede's framework between 1980 and 2002, and concluded that cultural values were examined more at the individual level than at the societal level.

Progress of research on individualism/collectivism at the individual level

Important progress of research on cultural values at the individual level has been made by Triandis et al. (1985; 1988; 1995), Singelis (1994), Singelis et al. (1995), and Earley (1989; 1993; 1994) with perhaps the most influential contributions having been made by Triandis et al (1985; 1988; 1995).

Triandis et al. (1995, p.462) acknowledged that individualism and collectivism are cultural level constructs (Hofstede, 1980a), and are "cultural syndromes that have some common

cores”. They then identified the common theme of two constructs through the conception of whether or not individuals are autonomous from the collectives or parts of groups. Four aspects were specified to address the common core: (1) self-definition as independence or dependence; (2) the priority of personal goals and group goals; (3) exchange-oriented or mutual relationship-oriented; (4) social behaviours being affected by attitude or social norms. A variety of psychological measurements can be employed to measure the four aspects to grasp the key theme. Then the allocentrism/idiocentrism dimension at the individual level was introduced to correspond to collectivism/individualism at societal level. Allocentrism reflects the collectivist traits of individuals, who emphasise social support, equality, and cooperation etc., while idiocentrism reflects the individualist traits of those who stress achievement and alienation etc. (Triandis et al., 1985). Triandis (1995, p.36) further states that “in collectivist societies there are idiocentrics who look for the earliest opportunity to escape the oppression of their in-groups, and in individualist societies there are allocentrics who reject individual pursuits and join gangs, clubs, communes, and other collectives”. In short, individual cultural traits also vary within a specific society. Other scholars also developed their own individual level cultural value measurements; for instance, Earley (1993) developed an individual level scale of individualism/collectivism based on the works of Erez and Earley (1987) and Triandis et al. (1988). After dropping two items, the reliability (Cronbach’s alpha) of the measurement reaches 0.91. Its reliability (Cronbach’s alpha=0.71) was confirmed by another study by Earley (1994). Similarly, Singelis (1994) also built a scale called interdependent/independent self-construal to measure individualism/collectivism at psychological level. Both the reliability and validity of the scale was confirmed through a confirmatory factor analysis.

Progress of research on other cultural traits at the individual level

Besides studies of individualism/collectivism at the individual level, scholars have also sought to develop corresponding individual scales of other cultural dimensions. A systematic transformation from Hofstede’s societal level measurement to the individual level was made by Dorfman and Howell (1988). A 22-item instrument was developed based on Hofstede’s (1980a) four cultural dimensions and was employed in a survey study

of multinational firm managers in Mexico and Taiwan. The scale was found to be valid and reliable by confirmatory factor analysis. Interestingly, Hofstede's dimension scores were confirmed by Dorfman and Howell's results. However, variations also exist in each of national groups, further proving the differences of individual cultural traits in a given society.

Empirical studies tend to support the reliability of Dorfman and Howell's (1988) scale. For instance, Clugston et al. (2000) also employed Dorfman and Howell's (1988) scales of power distance, collectivism, uncertainty avoidance, and masculinity to study the relationship between these cultural traits and employees' level of commitment. He found that except for one indicator of power distance not being significant, all measurement model indices were good and all factor loadings were significant. In addition, both Begley et al. (2002) and Farh et al. (2007) applied the scale of power distance at the individual level by adapting Dorfman and Howell's (1988) measurement to a study of the relationship between supervisor-subordinate. They all reported that the scale was reliable (Cronbach's alphas were 0.74 and 0.69 respectively).

By following Triandis's and Dorfman and Howell's progress in measuring cultural traits at the individual level, some scholars (Robertson 2000; Robertson and Hoffman, 2000; Jaw et al., 2007) have also attempted to operationalise the dimension of Confucian dynamism at the individual level. Robertson and Hoffman (2000) correspondingly transformed Hofstede and Bond's (1988) Confucian dynamism measurement into a scale measuring two types of individual traits – future-oriented and past-and-present-oriented – at the individual level. Both the composite scale (including both future-oriented and past-and-present-oriented items) and separate scales of future-oriented and past-and-present-oriented traits were employed. Based on 255 undergraduate business students in US, he found that Confucian dynamism was positively and significantly related to power distance, but insignificantly related to masculinity and individualism at the individual level. An interesting point that appeared was that the future values of Confucian dynamism were positively related to uncertainty avoidance at the individual level. This may imply that individuals with high uncertainty avoidance are also inclined to be concerned with the future. Robertson (2000)

conducted another study among 189 managers from Chile, Australia, and United States and he found that Confucianism dynamism was significantly and positively related to uncertainty avoidance both in the Chilean and U.S. national groups. The perception of the future, a component in the scale of Confucian dynamism, had a significant and positive link to uncertainty avoidance in each of the three national groups, which confirms the result of Robertson and Hoffman's (2000) study. Past and present orientation was significantly related to power distance only in the Chilean group. Robertson's two studies advance our understanding of the dimension of Confucian dynamism operationalised at the individual level and also the links with other individual level cultural dimensions; however, the reliability and validity of the constructs were not reported, and we can therefore not be sure how reliable his results are.

Jaw et al. (2007) conducted a study to investigate the links between Chinese cultural values and work values, using an item scale of 17 cultural values to measure Confucian dynamism and other cultural traits (power distance, masculinity, and individualism) at the individual level. By employing a confirmatory factor analysis method, the overall measurement model fit the data well. The findings suggested that Confucian dynamism was the main cultural value trait in shaping self-enhancement and most of other work values for Chinese employees.

Research methodology concerns

As studies on culture values at the individual level are still at early stage, a major problem associated with this is the low reliability of the measurements of these constructs. Triandis et al. (1995) indicated that Cronbach's alphas of most past studies were unsatisfactory (lower than 0.70). In order to solve this problem, some scholars (e.g. Kirkman et al., 2006) appealed for a more systematic approach to conduct multilevel research, rather a single societal level study of culture. Maznevski et al. (2002) gave an example of the cultural level dimensional framework of Kluckhohn and Strodtbeck (1961) being operationalised in a study at the individual level. More rigorously, Fischer (2009) proposed a research process to conduct a multilevel culture study. He suggested that a study of culture should start with the definition of culture which would guide the research process. Then, a composition

model considering both the content of dimensions and the items should be chosen and validated. Individual level measurement is then operationalised and equivalence and isomorphism should be tested. Finally, the process is completed by testing the reliability and validity of these constructs. Fischer (2006, 2009) addressed the importance of process to developing a measurement for both cultural and individual levels. A common theoretical foundation and a synchronous development approach would reduce the associated bias and enhance the validity and reliability of constructs for the multilevel study.

4.6 Conclusion

In this literature review, we have sequentially examined three issues in terms of major cultural frameworks, limitations of prior studies studying the impact of the characteristics of the home culture on international entry mode choice, literature on Confucian values, and individual level studies. Specifically, the major cultural frameworks include works by Hofstede (1980a; 1991), Schwartz (1994), GLOBE project (House et al., 2004), and Inglehart (1990). Hofstede's framework was described and critically evaluated. Implications from other frameworks were also presented. Prior studies examining the impacts of the characteristics of the home culture on international entry mode choice were then reviewed and their limitations summarised. Based on scholars' suggestions, the Chinese Value Survey (Chinese Culture Connection, 1987) and criticisms of it were also reviewed. Following the study of the core contents of Confucianism, doubts were cast on the theoretical foundations of the separations of two types of values in Confucian dynamism and other related issues. Finally, the focus shifted to progress in individual-level cultural studies. Based on a summary of past works, several implications may be drawn from cultural studies, as follows:

To begin with, culture is an elusive concept and difficult to define and study (Triandis et al., 1985). A significant breakthrough was made in Hofstede's (1980a) work. The cultural dimension approach based on an ecological factor analysis of values became the mainstream approach in cross-cultural studies. Schwartz (1994) and other scholars not only

supplemented Hofstede's work, but also made their own contributions. For instance, Schwartz's (1994) framework had a good theoretical foundation and was based on basic universal needs of individuals, and it is suitable for conducting a cross-cultural comparison study. House et al. (2004) also attempted to address the practices and values which expand the understanding of the categories of cultural studies by examining relationships between values and practices. Although these frameworks have improved the understanding of cross-cultural studies greatly in the past 30 years, there is still only very limited knowledge of other elements besides cultural values, as we do not have a generally accepted definition. Even for values, scholars in different disciplines tend to employ values that they are familiar with, thus increasing the complexity of cross-validations. Although Schwartz (1994) made certain progress in studying and classifying values based on theoretical foundations, this researcher suggests that a strong theoretical basis is critical for developing new cultural frameworks.

Secondly, almost all international entry mode studies examining home cultural effects directly employ Hofstede's national indices. Conflicting results were found due to the inherent limitations in assuming the uniformity of national culture and homogeneity of decision-makers. As Hofstede's (1980) findings are based on a western-oriented social theoretical system, instrument, and interpretation, they may not be entirely suitable to examine the cultural characteristics of Chinese managers. Based on scholars' suggestions, this study also intends to examine the characteristics of the home culture at managerial level.

Moreover, certain progress has been made in understanding oriental cultural values, especially Confucian values, but the number and diversity of these studies are insufficient. The Chinese Values Survey (1987) conducted by Bond and his Chinese colleagues presented a cultural dimension framework based on Chinese values. A dimension labelled Confucian dynamism reflects Confucian work ethics (Chinese Culture Connection, 1987), and received the most attention as it is not related to any of Hofstede's dimensions. However, due to its being driven purely by empirical data, Fang (2003) suggested that it is philosophical flaw to separate certain items and that the item of having a sense of shame

has a common underlying construct with item of face-saving. A review of Confucianism history and structure tends to support Fang's argument.

Finally, although still in their early stages, studies on culture at the individual level have begun to flourish. The most significant contributions were made by Triandis et al. (1995) and Dorfman and Howell (1988), and their studies tend to support the existence of subjective cultural variability within a specific national group. However, measurements of individual level constructs were found to be less reliable (Triandis et al., 1995). Some scholars (e.g. Fischer, 2009) have argued that the problem should be addressed through a more rigorous and systematic methodology.

Chapter 5: A Synthesis of Reviewed Literature and Hypothesis Development

5.1 Introduction

This chapter firstly synthesises the three streams of reviewed literature. Then, it develops testable hypotheses for the study to examine impacts of environmental and firms' characteristics, managerial cultural values, characteristics of SDMP, and their interactions, on the international entry mode decision. Specifically, it specifies the equity/non-equity modal choice as the decision which will be examined in this study. Four aspects of difference between these two types of governance structure were identified. It then presents the rationale for choosing key explanatory and moderating variables to reflect firms' and environmental characteristics, managerial cultural values, and the characteristics of SDMP. Finally, based on theoretical foundations and empirical evidence discussed in the previous chapter, several hypotheses were developed by linking several key explanatory variables and their interactions with the equity mode decision.

This chapter consists of three parts. Firstly, a synthesis of reviewed literature is carried out. Then, the choice of entry mode decision which will be examined in this study is explained. Thirdly, several hypotheses are developed to test the effects of elemental variables of three perspectives on international entry mode decision.

5.2 A synthesis of reviewed literature

As three streams of literature, i.e. literature of international entry mode, strategic decision-making, and cultural studies, are employed in this study, it is necessary to synthesise them to clarify their roles before developing the hypotheses of the study.

To begin with, an intensive review of the literature of international entry mode decision has identified and confirmed the research gap. The roles of decision-maker and decision

process have been largely overlooked by dominant theories and empirical studies in this field (Brouthers and Hennart, 2007). Prior studies were based on at least two assumptions. Firstly, the decision-maker can handle all the information-processing for the decision and also show no preference during information collection, interpretation, and alternative selection (Brouthers and Hennart, 2007). Secondly, the decision-making is fully informed about the conditions of foreign markets of interest and the resources available to their company to conduct the entry (Maignan and Lukas, 1997). Based on these assumptions, these studies make analyses on contextual and firm-specific factors through a systematic pattern, and then the results of analyses will automatically determine the outcome of decision (McNaughton, 2001). Absolute decisional rationality excludes the effects of decision-maker and decision process, but it may not apply when making non-routine, complex, and uncertain decisions (Cyert et al., 1956; Hambrick & Mason, 1984). According to the contributions of the Carnegie school (Simon, 1955; Cyert et al., 1956) and SDM researchers (Mintzberg et al., 1976; Dean and Sharfman), the decision-maker and decision process exert a significant influence on the outcome of the decision that involves a great degree of uncertainty and complexity, which has seldom been addressed in the international entry mode studies. Besides the identification of the research gap, the literature review of international entry mode decision has also revealed a certain number of environmental and firm-specific factors which may have an impact on the decision (see Chapter 2). These firm and environmental characteristics impose resource and contextual constraints on the decision, which serve as filters in a natural selection process of the decision (Child, 1972; Papadakis et al., 1998). It is noteworthy that the extant literature of international entry mode studies (Brouther and Nakos, 2004; Hennart, 1991; Agarwal and Ramaswami, 1992; Tatoglu and Glaister, 1998; Nakos and Brouthers, 2002; Yiu and Makino; 2002; Davis et al., 2000), no matter which theory was applied (TCA, location advantage, institutional theory, RBV or OLI), predominantly suggests that external or internal conditions of a firm have an direct impact on the entry mode choice. In this study, most factors identified by prior studies have been taken as control variables in order to examine the effects of newly-introduced variables that are related to the decision-maker and decision process.

In order to understand the effect of the decision-maker, a literature review on the upper echelon theory and its applications in the field of SDM (Hambrick and Mason, 1984; Hambrick et al., 1996) was carried out. It supplements prior studies of international entry mode decision by placing an emphasis of the role of decision-maker in the strategic decision-making (see Chapter 3). It indicates that the outcome of strategic decision is not simply determined by perceived environment constraints and firm characteristics, but also relies on the preferences of power-holders who have the power to decide the direction of organisation (Child, 1972). During a decision-making process, managerial values play a unique role. Upper echelon theory (Hambrick and Mason, 1984) suggests that managerial values could serve a filter at the alternative selection stage, which may directly determine the outcome of decision. However, it could also be intertwined with the perception of situation in reaching a decision. In other words, managerial values can also have a joint effect with perception to determine the decisional outcome. In sum, the managerial values may impact the entry mode decision directly and indirectly. Empirical results have largely confirmed the effectiveness of the upper echelon perspective to explain decisional or organisational outcomes (Hough and Ogilvie, 2005; Olson et al., 2007; Kellermanns et al., 2008; Murray, 1989; Hambrick et al., 1996; Carpenter et al., 2001; Jensen and Zajac, 2004; Tihanyi et al., 2000; Sambharya, 1996).

The inclusion of strategic decision-making process adds a realistic element to the existing rational decision-making model in the international entry mode studies (Brouthers and Hennart, 2007), as different decision processes employ different level of situational information, cognitive capability, and decision criteria (Rajagopalan et al., 1993). All these may exert an influence on the decision-making. By reviewing SDMP literature (Elbanna, 2006; Rajagopalan et al., 1993), SDMP demonstrates its direct impact on various attributes of decisional outcome (e.g. quality, speed, and timeliness), rather than the outcome of the decision per se. Decision processes vary according to the involvement of information of contextual and firm constraints, the knowledge and interaction of decision-makers, and the bases of final choice (objective analysis or value) (Dean and Sharfman, 1996; Fredrickson and Mitchell, 1984). Different decision processes may determine how much deliberate rationality (Dean and Sharfman, 1993a) is involved and to what degree the decision lies

on the managerial preferences for information collection, interpretation, and final choice (Tse et al., 1988). That is, the decision process determines the balance between rationality and subjective preference in treating contextual or firm information in arriving at a decision. Thus, SDMP is likely to exert a moderating effect rather than a main effect on the outcome of a decision. Several characteristics of SDMP have been identified by past studies typically including procedural rationality, problem-solving dissension, and hierarchical centralisation of decision-making (Papadakis et al., 1998). These characteristics are widely used in SDMP studies and have been found to exert implications on decision-making in the Chinese context (Redding, 1980; Chen et al., 2005; Hall et al., 1993; Olson et al., 2007).

The final stream - literature on cultural studies - provides a contextual justification to operationalise managerial values in the Chinese context. Managerial cultural values were employed to represent managerial values, as cultural norms, values, and beliefs and have influences on a manager's perceptions, disposition, and behaviours (Ralston et al. 1997). Cultural effects underlie managerial preferences in making management decisions (Tse et al., 1988), a statement which is in line with prior studies of international entry mode (Shane, 1993; Kogut and Sigh, 1988). In Chinese society, prior literature also suggests that Confucianism has played a major role in shaping the Chinese culture for many centuries and it is believed to exert a predominant influence upon today's Chinese business culture and management practices (Robertson and Hoffman, 2000; Ahmed and Li; 1996; Yeung and Tung, 1996). Confucian dynamism consists of of all Confucian work ethics and was initially identified by the Chinese Value Survey (Chinese Culture Connection, 1987) at the societal level. Some scholars (Jaw et al., 2007; Frah et al., 2007) operationalised Confucian dynamism at the individual level to capture intra-cultural variations. Confucian dynamism at the individual level refers to the extent to which an individual endorses these work ethics prescribed by Confucianism (Frah et al., 2007), which is employed to represent a unique Chinese cultural trait of Chinese managers.

In sum, a synthesis of these three streams of literature is presented in Figure 5-1. The review of literature of international entry mode decision has not only identified the

research gap, the underinvestigated role of decision-maker and decision process in prior studies (Brouthers and Hennart, 2007), but also provided situational conditions that affect the entry mode decision. In order to directly fill the research gap, the review of SDM literature covers the studies of upper echelons and the SDMP studies. The upper echelon theory (Hambrick and Mason, 1984) suggests that managerial values can, directly and indirectly along with the influence of the perceived situational conditions, impact the outcome of decision. The SDMP literature (Rajagopalan et al., 1993; Elbanna, 2006) indicates that characteristics of SDMP have an impact on attributes of decisional outcome. Thus, SDM literature provided a theoretical foundation for the inclusion of the decision-maker and decision process. As this study focuses on Chinese private firms' international entry mode decision, a contextual justification is necessary. The review of Confucian values indicates their importance to Chinese managers. The research on cultural traits at the individual level provides an effective way to operationalise managerial values within Chinese society.

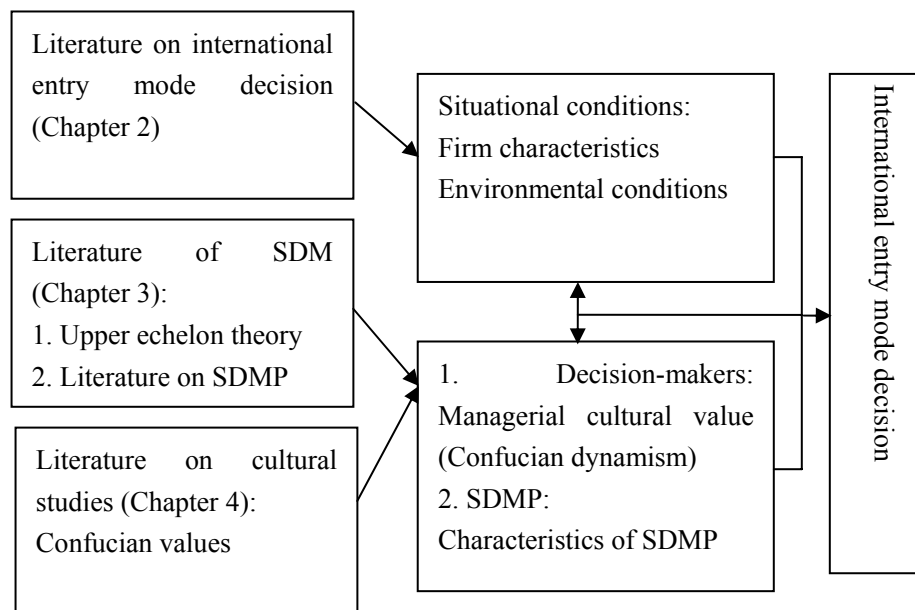


Figure 5-1: A synthesis of literature

5.3 Equity/non-equity modal decision

International entry mode choice is the decision regarding an institutional arrangement for a

firm to operate overseas (Anderson and Gatignon, 1986). Normally, international entry mode includes exporting, contractual modes, joint venture, and wholly owned mode (Brouthers and Hennart, 2007). In the past 30 years, various types of entry mode decision have been studied, typically including decisions concerning wholly-owned vs. joint venture (Gomes-Casseres, 1990; Shane 1994; Brouthers and Brouthers, 2003; Yiu and Makino, 2002), greenfield vs. acquisition (Hennart and Park, 1993; Demirbag et al., 2008; Brouthers and Brouthers, 2000), cooperative vs. independent (Pan and Tse, 1996), and equity vs. non-equity (Brouthers and Nakos, 2004; Nakos and Brouthers, 2002; Domke-Damonte, 2000).

This study has chosen the equity/non-equity modal decision as the study question for two reasons. Firstly, this is consistent with Coase's (1937) and Williamson's (1985) classification that market and hierarchy are considered as alternative governance structures. The choice between these two distinctive institutional arrangements not only make it easier to scale the impacts from different environmental and firm conditions, but also facilitate the capture of the effects of managerial cultural preferences and characteristics of the decision process. Secondly, most recent studies of Chinese firms' international entry mode decisions focus either on unique cases of acquisitions (Deng, 2007; 2009; Rui and Yip, 2008), or concentrate on export behaviour (Guan and Ma, 2002; Zhao and Li, 1997). As Chinese firms are still at the early stage of internationalisation (Young et al, 1998), it is of interest to understand the equity/non-equity modal decisions made by Chinese managers. The following questions need to be answered. Do the decisions simply reflect contextual situation or do they also reflect decision-makers' cultural values? Do the characteristics of the decision process also affect the outcome of the decision? Do interactions among subjective preferences, perceived situation, and decision process also affect the outcome?

Equity modes refer to entrants obtaining partial or fully ownerships of overseas investments (Hennart, 2000), such as wholly owned foreign subsidiaries and joint ventures, while non-equity modes mean that entrants do not invest into, and thus possess, ownerships of overseas operations, such as licensing, franchising, and exporting. Extant literatures (Anderson and Gatignon, 1986; Hennart, 2000; Erramilli and Rao, 1990; Hill,

Hwang, and Kim, 1990) distinguish them in several important ways in terms of control, risk, return, and resource commitment of the international entry.

Firstly, compared to non-equity based operations, equity modes enable firms to exert full or partial legitimate control of overseas operations according to the proportion of ownership acquired. Control means that entrants can determine or vote on strategic decisions and gain or share the profit of the venture (Hennart, 1988). Control promotes the returns and decreases the behaviour uncertainty from the overseas venture. However, it requires a larger resource commitment, a greater investment risk, and potential lock-in effects. Control is held to be the trade-off of return and risk (Anderson and Gatignon, 1986). With non-equity mode, firms have no or only limited operation controls pre-specified in the contract, but this approach enables entrants to keep flexibility and ease of switching (Hennart, 2001) as a contextual situation changes.

Secondly, higher investment risks are involved in an equity-based approach than in a non-equity based one. Compared to non-equity *ex ante* payments, equity owners are paid *ex post* from the operational profits of the venture (Hennart, 2000). This indicates that an equity-based operation has to deal more directly with six types of risk, including macro-environmental uncertainty, governmental policy or intervention, culture difference, materials/infrastructure, risk of product, market, and demand, and competition (Brouther et al. 2002; Kogut and Singh 1988; Gatignon and Anderson 1988; Erramilli and Rao 1993) before making a profit. Moreover, potential switching costs (Anderson and Gatignon, 1986; Williamson, 1985) are also higher for equity-based operation because of asset specificity (Brouthers and Nakos, 2004). A non-equity approach is less likely to encounter the aforementioned risks above, but also faces a dissemination risk of firm-specific knowledge or know-how (Arora and Fosfuri, 2000).

Moreover, in general, an equity mode-based approach is believed to generate more returns than a non-equity based operation. The entrant can obtain a certain share of the venture's profit according to the proportion of its ownership. A higher degree of control is a way to obtain a greater return (Anderson and Gatignon; 1986; Luo, 2001). A non-equity approach

usually decreases resource commitment and thus risks, at the expense of the return (Anderson and Gagneton; 1986).

Finally, equity-based entry usually requires a larger magnitude of resource commitment than a non-equity based approach (Erramilli and Rao, 1990; Luo, 2001). To begin with, an equity-based operation is associated with start-up cost, financial investment, and other operational costs. Secondly, some extra efforts are usually made to facilitate the specificity of the investment project, such as employee training costs. Finally, in order to cope with competition from local firms and gain more returns, entrants sometimes have to transfer firm-specific assets associated with firms' competitive advantages to overseas ventures (Padmanabhan and Cho, 1996). Non-equity modes based on market transaction usually do not require a large-scale commitment. By summarising all points above, a synthesis of above differences can be obtained from the following Table 5-1.

Table 5-1: Differences between equity and non-equity modes

Mode of entry	Control	Risk	Return	Commitment
Equity modes	Exerting high control through equity share	Facing environmental risks, operation risks, and lock-in effects directly	High return from operational profit	Large-scale of commitment or firm-specific asset
Non-equity modes	No control or very limited operational control	Limited risks from environmental risks and certain risks of traders' opportunistic behaviour	<i>Ex ante</i> payment according to contracts	Very low commitment to transactions

Source: Synthesis of relevant literature

5.4 Key explanatory variables and moderators and development of the hypotheses

5.4.1 Key explanatory and moderating variables

Previous researchers in the international entry mode domain have identified many determinants associated with environmental or firm characteristics (see literature review of international entry mode studies). The intention of this study is not to add more contextual or internal factors in explaining the decision, but to attempt to examine the effects of managerial cultural values and characteristics on SDMP, as well as their interactions with contextual and firm characteristics (Bourgeois, 1984; Hitt and Tyler, 1991).

Rationale for choosing the variables to represent environmental and firm characteristics

In this study, environmental hostility and firm size were selected to represent environmental and firm characteristics. They were chosen on three rationales as follows. Firstly, these two basic conditions reflect the degree of internal resource availability and external environmental munificence, and they set economic and contextual constraints (Child, 1972) for SMEs' international entry mode decisions. Prior empirical literature has also indicated that they are critical in SMEs' entry mode choice (Osborne, 1996; Nakos and Brouthers; 2002; Brouthers et al., 1996). Secondly, Chinese private firms currently seldom possess superior firm-specific assets and mainly compete on the cost (Morck et al., 2008), and firm size and munificence of the host environment are directly associated with their comparative cost advantages, which affect their overseas operational decisions and behaviours (Shi et al., 2001; Erramilli et al., 1997). Finally, the emphasis of this study is on the effects of managerial cultural values and characteristics of SDMP. Firm size and environmental hostility are retained to examine the interactions among situation, preference of decision-maker, and decision process suggested by SDM literature (Hambrick and Mason, 1984). They are mainly taken as illustrative variables mainly to detect these interactions, besides their importance.

Rationale for choosing the variable to represent Chinese managerial cultural values

Cultural values shape managerial values to a great extent (Ralston et al. 1997), and cultural effects underlie managerial preferences for attention allocations, the interpretation of information, and responses (Tse et al., 1988) in making management decisions. This study adopts Confucian dynamism to represent unique Chinese managerial cultural values for several reasons.

Firstly, Confucianism has been playing a major role in shaping the Chinese culture for more than a thousand years and it is believed still to exert a predominant influence upon today's Chinese business culture and management practices (Robertson and Hoffman, 2000; Ahmed and Li; 1996; Yeung and Tung, 1996). Secondly, Confucian dynamism was identified through the Chinese Value Survey, based on indigenous Chinese values (Chinese Culture Connection, 1987), which may be more appropriate than Hofstede's (1980a) western culture-oriented counterparts (Steenkamp, 2001). Thirdly, as it was not found to be highly correlated to any of the main cultural value dimensions of western culture (Hofstede and Bond, 1988), it is an idiosyncratic cultural trait and more suitable to represent unique Chinese managerial values. Finally, prior studies have already found that Confucian dynamism affects organisational behaviour (Jaw et al., 2007).

Rationale for choosing the variables to represent characteristics of SDMP

This study chooses procedural rationality, problem-solving dissension, and hierarchical centralisation to reflect the characteristics of SDMP for the following reasons.

Procedural rationality is considered to be one of the key dimensions of the strategic decision-making process (Elbanna and Child, 2007), which has been intensively studied by scholars (Dean and Sharfman, 1993a; Fredrickson and Mitchell, 1984; Elbanna, 2006; Simon, 1956). Prior studies tend to find that it is related to various organisational outcomes including decision effectiveness (Dean and Sharfman, 1996), firm performance (Bourgeois and Eisenhardt, 1988), and strategic action (Hendron and Fredrickson, 2006). It is also related to the Chinese context. Many cultural studies (Redding, 1980; Chatterjee, 2001)

have indicated that Chinese managers make decisions based on intuition or experience, rather than rational information collection and analysis. It is of interest to examine the impact of variations in reasoning on the outcome of equity mode decision-making in different firms.

Problem-solving dissension is also another importance dimension of SDMP. Prior literature (Amason, 1996; Forbes and Milliken, 1999; Ensley and Pearce, 2001) tends to indicate that the effects of this cognitive conflict are two-fold, and on the hand, it offers different views of the decision and could improve the decision quality, while on the other hand, it can also trigger affective conflict and block information exchange (Forbes and Milliken, 1999). A few studies (Olsten et al., 2007; Chen et al, 2005) have also reported that the effect of problem-solving dissension is also culture-bound, and the negative effect of the characteristic may be magnified in the Chinese contexts that emphasises harmony. Thus, it is necessary to examine its effect on Chinese firms' international entry mode decision-making.

Hierarchical centralisation is the typical decision pattern in Chinese organizations (Davies and Ma, 2003; Hall et al., 1993; Gatfield and Youseff, 2001; Chatterjee, 2001). Prior studies have generally found that centralisation constrains cognitive capability and makes it difficult to produce creative decisions (Smith et al., 2006; Miller, 1987), but on the other hand, conformity can be achieved relatively more easily and it increases managerially assertive tendency (Miller, 1987). The examination of this characteristic will increase the understanding of its effect on the outcome of international entry mode decision.

5.4.2 Development of the hypotheses

Mainly based on the literature of SDM, cultural studies, and international entry mode, this study has developed hypotheses to link key explanatory variables and moderators with the phenomenon of interest. The hypothetical relations are illustrated in Figure 5-1.

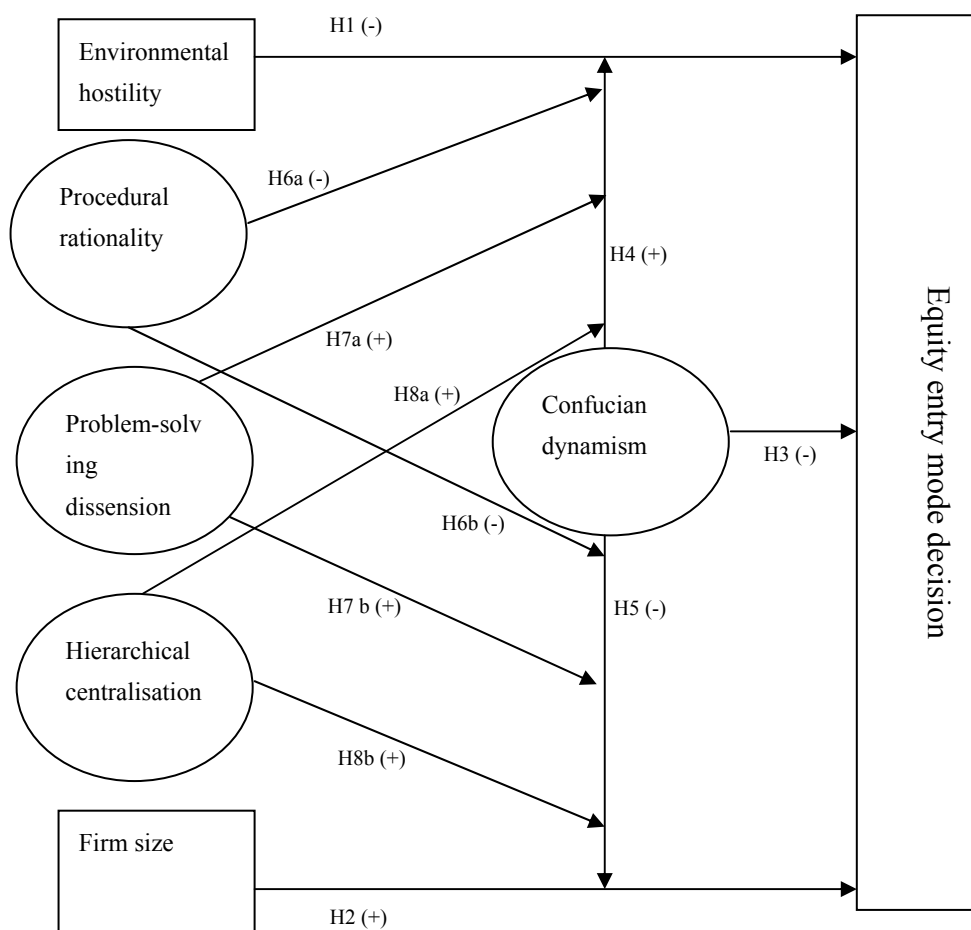


Figure 5-2: Hypothetical relations for this study

Environmental and firm characteristics

Environmental hostility (external condition)

Environmental hostility or munificence stresses the extent of the scarcity or abundance of critical resources and opportunities to support the sustained growth of an organization (Dess and Beard, 1984; Goll and Rasheed, 1997). The availability of crucial environmental resources largely determines organisational survival and growth and also affects new entrants' behaviours (Castrogiovanni, 1991) in a host country. Three dimensions of environmental munificence/hostility were identified by Castrogiovanni (1991) in terms of capacity, growth/decline, and opportunity/threat. This reflects certain aspects of location advantages, which represents host country-specific immobile endowments, e.g. market size (Dunning, 1988). The level of local endowments may facilitate or hamper entrants to utilise their transferable knowledge in generating competitive advantages. It is noteworthy

that although these conditions are available to all firms, some firms may utilise those location advantages better than other firms (Brouthers et al., 1996).

Effects of location advantage may become significant to new entrants when host environment is attractive (Dunning, 1988). A favourable environment may shift new entrants' focuses from the fear of failure to pursuing greater long-term profitability or long-term presence (Agarwal and Ramaswami, 1992). Without serious environmental threats, equity modes enabling entrants to exert higher controls and generate more returns (Anderson and Gatignon, 1986; Gatignon and Anderson, 1988), may be a better option for new entrants than non-equity modes. Conversely, when environmental conditions are hostile, firms are struggling and competing fiercely for limited resources or markets. Survival becomes the top priorities for existing firms. Under these circumstances, new entrants tend to adopt either non-entry or non-equity modes to keep flexibility and avoid potential losses (Klein et al., 1990; Williamson, 1985).

In addition, compared to western firms, Chinese firm-specific advantages are mainly based on the abilities of large-scale manufacturing and cost control (Morck et al., 2008). These abilities cannot provide them with absolute advantages universally over local rivals and are heavily reliant on host country endowments or resources, such as availability of low-cost labour. As their profit margins are normally low, Chinese firms are less able to offset harsh environmental conditions than are their western counterparts. They tend to be sensitive to the munificence level of host country environments. If the environment of host country is characterised by a shortage of resources, limited market size and opportunities, Chinese firms are likely to use exporting or other non-equity modes to take advantage of their massive production capability in the homeland.

Finally, the results of some empirical studies tend to support the theory of environmental hostility in terms of low market capacity, decline of markets, and string competitiveness having negative relationship with the adoption of equity modes. For instance, Agarwal and Ramaswami (1992) found that great market potential (size and growth) was positively correlated to the use of equity modes in American equipment-leasing firms; in other words,

low market potential impacts equity modes negatively. Luo (2001) reported that the growth of the number of firms in a host industry - an indicator of industrial growth opportunities - was positively related to higher control modes in China. Both Somlev and Hoshino (2005) and Bhaumik and Gelb (2005) reported that low growth rate and competition intensity in a host country was negatively related to high control modes (e.g. wholly owned). Kaynak et al. (2007) indicated that FDI concentration ratio reflecting munificence of environment was positively correlated to advanced equity mode.

By summarising theoretical and empirical arguments as well as contextual justification, it is suggested that:

Hypothesis 1: Other things being equal, the environmental hostility in a host country has a negative effect on the adoption of equity-based modes by Chinese firms.

Firm size (internal condition)

Theoretically, Dunning's eclectic paradigm (1988) emphasises the necessity of ownership advantages to operate overseas. Ownership advantages reflect firm-specific resources or capabilities providing competitive advantages to the firm in an international setting (Dunning, 1988, 1993). Firm size is considered to be an important type of ownership advantage (Brouthers et al., 1999; Agarwal and Ramaswami, 1992), and several theoretical arguments tend to support the positive link between firm size and the adoption of equity modes.

Firstly, international operations, especially adoptions of equity modes (solo venture and joint venture) usually incur higher costs than domestic or non-equity operations due to higher marketing costs and operation costs (Agarwal and Ramaswami, 1992; Nakos and Brouthers, 2002). Different institutional and cultural environments make it more difficult for entrants to collect information, acquire market knowledge, exert managerial control, and coordinate or gear operations with the supply chain than in non-equity operations. All these activities involve serious cost and resource requirements for an international equity-based operation. A large firm reflects its strengths in its financial and human resources (Nakos and Brouthers, 2002), which provide physical foundations to meet the

requirements. Moreover, if a firm is large, this can also enable it to absorb these costs more easily (Dunning, 1988; Agarwal and Ramaswami, 1992). On the contrary, smaller-sized firms may not obtain enough financial or other resources needed in an equity-based international operation, and thus may rely on non-equity modes in international operations (Nakos and Brouthers, 2002).

Furthermore, in order to survive in the host country, it is important for entrants to have sufficient or unique resources to compete with local firms (Dunning, 1988). Usually, entrants have certain inherently competitive disadvantages compared to local firms due to the liability of foreignness. Besides the incurrence of higher cost (Hymer, 1976), the liability of foreignness sometimes also restrains new entrants in accessing critical resources and connections in a foreign location (Shi et al., 2001). Generally, local firms usually enjoy better information, knowledge, and connections in their country than their foreign counterparts (Buckley and Casson, 1976; Chen et al. 2004). Only an entrant with sufficient asset power can incrementally improve its disadvantageous position by spending a great deal on building and sustaining business connections. Thus, the sufficient resource of large firms enable them cope with competitions better than their smaller counterparts. Being aware of the competitive disadvantages and lacking asset power to change the situation, small companies are more likely to employ non-equity modes to compete in the international market.

Moreover, a large size may also partially reflect a firm's coordinating capability and managerial efficiency, which is important to internalise the transaction market imperfection (Dunning, 1988) to gain pecuniary externalities (Hennart, 2001). Usually, a large-sized firm has more managerial or coordinating capabilities than a small company as the scale of operation increases managerial complexity (Child, 1972). In the international operations, through equity-based approach, larger firms having more internalisation capabilities can benefit more from efficiency differences between hierarchy and market approach than their smaller counterparts, and thus tend to employ equity-mode more frequently based than smaller firms.

Finally, considering the sample of this study - Chinese manufacturing firms - it is argued that firm size could play an even more significant role in influencing their equity mode decision. Extant literatures have identified several ownership resources that may impact international entry mode choice in terms of firm size, international experience, and the ability to produce differentiated products or services (Nakos and Brouthers, 2002). Generally speaking, Chinese firms are latecomers on the international stage and lack international experiences and intellectual properties (Mathews, 2006). They mainly compete on production cost and quality control in the mature industries (Morck et al., 2008). Firm size is an indicator of the scale of economy, and a larger Chinese firm may obtain cost advantage over its smaller counterparts. Cost advantages of larger firms finally convert into financial strengths and other resources, which have a positive impact on their equity-based international entry.

Besides above theoretical reasoning and contextual justification, much empirical evidence (Agarwal and Ramaswami, 1992; Tan et al., 2001; Brouthers et al., 1996; Shi et al., 2001) also support that firm size has a positive impact on equity-based operations. For instance, Agarwal and Ramaswami (1992) found that larger U.S. equipment leasing companies tend to use solo venture or joint venture modes rather than exporting. Tan et al. (2001) reported that larger firms venture overseas through equity modes of entry, in both samples of Hong Kong and Australian firms.

By summarizing all points above, this study suggests:

Hypothesis 2: Other things being equal, the size of Chinese firms has a positive effect on the adoption of equity-based modes.

Managerial cultural values

By advancing the perspective of strategic choice (Child, 1972), Hambrick and Mason (1984) proposed an upper echelon view that strategic choices are partially predicted by managerial values and cognitive bases. As an international entry mode decision is associated with high uncertainties and multiple goals, a totally rational and quantifying approach cannot be completely applied due to managerial cognitive limits and incomplete

information (March and Simon, 1958; Cyert and March, 1963; Child, 1972). Under the circumstances, managers tend to strongly rely on their value systems to make decisions (Ralston et al., 1993). The outcome of the decision inevitably in part reflects their preferences and aversions (Hambrick and Mason, 1984). Managerial values are largely shaped by the national culture (Ralston et al., 1997). National culture forges managerial assumptions (Ralston et al., 1993) and also differentiates work values and their priorities (Jaw et al., 2007). Cultural values have a strong effect on executives' strategic choice and orientation (Gupta and Govindarajan, 1991; Hitt et al., 1997; Ralston et al., 1999; Tse et al., 1988) though underlying preferences for attention allocations, information interpretations, and responses (Tse et al., 1988) in decision-making.

Extant literature of international entry modes (Kogut and Singh, 1988; Shane, 1993; Erramili 1996; Makino and Neupert, 2000) tends to address the premise that the characteristics of culture in home country influence managerial perception of risks, the degree of trust, and needs of control, which ultimately affect the outcome of international entry mode decision. For instance, Erramili (1996) conducted a comparison study of MNEs of US and EU countries on the relationship between entry mode choice and two cultural attributes - power distance and uncertainty avoidance. He found that majority ownership and higher control of subsidiaries is associated with higher index values of uncertainty avoidance and power distance. Makino and Neupert (2000) also reported that compared to Japanese firms' propensity of using wholly owned mode in investing in the US, US firms are inclined to adopt a lower control mode when investing in Japan due to the lower power distance and uncertainty avoidance of U.S. society.

Main effect of Confucian dynamism

Confucian dynamism, identified by the Chinese Values Survey (Chinese Culture Connection, 1987), reflects Confucian work ethics from Confucius's teachings. It includes elemental values of *persistence*, *ordering relationship*, *thrift*, *having a sense of shame*, *personal steadiness*, *saving face*, *respect for tradition*, and *reciprocation*. All these values are emphasised in the Chinese society (Fang, 2003; Ahmed and Li, 1996) and exert a predominant influence upon today's Chinese business culture and management practices

(Robertson and Hoffman, 2000; Ahmed and Li, 1996; Yeung and Tung, 1996). These values in Confucian dynamism were also unique and not found in western cultures (Hofstede and Bond, 1988). This researcher believes that most of these values may have an impact on antecedents of international entry mode decision. Rationales for the conjecture and theoretical reasoning can be obtained as follows:

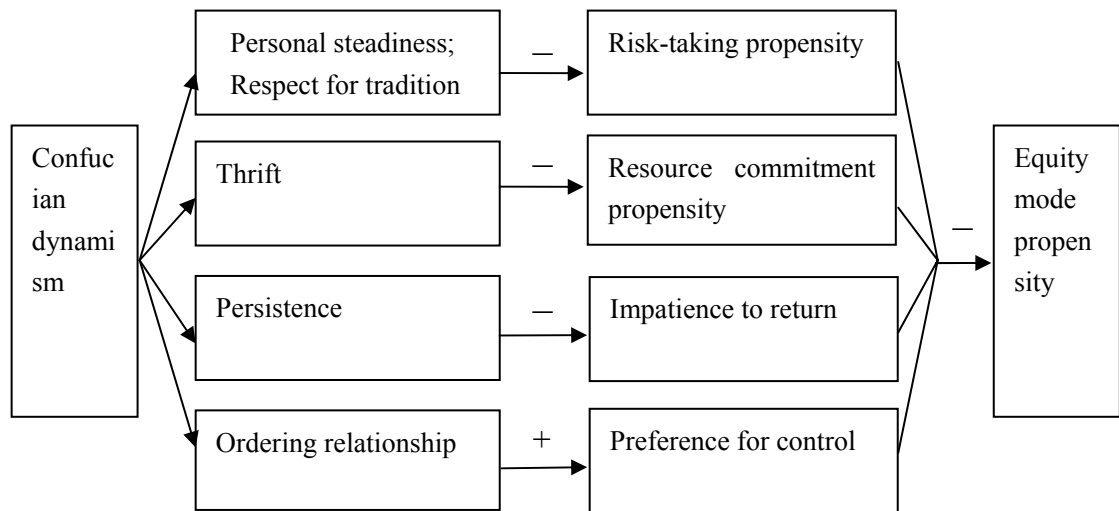


Figure 5-3: Confucian dynamism values and their impact on entry mode choice

● *Personal steadiness & respect for tradition and risk avoidance*

In a Confucian society, personal steadiness (*wenzhong* in Chinese) is an important personal virtue, with which an individual is considered to be prudent, reliable, and trustworthy (Fang, 2003, Ahmed and Li, 1996). A man with *wenzhong* takes serious attitudes about obligations to work, family, and society (Ahmed and Li, 1996). However, according to the Chinese *zhongyong* (moderation) principle, someone with too much *wenzhong* is characterised as a ‘stick-in-the-mud’ who shows little tolerance for ambiguity and an absence of passion (Fang, 2003). Similarly, Hofstede and Bond (1998) claimed that an overemphasis on personal steadiness will discourage individual entrepreneurial spirits in terms of initiative, risk taking, and flexibility.

In connection to international entry mode decision, a decision maker with a high degree of personal steadiness is more likely to pay attention to aspects of risks and changes (Rarick, 2007) brought about by the international entry. This increases the tendency to avoid

adopting entry modes associated with great perceived uncertainties. In addition, decision-makers with too much *wenzhong* tend to take a paternal perspective towards his family and firm. They are willing to fulfill their role obligations and take the responsibilities to take care of to their family members and employees. During the decision making, they are likely to consider the errors or mistakes that they make may jeopardize the well-being of the family or the employees of the organisation (Ahmed and Li, 1996; Chatterjee, 2001). This leads to a more prudent and cautious attitude towards equity modes associated with greater uncertainties.

The respect for tradition is derived from ancestor worship (Chatterjee, 2001) and is an extension of the important relationship of *wunlun* (one of the five relationships). According to Schwartz and Sagiv (1995), the value of respect of tradition emphasises that people honour customs, ideas, and practices that the traditional culture provides. It is opposite to the dimension of openness to change. Schwartz (1994) clarified that the nature of this value is to maintain the social arrangement and also give certainty to life. Respect for tradition shows an emphasis on keeping stability and harmony, and avoiding uncertainties brought by changes. As international entry is a form of innovation (Andersen, 1993), Hofstede and Bond (1998) stress that an overemphasis on respect for tradition impedes innovation. International entries with equity-based modes are more innovative challenges to Chinese firms than the traditional exporting approach. A decision-maker with a greater degree of respect for the traditions may feel more uncomfortable with the adoption of an equity-based operation, which is associated with a great departure from traditional operations.

- *Thrift and resource commitment*

Thrift is a work virtue of Confucian dynamism (Chinese Culture Connection, 1987) and it encourages frugality. In the business context, being frugal means using limited resource in promoting productivity and profitability. It is believed to be an important factor in the success of overseas Chinese (Wah, 2001). The value of thrift demonstrates a preference for a cost-conscious approach in conducting businesses (Browaeys and Price, 2008). Relative to international entry mode decision, a decision-maker with a strong thrift orientation may

be cautious about making a large scale commitment. In addition, most Chinese firms do not possess superior intellectual properties and cost leadership is their main competitive strategy (Morck et al., 2008), which may reinforce their thrift orientation in making an international entry decision. Equity-based operations are costly and require spending a considerable amount of resources (capital, human resources, and physical assets) and may not be a favourable option for the Chinese decision-maker with a strong thrift value.

- *Persistence and Impatience to return*

Hofstede and Bond (1988) suggested that the value of persistence encourages resolution and incessant commitment to the achievement of selected goals. Many scholars (Hofstede and Bond, 1988; Jaw et al., 2007; Wah, 2001) deemed that the value of persistence stressed in Confucian society is long-term orientated, focusing on long-term successes rather than short-term benefits. In the business context, the value of persistence may stress the future market position, rather than a short-term return (Browaeys and Price, 2008). Almost all internationalised Chinese firms started their international market entries after the launch of the “open door” policy in 1978. In 2007, China was the third largest exporter and the value of exports reached US \$ 1218.02 billion, but outward FDI only reached US \$ 26.51 billion and ranked 18th in the world (Statistical Bulletin of China’s Outward Foreign Direct Investment, Ministry of Commerce, 2007). All this demonstrates that Chinese firms are largely still at the early stage dominated by non-equity modes in the Uppsala stage model (Johanson and Vahlne, 1977; 1990). Under these circumstances, the value of persistence emphasises continuous efforts to improve their disadvantageous positions incrementally matching the development of their competitive advantages, rather than taking the risk of jumping quickly to the final stages through a production subsidiary to enter a foreign market. A Chinese decision-maker with a strong sense of persistence has the great patience for the return from the international entry and prefers an incremental approach to conduct international operations (Lockett, 1988), and thus, currently, less profitable and risky non-equity based operations are likely to be prioritised in order to prepare for expansion in the future.

- *Ordering relationship and control*

Confucius claimed that a hierarchical relationship is necessary to maintain good order or harmony for the family, organisation, and society (Chew and Lim, 1995). The stress on hierarchical order permeates every aspect of society and also underlies the predominance of centralised power and the vertical relationship system in Chinese business organisations (Oh, 1992; Jacobs et al., 1995; Wah, 2001). Extant international entry mode literature (Shane, 1993; Shane, 1994; Makino and Neupert, 2000) suggests that prevailing unequal relationships in a group or society reflect a lack of trust among members and thus generate a need of control to deal with potential opportunistic behaviour. Similarly, Chinese private firms are usually family-based, and power is usually centralised in the hands of family members or individuals who have a close friendship with the owner. Individuals who are from outside the family, neighbourhood, and close friendship can seldom gain the trust of the owner immediately as “they have not attached any meaningful role obligations through past interaction” (Chatterjee, 2001, p.24). An ordering relationship in a Chinese firm reflects the need for preservation of ownership and control (Wah, 2001). When making an international entry mode decision, a decision maker with a strong preference for ordering relationships lacks trust in unfamiliar business partners, and tends to internalise operations and have the controls held by family members or trusted friends.

By summarising all the above points above, it may be seen that in the construct of Confucian dynamism, five out of eight values (actually seven values, as many scholars (Redding, 1990; Fang, 2003; Yeung and Tung, 1996; Ahmed and Li, 1996) who studied Chinese culture have pointed out the value of saving face and the value of having a sense of shame are not independent concepts, and care of face is the manifestation of avoidance of shame) may have impacts on antecedents of the equity mode decision through propensities on risk, commitment, return, and control. Although the directions of these impacts are not completely consistent, most of these values show negative impacts on equity mode adoption. So this study suggests:

Hypothesis 3: Other things being equal, the Confucian dynamism of the decision-maker has a negative effect on the adoption of equity-based mode by Chinese firms.

Moderating effects of Confucian dynamism

As prior studies (Kogut and Singh, 1998; Shane, 1993) have only examined the main effects of home cultural characteristics on international entry decision, the potential moderating effects of cultural traits are seemingly overlooked. Upper echelon theory (Hambrick and Mason, 1984; Hambrick et al., 1996) indicated that the outcome of strategic decision relies on both the decision-maker's eventual perception of the situation and his/her values, and values and perceptions are not necessarily to be independent. Notably, values can affect the perceptions and values can also directly influence the decision outcome (Hambrick and Mason, 1984). Schwenk (1984) and Das and Teng (1999) provide more detailed explanations on above views. It stresses that, when making a complex and uncertainty decision, value is likely to bias perception through making decisions on the basis of pre-conceived beliefs ignoring perceived information, and overestimating the usefulness of information which confirms their preferences and undervalues disconfirming information. The first condition illustrates the main effects of values, which indicate that decision-makers make decisions based solely on their values in spite of potential differences between these values and perceived information, which indeed is the tacit assumption of past studies on the effects of cultural value (Kogut and Singh, 1988; Shane, 1993; Shane, 1994; Makino and Neupert, 2000). The second condition is especially interesting as it specifies the interactions between decision-makers' values and perceived situational conditions. Values tend to enlarge the effects of perceived situational conditions which are consistent with their values, and decrease the effects of perceived situational conditions which are not consistent with their values.

A Confucian dynamism orientation reflects a preference for risk-avoidance, low investment resource commitment, incremental progress, care for face, and need of control, which generally shows low tolerance to large-scale social and economic change and is cautious to risks encountered (Redding, 1990). Jaw et al. (2007, p.765) commented that "Confucian dynamism is quite similar to Schwartz's (1999) conservatism value".

The effect of environmental hostility on equity mode decision is likely to be magnified by a decision-maker holding a strong Confucian dynamism orientation for several reasons:

Firstly, severe competition, small market potential, or the low growth rate of market (Castrogiovanni, 1991) tend to remind the decision-maker of the great survival risk. The risk-aversion value of the Confucian dynamism holder makes him or her more sensitive to risks encountered than “economic man” (Simon, 1955). Although past studies have reported that the scarcity of resources in an environment leads firms to avoid risk-taking and innovation (Goll and Rasheed, 1997; Miller and Friesen, 1983), more conservative values of decision makers impel them to more rapidly and decisively depart from equity-based operations associated with greater risks. Thus, the negative effects of environmental hostility on equity mode adoption tend to be enlarged by a strong Confucian dynamism orientation.

Secondly, it will be more expensive to achieve certain economic goals in an unfavourable host environment than a munificent one (Castrogiovanni, 2001). Limited resources, low growth and severe competition will significantly increase production cost, marketing cost, and sales expenditure. Compared to cost neutrality, the thrift-orientation of Confucian dynamism makes the decision-maker be very cautious about the cost aspect of investment (Browaeys and Price, 2008). With an increasing degree of environmental hostility, the attractiveness of non-equity operation associated with low cost is likely to be magnified, as it is consistent with the decision maker’s preference. So a strong cost-cautious orientation pushes the decision-maker to leave equity-based options in an accelerating speed-up pattern as environmental hostility and thus operation cost increases.

Finally, most Chinese firms are still at the early stages of internationalisation (Young, Hood, and Lu, 1998). Non-regular and regular exporting (Johanson and Vahlne, 1977) are still the main modes used by most Chinese firms to tap into the international market. An incremental approach orientation (persistence or perseverance) encouraged by Confucian dynamism stresses continuous efforts to deal with difficult problems (Hofstede and Bond; 1988). Hardship brought by host environmental hostility reinforces the approach by putting constraints on the deviation from the step-by-step pattern when tapping an unfavourable overseas market. Thus, non-equity modes are increasingly preferred with ascending environmental constraints and incremental mindset.

Summarising all points above, the following hypothesis is suggested:

Hypothesis 4: Other things being equal, the Confucian dynamism of a decision-maker positively moderates the relationship between environmental hostility and the adoption of an equity-based mode by Chinese firms. Specifically, Confucian dynamism enhances the negative effects of environmental hostility on the propensity for equity mode adoption.

Besides the characteristics addressed above, many scholars (Myers, 1987; Jacobs et al; 1995; Chew and Lim, 1995; Ahmed and Li, 1996; Yeung and Tung, 1996; Zhu and Yao, 2008) have also pointed out that Confucian dynamism is generally featured as a non-competitive work ethic. In Confucian dynamism, all the promoted work virtues or behaviours stress the importance of the fulfillment of individual obligations in order to maintain appropriate and harmonious relationships in or among groups, organisations, and business partners. For instance, the value of the ordering relationships emphasises the legitimacy of the obligations of deference for subordinates and the obligations of benevolence for supervisors to avoid potential conflicts between the two parties. The value of personal stability requires a person to “control their own emotions and avoid dissension, competition and conflict” (Chew and Lim, 1995, p.146). The value of reciprocation promotes a cooperative approach by encouraging each party among business partners to provide or repay favours or business opportunities to others (Yeung and Tung, 1996). These obligations are encouraged to keep the stability of an organisation, which is consistent with the philosophical goal of Confucianism (Chew and Lim; 1995).

In connection with the competitive aspect of international entry mode decision, decision-makers with strong Confucian dynamism orientations, emphasise ‘harmonious co-existence’ (Zhu and Yao, 2008, p60), rather than overwhelming or defeating their competitors. They do not like a zero-sum result but pursue a win-win situation. They think that the pursuits of one’s interests at the price of the losses of others are short-term oriented (Zhu and Yao, 2008). Firm size reflects the asset power (Agarwal and Ramaswami, 1992) and, partially, the coordinating or managerial capability of a firm. It offers certain asset and transaction advantages (Dunning, 1988) to compete with local firms. Confucian dynamism holders are more likely to confine themselves within moral obligations and avoid

introducing disconformities (Lu, Rose, and Blodgett, 1999) in a host market. Compared to the ‘economic man’ model (Simon, 1955), non-competitive orientation, to some extent, is more likely to devalue the approach of the aggressive and full exploitation of their ownership advantages to challenge their competitors. The decision-maker with a strong Confucian dynamism orientation prefers conflict-avoidance rather than competition. During the decision-making process, attention is more likely to be more paid to easing potential conflicts and less to competitive advantages. In relation to Confucian dynamism, the effect of a large firm size, providing a type of competitive basis, on equity mode decision, is likely to decrease.

Secondly, Confucian dynamism holders are usually conservative and modest (Jaw et al., 2007). They generally believe that “even from any three traveling companions, we can learn something” (Confucius’ teachings). In order to enhance self-cultivation, Confucianism encourages people to realise their moral demerits and cognitive knowledge limits and to acknowledge and respect others’ achievements. Although the orientation boosts learning (Lim, 2003), strong value holders tend to pay great attentions to others’ advantages and underestimate their own strengths or advantages. Relative to international entry mode decision, firm size reflects the abundance of a firm’s resources (Shi et al., 2001) and provides a type of competitive basis for an entrant. However, even with a large firm, a modest orientation and holistic thinking (Redding, 1980) this tends to remind the decision-maker of the limits of his/her firm’s capabilities including insufficient capabilities to develop differential products and international experience, which is a typical situation among Chinese firms (Mathews, 2006). Simultaneously, the strengths or advantages of local firms or other multinationals operating in the market are likely to be acknowledged and magnified. A decision-maker with strong Confucian dynamism tends to balk at the exploitation of their advantages as much attention is paid to their limits and others’ advantages. Thus, to some extent, the effect of firm size on equity mode is likely to decrease.

Summarising all points above, the following hypothesis is suggested:

Hypothesis 5: Other things being equal, the Confucian dynamism of a decision-maker

negatively moderates the relationship between firm size and the adoption of an equity-based mode by Chinese firms. Specifically, Confucian dynamism diminishes the positive effects of firm size on the propensity for the equity mode adoption.

Characteristics of SDMP

Extant literature on the strategic decision-making process (SDMP) has identified several characteristics of the strategic decision process (Rajagopalan et al., 1993), typically including procedural rationality or comprehensiveness (Fredrickson and Mitchell, 1984; Dean and Sharfman, 1993a; 1996), problem-solving dissension (Amason, 1996; Ensley and Pearce, 2001), and hierarchical centralisation (Miller, 1987). These SDMP characteristics have been found to have impacts on various attributes of decision outcomes in terms of decision-making effectiveness, decision quality, and decision speed (Dean and Sharfman, 1996; Forbes and Milliken, 1999; Rajagopalan et al., 1993). However, little has been written on how different characteristics of SDMPs affect decision content elements (Hendron and Fredrickson, 2006) and thus finally influence the decision outcome.

Based on the upper echelon theory (Hambrick and Mason, 1984) and SDMP literature (Dean and Sharfman, 1993a; Rajagopalan et al., 1993), it is suggested that SDMP may serve as an organisational mechanism to adjust the effects of decision-maker's preferences on internal or external conditions by providing different degrees of relevant information, cognitive resources, analysis methods, and final decision bases. In connection with this study, as stated previously, if a decision-maker tends to make a final decision solely based on his/her values or beliefs (Hambrick and Mason, 1984), no matter what type of SDMP adopted, the decision process will have little impact on final decision outcome. However, in reality, a strategic decision outcome is seldom determined solely by managerial values or perceptions (Cyert et al., 1956). Most decision outcomes actually are generated by the combined effects of values and perceived internal/external conditions (Hambrick and Mason, 1984). Under this circumstance, as the managerial values and ultimate perceptions of situation are jointly responsible for strategic decision outcomes, the moderating rather than main effects of SDMPs on international entry mode decisions are proposed by this study.

Interaction of procedural rationality, Confucian dynamism, and situational conditions

Procedural rationality indicates “the extent to which the decision process involves the collection of information relevant to the decision, and the reliance upon analysis of this information in making the choice” (Dean and Sharfman, 1993, p.589). In order to make the best decision possible in a particular setting, it strives to collect comprehensive objective information of a situation, conduct detailed analysis, evaluate alternatives, and make the final decision based on objective criteria (Dean and Sharfman, 1993; Fredrickson and Mitchell, 1984). The decision process is characterised as highly rational, and has impacts on the effects of Confucian dynamism on internal and external conditions through different stages of information processing including information scanning, processing and interpretation, and action (Daft and Weick, 1984).

Firstly, a sufficient collection of relevant information of internal and external conditions limits the effect of culturally selective biases of the decision-maker. Confucian dynamism demonstrating inherent preferences for low risk, thrift, resistance to change, and need of control (Ahmed and Li, 1996). When making an international entry mode decision involving great uncertainties and complexities, to some extent, managerial observations are likely to be confined to those information scopes with references to their preferences or mindsets (Levy, 2005; Levy et al., 2007). Thus, values like Confucian dynamism are suggested to serve as information filters (Hambrick and Mason, 1984) to screen out information of little interest that may sometimes actually be important and valuable for the decision-making. Procedural rationality attempts to collect systematically and exhaustively relevant external and internal information based on requirements of the decision making (Elbanna, 2006), rather than gather information haphazardly, relying on a decision maker’s preferences or cognitive bases (Hambrick and Mason, 1984). By systematically collecting information, a procedurally rational SDMP decreases the selective attention effects of Confucian dynamism by introducing external and internal information into the decision-making.

Secondly, different degrees of the procedural rationality of SDMP also influence the value

intervention of information processing and interpretation during information analysis (Tse et al., 1988). Cultural values including Confucian dynamism are believed to underlie managerial preferences for attention allocations (Tse et al., 1988) in processing information. When facing an abundance of information, decision-makers tend only to pay more attention to certain aspects of situational conditions while paying less to others, according to his or her value system (Ralston, et al., 1993). For instance, a decision-maker with strong Confucian dynamism may focus on the information of investment risk, cost, and control of the international entry, and may pay less attention to the information on the benefits of a radically competitive attack on local rivals. An extremely rational or comprehensive decision process decreases the attention allocation biases partially caused by cultural values by analysing a wide range of objectives, alternatives, and associated costs and risks of various consequences of alternatives (Dean and Sharfman, 1993, Fredrickson and Mitchell, 1984). Through this approach, attention is are equally distributed to every aspect necessary for the decision-making, and thus selective attention effects brought about by Confucianism dynamism are likely to decrease. Moreover, when interpreting the information, a rational SDMP employs objective criteria or expert judgment (Fredrickson and Mitchell, 1984), rather than use decision-makers' Confucian philosophical preferences or avoidance to interpret the information to suit their social or psychological needs. In sum, the effects of Confucian dynamism on attention allocation and interpretation of internal and external conditions are likely to diminish when the level of procedural rationality is high in information analysis.

Finally, a final solution must be selected according to certain judgment bases. The final outcome of an international entry mode decision with high procedural rationality is generated based on the objective comparisons among analysis results of alternatives (Dean and Sharfman, 1993a). It decreases the possibility of producing an outcome reflecting the decision-maker's preferred internal or external conditions based on Confucian dynamism orientation.

By summarising all points above, it is suggested that with an increasing degree of procedural rationality in the international entry mode decision-making process, the

moderating effects of Confucian dynamism are likely to diminish. Comprehensive information processing largely limits the effects of cultural values on information scanning, attention distribution, interpretation, and final selection. In an ideal model, a complete rational decision procedure will exclude the effects of cultural values, as there are no interactions between values and perceived internal and external conditions. International entry mode decision will be solely determined by rationally collected external and internal conditions, which will generate a better quality of decision (Bourgeois and Eisenhardt, 1988; Lyles et al., 1993).

Thus, the following hypotheses are developed:

Hypothesis 6a: Other things being equal, Confucian dynamism's enhancement of the negative effects of environmental hostility on the equity mode adoption is likely to decrease when using a more rational decision process.

Hypothesis 6b: Other things being equal, Confucian dynamism's diminishment of the positive effects of firm size on equity mode adoption is likely to decrease when using a more rational decision process.

Interaction of problem-solving dissension, Confucian dynamism, and situational conditions

According to the literature of SDMP, problem-solving dissension indicates different views on objectives, methods, and solutions among decision-makers during the decision-making process (Papadakis et al., 1998). It indicates the competing preferences on the above aspects among decision-makers (Miller et al., 1998) and reflects the extent of cognitive diversity and interaction process during SDMP (Amason, 1996).

Prior studies produced controversial results of problem-solving dissension and decision quality. One stream of literature (Cosier, 1982; Schweiger and Sandberg, 1989; Schweiger, Sandberg, and Rechner, 1989; Amason, 1996) stresses that cognitive dissension or conflict reflects the breadth of cognitive resources, which will contribute different perspectives and generate more alternatives during SDMP. As strategic decision-making involves great uncertainties and complexities, cognitive dissensions enable decision-makers to be aware

of different aspects of the decision, which leads to a better quality of decision. The second stream of literature emphasises the negative impacts of cognitive dissensions, including personal affective conflicts (Ensley and Pearce, 2001), communication failure (Milliken and Martins, 1996; Miller et al., 1998), low group cohesiveness (Forbes and Milliken, 1999), and low acceptance and commitment (Kochan et al., 2003). These undesirable results may produce an inferior decision outcome.

In the Chinese context, it could be argued that the moderating effects of Confucian dynamism will be magnified in the presence of a SDMP full of cognitive dissension. The characteristics of Confucian dynamism, including facing-saving, maintenance of ordering relationships, and risk avoidance contribute to the magnification when considerable cognitive dissension exists in the decision process.

Usually, in Chinese private firms, senior decision-makers in Chinese top management teams consist of owners of those firms and also family members or relatives (Gatfield and Youseff, 2001). Other members are often the directors of departments. Senior decision-makers are generally few and are integral in decision-making (Olson et al. 2007). When making a complex and uncertain decision like international entry mode decision, diverse perspectives on internal or external conditions may be raised by other members of the top management team. If these opinions deviate largely from the views of the senior decision-makers holding strong Confucian dynamism orientations, these dissensions may be considered as a breach of harmony (Chen et al., 2005) and a challenge to their authoritative positions by senior decision-makers. In order to avoid losing face as well as the maintenance of ordering relationships in the decision team, Chinese senior decision-makers may strongly reiterate and insist on their judgments of internal or external conditions. Paternalistic power may be used to curb escalating conflicts. Consistent with Confucian tradition, these behaviors attempt to regain respect or deference from subordinates (Lockett, 1988), which are considered to be critical to maintain appropriate hierarchical relationship and thus harmony in the team. Thus, biased perceptions by Confucian dynamism on internal/external conditions are likely to be exacerbated in the presence of great dissension, as great emphasis is laid on the role obligation, rather than the

content of the dissensions. This argument is consistent with the perspective of the negative impact brought about by dissensions (Forbes and Milliken, 1999; Ensley and Pearce, 2001) as Chinese decision-makers traditionally prefer the conflict avoidance approach (Dooley and Fryxell, 1999; Chen et al., 2005; Olson et al. 2007). It is worth noting that prior literature (Forbes and Milliken, 1999; Chen et al., 2005; Olson et al. 2007) pointed out that the deterioration effect provoked by cognitive dissensions may be smoothed out when affective and cognition-based trust, cooperative efforts, loyalty, and competence exist among team members.

Moreover, cognitive dissensions introduce more uncertainties than consensuses during the decision-making process. Different views and evaluations from team members on internal and external conditions contribute to diverse preferences for alternatives of international entry mode, which increases the potential for change (Olson et al. 2007) and the risks of affective conflicts (Ensley and Pearce, 2001). Some recent literature showed that the new generation of Chinese managers (Ralston et al., 1999; Tjosvold and Sun, 2001) are more individualistic, risk-taking, and open to different opinions. However, a traditional Confucian dynamism holder shows a great preference for risk-avoidance (Hofstede and Bond, 1988; Rarick, 2007), resistance to change (Redding, 1980), and incapability to master cognitive diversity (Olson et al. 2007). The situation of different opinions and judgments on foreign market conditions or internal advantages may further increase a Confucian value holder's conservative prudence as no consensus can be reached on problem-solving. This will further decrease the confidence of the Confucian value holder in understanding foreign market conditions and utilising the firm's advantages.

By summarising all the arguments above, a point may be reached where the negative impact of cognitive dissension may be magnified when the decision-maker is a strong Confucian dynamism holder. A desire for harmony and maintenance of ordering relationships may encourage a traditional Chinese decision-maker to insist on his or her own culturally biased opinion to demonstrate his or her authority. A preference for risk-avoidance pushes the decision-maker with strong Confucian dynamism to adopt a more conservative attitude to evaluate internal or external conditions. Biased perceptions

on internal or external conditions (e.g. environmental hostility and firm size) by Confucian dynamism will be further exacerbated in the presence of strong cognitive dissensions in the Chinese top management team. Thus, we develop the following hypotheses:

Hypothesis 7a: Other things being equal, Confucian dynamism's enhancement of the negative effects of environmental hostility on equity mode adoption is likely to increase when greater dissension occurs in the decision process.

Hypothesis 7b: Other things being equal, Confucian dynamism's diminishment of the positive effects of firm size on equity mode adoption is likely to increase when greater dissension occurs in the decision process.

Interaction of hierarchical centralisation of decision-making, Confucian dynamism, and situational conditions

Hierarchical centralisation of decision-making refers to the level and relative size of participation in strategic decisions in an organisation (Hage, 1980; Wally and Baum, 1994). It reflects the extent of the centralisation of decision-making power or authority during the decision making process (Baum and Wally, 2003). A highly centralised decision-making process relies on one or very few decision-makers to make the judgments without delegating relevant responsibilities or consulting (Eisenhardt, 1989) lower level managers or employees. Extant literatures have identified both negative and positive impacts associated with the centralisation of decision-making. Centralized decision-making involving few people reduces the cognitive pool and information sharing, and thus decreases the possibilities for the generation of innovative ideas to problem-solving (Smith et al., 2006; Miller, 1987). Eisenhardt and Bourgeois (1988) also found that political activities may arise from the centralisation of power of the CEO, which blocks the information exchange and commitment. However, on the other hand, few people involved in decision-making means that the consensus can be easily achieved, which accelerates the decision speed (Wally and Baum, 1994, Eisenhardt, 1989).

In connection with Chinese firms' international entry mode decisions, it is argued here that a highly centralised SDMP will exert certain influences on the moderating effects of Confucian dynamism, although these effects may not be consistent.

Firstly, a highly centralised SDMP in a Chinese private firm only permits the firm owner or a very few family members to be involved in the decision-making (Hall et al., 1993). This approach produces a very limited cognitive capability for the firm. When making a complex, novel, and uncertain decision such as international entry mode decision, information overload could occur (Hodgkinson et al., 1999). Under these circumstances, rather than using a rational analysis (Mill, 1987), decision makers tend to rely more heavily on their value systems to simplify the process (Ralston, et al., 1993; Hodgkinson et al., 1999). Values of Confucian dynamism are likely to have an effect as cognitive simplifications to provide a shortcut for rapidly seeking a solution. More specifically, rather than comprehensively making detailed analyses of the pros and cons of each alternative, decision-makers use inherent Confucian dynamism values to set up criteria to eliminate undesired solutions during decision-making. This is consistent with Redding's (1980) observation that the Chinese manager employs an intuitive and quick decision-making style. Theoretically speaking, these simplifying mental modes were identified by heuristic studies in strategic decision-making literatures (Schwenk, 1984; Krabuanrat and Phelps, 1998; Hodgkinson, et al., 1999). For instance, extant heuristic studies have identified risk aversion, satisficing, and reference to past cases as simplifying ways to reduce the burden of information processing (Schwenk, 1984; Krabuanrat and Phelps, 1998; Hodgkinson et al., 1999) during strategic decision-making. Thus, in Chinese private firms, when the international entry mode decision-making process is highly centralised and the decision-maker holds a strong Confucian dynamism, simplifying mental modes reflecting a decision maker's inherent preferences and avoidances are likely to be employed to tackle the information overload. As a result, the effects of Confucian dynamism on internal and external conditions are likely to be more salient.

Secondly, a highly centralised decision in Chinese private firm is usually characterised as a small number of participants with familial kinship (Redding, 1990; Gatfield and Youseff, 2001). This approach precludes the chances of exchange and sharing information with lower or middle level managers. Conformity rather than consensus is encouraged by the process as the goals and methods of the decision are shaped by power structures rather than by open discussions (Miller, 1987). Thus, a conservatively biased perception by Confucian

dynamism orientation on internal and external conditions held by a senior decision-maker receives greater conformity through precluding members outside of the family. This also increases the effect of a senior decision-maker's biased perceptions on internal and external conditions.

However, we are also aware that the centralisation of decision making has also been reported as being positively related to an assertive tendency (Miller, 1987). Scholars like Miller (1987) and Wally and Baum (1994), indicated that an executive's venturesome and proactive proclivities are increased during the centralised decision-making for two reasons. Firstly, high conformity resulting from centralisation of the decision-making process provides the decision-makers with more confidence and a sense of control (Wally and Baum, 1994). They tend to overestimate the extent to which the outcomes of the strategic decision are under their personal control (Schwenk, 1984). Secondly, centralisation offers them the power to commit significant resources freely to a project (Miller, 1987) with few justifications. All these produce a countering impact to the conservative views of Confucian dynamism on internal and external conditions.

Furthermore, many studies (Davies and Ma, 2003; Hall et al., 1993; Gatfield and Youseff, 2003; Chatterjee, 2001) have reported that centralisation of decision is widespread in Chinese private firms. Although this dimension of the decision-making process works well in western settings (Miller, 1987; Eisenhardt, 1989), caution must be exercised as to whether or not there are enough variations of this characteristic in the decision process in the Chinese context.

By summarising the analyses above, the centralisation of decision-making produces inconsistent impacts on the effects of Confucian dynamism on internal and external conditions. On the one hand, centralisation of the decision-making process is positively related to the presence of cognitive simplification and conformity, which will magnify the effect of Confucian dynamism on internal or external conditions. On the other hand, the centralisation of the decision making process also increases the likelihood of the assertiveness of decision-maker, which decreases the conservative tendency of Confucian

dynamism.

Although there are inconsistencies of the impacts on interactions between Confucian dynamism and internal and external condition, in order to examine the composite effect of the centralisation of decision making, the following hypotheses are developed:

Hypothesis 8a: Other things being equal, Confucian dynamism's enhancement of the negative effects of environmental hostility on the equity mode adoption is likely to increase when a more centralised decisional process is used.

Hypothesis 8b: Other things being equal, Confucian dynamism's diminishment of the positive effects of firm size on the equity mode adoption is likely to increase when a more centralised decisional process is used.

In sum, based on the literature of international entry mode, cultural studies, and strategic decision-making, several hypotheses have been developed. Hypotheses 1 and 2 examine the effects of environmental hostility and firm size respectively on the equity mode decisions of Chinese firm, which reflect a perspective of environmental determinism and firm constraints. Hypotheses 3, 4, and 5 assess the impacts of Confucian dynamism on the equity mode decision, demonstrating a perspective of strategic choice. Specifically, hypothesis 3 evaluates the main effect of Confucian dynamism, while hypotheses 4 and 5 assess the effects of interactions between the value and environmental hostility and firm size respectively. Hypotheses from 6a to 8b examine the effects of three characteristics of the strategic decision process on the decision.

5.4 Conclusion

This chapter firstly synthesised literature reviewed and clarified their roles in this study. Then it explained the equity/non-equity modal decision as the decisions selected for examination in this study. Then, based on the literature of international entry mode, cultural studies, and strategic decision-making, several hypotheses were developed to address the impacts of environmental and firm characteristics, managerial cultural values,

and also the characteristics of SDMP. Environmental hostility and firm size were selected to examine their impacts on environment and firm conditions. Confucian dynamism and three characteristics of SDMP are newly introduced as explanatory or moderating variables to address the deficiency in behaviour and process elements in extant studies of international entry mode. They reflect the view of strategic choice and SDMP respectively. The inclusions of perspectives of strategic choice and SDMP enrich the understanding of the dynamic nature of the equity mode decision.

Chapter 6: Research Strategy and Data Collection

6.1 Introduction

This chapter illustrates the research design, quantitative data and qualitative data collection method. Results of responses to the the survey and non-response assessment are also reported in this chapter.

The chapter starts by illustrating the mixed method research design, its justification, and the operationalisation. The quantitative data collection method covered issues concerning four aspects: (1) dataset, (2) data collection technique, (3) research instrument, and (4) survey administration. The qualitative data collection method included case selection criteria, and primary and secondary data collection method. Finally, the results of responses are reported.

6.2 Research design

A research design indicates a framework for the collection and analysis of data for a study (Bryman, 2004). In this section, the research design of this study and its underlying rationales are described and justified. The unit of analysis is also discussed.

6.2.1 A mixed method design

In order to address the research topics, a mixed method approach was taken for this study. Specifically, a survey approach was adopted as the main design of this research. Four follow-up illustrative cases were studied as the supplementary method to the survey, mainly through eight in-depth interviews and secondary documentary data of four Chinese firms.

The choice of the design reflects the research interests and study objectives pursued. More specifically, the main objective of this study is to test the hypothetical effects of managerial

and decision-process characteristics on international entry mode decisions. Therefore the main purpose of the study is to detect patterns of association and magnitude of effects (Scandura and Williams, 2000; Bryman, 2004) between explained and explanatory variables. A survey design collecting many more than one case should be most appropriate to examine hypothetical relations. Moreover, this study attempts to measure the studied phenomenon and its potentially explanatory variables, and to some extent, to generalise the findings (Aken, 2005). A quantitative approach based on statistical theory is more suitable to achieve the objective of the study. Additionally, due to constraints of time and budget, this study would not intend to quantitatively study the phenomenon over time, rather than collect data more or less at a single point in time. A survey design can satisfy this rationale of the study.

A major criticism of the survey design is the lack of contextual and historical information on the phenomenon of interest. A supplemental qualitative approach in this study may remedy this potential limitation by providing richer information and better explanations (Yin, 2003). A qualitative case study research is taken as the supplementary method to the survey design for several reasons. Firstly, the case study method is suitable for answering “how” and “why” types of question (Yin, 2003), for which the survey design can not perform well. Case studies enable us to deepen the understanding of how Confucian dynamism and characteristics of SDMP affect the outcome of the international entry mode decision in a real setting. It may also provide richer information in interpreting the underlying reasoning for the associations between phenomena through a holistic approach. Secondly, the case study method enables us to take a ‘longitudinal’ perspective to review the background of firm and the process of international entry mode decision (Ghauri and Firth, 2009), which assist us in clarifying the role of managerial value and decision process on the outcome of decision from initiation of decision, information processing, to the final alternative selection. This cannot be obtained through the survey approach. Moreover, case study presents a more complete picture through addressing the contextuality (Bryman, 2004), which potentially offers additional evidence to statistical testing and a better explanation of statistically unconfirmed relations. Finally, prior practices in SDMP research have also suggested that qualitative and quantitative methodologies should be

considered as complementary (Elbanna and Child, 2007) for testing associations, and while at the same time exploring the complexity of phenomena. The case study method is flexible and suitable to complement the survey design (Ghauri and Firth, 2009)

Case studies can be used as a pretest to the quantitative survey-based work (Ghauri and Firth, 2009). However, as international entry mode decision is one of most frequently examined decisions in the international business field (Brouthers and Hennart, 2007), this decreases the need for the exploratory purpose of pretesting case studies. So, in this study, case studies are designed to follow the survey method. Several advantages can be obtained from this arrangement. Firstly, to some extent, case studies can potentially provide additional evidence to support the statistical testing results. The cross-validation of quantitative and qualitative data enhances the validity of the result. Secondly, follow-up case studies with richer information in the real decision-making settings may offer the clues to explanations of statistically unconfirmed relations. This approach benefits from the exploratory and explanatory strength of case study method.

In addition, the researcher is also aware of another potential risk of employing the survey as the main design. Common method variance is often considered as a major limitation of survey design due to the explained and explanatory variables usually being measured entirely by self-reported data. However, it is argued that common variance in this study may not be serious. Since it is difficult to obtain explained and explanatory variables from different sources in this study, two methods suggested by Podsakoff et al. (2003) were employed to control potential effects of common method variance. Firstly, the potential flaw was remedied by putting explained variable and explanatory variables into different sections in the questionnaire, which may produce psychological separation between these two types of variables. Furthermore, explained variable and explanatory variables in this study were measured by different types of scales, and proximal separation was also introduced. All these methods potentially reduce informants' motivation and ability to retrieve cues and consistency pursuits. In addition, it is also argued that common method variance not only inflate correlations between dependent and independent variables, but also increases the shared common variance among independent variables (Olson et al.,

2007), which makes it difficult to have strong explanatory variables and thus reduces the chance of having a significant correlation between explained variables and explanatory variables. This eases the effect of the common potential methodological biases on the conclusion.

To sum up, based on above arguments, a mixed research method in terms of a survey design with four follow-up cases, had been adopted to conduct this project.

6.2.2 Unit of analysis

It is necessary to specify the unit of analysis before starting data collection. The unit of analysis in international entry mode choice studies is not uniform. As scholars in this area take different theoretical perspectives on the decision, different units of analysis have been chosen in prior studies.

Unit of analysis in prior studies

Traditionally, international transactions or an entire firm have usually been taken as the unit of analysis for international entry mode studies. For instance, TCA (Gatignon and Anderson, 1988; Davidson and Mcfetridge, 1984; Brouthers and Nakos, 2004) follows the logic of choosing the governance structure to minimise transaction costs, and thus individual international entry is adopted as unit of analysis. In comparison with TCA, RBV and OC (Barney, 1991; Teece, 1997) argue that international entry mode is the best method for the development and exploitation of a firm's capabilities (Madhok, 1997). The entire firm should be more appropriate for the unit of analysis than individual transactions. However, whatever is taken as unit of analysis, extant studies are almost exclusively based on the rational decision model (Brouthers and Hennart, 2007).

The rational approach to entry mode decision has been challenged for insufficiently addressing the role of decision-makers (Cyert and March, 1963) and the decision process (Fredrickson and Mitchell, 1984). For instance, McNaughton (2001) criticised that extant international entry mode research as lending itself almost exclusively to imagining the

channel (mode) selection being carried out in a systematic way, and so actually producing little insight into the decision process itself and its impact. Brouthers and Hennart (2007) also argued that prior entry mode research does not take the manager or management team as decision maker, simply focusing instead on rational and measurable attributes of the transaction.

Unit of analysis for this study

In order to address the role of the decision process and decision-makers, this study explicitly takes the international entry mode decision (considered as a strategic decision, (see Anderson and Gatignon, 1986), more specifically, the most important international entry decision a firm has ever made, for its unit of analysis (Dooley and Fryxell, 1999; Papadakis and Barwise, 2002). This is not consistent with most of the prior international entry studies, but is in line with strategic decision-making studies (Sykianakis and Bellas, 2002; Olson et al., 2007; Elbanna and Child, 2007). The main advantage of the arrangement is to enable this study to test the impact of decision-maker and processes on the mode choice and decision content simultaneously. Furthermore, the uniformity of decision importance enables us to isolate the potential effect of the decision itself (see Rajagopalan, Rasheed and Datta, 1993) on the decision process. Prior international entry studies implicitly treat each international entry as equally important, and ignore the impact of the decision itself on the decision process and thus the outcome of the decision. Finally, potential interactions among the aforementioned factors of decision content and process can be captured, which may offer a more realistic model.

6.3 Quantitative data collection method

This section describes the quantitative data collection methodology covering three main aspects of the dataset, the instrument, and the data collection administration. Qualitative data collection is discussed separately in the next section.

6.3.1 Dataset

Target population definition

As the most important international entry mode decision was taken as the unit of analysis in this study, all decisions of this type made by firms should be the universal population. Logically speaking, at a particular cut-off point in time, one internationalised firm can have made the most important international entry mode decision only once during its past process of internationalisation. Because of the existence of this corresponding relationship, the identification of the appropriate firm would automatically determine the existence of this strategic decision. Moreover, in practice, a strategic decision database is difficult to obtain and common databases only contain firm level information. In this study, an indirect way to define the studied population has been adopted by specifying the qualified firms based on four criteria. Firms should satisfy conditions of having international entry, operating in manufacturing sector, being private firms, and being mainland Chinese firms, to be included in this study.

Firms with international entry

As this study is mainly retrospectively-based, in order to study firms' international entry mode decisions, they must have international entry experience at the time of the study. The traditional definition of "international" developed from firms in industrial nations. It focuses on output market, which usually indicates sales attained outside the domestic market (Cavusgil 1984). Contrary to this, this study follows Anderson and Gatignon's (1986, p.2) definition that international entry indicates that a firm performs one or more business function (e.g., production, sales, and marketing etc.) outside its domestic market. It is a much broader category than the traditional one, and covers cross-border activities of production, sales, R&D, marketing, distribution, and others. With regard to the entry modes studied, some TCA theorists (Gatignon and Anderson 1988; Erramilli et al., 1997) exclude the mode of exporting from international entry modes of interest based on the theoretical assumption of failure of market. This study adopts a multi-perspective approach, and thus exporting firms are also included. This is consistent with many other studies (Agarwal and Ramaswami, 1992; Tan et al., 2001; Meyer, 2001; Davis et al., 2000;

Brouthers et al., 1999), which contain certain considerations of firms' resources or advantages.

Manufacturing sector

Extant studies have indicated that firms in different industrial sectors may respond differently to transaction cost (Erramilli and Rao, 1993; Brouthers and Brouthers, 2003). This study has only examined the manufacturing sector for two reasons. Firstly, extant international entry mode studies on manufacturing firms have tended to lend support to the main theoretical perspectives (Gatignon and Anderson, 1988; Hennart, 1991; Delios and Henisz, 2000; Yiu and Makino, 2002; Padmanabhan and Cho, 1999), which has enabled the study to focus only on the decision process and decision makers by excluding the potential impact of the industrial sector type. Secondly, in practice, China is currently considered as a "world manufacturing hub", and Chinese manufacturing firms are more mature and actively involved in international expansion (Luo and Tung, 2007), for instance, firms like Lenovo, TCL, and Huawei have employed a variety of international entry modes when entering overseas markets.

Here, we adopt the National Bureau of Statistics of China's definition of the manufacturing sector (see <http://www.stats.gov.cn/tjbz/hyflbz/P020060711389582037795.pdf>), which defines the manufacturing sector as a material production unit which involves processing and re-processing the primary or intermediate product. It is distinguished from other sectors by an emphasis on new products through physical or chemical changes in the process. Specifically, it includes thirty major categories ranging from food processing to recycling or disposing of waste resource or material.

Private firms

Several scholars (Deng, 2007; Young, Hood, and Lu, 1998) have argued that Chinese SOEs (state-owned enterprises) do not focus entirely on economic objectives when expanding overseas. One reason for this is that they have to be concerned with the policy support from the Chinese government. Extant theories mainly developed from major free market economies may not be completely suitable to explain Chinese SOEs' international entry

mode decisions. Thus, this study concentrates only on Chinese private firms. Private firms are expected to be more profit-driven and to be the major driving force for the next wave of Chinese outward foreign direct investment (Young, Hood, and Lu, 1998).

This study follows the definition of private firm from the “People’s Republic of China Temporal Regulation of Private Enterprise” (1988). It defines private firms as those economic organisations that are profit-driven, privately owned and have more than eight employees. Private firms include types of solo venture firms, partnership firms, and limited companies.

Mainland Chinese firms

This study focuses only on mainland Chinese firms and excludes firms from Taiwan, Hong Kong, and Macao, which is consistent with Chinese statistical convention. More specifically, this study is interested in those Chinese firms that are legally registered and headquartered in mainland China, and are owned by Chinese citizens, which excludes firms such as registered foreign subsidiaries in mainland China, Chinese companies with headquarters outside mainland China, and Chinese companies with foreign investors holding a dominant share.

Sampling frame

A sampling frame is the listing of all the units in the population from which a sample is extracted (Bryman, 2004). The construction of an appropriate sampling frame can enable researchers to target appropriate informants and also enhance the representativeness of the sample.

In order to find a suitable database to constitute the sampling frame, this study firstly conducted a thorough search through the Databases of China National Knowledge Infrastructure (CNKI) (www.cnki.net) and CQVIP websit (www.cqvip.com), as well as Google China (www.google.cn) to locate related firm databases. The CNKI and CQVIP contain comprehensive resources of academic journals, conference papers, graduate dissertations, and industrial databases in Chinese, which are the most frequently used by

academic scholars in China. Through the search, four firm directories that were potentially usable were located.

The first one matches the criterion of firm ownership attribute, named “The Chinese Private Firm Directory” published by Directory Department of China Machinery Press in 2006. Although this database includes all the cases we need, the desired firms are only a part of the dataset. Unfortunately, the dataset cannot provide any field to distinguish between firms operating domestically and those having international operations. As the researcher did not obtain any further information about the proportion of the two types of firms in these datasets, this flaw would endanger the determination of sample size, and substantially increase questionnaire allocation and cost.

The second and third datasets contain firms involved in international operations through exporting or FDI modes respectively, including “The Chinese Exporter Directory” provided by the ICAN Company and the “Outward Investment Enterprises Directory” issued by the International Enterprises Directory Company. The main problem with this type of dataset was the reliability of the publishers, which are little-known commercial companies. The authenticity of the dataset could not be ensured and would potentially decrease response rate. Another limitation of this type of dataset was that it would have been necessary to purchase and mix both datasets to cover different mode users and this would potentially cause overlaps.

The final one, the “Directory of China’s Foreign Trade”, issued by the CCPIT (China Council for the Promotion of International Trade) in 2008, was eventually selected. The “Directory of China’s Foreign Trade” includes 9954 cases and provides information about the name of firm, the sector of operation, operation premise, postcode, contact person or owner, website or e-mail of company, and telephone and fax numbers.

Compared with other databases, four advantages can be obtained through using this dataset. Firstly, it is the most recently published (issued in Oct, 2008), and firm information was expected to be reliable and accurate. Secondly, the publisher is reputable. Established in

1952, CCPIT is the most important and the largest institution for the promotion of foreign trade and investment in China, and it has a membership of nearly 70000 internationalised Chinese firms. Moreover, from the introduction of the dataset, it covers Chinese firms involved in international operations through a variety of entry modes including exporting and FDI. Finally, it also provides industrial categories and enables the distinction of manufacturing firms from trade firms and service firms.

However, the database does not completely fit the research requirement, as for instance, it does not distinguish between private firms and SOEs. Three screens were conducted to identify the final sampling frame.

Firstly, the trade firms and service firms were located and eliminated from the dataset based on industrial sector classification. Consequently, 2674 cases were removed from the dataset and 7280 cases were retained.

Moreover, the geographical focus was then narrowed down to the coastal areas of the Yangzi Delta (Shanghai and Zhejiang) and the capital of China (Beijing). There were three reasons for doing this. Firstly, managers from these coastal regions have more opportunities to interact with the western business world, and their exposure to different values may affect their cultural norms. It may introduce variances to their traditional culture values. Another reason is that outward FDI stocks from Shanghai, Beijing, and Zhejiang ranked second, fourth, and sixth among Chinese provinces and municipalities directly under the Central Government in 2007 (Statistics from Ministry of Commerce of People's Republic of China), and account for nearly 30% of total outward FDI stock and around 40% of outward investors of China. Finally, it would be too great a burden for the researcher to search all SOEs in 31 provinces of China and compare them in the dataset. This narrowing down enabled the identification of all three provincial level SOEs as well as national group corporations in dataset. Through this geographic narrowing down, 4756 cases were eliminated from the dataset and 2524 firms were retained.

The final screen was the elimination of SOEs from the retained cases. The researcher

located all the name lists of SOEs through the website of the State-Owned Assets Supervision and Administration Commission of the State Council (<http://www.sasac.gov.cn/n1180/n1226/n2425/index.html>) and respective provincial or municipal governments (Shanghai: <http://www.shgzw.gov.cn/gb/gzw/index.html>; Beijing: <http://www.bjgzw.gov.cn/>; and Zhejiang: <http://gzw.zj.gov.cn/>). Then a thorough check was conducted and finally only eleven cases were identified from the retained dataset. One possible reason for the small number is that SOEs in China are large and operate in a few oligopolistic industries, and they do not generally rely on CCPIT (a non-government association) as an intermediary to collect overseas information.

Eventually, the sampling frame constituted 2513 cases (accounting for 34.51% of the manufacturing firms in the database) and satisfied both the inclusion criteria and the verification of the publisher's credentials.

Sample size

This study allocated 550 questionnaires to 550 firms randomly selected from the pool of the sampling frame, accounting for 21.1% of the studied population. The determination of the sample size was based on the considerations of four aspects: (1) estimated calculation based on results of past studies; (2) requirement of the analysis; (3) response rate, and; (4) time and budget constraints.

Estimate calculation based on past studies

As the dependent variable in this study is the categorical variable (international entry mode), the following Cochran's (1963, p.75) formula was used to determine the sample size. The basic assumption is that the mean of the sample population proportion follows the normal distribution.

$$n = \frac{z^{*2} \pi^* (1 - \pi^*)}{e^2}$$

In this study:

- e (The maximum allowable error)= 5%
- The z^* value for 95% confidence interval = 1.96
- Guesstimate of the population proportion $\pi^* = (\text{Frequencies of FDI modes} \div \text{Frequencies of total international entry modes}) = 18.76\%$
- Sample size: $n = 1.96 \times 1.96 \times 18.76\% \times (1 - 18.76\%) \div (5\% \times 5\%) = 235$

Note: the *value of* Guesstimate of the population proportion is taken as the *mean* of the population proportion figures of two available recent studies on Chinese firms' international entry mode decision (Sun, 2006; Shen, 2007) in Chinese academic databases. FDI mode proportion in Sun's study is 10.4%; and FDI mode proportion in Shen's study is 27.12%, and in this study, we take $\pi^* = (10.4\% + 27.12\%) \div 2 = 18.76\%$

Based on the calculation above, a sample size of over 235 may ensure that the sample size is sufficiently large.

Requirement of data analysis

As SEM (structural equation modeling) was employed in this study to assess the unidimensionality and within-method convergent validity of latent variables (Steenkamp and Trijp, 1991; Anderson and Gerbing, 1982), the general techniques (such as maximum likelihood and generalised least squares method) used in SEM, as well as the accuracy of estimates require a relatively large sample size. There is no consensus in the views of how large a sample size would be appropriate for SEM; for instance, Anderson and Gerbing (1988) estimate that a sample size of 150 or more would be needed to obtain parameter estimates that have standard errors small enough to be of practical use. However, Boomsma (1982) recommended a sample size of 400 to be sufficient, and Schumacker and Lomax (1996) found that most studies using SEM has a sample size ranging from 200 to 500. Some scholars (Marsh et al., 1998) also found that the ratio between items and latent has a negative relationship with sample size. If the ratio is more than six, a sample size of 50 is still sufficient. This study follows a general practical rule that a sample size should be over 200 (Hair et al., 1998) to conduct a SEM analysis.

The concern of response rate

Most sample surveys have a certain number of non-responses (Kanuk and Berenson, 1975, Smith et al, 2003). The consideration of the response rate of the survey will increase the

numbers questionnaires distributed.

In this study, two figures provided useful references of the rough estimation of response rate of this type of survey in China. One figure comes from Shen's (2007) international entry mode study in China, with a response rate of 42.16%, and the other estimation is around 45%, based on the past experiences of the survey contractor - a professional independent survey company.

By referring to past results, the researcher considered that around 540 copies $\{235 \div [(42.16\% + 45\%) \div 2]\}$ of the questionnaire were likely to be sufficient to generate enough samples.

Financial and time constraints

The researcher also had to consider practical issues, since this project had financial and time constraints. 550 copies of the questionnaire posed great challenges to the time and financial budget allocated for the study.

Based on above considerations, a conclusion would be drawn that 550 copies of the questionnaire allocated to 550 firms would suffice to generate a satisfactory sample size for this study.

6.3.2 Data collection technique

A mail questionnaire survey was chosen as the quantitative data collection technique for the study. Mail survey has demonstrated its advantages in terms of its relatively low cost, geographical flexibility, time efficiency, and being free from interviewer effect (Scott, 1961; Kanuk and Berenson, 1975).

As the respondents in this study are busy decision-makers based in the coastal area of China, a mail survey enabled us to reach 550 respondents almost simultaneously, and avoid the costly traveling expenses or telephone charges through structured interviews. It also

provided relatively easy access to respondents and less time consumption in terms of arranging and carrying out interviews. Moreover, due to the anonymity and time flexibility offered by the mail survey, respondents were more willing to reply to the survey with considered information (Kanuk and Berenson, 1975). Finally, interviewer effects (Sudman and Bradburn, 1982), caused by social context, characteristics of the interviewer or interviewees, and even on-site communication, were minimised through the use of a mail survey.

Although e-mail or on-line surveys could be even cheaper and faster, these were not adopted in this study for three reasons. Firstly, as a certain number of firms in the sampling frame did not possess email addresses, this could have caused sampling bias (Hewson, 2003) and thus decreased sample representativeness. Moreover, an e-mail invitation to take part in the study may have been viewed as just another nuisance e-mail or spam (Andrews et al. 2003), and response rates are usually low when conducting e-mail surveys. Finally, personal or business identities could potentially leak through the Internet, and potential security and confidentiality issues may also have discouraged our respondents from participating in the survey.

In sum, the mail survey was considered to be the most appropriate method to collect quantitative data for this study. A mail survey was also a popular method in both international entry mode studies (Erramilli, 1991; Agarwal and Ramaswami, 1992; Meyer and Nguyen, 2005; Brouthers and Nakos, 2004; Luo, 2001) and strategic decision-making studies (Olson et al., 2007; Elbanna and Child, 2007; Rau, 2006; Papadakis and Barwise, 2002).

6.3.3 Data collection instrument

This section presents the data collection instrument, and covers issues of the questionnaire development procedure and the characteristics of final research questionnaire.

Questionnaire development procedure

There follows a brief outline of the four development procedures of the instrument in terms of instrument gestation, modification, translation, and pre-test.

At the first stage, the initial questionnaire in English was developed based on the literature on western country firms' entry mode strategies (Agarwal and Ramaswami, 1992; Brouthers and Brouthers, 2003) and strategic decision-making studies (Elbanna and Child, 2007; Papadakis et al., 1998), which fit the progress and finalisation of the conceptual model.

Following the first stage, the initial questionnaire was modified in the light of the literature on Chinese firms' (mainly from Hong Kong or Taiwan) international entry (Shi et al., 2001; Tsai and Cheng, 2002; Chen et al., 2002), and Chinese cultural value studies (Jaw et al., 2007; Earley, 1994). Due to the extreme paucity of survey studies on the international entry of mainland Chinese firms, reference was also made to recent macro-level of analyses of China's outward FDI (Morck, Yeung, and Zhao, 2008; Buckley et al., 2007) and case studies of internationalisation of mainland Chinese firms (Deng, 2007; Child et al. 2005; Luo and Tung, 2007). Then, the researcher, his supervisor, academic colleagues, and doctoral candidates at the University of Glasgow examined and discussed the modified instrument. According to their suggestions, three batches of major refinements were made to capture the theoretic concepts and research setting better. Besides face validity concerns, the wording, layout, the format of question, and length of questionnaire were improved at the same time.

The refined questionnaire in English after the modification stage was translated into Chinese by the investigator and also a Chinese PhD candidate at the University of Glasgow, each acting independently. After achieving consensus on the translation on each question, both Chinese and English version questionnaires were sent to four bilingual scholars from both University of Glasgow (UK) and the Central University of Finance and Economics (China) to examine and comment on the translation accuracy of the original meaning as well as the appropriateness of the wording of cross-cultural equivalences. The standard back-translation procedure (Brislin, 1970; Luo, 2001) was followed by two senior lecturers

from the University of Xiamen (China) checking the consistency of two versions of the questionnaire. They are professionals in management and their English is of a very high standard. Their back-translations were highly consistent with the original English version, which demonstrated that the translation quality was excellent.

After finishing the academic and language examinations, a pre-test was conducted based on a convenient sample. Seven Chinese executives from five firms with international operations agreed to participate in the test and also to provide feedback. These firms conducted their international entry through modes of export, joint venture, and solo venture. This approach follows the recommendation from Tull and Hawkins (1976) and Hunt et al. (1982) that the pre-test should use respondents who are as similar as possible to the target respondents. They were asked to identify any potential ambiguities in the terms or concepts, and any issues that emerged. Consequently, we received feedback covering clarity, appropriateness, comprehensiveness, and the readability of the scales and instructions. For instance, two managers indicated that the description of one international entry motivation was not clear, and two managers asked for more clarification of some items of the construct of problem-solving dissension. Based on the pre-test results, we modified the descriptions of some instructions and items, to convey the theoretical meaning in the Chinese context better, and also changed layouts of some questions to eliminate some practical confusion.

In sum, these experts in the modification and pre-test stage came from a variety of backgrounds and their heterogeneous international entry knowledge lends substantial external validity in examining constructs and their relationships (Zhao and Hsu, 2007).

Finalised research questionnaire

Length of the questionnaire

The final questionnaire contains 30 research questions besides general information. The decision on the length of the questionnaire balanced theoretical interests and practical issues. Although there is no strict consensus (Linsky, 1975; Kanuk and Berenson, 1975) on the impact of the length of questionnaire, generally speaking, more information is likely to

be obtained through a long instrument, but short questionnaires are often believed to result in higher response rates than longer questionnaires (Smith et al., 2003). By following the rule of covering research interests by a parsimonious instrument, the number of questions of this study is similar or slightly fewer than that found generally in this type of study in China or other emerging markets. For instance, Shi et al. (2001) employed an instrument of 46 questions to study entry mode choice of Hong Kong firms in China, and Tatoglu and Glaister (1998) used an instrument consisting of 38 questions when studying FDI in Turkey. The result of the pre-test further confirmed that the length of questionnaire was satisfactory, since none of the respondents made any complaints on the issue. Consequently, the final instrument consists of five A4 pages in English and four A4 pages in Chinese respectively (see them in appendix 1 and 2), due to differences in the length of English and Chinese words.

Structure of the questionnaire

Five sections are sequentially organised in the instrument including general information, questions about the international entry, the decision-maker and decision process, the country entered, and the characteristics of company.

The general information section covers very basic information about respondent and his/her firm, and a clarification of the topic of interest. The clarification was designed to identify appropriate respondents by saliently claiming that the interest of the study was the most important international entry decision firms had ever made. In the international entry section, eight questions directly related to the topic of the study – the international entry mode decision – were presented, covering the key facts of the phenomenon. The questions in the first two sections were designed to be simple factual questions (Bryman, 2004); they are relatively easy to answer and not too time-consuming, and make respondents more willing to progress to more complicated questions in following sections (Oppenheim, 2001). The following three sections contained eleven, four, and seven questions respectively, designed to offer explanatory factors for phenomenon studied. Because the section of decision-makers and decision process was newly introduced and the focus of the study, it had more questions and was put before the sections on the host country and

company conditions. The arrangement attempted to engage respondents' attention in the research interests.

Wording and Emphasis

Considering respondents in this study were busy decision-makers in business firms, appropriate wording and emphasis may promote rapid and accurate information delivery, higher response rate, and lower potential respondent error.

We generally avoided using vague or technical terms. Under two extremely essential conditions, this study offers an explanation in simple words on the potentially confusing terms. Specifically, it gives a detailed description of "the most important international entry decision" and explanations of "international entry". Moreover, due to language differences between Chinese and English, the word order of some instructions was adjusted to suit Chinese language norms. This study also employed capitalisation or underlining of key terms to bring to respondents' attention the critical information in the instructions, which may decrease potential misunderstandings and also accelerate respondents' answering.

Question type

The instrument consisted mainly of closed questions, and only one item describing motivations of international entry offered an open-ended option ("Other motives, please specify") to enhance the comprehensiveness of the answers. The utilisation of closed questions has the advantage of avoiding coding, increasing the comparability of answers, and also potentially clarifying the meaning of a question for respondents (Bryman, 2004). These features are critically important for the survey design of this study. We also acknowledge benefits that may be gained by open-ended questions, such as potential generation of unusual answers and a reflection of respondents' issues. The follow-up case study employed in-depth interviews using these two types of questions to achieve both standard and richer information.

It is controversial whether a "no opinion" option should be offered when asking closed questions. Although Converse and Presser (1986) advocate that a "don't know" option

should be provided to respondents, the inclusion of the option has several obvious pitfalls. Krosnick et al. (2002) found that respondents with lower education were more likely to choose the option, and that respondents were prone to choose the option to questions in the latter part of questionnaire. These two conditions may create respondent biases that may damage the quality of the data. It also increases the difficulty of conducting data analyses. Based on these arguments, the option was not included in this study.

Scale

- Rating scales

In this study, the decision makers' judgments or attitudes of their values, characteristics of decision process, and environmental and firm conditions served as explanatory factors for the international entry decision. The instrument was therefore employed to obtain the intensity of the attitude of decision-makers towards these factors. Psychometric scales including a Likert scale (Likert, 1932) and a semantic differential scale were adopted in this study for the following reasons: (1) Most attitude scales in international entry mode studies have used Likert-type response categories (Agarwal and Ramaswami, 1992; Kim and Hwang, 1992; Brouthers and Nakos, 2004); (2) The use of a Likert-type format is considered to yield more information about a respondent's attitude level than dichotomous data (Singh et al. 1990); (3) The Likert scale is usually considered to have good reliability (Babbie, 1998; Nunnally, 1978).

In this study, all items of the aforementioned explanatory factors were measured by a seven-point bipolar scale, where "1" indicates "strongly disagree" and "7" indicates "strongly agree". It is notable that items of entry performance and local linkage were measured by another type of rating scale, i.e. a semantic differential scales, where "1" indicates "very dissatisfied" or "least important", and "7" indicates "very satisfied" or "most important", respective to the statement.

There are several reasons for choosing a seven-point scale. Firstly, five- and seven-point formats are the most commonly used scales (Malhotra and Peterson 2006) in attitude researches. Secondly, compared to a category format of nine points or more, a seven-point

scale can facilitate respondents discrimination of scale descriptors (Hulbert, 1975), and potentially increases response rate and enhance accuracy of answers. Moreover, contrary to with Jacoby et al. (1971), Cox (1980) suggested that scales with two or three response categories were inadequate, but there was little marginal gain from using more than nine categories. A seven-point format obviously has considerably more response categories than a five-point or three-point one, and is therefore expected to perform better in terms of greater dispersion or variance in responses (Grigg, 1980; Dawes, 2002), and reliability and validity (Alwin, 1997). Furthermore, as this study employed SEM (structural equation modelling) to conduct confirmatory factor analysis, the test of construct discrimination validity may benefit greater variance in responses.

- Other scales

Besides the rating scales described above, other scales were employed. A dichotomous scale (Yes/No) was used to measure the question of full-time work experience in government or state owned enterprises. Nominal scales were employed to measure international entry mode, most frequently used entry mode in the past, main competitors' most frequently used entry mode, value-added activity type, motivations of foreign country entry, and dominant functional experience type. Ordinal scales were used to measure age range and range of company turnover in order to increase respondents' willingness to answer these questions. Other questions simply required a factual value (year of the international entry, year of the first international entry, project size, number of employees, length of work experience, destination country, and length of international experience).

- Concerns of response bias or error

Given that perceptual measures were intensively employed in this study, there was a potential limitation that they may not truly reflect the phenomenon of interest. For instance, Field (2005) indicated that respondents tended to rate every item in a construct with the same score. Besides the wording and emphasis mentioned previously, we attempted to remedy this limitation by several means: (1) The phrases of a few items were reversed in several places in the questionnaire to reduce response bias; (2) The standardisation of the range of response categories for the above scales could facilitate respondents' answering

questions and reduce potential mis-selection; (3) The respondents were assured of complete anonymity and confidentiality to the decrease possible provision of distorted information.

- Scale treatment

There is controversy on the issue of how to treat Likert type data (Allen, 2007). Likert (1932) himself assumed it had an interval scale quality, as it was originally designed as a summated scale. However, dissenters such as Cliff (1996), Allen (2007) and Jamieson (2004) took different views. They insisted that the Likert scale, with discrete categories, only generates ordered categorical data, and having no equal intervals, is most suitable for analysis by non-parametric procedures such as frequencies, tabulation, and chi-squared statistics. However, some scholars (Scarle, 1995; Nunnally, 1978, Moutinho and Hutcheson; 2007) held more flexible attitudes on this issue. They suggested that in certain circumstances, data may also be considered to be continuous, even when it is recorded using discrete categories. These conditions include: (1) the data comes from an underlying continuous distribution; (2) a large number of categories; (3) intervals between successive ratings are equal or at least approximately similar.

In this study, the more flexible view was taken, for several reasons.

Firstly, the study used the Likert scales to measure managerial attitudes towards values, the decision process, and environmental and firm conditions. Managerial attitudes or perceptions on organisational issues (e.g. strategy or performance) are often considered as inherently continuous variables (Childers, Houston and Heckler, 1985, Singh et al., 1990, Dawes, 2008), because we can argue that there are potentially an infinite number of degrees of attitudes on above issues between these extremes (e.g. “strongly disagree” and “strongly agree”). The Likert-type scale in this study can logically be treated as continuous data.

Secondly, rating scales employed in this study have seven categories, which is comparatively large in the reasonable range from three to nine categories recommended by Cox (1980). Moreover, the successive ratings in this study can be viewed as similarly

equal.

Moreover, in the case of factor analysis, it is common to regard Likert-type scales as continuous data (Hutcheson and Sofroniou, 1999), even though these might only be constructed from a few categories to facilitate statistical analysis. In order to employ confirmatory factor analysis (CFA) based on the assumption of multivariate normality (Bollen, 1989), a pragmatic approach was taken to treat Likert-type data as continuous.

Finally, prior studies also lent support to the treatment. Studies of the international entry mode (Agarwal and Ramaswami, 1992; Kim and Hwang, 1992; Nakos and Brouthers; 2002; Brouthers and Nakos, 2004) intensively used this treatment. Although the researcher acknowledges that the treatment may introduce measurement errors, based on above arguments and results of past studies (Nunally, 1978), it is argued that this problem may not be serious in the study.

6.3.4 Data collection administration

Key informant approach

To ensure a good quality of responses, the key informant approach (Kumar et al., 1993; Seidler, 1974; Zou and Ghauri, 2008) was adopted to conduct the data collection. Obviously, CEOs of sample firms are the most desirable respondents as: (1) Their dispositional characteristics are usually influential in decision-making (Westerberg et al., 1997), especially with the condition of a small firm size and uncertain environment; (2) they are believed to be knowledgeable about the firm and its international operations (Tsai and Cheng, 2002), and; (3) they are also expected to participate and be familiar with the decision process of the most important international operation (Larimo, 1995).

However, in practice, they may often not be available; for instance, some busy CEOs in China are reluctant to answer questionnaires (Pistrui et al., 2001), but rather let relevant subordinate managers do it. Relevant managers are usually those whom CEOs believe are appropriate to answer the questions, typically including the director of the international

department, the sales director, or the production director, among others. If this occurs, it could be argued that the flaw may not be as serious as it appears. Firstly, besides CEOs, Hambrick and Mason (1984) also indicate the importance of other top managers in making strategic choice, and CEOs tend to promote subordinate managers with a similar background to themselves. Secondly, most Chinese private firms are SMEs (Zhang, 2005) and do not have a large size of management, so the influence of subordinate managers is comparatively substantial, especially related to their expertise. Finally, many Chinese private firms are often family businesses (Pistrui et al., 2001), and family members or good friends usually serve as senior managers in these firms. Kinship or personal friendship contributes to achieving affect-based trust between the CEO or founder and other managers. In the context of China, the importance attached to interpersonal bonds means that their attitude and opinions are highly valued during the decision. Based on the above evaluations, CEOs or other related top managers are taken as suitable informants in this study.

The key informant approach has been widely used in international entry mode studies (Tatoglu and Glaister, 1998; Brouthers, Brouthers and Werner, 1999) and strategic decision-making studies (Walter, Lechner and Kellermanns, 2007; Dooley and Fryxell, 1999). However, the researcher was also aware that the retrospective approach based on the key participants' recall potentially contains flaws including memory failure, distortions, and random errors (Huber and Power, 1985). A tactic suggested by Papadakis and Barwise (2002) was employed to examine the issue. The process and result will be discussed in the latter part of the section on data collection procedure.

Assessment of contractor

The questionnaires in this study were distributed through an independent contractor. This is consistent with Luo's approach (2001) to remedying the inaccessibility to Chinese firms or potentially low response rates of the survey approach in China (Davies and Walters, 2004) because Chinese managers are typically conservative and reluctant to take part in surveys. The contractor is a professional consulting company located in Beijing, whose credentials show to be experienced and with strong connections with to industrial firms and academic institutes. However, the researcher was aware of the potential risk that an unqualified

contractor would not be able to complete the assignment, or provided inferior or biased information.

In order to assess the qualifications of the company, three measures in terms of peer recommendation, on-site investigation, and legal examination were taken, as follows: Firstly, the company was recommended by one of the research colleagues at the Centre for Enterprise and Internationalisation, University of Glasgow, for its successful completion of her similar survey project in China recently. The recommendation provided the general background and proficiency level of the company. Secondly, besides browsing the contractor's website, the company was investigated on the spot in Beijing by one of the writer's friends - a PhD student at the Central University of Finance and Economics (China). The information thus collected further confirmed the recommendation that the company was suitable to distribute the questionnaire. Finally, the scanned operation licence of the company issued by the PRC Industry and Commerce Administration Bureau was scanned before the contract was signed. It demonstrated that the company was legally verified by the authority for its qualification.

In order to deal with potential distortions or deceptions in the questionnaire distribution, two methods to control the risk were employed. To begin with, a condition was specified in the contract. It required that on completion of the survey, the contractor should provide each completed questionnaire with a business card or contact details of the respondent or company studied. After completing the first batch of surveys, the investigator randomly selected and contacted twenty firms which had returned the questionnaire, and except for two respondents who were not accessible, the remaining firms all confirmed their receipt of the survey. Secondly, the researcher also compared some demographic attributes of the survey data with the result of Shen's (2007) recent study on Chinese private firms, and no significant differences were found.

Based on all the above assessments and measures, it is believed that both the company and data provided were trustworthy and reliable.

Data collection procedure

The quantitative data collection procedure consisted of two stages and lasted from 21/11/08 to 28/02/09. The geographic focus, as mentioned previously, was on the Yangzi Delta (Shanghai, Zhejiang) and the capital of China (Beijing), where firms are actively involved in international operations according to the Chinese government's FDI and exporting statistics (2007).

Paired questionnaire distribution stage

During the first stage (from 21/11/08 to 21/12/08), in order to examine potential respondent bias due to memory failure, two copies of the questionnaire were sent separately to two informants in each of 25 firms, randomly selected from sampling frame (Papadakis and Barwise, 2002). In total, 50 copies of the questionnaire were distributed. Typically, one copy was sent to the CEO or Vice General Manager, and the other was delivered to another key participant (usually the director of the international department). These firms consented to participate in the study during initial phone contacts.

Up to 21/12/08, the cut-off point around four weeks from the initiation, 44 copies of the questionnaire had been returned, including 21 paired questionnaires from 21 firms and two single returns from two firms. One firm made no response.

The investigator firstly compared the 21 paired returns on the two aspects of the international entry (foreign country entered and international entry mode used). Their answers showed a highly consistent pattern, and only one out of 21 pairs had different answers on the issue of the foreign country entered, and two out of 21 pairs showed differences on the question of international entry mode used. Statistical tests were then conducted on four factual indicators (number of company employees, company international experience, company revenue the year before the entry, and project size) of paired answers. As studying samples are two informants' judgments on one issue (the most important international entry mode decision), their answers were not independent. The investigator employed paired-samples T-tests to examine mean differences on these four aspects. The results showed that with 95% confidence level, there were no differences

between the two informants; specifically, number of company employees (t value=0.26, sig. =0.80), company international experience (t value =1.23, sig. =0.23), company revenue the year before the entry (t value=0.57, sig. =0.58) and project size (t value=1, sig. =0.33).

In general, answers of two respondents from one company in our sample showed high consistency, although there remained the slight differences. The problem of memory failure did not seem serious. Based on random selection of the sample, the test results, to some extent, lent support to the good reliability of the single key informant approach. Moreover, Miller et al. (1998) found that data generated from the single respondent method showed little difference from team-generated data in their strategic decision-making study. The single informant method was thus employed in the follow-up large scale survey. Although it was acknowledged that the incorporation of multiple informants to test hypothetical relations would be a better approach, in practice it is difficult to achieve this in China (Davies and Walters, 2004; Olson, et al., 2007). The adoption of this approach is also popular in both international entry mode studies (Brouthers and Nakos, 2004; Shi, Ho and Siu, 2001) and strategic decision making (Miller, 1998).

Large scale survey

A large scale survey (from 22/12/08 to 28/02/09) was then carried out. Two rounds of mail survey, including an initial mailing and one follow-up reminder, were conducted. In the initial mailing (from 22/12/08 to 27/01/08), 550 questionnaire packs including a questionnaire, a information sheet, and a postage pre-paid reply envelope were sent through the contractor to the CEOs or executives of 550 Chinese private firms with international operations. The information sheet explained the purpose of this study and invited potential informants to participate in the study. It also stated that all information collected would be treated confidentially. All these techniques including the information sheet, the provision of the return envelope, and assurance of protection of data, suggested by Kanuk and Berenson (1975) and Linsky (1975), may potentially increase the response rate. On 28/01/09, five weeks after the initial mailing, a reminder, was sent to each of the 317 firms which had not replied to the first batch.

During the survey process, a unique method was provided by the contractor to facilitate the data collection. Twelve survey workers were assigned to be responsible for communicating and collecting questionnaires from the 550 informants. These survey workers usually used the telephone to further clarify the study purpose to informants and explain any issues arising from it. The reputation and connections of the company, the assurance of anonymity, and interactive communication were intended to assuage these managers' suspicions as to the purpose of this study. They also served as reminders when the deadline of the survey was approaching. These approaches were believed to be important to improve the low response rate to surveys in China (Davies and Walters, 2004). However, the researcher is aware of potential interviewer bias due to the employment of multiple interviewers. Three measures were taken in terms of interviewer selection, training, and control to overcome the potential for error, according to Boyd and Westfall's (1955; 1965; 1970) suggestions. Firstly, the survey company was asked to hire university students with relatively uniform cognitive capability for the survey explanations. Secondly, these interviewers were enlightened as to the purpose of the survey and the statements of the instrument by the survey company before the data collection. Finally, as stated previously, selective examinations were conducted by the investigator to deal with information distortion. Through these methods, it is believed that interviewer bias may not be a serious challenge to the quality of the survey.

6.4 Qualitative data collection method

When initial data analysis of the survey was completed, in order to further interpret the phenomenon of interest, a supplementary case study strategy was employed. As the purpose of the qualitative approach is to provide a deeper understanding of the effects of decision-makers' cultural values and decision process in the international entry mode decision in real settings, this study employed two key questions to address these issues: (1) How did Confucian dynamism of Chinese decision-makers affect the managerial evaluations foreign market hostility and firm conditions related to their most important entry? (2) How did characteristics of the decision process in terms of procedural rationality,

problem-solving dissension, and hierarchical centralisation of decision-making affect international entry mode decision?

The first question was utilised to understand whether and how varying degree of Confucian dynamism held by interviewees in the same company affect their perception of situation. The second question was used to explore whether and how characteristics of decision process effect in the decision.

6.4.1 Case selection criteria

Case study for this study has two purposes. (1) It explores how cultural values and the decision process affect the decision outcome in real settings; (2) It is used to provide potential evidence for cross-method validation of the survey result. In order to fulfil these purposes, three criteria were introduced for selecting appropriate firms, as follows: (a) sample firms in the survey; (b) varied in term of entry mode used and; (c) covered locations both in Beijing and in the Yangzi Delta.

6.4.2 Data collection

Both primary and secondary data were collected. Primary data were collected through semi-structured interviews with two top managers in each of four Chinese firms. These firms were contacted and consented to participate into the study. Equity or non-equity mode was used to conduct their most important international entry. Anonymity of their organisation and any personal identity was promised. Secondary data were collected mainly through firms' company documents and archival data.

In-depth Interviews

Four interviews were conducted in Shanghai, two in Beijing, and two in Hangzhou between March and April, 2009. The duration of these interviews varied from 40 minutes

to 60 minutes and most interviews were conducted in the interviewees' offices. Most interviewees were owners or CEOs.

Before beginning the interviews formally, the interviewees were asked to complete the questions on the values of decision-maker in the survey questionnaire to obtain their level of Confucian values. Then, the interviews started by asking introductory questions about the company, its internationalisation, and its most important entry. Responding to replies about the international entry, their evaluation of foreign market and firm conditions were further probed. Then questions about the general decision process were asked, and further exploration on procedural rationality, problem-solving dissension, and centralisation was conducted. During the interviews, any issues worthy of being followed up was carried out. The whole interview process was flexible but ensured coverage of interesting points related to the study questions. Since none of the interviewees agreed to the conversations being audio-recorded, notes were taken.

Secondary Data

The main function of secondary data is to understand the background of the firms and validate the data generated from interviews. Secondary data mainly included documents or introduction slips on these firms' growth tracks, current market position, strengths and weaknesses, their internationalisation paths, etc.

6.5 Results of responses to the the survey

6.5.1 Response facts

On 28/02/09, after two rounds of mailing, out of the 550 samples, 29 were returned by the post office as undeliverable, 254 made no response, and 267 firms returned the questionnaire. Among 267 replies, 34 responses were identified as being unusable for the following reasons: (1) twelve replies lacked answers to key questions (on international entry mode or all items of the decision process constructs); (2) five replies were missing pages; (3) nine replies showed little variation in their responses; (4) eight respondents

mistook investment destination country for mainland China due to misunderstanding.

After the deduction of unusable ones from the responses, eventually 233 usable questionnaires had been received through two rounds of mailing (131 replies for the first round, and 102 replies for the follow-up reminder). 172 replies were from the Yangzi Delta and 61 were from Beijing. The total response rate was 48.54% and the usable questionnaire response rate was 42.36%. This is very satisfactory in comparison to similar entry mode mail surveys in China (e.g. 34.8% for Luo's study (2001); 42.16% for Shen's study (2007)).

6.5.2 Non-response assessment

Although there is no generally accepted minimum level for response rates, non-response bias is always a concern to scholars. Non-response bias potentially undermines the representativeness and validity of survey research (Goor and Goor, 2007). A general approach to test non-response bias is to compare background variables, such as number of company employees or revenues, between non-respondents and respondents by obtaining relevant information from the sampling frame. However, the dataset of this study lacks this type of information. In order to discover the representativeness of response data, three alternatives were employed.

Firstly, by following Smith et al's (2003) method, we made phone calls to 30 randomly selected non-response firms and questioned them on the issues of number of company employees and international experience of firms; twelve firms provided the answers. Then the mean difference between respondents and non-responding firms with respect to the above aspects was tested by using independent-samples T-test. The results showed that all t statistics were insignificant, specifically, the number of employees (t value = 0.87, sig. = 0.40) and length of international operation (t value = -0.30, sig. = 0.76).

In order to further test potential non-response bias, this study also compared the replies of early respondents with those of later respondents. The approach was based on the assumption that the opinions of later respondents are somewhat representative of the

opinions of non-respondents (Armstrong and Overton, 1977). The mean difference between early respondents and late respondents regarding the number of employees (t value=1.91, sig. =0.06), international experience (t value = 1.04, sig. = 0.3), company revenue of the year before the entry (t value = 0.79, sig. = 0.43), and project size (t value = 1.57, sig. = 0.12) were tested using an independent-samples T-test and the test results also did not show significant differences.

As samples of paired questionnaire study were excluded from the large scale survey they were also randomly selected from the sampling frame. Moreover, the comparison was also made of mean differences in number of employees and international experience between the respondents of the paired questionnaire and those of the large scale survey, and no significant differences were found either.

Based on the results of the above all tests, a variety of demographic facts between non-respondents and respondents were shown to be not significantly different. Additionally, the response rate in the study was relatively high. All these elements suggested that the threat of non-response bias may not be serious in this study.

6.6 Conclusion

This chapter mainly presented the research design, research method, and response results of this study. More specifically, due to the nature and interest of this study, a survey design was made to achieve the study objectives. The mail questionnaire was adopted as data collection method to realise the design due to its relatively low cost, geographical flexibility, time efficiency, and being free from interviewer effects (Kanuk and Berenson, 1975). After two rounds of the large scale survey, 233 usable questionnaires were received, the total response rate was 48.54% and the usable questionnaire response rate was 44.46 %. Several methods were employed to detect potential non-response bias, and no significant differences were revealed between respondents and non-respondents on a variety of indicators.

Chapter 7: Initial Measurement, Construct Validation and Hypothesis Testing

7.1 Introduction

This chapter mainly illustrates the initial measurement of variables, construct validation, and the hypothesis testing of this study. Firstly, it addresses the sources of initial measures and selection process. After using the principle component analysis to purify the measurement, a confirmatory factor analysis was employed to test the dimensionality of constructs (Gerbing and Anderson, 1988). Then, reliability, within-method convergent validity and discriminant validity of constructs are also examined. Finally, after reporting the demographic characteristics of replies, a binary logistic regression method was used to test hypotheses, the development of which was described in a previous chapter. More specifically, firstly the main effects of internal and external conditions and Confucian dynamism on equity mode decision were assessed, and then the two-way interactions between them were also examined. Finally, by adding moderators of characteristics of strategic decision-making process into above two-way interactions, three-way interactions were also assessed. As a result, most of the hypotheses were fully or partially supported by the test, and in particular the strong moderating effect of firm size and Confucian dynamism were detected.

7.2 Initial operational measures of variables

Nunnally (1978) indicated that the process of measurement involves the systematic assignment of numbers to attributes of objects based on a set of rules. The operationalisation of variables of this study was intended to capture the attributes of Chinese decision-makers, the decision-making process, and external and internal conditions and link them with outcomes of internal entry mode decision.

The search for initial measurement of variables for this study was made in parallel with the

development of the survey instrument. All measurement scales of this study were taken from prior empirical studies from the domains of international entry mode, cultural studies, and strategic decision-making. This approach was complemented by academic experts' suggestions to enable measures to capture the content of the concept of interest (Bryman, 2004) without major deviations.

When scaling variables difficult to measure directly or those created for special scientific purposes - constructs (Peter, 1981), multi-item scales are recommended for several reasons (Churchill, 1979; Peter, 1979). The first reason is that they decrease the chance of missing the essential content of concept. The second is that they constrain overall measurement error through summing all the values of items, through which individual item measurement error will be cancelled. The third reason is that they generate more differentiated categories among objects than a single-item approach. Thus, in this study, multi-item measures were adopted for all independent variables and moderators, except for firm size. Past studies indicated that the inclusion of the financial indicator of firm size will decrease usable replies (Wolff and Pett, 2000); thus a single item scale was used for measuring firm size. Details of the measures for this study can be seen in Table 7-1 and are also described below.

7.2.1 Dependent variable

The dependent variable used in this study was the mode of entry adopted by the Chinese private manufacturing firms in their most important international entry. Prior strategic decision-making studies tended to support the premise that the effect of the decision process increases as the stake of the decision ascends (Elbanna and Child, 2007; Dean and Sharfman, 1993; Rajagopalan et al., 1993). Thus, in order to examine the impacts of the characteristics of the SDMP on outcomes of the international entry mode decision, the research focused on studying the entry mode decision of their most important international entry. Informants were asked to assess the overall importance through three aspects of the importance of this international entry to the firm, magnitude of impact from consequences of the entry, and seriousness of delaying the entry (Dean and Sharfman, 1993a).

Table 7-1: Variables and initial measures employed

Dependent variable	Items	Source	Measurement
International entry mode	<ol style="list-style-type: none"> Equity entries (wholly-owned subsidiaries and joint ventures); Non-equity entries (export, franchising, and licensing contracts) 	Brouthers and Nakos, (2004); Nakos and Brouthers, (2002)	Dichotomous scale (1: equity modes, and 0: non-equity modes)
Independent variables:			
Confucian dynamism	<ol style="list-style-type: none"> Diligence and thrift are very important; Devotion is not to ask for immediate compensation; Working with people who are easy to cooperate with is very important for me; First impression to others is very important; Self-control and organisational commitment are important characteristic of an employee; Conventional methods are still workable even in modern times; Working for a reputable and successful company is very important. 	Jaw et al. (2007)	Seven-point Likert scale (1: strongly disagree; 7: strongly agree)
Firm size	Number of full-time employees	Nakos and Brouthers, 2002; Elbanna and Child, 2007	Continuous scale
Environmental hostility	<ol style="list-style-type: none"> Threat to survival; Richness in investment and marketing opportunities; Dominance over the company 	Papadakis et al. (1998); Khandwalla (1977); Covin and Slevin (1989)	Seven-point Likert scale (1: strongly disagree; 7: strongly agree)
Moderators:			
Procedural rationality	<ol style="list-style-type: none"> To gather relevant information; To analyse relevant information; To use analytic techniques; To focus attention on crucial information; Overall evaluation. 	Dean and Sharfman (1993); (1996); Walter et al., (2007); Elbanna and Child (2007);	Seven-point Likert scale (1: strongly disagree; 7: strongly agree)
Problem-solving dissension	<ol style="list-style-type: none"> The degree of disagreement on the objectives sought by the decision; The degree of disagreement on the proper methodology to follow; The degree of disagreement on the proper solution to the problem. 	Papadakis et al. (1998); Olson et al., 2007; Amason, 1996	Seven-point Likert scale (1: strongly disagree; 7: strongly agree)

Hierarchical centralisation of decision-making	<ol style="list-style-type: none"> 1. I practice a high level of delegation of the decision-making 2. Our decision group must reach a consensus for action to occur. 3. Although I know what should be done, sometimes I seek more information when decision-making, because the decision must be justified to others. 4. I can stop, reverse, or inspire the decision-making. 5. If a frontline employee has a new idea on the decision, it will pass through layers of management before reaching me. 	Wally, S. and Baum, J. R. (1994)	Seven-point scale (1: strongly disagree; 7: strongly agree)
Control variables:			
Environmental uncertainty	<ol style="list-style-type: none"> 1. The general stability of the political, social, and economic conditions in the country is high; 2. The risk of converting and repatriating your income in the country is high 3. The risk of expropriation of firms in the country is high. 	Brouthers and Brouthers (2003); Brouthers and Nakos (2004)	Seven-point Likert scale (1: strongly disagree; 7: strongly agree);
Contractual risks	<ol style="list-style-type: none"> 1. The relative costs of making and enforcing a contract; 2. The risk of disseminating proprietary know-how; 3. The costs of controlling and monitoring product quality 	Agarwal and Ramaswami (1992); Nakos and Brouthers, (2002)	Seven-point Likert scale (1: strongly disagree; 7: strongly agree)
International experience of firm	The number of years of international operations before the entry	Nakos and Brouthers, 2002; Osborne, 1996	Continuous scale
Manufacturing advantage	<ol style="list-style-type: none"> 1. Production efficiency; 2. The product and process development and improvement capability 	Tsai and Cheng, (2002)	Seven-point Likert scale (1: strongly disagree; 7: strongly agree)
Psychic distance	<ol style="list-style-type: none"> 1. Language differences; 2. Differences of accepted business practices; 3. Differences in economical environment; 4. Differences in legal system; 5. Differences in communication infrastructure. 	Klein and Roth (1990)	Seven-point Likert scale (1: strongly disagree; 7: strongly agree)
Mostly frequently used mode in the past	<ol style="list-style-type: none"> 1. Equity entries (wholly-owned subsidiaries and joint ventures); 2. Non-equity entries (export, franchising, and licensing contracts) 	Yiu and Makino, 2002; Davis et al. (2000)	Dichotomous scale (1: equity modes, and 0: non-equity modes)
Most frequently used mode by main competitors'	<ol style="list-style-type: none"> 1. Equity entries (wholly-owned subsidiaries and joint ventures); 2. Non-equity entries (export, franchising, and licensing contracts) 	Yiu and Makino, 2002; Davis et al. (2000)	Dichotomous scale (1: equity modes, and 0: non-equity modes)

As stated in a previous chapter, this study focuses on Chinese firms' equity/non-equity modal decision, which is consistent with past studies (Brouthers and Nakos, 2004; Nakos and Brouthers, 2002; Domke-Damonte, 2000). The dependent variable was coded as "1" for equity entries (wholly-owned subsidiaries and joint ventures) and "0" for non-equity entries (export, franchising, and licensing contracts). This dichotomous treatment has a certain advantage over a more differentiated classification approach in its sensitivity in detecting effective determinants (Pan and Tse, 2000).

7.2.2 Independent variables

Confucian dynamism

At the cultural level, the cultural dimension was derived from the Chinese Value Survey (CVS) (Chinese Culture Connection, 1987). It includes elemental values of persistence, ordering relationship, thrift, having a sense of shame, personal stability, saving face, respect for tradition, and reciprocation. All these reflect Confucian work ethics from Confucian teachings, which were found to have no correlations with any of Hofstede's dimensions derived from western cultures (Hofstede and Bond, 1988).

There are two things it is necessary to clarify before describing the operationalisation of the construct.

Firstly, Confucian dynamism was initially generated at societal level, and Hofstede (1980a) suggested that the level of analysis of cultural values is meaningful only at the societal level. Many scholars (Kirkman et al., 2006; Dorfman and Howell, 1988; Triandis et al., 1985; 1988; 1995, Singelis, 1994) have disagreed with this judgment. For instance, Smith, (2002, p.123) commented that Hofstede "ignores everything but the cultural level comparisons". Triandis et al. (1995) indicated that these cultural values could be operationalised at the individual level through capturing their core themes. With regard to Confucian dynamism, scholars (Robertson 2000; Robertson and Hoffman, 2000; Jaw et al., 2007) operated it at the individual level in measuring the degree of individual acceptance of Confucian work ethics. Those work ethics are all traditionally emphasised and

encouraged in the Confucian societies. This study adopts individual-level approach in order to measuring Chinese managers' variation on the unique cultural trait.

Secondly, Hofstede and Bond (1988) suggested that values of Confucian dynamism could be classified into two types, long-term oriented and short-term oriented values, and the directions of the two types are opposing. Fang (2003) provided a systematical criticism on the division, and indicated that these values actually share consistencies in Chinese culture. The argument has also gained support from observations of Ahmed and Li (1996) and Rarick (2007) on Chinese culture. As this study attempts to capture intra-cultural variations in China rather than cross-cultural variations, it has adopted Fang's (2003) suggestion.

A seven-item scale developed by Jaw et al. (2007) at the individual level was employed to measure Confucian dynamism. Respondents were asked to rate the value statements on the seven-point Likert scales. Jaw et al.'s (2007) scale has two advantages over the one developed by Robertson (2000) and Robertson and Hoffman (2000). Firstly, it had been used among business managers rather than a sample of students or workers, and secondly, it does not differentiate between long-term and short-term oriented values, and is therefore more suitable for an intra-cultural study in China.

Environmental hostility

Environmental hostility or munificence refers to the extent of the scarcity or abundance of critical resources and opportunities to support the sustained growth of an organisation (Dess and Beard, 1984; Goll and Rasheed, 1997). Covin and Slevin (1989, p.75) indicated that a hostile environment is "characterized by precarious industry settings, intense competition, harsh, overwhelming business climates, and the relative lack of exploitable opportunities" This study focuses on examining this environmental characteristic in the host country context as it affects the abilities and behaviour of new firms entering this environment (Randolph and Dess, 1984). The measurement was drawn from Elbanna and Child's (2007) study, which was developed by Khandwalla (1977) and also used by Papadakis et al. (1998), and Covin and Slevin (1989). The scale examines threats to survival, richness of opportunities, and environmental dominance of host environment.

Respondents were asked to evaluate three item statements of the measure related to the above aspects on the seven-point Likert scales.

Firm size

The size of a firm demonstrates a certain type of resource advantage over competitors (Brouthers and Hennart, 2007). In line with many previous studies of international entry mode and strategic decision-making, firm size in this study is assessed by the number of full-time employees. Scholars (Nakos and Brouthers, 2002; Elbanna and Child, 2007) have argued that private firms are more willing to provide the statistics than other indicators such as sales turnover, total assets, or equity and deposits (Agarwal and Ramaswami, 1992). Prior studies indicated that the inclusion of financial or sales indicators may reduce the usable replies (Wolff and Pett, 2000) or increase erroneous or false reporting (Elbanna and Child, 2007). Agarwal and Ramaswami (1992) also indicated that these measures are expected to have a high degree of correlation. So, considering the practicability of the survey, this study chose the number of full-time employees to measure the firm size.

7.2.3 Moderators

Procedural rationality

Procedural rationality refers to the extent to which decision-makers collect and analyse information relevant to the decision, and make the choice relying on the analysis of this information (Dean and Sharfman, 1993a). An initial attempt to measure the decision rationality or comprehensiveness was made by Fredrickson and Mitchell (1984) based on 43 questions covering the decision procedures of situation diagnosis, alternative generation, alternative evaluation, and decision integration. Despite claims as to its effectiveness (Fredrickson, 1984), the complexity of the scale hampered its wide application. Dean and Sharfman (1993a) made a breakthrough in measuring the decision rationality by emphasising the key aspects of the concept. The scale examines the degree of information collection, analysis, analytic technique utilisation, crucial information selection, and overall evaluation during the decision-making process. This study adopted the scale (Dean and Sharfman, 1993a) to measure procedural rationality through five seven-point

Likert-scale items. Informants were asked to rate these key aspects of their international entry mode decision. This scale has been widely used in the strategic decision-making literature (Walter et al., 2007; Elbanna and Child, 2007; Dean and Sharfman, 1993a; 1993b; 1996) and its effectiveness had been intensively examined.

Problem-solving dissension

Jehn (1995, p.258) defined problem-solving dissension as “disagreements about the content of the tasks being performed, including differences in viewpoints, ideas and opinions”. It refers to task-oriented differences in judgment among decision-makers (Forbes and Milliken, 1999; Dooley and Fryxell, 1999) during the strategic decision-making process. The measures of the construct for this study were drawn from Papadakis et al.’s (1998) study. Based on works of Eisenhardt and Bourgeois (1988), Butler et al. (1991), and Jehn (1994; 1995), the scale assesses problem-solving dissension through three items: (1) the degree of disagreement on the objectives sought by the decision; (2) the degree of disagreement on the proper methodology to follow, and; (3) the degree of disagreement on the proper solution to the problem. The responses were recorded on seven-point, Likert-type scales with anchors ranging from 1, “Strongly disagree” to 7, “Strongly agree” on the statements of items. The scale of the construct was empirically used by many studies (Amason, 1996; Papadakis et al., 1998; Olson et al., 2007) in strategic decision-making domain.

Hierarchical centralization of decision

Hierarchical centralisation of decision refers to the degree of the concentration of decision-making power during a decision-making process (Papadakis et al., 1998, Hage, 1980, Huber et al., 1990). It is another important characteristic of the decision-making process (Rajagopalan et al., 1993). There are two important aspects associated with the concept, which are the level of participants, and the relative size of the participation. The measure of the construct was drawn from Wally and Baum’s (1994) empirical study. It comprises five items to address aspects of delegation situation, consensus seeking, information seeking, decision power, and level, respectively. Respondents were asked to rate statements of these five items in the context of their international entry mode decision,

and their answers were recorded on seven-point, Likert-type scales. Compared to other measures available, this has certain advantages. Firstly it is directly related to the decision-making context, such as the ratio of administrative to total personnel (Miller, 1987) or total number the total amount of participation of various hierarchical levels and departments in the process (Papadakis et al., 1998) rather than having an emphasis on organisational structure. Secondly, the measure adopted focuses on strategic decision rather than operational decision (Baum and Wally, 2003).

7.2.4 Control variables

Six control variables were all taken from prior international entry mode studies (Agarwal and Ramaswami, 1992; Brouthers and Brouthers, 2003; Brouthers and Nakos, 2004; Klein and Roth, 1990; Shi et al., 2001; Tsai and Cheng, 2002; Yiu and Makino, 2002) reflecting other mainstream considerations in terms of ownership advantage, transaction cost, and institutional influences. Location factor (environmental hostility) was included in the independent variables already.

Ownership advantage type

International experience

International experience is considered to be a type of firm ownership advantage (Agarwal and Ramaswami, 1992). International experience provides a firm with a control advantage when conducting an international entry (Nakos and Brouthers, 2002). Consistent with past studies (Nakos and Brouthers, 2002; Osborne, 1996), international experience in this study was measured as the number of years of international operations before the entry in question.

Manufacturing advantage

Prior literatures indicated that Chinese firms lack international experiences and intellectual properties (Mathews, 2006) and mainly compete on production cost and quality control in the mature industries (Morck et al., 2008). Manufacturing advantages rather than abilities to develop differentiated products provide Chinese firms with certain ownership

advantages over local enterprises. The measure of the construct was drawn from Tsai and Cheng's (2002) study, which consists of two items addressing production efficiency and the ability for product improvement respectively. Respondents were asked to rate item statements on the seven-point Likert scales.

Transaction cost type

Contractual risks

Contractual risks were considered the main reasons for firms to integrate their operations and gain internalisation advantages from a transaction cost perspective (Buckley and Casson, 1976; Agarwal and Ramaswami, 1992; Brouthers, Brouthers and Werner, 1999; Nakos and Brouthers, 2002; Shi et al. 2001). The measure of the construct was taken from Agarwal and Ramaswami's (1992) study to examine three aspects: (1) the relative costs of producing and enforcing a contract; (2) the risk of dissipation of proprietary know-how; and; (3) the costs of controlling and monitoring the quality of product/service. Respondents were asked to rate these three item statements on the seven-point Likert scales.

Environmental uncertainty

From a transaction cost view, volatility of environment (Williamson, 1985) will make it difficult for MNEs to predict future contingencies, and also increase difficulties in enforcing and monitoring contracts (Brouthers and Nakos, 2004). The measure of the construct was taken from Brouthers and Brouthers's (2003) study, and consisted of three seven-point, Likert-type scales. It examined aspects of country risk, risk of converting and repatriating firms' income, and risk of expropriation of firms' know-how.

Institutional factors

Psychic distance

Psychic distance refers to the subjectively perceived socio-economic differences between home and the foreign country entered (Klein and Roth, 1990), and reflects the perceived institutional environment differences (Scott, 1995). It emphasises subjective perception rather than objective measures of cultural difference based on Hofstede's national index (Shane, 1993, 1994; Erramilli and Rao, 1993; Brouthers and Brouthers, 2001). The

measure of the construct was drawn from Klein and Roth's (1990) study, comprising five seven-point, Likert-type scales. Respondents were asked to rate five aspects in terms of differences of language, accepted business practices, economic environment, legal system, and communication infrastructure.

Most frequently used mode in the past and main competitors' most frequently used mode

Institutional theorists (DiMaggio and Powell 1983; Yiu and Makino, 2002) have indicated that due to cognitive mindsets or limitation of organisational decision makers, firms are likely to make the decisions with reference to internal experience and external rivals' decisions. Respondents were asked to provide answers to questions on the mostly frequently used mode in the past and their main competitors' most frequently used mode to enter the market. Their answers were coded in a dichotomous scale, with "1" for equity entries (wholly owned subsidiaries and joint ventures) and "0" for nonequity entries (export, franchising, and licensing contracts).

7.3 Data preparation

7.3.1 Missing value analysis

The survey approach usually suffers from the situation of missing data when informants fail to provide answers (Bryman, 2004). Missing value analysis is important for the start of quantitative analysis for several reasons, according to SPSS Inc.'s (2007) descriptions. Firstly, it helps detect the seriousness of missing values of the dataset, which will affect the accuracy of calculated statistics due to less information and presumptions of complete data for statistical procedures. Secondly, if systematical differences are found between missing-value cases and non-missing value cases, the analysis result is not reliable and may perhaps be misleading.

The function of Missing Value Analysis of SPSS was used to conduct the examination. The threat of missing values of this study is not serious, as (1) as stated earlier, replies with

missing pages or key questions (on international entry mode or all items of the decision process constructs) had already been dropped; (2) our survey partners frequently delivered reminders to the informants and; (3) the instrument is parsimonious. As a result, only nine items generated 13 missing values (see Table 1). Rates of missing values for items ranged from 0.4% to 2.1%, which is usually considered trivial or manageable (Acuna and Rodriguez, 2004).

Table 7-2: Items with missing values

	N	Missing Count	Percent
Year	232	1	0.4
Init	228	5	2.1
Conf5	232	1	0.4
Maad1	232	1	0.4
Maad2	232	1	0.4
Cont3	232	1	0.4
Envi1	232	1	0.4
Envi3	232	1	0.4
Pamo	232	1	0.4

Note: Year: year of the entry; Init: Year of the first international operation; Maad1: Item 1 of manufacturing advantage; Maad2: Item 2 of manufacturing advantage; Cont3: Item 3 of Contractual risk; Envi1: Environmental uncertainty; Envi3: Environmental uncertainty; Pamo: International entry mode mostly frequently used in the past.

Many statistical estimates, such as regression, are based on the random assumption of data patterns (Kennedy, 2006). In order to examine whether or not missing values of this study were random, a Little's MCAR (missing completely at random) test was conducted. The result of the test (Chi-Square = 46.953, d.f. = 46, Sig. = .433) is not significant. It suggests that the missing data are random, as the null hypothesis for Little's MCAR test is that the data are missing completely at random (MCAR).

Several methods have been suggested to treat missing data (Kim and Curry, 1977; Acuna and Rodriguez, 2004), typically including Case/Pairwise deletion, parameter estimation, and imputation techniques (Little and Rubin, 2002). This study used the mean imputation method to deal with the missing values because (1) usable sample size is limited (only 233); (2) the percentages of missing values are low, and; (3) the missing value pattern is random.

7.3.2 Examinations of potential effects of data collection locations

This study collected data mainly from two locations in China; one is Beijing, and the other is Yangzi Delta area (Shanghai and Zhejiang). Although both locations are coastal areas and the economic conditions (governments statistics) are similar (e.g. GDP (gross domestic products) per capita in 2008: US \$ 9075 (Beijing) (www.gov.cn/ztl/2009-01/21/content_1211804.htm), US\$ 10529 (Shanghai) (www.stats-sh.gov.cn/2008shtj/index.asp), and US \$ 6078 (Zhejiang) (www.zjjmw.gov.cn/attaches/2009/04/08/2009040800008.doc), caution must still be exercised on the potential existence of systematic differences among investigated firms according to location.

Although a confirmatory factor analysis could have been better to detect the effect (Steenkamp and Trijp, 2001), the size of split samples did not permit us to use it (172 replies were from Yangzi Delta and 61 were from Beijing). Thus, two independent-samples T-tests were conducted on two key characteristics in terms of firm size and years of international operation to examine the potential differences. Neither of the T test results was significant (firm size: sig. =0.760; years of international operation: sig. =0.647), which suggested that no systematic differences in firm size and international experience were found among the investigated firms between two locations.

7.3.3 Measurement validation

Concept of reliability and validity

Peter (1979, p.6) indicated that “valid measurement is the sine qua non of science”. Adopted measures have to be shown to have a high degree of reliability and validity before conducting theory development and testing (Steenkamp and Trijp, 1991; Parameswaran et al., 1979; Peter, 1981; Nunnally, 1978). Reliability addresses the degree to which measures are free from random error and therefore yield consistent results (Churchill, 1979; Peter, 1979). Validity refers to the degree to which measures that are designed to gauge a concept really measure that concept (Bryman, 2004; Peter, 1981). Validity puts a more stringent

requirement on the measure, and requires that a valid measure should be free not only from random errors but also from systematic errors, and it only reflects true variations on the concept of interest and nothing else (Churchill, 1979). Reliability is usually considered as a necessary, but not a sufficient, condition for validity (Kline, 2000; Peter, 1979; Churchill, 1979).

Main types of reliability and validity

Basic types of reliability

Three basic types of reliability have been identified by scholars (Parameswaran et al., 1979; Peter, 1979) in terms of stability, internal consistency, and alternative form or equivalent form reliability. These types of reliability are usually assessed through some format of replication of the scale in order to determine the proportion of systematic variance in a measurement scale (Peter, 1979).

● *Stability*

This concerns whether or not measures run steadily over time (Bryman, 2004). A typical way to assess this type of reliability is the method of test-retest. This method employs the same scale on the same subject twice with a certain interval. It also requires the investigator to keep the research setting as similar as possible for both times. When the scores from the two investigations are highly correlated, the measures are considered stable over time (Peter, 1979).

Several limits are associated with this approach. Firstly, the two administrations are usually not independent and the answers of the first investigation may influence those of the second due to respondents' memories (Churchill, 1979; Bryman, 2004). Secondly, unexpected events may occur during the interval between two investigations, which may also affect the interpretation of the result (Peter, 1979). As there are no obvious solutions to the above limitations (Bryman, 2004), Churchill (1979, p.70) explicitly suggested that 'test-retest reliability should not be used', while Peter (1979) argued that it could be used as a supplementary method.

- *Equivalent form reliability*

This employs two sets of instruments, designed as equivalences, to measure the same object of interest separately. Then the correlation between scores of the two administrations can be calculated to reflect the reliability of the scale. The main problem of this approach is that it is very difficult to obtain equivalent instruments (Peter, 1979).

- *Internal consistency*

This assesses the extent of homogeneity of the indicators that constitute the measure (Bryman, 2004; Peter, 1979). When using a multi-item scale in measuring an object of interest, high internal consistency requires high correlations among indicators. One way to detect internal consistency is the split-half method. According to the approach, indicators will be divided into two halves on an odd-even or a random basis (Bryman, 2004) and then the level of correlation between scores of the two halves are calculated. The problem of the approach is that the correlation depends on how to divide items into half (Peter, 1979).

Cronbach's (1951) coefficient was developed to address the above limit by calculating the mean of all possible split-half coefficients (Peterson, 1994). Although there are still other ways to detect the level of internal consistency, coefficient alpha is the most widely used one (Lee and Hooley, 2005) and its formula can be seen below:

$$\alpha = \left(\frac{k}{k - 1} \right) \left(1 - \frac{\sum_i \sigma_i^2}{\sigma_t^2} \right)$$

k : Number of items in the scale;

σ_i^2 : Variance of item i ;

σ_t^2 : Total variance of the scale.

However, recently, scholars (Lee and Hooley, 2005; Peterson, 1994; Gerbing and Anderson, 1988; Rossiter, 2002) have addressed several limitations to using coefficient alpha. A summary of these criticisms can be obtained from Lee and Hooley's study (2005). Firstly,

highly correlated indicators produce certain item redundancy in explaining the latent construct measured, which may limit the scope of the tapped content of the construct and thus potentially generate a low validity. Secondly, the coefficient alpha may also depend on the length of the scale (Hair et al., 1998). Finally, a high coefficient alpha does not imply unidimensionality (Gerbing and Anderson, 1988) (This concept will be discussed in greater detail later).

Major types of validity

- *Face and content validity*

Face validity addresses the apparent match between the measure and content of concept of interest (Bryman, 2004). Expert opinion or judgment is the usual method to determine the face validity of the measure, but it is not a rigorous assessment. Content validity sets more stringent requirements than face validity. Content validity assesses the extent to which employed items are taken as an appropriate sample from the content domain of interest (Cronbach and Meehl, 1955). Although scholars, such as Aiken (1980), have attempted to assess it quantitatively, currently, it still largely depends on a deductive qualitative process to define the universality of items and sampling from it (Huang, 2005), such as panel ratings.

- *Criterion-related validity*

According to Cronbach and Meehl's (1955) classification, concurrent validity and predictive validity belong to this category. In order to assess these two types of validity, a test and a criterion measure (acknowledged as the standard instrument) are conducted independently on the same subject and then the correlation between scores of two administrations is calculated (Cronbach and Meehl, 1955). If the scores of two administrations are obtained almost simultaneously, the test of validity of the new measure gauges the concurrent validity. If the criterion score is obtained later than the test score, it studies predictive validity (Bryman, 2004). However, besides the potential interventions of measurement errors in both administrations, the main problem in studying criterion-related validity is that the criterion measure is seldom available when investigating new areas.

- *Construct validity*

Construct validity is believed to play a critical role in the scientific process (Churchill, 1979; Steenkamp and Trijp, 1991) and is associated with the concept of construct. Peter (1981, p.134) indicates that “a construct is a term specifically designed for a special scientific purpose, generally to organize knowledge and direct research in an attempt to describe or explain some aspect of nature”. Although construct is a conceptual term reflecting a theoretical interest in a phenomenon (Edwards and Bagozzi, 2000), it should be subject to operationalisation, otherwise it remains only a metaphysical term (Peter, 1981; Rossiter, 2002).

As construct is an abstract entity (Diamantopoulos, 2005), construct validity examines the issue of linking the unobservable concept with operational measure. Construct validity is defined as “the degree to which a construct achieves empirical and theoretical meaning” (Steenkamp and Trijp, 1991; p.283). More specifically, construct validity assesses the extent of representativeness (significance and direction) of a sample of the characteristics of the construct, and also the extent of absence of influences from the domain of other constructs or error (Peter, 1981). Campbell (1960) suggested that construct validity can be classified into two kinds, i.e trait validity and nomological validity. Trait validity assesses the construct and its measurement in an isolated condition, while nomological validity also compares theoretical relationships of constructs with empirical correlations derived from measures of constructs in a theoretical network (Peter, 1981).

At the operational level, convergent and discriminant validity of construct are usually assessed (Campbell and Fiske, 1959). Traditionally, their assessments are associated with the MTMM (multitrait-multimethod) approach. Convergent validity is assessed through the correlation between scores on the same construct obtained through different independent methods, and discriminant validity is examined by a measure of a trait not being highly correlated with the measure of another distinguished trait (Campbell, 1960; Churchill, 1979).

Several limits were summarised by Peter (1981) on the traditional MTMM correlation

approach in determining convergent and discriminant validity. Firstly, it is difficult to develop independently different methods and shared method variances will bias the assessments of convergent and discriminant validity. Secondly, measures in the traditional MTMM approach are contaminated by measurement errors, which may also impact on the examinations of convergent and discriminant validity. Thirdly, some of the criteria for investigating convergent validity are vague. Finally, a practical interpretation problem occurs when the MTMM matrices do not totally fit Campbell and Fiske criteria. As a result, scholars (Schmitt, 1977; Peter, 1981; Gerbing and Anderson, 1988) explicitly called for improvements for a traditional MTMM approach by introducing path analysis or confirmatory factor analysis.

Improvements brought about structural equation modelling

SEM (structural equation modeling) is a general framework for the analysis of covariance structures developed by Jöreskog and other scholars more than 30 years ago. However, few marketing researchers have fully employed it (Steenkamp and Baumgartner 2000; Hinkin, 1995) in research. SEM combines the statistical techniques of psychometric factor analysis and econometric path analysis (Mackenzie 2001; Terblanche and Boshoff, 2008) to enable the analysis of the relationships among latent constructs as well as the relationships between manifest indicators and latent constructs simultaneously. In particular, SEM has several advantages over the traditional approach in validating the latent constructs.

● *Theory-based measurement assessment*

Firstly, SEM enables researchers to conduct the construct validation through assessing the match level between theoretical structure of the measurement and empirical data (Burt, 1973). Compared to the mainly data-driven exploratory factor analysis, the measurement model of SEM or CFA (confirmatory factor analysis) is able to specify the causal relations between the manifest indicators and the underlying latent constructs according to theoretical reasonings (Anderson and Gerbing, 1982). Then, parameters are estimated to examine the goodness of fit of a hypothesised measurement format to the observed correlation (Jöreskog, 1969).

- *Control for measurement error*

Moreover, as observed, indicators that measure latent constructs inevitably contain measurement errors including random and systematic measurement errors (Steenkamp and Baumgartner, 2000; Mackenzie, 2001). Measurement errors will bias parameter estimates, which could generate a misleading conclusion (Terblanche and Boshoff, 2008). SEM takes measurement errors into account and separates them from parameter estimates, which increases the accuracy of factor loadings of indicators. Benefiting from this advantage, SEM also provides a composite reliability coefficient (Fornell and Larcker, 1981; Gerbing and Anderson, 1988), which could provide a more precise reliability assessment of a measure than traditional coefficient alpha. Moreover, it can also be used to assess the within-method or across-method convergent validity and discriminant validity (Steenkamp and Trijp, 1991) with a more rigorous procedure.

- *Assessment of unidimensionality*

Unidimensionality refers to the existence of a single or common trait construct underlying a set of manifest indicators that are purported to measure the construct (Hattie, 1985; Gerbing and Anderson, 1988). Hattie (1985) indicated that the unidimensionality is one of more critical and basic assumptions of measurement theory, and the composite score of a multi-item measure is meaningful only when it achieves unidimensionality (Gerbing and Anderson, 1988).

Traditionally, exploratory factor analysis and coefficient alpha are usually used to determine unidimensionality (Lee and Hooley, 2005). However, SEM may provide a more rigorous assessment of construct unidimensionality (Terblanche and Boshoff, 2008; Gerbing and Anderson, 1988). Firstly, conceptually, factors generated from EFA (exploratory factor analysis) are weighted sums of all observed variables which are not directly equal to constructs measured by a distinguished set of indicators (Gerbing and Anderson, 1988). In a comparison with EFA, CFA defines the relationship between manifest indicators and latent constructs, by which it provides a formally and rigorously statistical test of construct unidimensionality. Secondly, coefficient alpha assesses internal consistency (a type of reliability) of a measure rather than unidimensionality. A high

coefficient alpha of a scale could comprise items from different dimensions if enough items are available (Lee and Hooley; 2005), and thus it should not be used to infer unidimensionality (Hattie, 1985).

General procedures and techniques of construct validation

Steenkamp and Trijp (1991) suggested that there is an implied order in validating the constructs, as earlier validation criteria should be satisfied before going to later criteria. Thus, the discussion of procedure and techniques deal with how to process the construct validation and what reliability and validity indices to calculate (Churchill, 1979).

Churchill's approach and suggested modifications

Churchill (1979) suggested a measure development paradigm to achieve the valid construct scale. This paradigm emphasises a systematic and rigorous approach to developing valid marketing measures, and is considered to be a milestone in the evolution of marketing science (Lee and Hooley, 2005). The validating process consists of eight steps, i.e. (1) specifying a domain of the construct; (2) generating a sample of items; (3) collecting data; (4) purifying measures; (5) collecting new data; (6) assessing reliability; (7) assessing validity, and; (8) developing norms.

The first two steps were suggested to employ qualitative methods (e.g. literature search, focus group, and interviews etc.) to address issues of face validity and content validity. Then, it proposes the use of coefficient alpha and EFA iteratively in the step of measure purification to identify appropriate items in the domain of interest and eliminate irrelevant items. In the step of reliability and validity assessment, coefficient alpha, split-half reliability, and multitrait-multimethod matrix are recommended for examining construct reliability and validity.

Recently, Lee and Hooley (2005) indicated that although the procedure suggested by Churchill is still conceptually correct, the techniques used may be inappropriate. As coefficient alpha and EFA are not enough to purify measures (Lee and Hooley, 2005; Hattie, 1985; Nunnally, 1978), it is recommended to incorporate CFA into the paradigm

(Hinkin, 1995; Bollen and Lennox, 1991; Gerbing and Anderson, 1988; Mackenzie, 2001) to address construct unidimensionality. Scholars have also suggested that construct unidimensionality should be achieved before assessing the reliability of each scale (Gerbing and Anderson, 1988; Anderson and Gerbing, 1982; Steenkamp and Trijp, 1991).

General validating process and techniques of this study

This study has incorporated CFA into Churchill's approach to validate constructs. It followed Churchill's logical procedure, but CFA was taken as the main technique in validating constructs due to its inherent advantages over traditional approaches. The general process can be described as follows:

Firstly, as stated before, the initial construct measures were generated through a process of intensive literature search, experts' suggestions, and pilot study, which is consistent with Churchill's (1979) suggestion. As this was previously discussed in the instrument development section already, it will not be described again in the later validation operationalisation section.

Secondly, an EFA method (principal component analysis) was employed to conduct data reduction, and then a CFA method was used to assess the construct unidimensionality during measurement purification stage. The pattern of CFA after EFA was recommended by Gerbing and Anderson (1988).

Finally, construct validity and reliability in terms of within-method convergent, discriminant validity, and construct reliability were assessed based on the results of CFA. Both composite reliability and coefficient alpha were employed to assess internal consistency. The order of the validation process at this stage was recommended by Steenkamp and Trijp (1991) and Terblanche and Boshoff (2008).

It is acknowledged that several limitations remained, although CFA was used. As this study was not able to collect data with a large sample size twice (more than 200 firms) or employ other completely independent methods in each of same firms investigated, it could not

assess stability, across-method convergent and discriminant validity. In addition, as the constructs employed in this study were taken from three academic domains, the relationships among them are not clarified in the prior literature; thus nomological validity was not assessed either. In spite of the existence of these limitations due to practical constraints, the employment of CFA seemingly advances the use of straightforward techniques (e.g. coefficient alpha and EFA) in international entry mode studies.

Operationalisation of construct validation

Purifying items through PCA (principal component analysis)

EFA was suggested as a useful preliminary technique in assessing the scale, and can reduce many items down to a more manageable set (Gerbing and Anderson, 1988; Churchill, 1979). By examining the factor loadings of items, it may detect poor indicators, but it does not provide a formal test of construct unidimensionality (Lee and Hooley, 2005).

● *Examinations of appropriateness in using EFA*

It is usually necessary to examine two things before conducting the EFA, which are sample size and sampling adequacy.

Firstly, there are many recommendations on the sufficient level of sample size for EFA. The recommended minimal sample sizes for EFA range from 50 (Barrett and Kline, 1981) to 400 (Aleamoni, 1976). Comrey and Lee (1992) suggested that regarding sample size for EFA: a sample size of 100 is poor, a sample size of 200 is fair, a sample size of 300 is good, and a sample size of 500 is very good, while a sample of 1,000 or more is excellent. In addition, scholars have also suggested suitable subject to item ratios range from 5:1 (Gorsuch, 1983) to 6:1 Cattell (1978) to 10:1 (Nunnally, 1978) to 15:1 (Hulin et al., 2001). The sample size of this study is 233 (falling into the range between the “fair” and the “good”) with a satisfactory subject to item ratio (over 6:1) and so may qualify for conducting the EFA.

Secondly, it is necessary to assess the KMO (Kaiser-Meyer-Olkin) statistics, which reflect the sampling adequacy (Kaiser, 1970). It compares the sum of the correlation coefficients

to the sum of the correlation coefficients and partial correlation coefficients. A high KMO value indicates that data are likely to be quite diffuse and make it likely that the variables will form distinct factors (Hutcheson and Sofroniou, 1999). The overall KMO statistic of this study is 0.76, which is classed as “good” for EFA (Kaiser, 1974) and indicates that the data of this study is suitable for EFA.

- *Analytical method of EFA used in this study*

PCA method with varimax rotation was employed in this study for several reasons. Firstly, at this step, the main purpose is to purify items, and PCA is usually a preferred method of data reduction compared to other forms of EFA (Preacher and MacCallum, 2003). Its variance-maximisation approach facilitates the identification of poorly performing items. Secondly, the varimax rotation technique, based on the assumption of factor uncorrelation, was used because: (1) it is the most frequently used technique to facilitate the interpretation of the factors (Stewart, 1981; Hinkin, 1995) in the marketing or management domains; (2) it is simple to calculate and interpret (Hutcheson and Moutinho, 2007); and (3) it may avoid the problem of multicollinearity in the later application of regression (Lee and Hooley, 2005).

- *Criteria for factor extraction and purification*

Kaiser (1960) suggested that only factors with eigenvalues over one be considered for extraction, as this explains the proportion of total variance better than a single item is capable of explaining (Hutcheson and Moutinho, 2007). This cut-off criterion was widely applied, but it has also incurred criticism. For instance, Lee and Hooley (2005) indicated that the criterion is purely based on statistical significance, and scholars should compare different solutions. Hair et al. (1998) suggested that the criterion should be used as an approximate indicator of number of factors rather than a rigid application.

As for item selection, some scholars (Chae and Hill, 2000) recommended that only items with factor loadings greater than 0.3 can be retained. Hair et al. (1998) suggested that a loading over 0.4 is necessary when sample size is around 200, which is consistent with Stevens's (1992) recommendation.

This study firstly adopted the Kaiser criterion as the principle guideline; as the total items of this study fall into the range from 20 to 50, the application of the Kaiser criterion is the most reliable (Hair et al., 1998). Secondly, only items with a factor loading greater than 0.4 will be retained for the next step of the analysis as the sample size of this study is 233, which is around 200. Finally, this study also considered issues of the simplicity and best representation of the data (Lee and Hooley, 2005).

- *EFA result*

The result of EFA was obtained satisfactorily by employing SPSS statistical software. Nine factors were finally extracted with eigenvalues over one, and 61.92% total variances were explained by these factors. All items retained had factor loadings greater than 0.4. During the process of factor extraction, two items were eliminated because their factor loadings were below 0.4. Final detailed results can be seen in the following Table 7-3. However, the EFA result only reflects potential factor structure based on statistical significance and a CFA approach was necessary to provide the statistical test of the measurement model.

Table 7-3: Principal component analysis

Items of exogenous constructs (Total variance extracted=61.92%)									
Confucian Dynamism – diligence and thrift	0.55	0.09	0.06	-0.01	0.02	0.12	-0.05	0.22	0.13
Confucian Dynamism – long-term compensation	0.67	-0.07	0.36	-0.06	-0.14	0.08	-0.09	-0.09	-0.05
Confucian Dynamism – harmonious work setting	0.80	-0.04	0.10	0.01	-0.06	-0.02	-0.08	-0.13	0.07
Confucian dynamism – importance of first impression	0.61	0.18	-0.27	0.00	-0.03	-0.03	0.17	0.14	-0.04
Confucian dynamism – self-control and commitment	0.72	0.09	-0.04	-0.01	-0.05	0.09	0.04	0.03	0.16
Confucian dynamism – the importance of firm reputation	0.59	0.23	-0.07	0.10	0.01	0.05	0.08	0.00	0.07
Procedural rationality – gathering relevant information	0.03	0.81	0.15	0.10	-0.10	0.11	0.04	0.14	0.03
Procedural rationality – analysing relevant information	0.29	0.64	0.08	0.07	-0.09	0.05	0.09	-0.05	0.17
Procedural rationality – using analytic techniques	0.12	0.74	0.20	0.02	-0.02	-0.03	-0.08	0.09	0.14
Procedural rationality – overall evaluation	0.10	0.53	0.21	0.20	0.07	0.13	-0.01	-0.18	0.19
Problem-solving dissention – objectives	-0.03	0.33	0.58	0.03	0.10	0.16	0.31	0.17	0.05
Problem-solving dissention – the proper methodology	0.02	0.23	0.79	0.22	0.03	-0.01	0.09	0.00	-0.05
Problem-solving dissention – solution	0.05	0.32	0.60	0.09	0.18	0.07	0.24	0.05	0.06
Centralisation of decision – delegation	0.08	0.00	0.18	0.74	-0.07	-0.02	0.02	-0.09	0.06
Centralisation of decision – consensus	-0.11	-0.03	0.14	0.78	0.08	0.04	-0.08	0.20	0.01
Centralisation of decision – justification	-0.01	0.15	-0.01	0.81	0.11	-0.05	0.06	0.00	-0.09
Centralisation of decision – decision progress control	0.05	0.32	-0.01	0.51	-0.11	-0.06	0.23	0.09	0.21
Centralisation of decision – managerial layers	0.08	0.11	-0.04	0.47	0.18	0.09	0.30	0.06	0.10
Environmental uncertainty – macro-stability	-0.01	-0.15	0.13	0.11	0.85	-0.09	0.12	0.02	-0.03
Environmental uncertainty – monetary repatriation	-0.14	-0.02	0.08	0.02	0.82	0.17	0.05	0.13	0.04
Environmental uncertainty – expropriation risk	-0.06	0.03	-0.01	0.03	0.81	0.14	0.18	0.14	-0.01
Psychic distance – language	0.15	0.11	0.06	0.01	-0.07	0.72	0.06	0.03	0.27
Psychic distance – business practice	0.05	0.08	0.09	-0.06	0.18	0.80	0.06	0.03	0.00
Psychic distance – economical environment	0.07	-0.19	0.15	-0.09	-0.04	0.72	0.12	0.06	0.14
Psychic distance – legal system	0.01	0.20	-0.12	0.11	0.14	0.65	0.22	0.09	-0.17
Psychic distance – communication infrastructure	0.00	0.25	-0.14	0.18	0.26	0.42	0.31	-0.06	-0.17
Contractual risk – making and enforcing contract	0.06	0.10	0.27	0.02	0.05	0.24	0.71	0.16	0.12
Contractual risk – disseminating know-how	-0.03	-0.06	-0.03	0.08	0.30	0.09	0.69	0.15	0.20
Contractual risk – controlling quality	0.01	-0.03	0.24	0.12	0.07	0.15	0.76	0.05	0.06
Environmental hostility – threat to survival	0.03	0.22	0.05	-0.04	0.24	0.06	0.35	0.67	-0.12
Environmental hostility – investment opportunities	0.04	-0.05	0.05	0.10	0.08	0.05	0.14	0.88	0.05
Environmental hostility – environmental dominance	0.11	-0.03	0.05	0.21	0.15	0.16	-0.07	0.54	0.49
Manufacturing advantage – production efficiency	0.18	0.23	0.08	0.06	0.03	0.08	0.21	-0.06	0.67
Manufacturing advantage – operation improvement	0.15	0.22	-0.06	0.02	-0.05	0.04	0.12	0.08	0.71
Eigenvalue	2.88	2.75	1.93	2.55	2.51	2.57	2.35	1.88	1.64

Extraction Method: Principal Component Analysis. **Rotation Method:** Varimax with Kaiser Normalization.

Assessing unidimensionality of construct by using CFA

As stated previously, a unidimensional test is to examine whether or not there is one latent trait underlying a set of manifest indicators that are purported to measure the trait (Hattie, 1985). CFA, as the measurement model of SEM, enables researchers to assess the construct unidimensionality (Terblanche and Boshoff, 2008). Unlike EFA that employs all variables to identify factors (Lee and Hooley, 2005), CFA only assesses the pre-specified relationship between factors and their respectively purportedly measured items (Gerbing and Anderson, 1988), and it could refine the potential factor structure identified by EFA to ensure unidimensionality (Steenkamp and Trijp, 2001). This study uses LISREL 8.70 software to conduct the confirmatory factor analysis recommended by scholars (Jöreskog and Sörbom, 1988; Steenkamp and Trijp, 2001).

- *Examination of appropriateness in using CFA*

Besides the requirement of a sufficiently large sample size (MacCallum and Austin, 2000), an important assumption in using CFA with the ML (maximum likelihood) estimation method is the multivariate normality of collected data (Curran et al., 1996). The estimation will be biased without meeting the requirement. This study used PRELIS, the component software of LISREL 8.70, to examine the distribution of data.

This study firstly examines the univariate normality of individual items as they are necessary conditions to the multivariate normality. Results showed that the deviations from the normal distribution for individual items are not serious. Based on the tests of their skewness and kurtosis, the result showed that only two out of 34 items are significantly different from normal distribution. More specifically, the result indicated that no items are significantly skewed and only two items have significant platykurtosis. Details can be seen in appendix 4. Then, multivariate normality was tested using two indicators, relative multivariate kurtosis and Mardia's multivariate kurtosis (Mardia, 1980) as scholars (West et al., 1995; Yuan et al., 2004; Bollen, 1989) indicated that the accuracy of ML estimation is more easily affected by the deviation from kurtosis than skewedness. The value of the first indicator is around 1 (Kline, 1998) and the second is less than 25 (Huang, 2005) suggesting that the impact from data distribution on the ML estimation would not be great for the

robustness of ML estimation. Thus, this study use the ML estimation method to conduct CFA, as it is also the most widely used (Chou and Bentler, 1995) and requires a relatively fair sample size.

- *Construct unidimensionality assessment*

The initial model consists of nine constructs measured by 34 items that qualify for the EFA purification. The relationship between latent constructs and manifest indicators were specified by the literature of international entry mode, cultural studies, and strategic decision-making. If the relevant indices of goodness of fit for the nine-dimensional CFA model are satisfactory, the unidimensionality of each of these constructs is achieved.

Besides χ^2 / df ratio (Kline, 1998), this study also employed four other indices: (1) RMSEA (root mean square error of approximation), (2) NNFI (non-normed fit index), (3) SRMR (standardized root mean square residual), and (4) CFI (comparative fit index) to assess the CFA model fit recommended by Hu and Bentler (1999). By following many scholars' (Marsh et al., 1988; Mulaik et al, 1989; Hu and Bentler, 1999) suggestions, indices such as χ^2 , goodness of fit index, and normed fit index, are not used as they are sensitive to sample size, model misspecification, and distribution properties.

The indices of goodness of fit of the full model are acceptable, but when we the standardised residuals were examined, several values higher than the absolute value of 2.58 were caused by four items. According to suggestions from Steenkamp and Trijp (2001) and Terblanche and Boshoff (2008), these four items, comprising 'importance of first impression' (Confucian dynamism), 'decision progress control' and 'managerial layers' (Hierarchical centralization of decision), and 'communication infrastructure' (Psychic distance), were eliminated.

All indices of model fit are satisfied for the improved model: χ^2 / df ratio = 1.77 < 2, RMSEA = 0.056 < 0.08, NNFI = 0.91, SRMR = 0.067 < 0.09, and CFI = 0.92. All these suggested that the measurement model for this study (without the four offending items)

demonstrated sufficient fit evidence of unidimensionality.

Assessing construct reliability and validity

- *Within-method convergent validity*

Scholars (Steenkamp and Trijp, 1991; Terblanche and Boshoff, 2008) suggested that a within-method convergent validity is achieved when the overall fit of the measurement model is good, all regression factor coefficients are significant (as the weak condition of within-method convergent validity), or strictly the correlations of the items with the respective construct are substantial (as the strong condition of within-method convergent validity).

In our final measurement model, all regression factor coefficients are strongly significant ($P < 0.001$), with the lowest t-value being 6.80. Each item correlates strongly with the respective underlying dimension (the correlation of each item with the construct exceeds 0.5 except that two items have very close factor loadings (0.48 and 0.49). Based on this evidence, we suggest that within-method convergent validity is also achieved. Details of these factor loadings can be seen in Table 7- 4.

Table 7-4: Measurement model of this study

Latent variables	Standardized factor loading	T values	Composite reliability	Cronbach's alpha
Confucian value				
Diligence and thrift	0.50	7.22	0.74	0.73
Long-term compensation	0.61	9.07		
Harmonious work setting	0.76	11.69		
Importance of the first impression (delete through CFA)				
Self control and commitment	0.65	9.76		
Workability of convention methods (delete through PCA)				
The importance of firm's reputation	0.49	6.98		
Procedural rationality				
Gathering relevant information	0.79	12.97	0.78	0.77
Analysing relevant information	0.69	10.92		
Using analytic techniques	0.71	11.33		
Focusing on crucial information (delete through PCA)				
Overall evaluation	0.53	7.86		
Problem-solving dissension				
The objectives	0.73	11.29	0.76	0.76
The proper methodology	0.71	10.87		
The solution	0.70	10.82		
Hierachical centralisation of decision				
Delegation	0.53	7.70	0.75	0.74
Consensus	0.76	10.99		
Justification	0.81	11.70		
Decision progress control (delete through CFA)				
Managerial layers (delete through CFA)				
Environmental uncertainty				
Macro-environment stability	0.79	13.16	0.83	0.83
The risk of monetary repatriation	0.79	13.27		
Expropriation risk	0.78	12.94		
Psychic distance				
Language differences	0.66	9.96	0.75	0.75
Differences of accepted business practices	0.76	11.75		
Economical environmental differences	0.63	9.32		
Legal system differences	0.57	8.36		
Infrastructure differences (delete through CFA)				
Contractual risk				
Cost in making and enforcing contract	0.79	12.74	0.77	0.77
Disseminating know-how	0.64	9.83		
Cost in controlling product quality	0.74	11.83		
Environmental hostility				
Threat to survival	0.74	10.70	0.71	0.69
Investment opportunities	0.77	11.12		
Environmental dominance	0.48	6.80		

Manufacturing advantage				
Production efficiency	0.70	8.26	0.59	0.59
Operation improvement	0.59	7.39		
Model Fit Indicators: Chi-Square/d. f. ratio=1.77 RMSEA=0.056 NNFI= 0.91 CFI=0.92 SRMR=0.067				

● *Within-method discriminant validity*

Within-method discriminant validity examines whether or not each dimension in the measurement model is different from all the other dimensions (latent constructs) (Terblanche and Boshoff, 2008). There are two ways recommended by scholars to assess discriminant validity. Firstly, the correlations among latent constructs in the matrix PHI should be less than 0.85 (Kline, 1998). Secondly, the correlation confidence interval of constructs should not include “1” (Jöreskog and Sörbom, 1993).

In this study, the highest correlation in PHI matrix is 0.55 and details can be viewed from Table 7-5. As the standard errors of these estimated correlations are similar (ranging from 0.07 to 0.1), we only need assess the confidence interval of the highest correlation as follows: $0.55 \pm 1.96 \times 0.07 = (0.41, 0.69)$, in which “1” is not included. Based on above examinations, we found that each dimension in the model was indeed different from all other dimensions, and thus within-method discriminant validity is obtained.

Table 7-5: Construct correlation matrix (PHI)

	CONF	PROC	DISS	CENT	ENVI	PSYC	CONT	HOST	MAAD
CONF	1								
PROC	0.30 (0.08)	1							
DISS	0.12 (0.09)	0.55 (0.07)	1						
CENT	-0.04 (0.08)	0.23 (0.08)	0.27 (0.08)	1					
ENVI	-0.19 (0.08)	-0.08 (0.08)	0.24 (0.08)	0.19 (0.08)	1				
PSYC	0.19 (0.08)	0.22 (0.08)	0.28 (0.08)	-0.02 (0.08)	0.24 (0.08)	1			
CONT	0.05 (0.08)	0.24 (0.08)	0.52 (0.07)	0.19 (0.08)	0.38 (0.07)	0.45 (0.07)	1		
HOST	0.04 (0.09)	0.18 (0.08)	0.32 (0.08)	0.17 (0.08)	0.39 (0.07)	0.26 (0.08)	0.48 (0.07)	1	
MAAD	0.40 (0.09)	0.48 (0.08)	0.37 (0.09)	0.11 (0.09)	-0.02 (0.09)	0.29 (0.09)	0.39 (0.09)	0.24 (0.10)	1

Note: S.E. of estimates in parentheses.

CONF: Confucian dynamism; PROC: Procedural rationality; DISS: Problem-solving dissension; CENT: Hierarchical centralisation of decision; ENVI: Environmental uncertainty; PSYC: Psychic distance; CONT: Contractual risks; HOST: Environmental hostility; MAAD: Manufacturing advantage.

Construct reliability

Besides coefficient alpha addressed previously, this study also employed one more index to further assess the construct reliability in terms of CR index (composite reliability) (Fornell and Larcker, 1981), which is provided by CFA. The composite reliability index is also an indicator to assess internal consistency of items (Hair et al., 1998), and its formula is listed as follows:

$$CR = [(\sum \text{standardised loading})^2 / (\sum \text{standardised loading})^2 + \sum \epsilon_j].$$

ϵ_j : measurement error of the item.

Bagozzi and Yi (1988) suggested that the CR index should be 0.6 or greater to reflect a sufficient level of construct reliability, while Hair et al. (1998) argued that a value above 0.5 is sufficient. With regard to the coefficient alpha, Nunnally (1978) and Hinkin (1995) suggested that the minimum level of coefficient alpha should be 0.7. As the coefficient alpha may be affected by the number of items of a scale (Lee and Hooley, 2005; Peterson, 1994), some scholars (e.g. Cortina, 1993) recommended a level of 0.60 or 0.50 for a scale with only two or three items. In this study, all CR indices of latent constructs are all greater than 0.70 with only one exception, which was manufacturing advantage (CR = 0.59; number of items = 2), while values of coefficient alpha of latent constructs are all over 0.7, except for two cases, which are manufacturing advantages (coefficient alpha = 0.59; number of items = 2) and environmental hostility (coefficient alpha = 0.69; number of items = 3). Considering the limited number of items for exceptional constructs, thus, all measures of constructs can be considered as having acceptable reliability. Details of the results of CFA and reliability indices can be seen in Table 7-4 above.

7.4 Results

7.4.1 Demographic characteristics of the replies

Salient characteristics of respondents are discussed, covering profiles of decision-makers, the firm, industry, and the international entry.

Profile of informants

Position of informants

Most respondents are the chief executives and executives of the surveyed firms, substantially qualifying as the “upper echelons” of the firms (Hambrick and Mason, 1984). They can be categorised into two types; one type consists of top managers, including general managers, vice general managers, and deputy general managers, who account for 40.4% of total respondents. The other is directors of departments related to international operations (sales, international department, or production), who constitute 56.7% of respondents. The remaining respondents include either staff from other departments or subordinates from the above departments. The sales director is the most frequently presented type of manager, which is consistent with the fact that sales directors are commonly recorded as the contact people in China. The small number of international department directors possibly implies that most Chinese private manufacturing firms may not have a separate international department.

Table 7-6: Job positions of the respondents

	Count	Percent (%)
General manager or vice-general manager	61	26.2
Deputy general manager	33	14.2
Sales director	84	36.1
International department director	9	3.9
Production director	39	16.7
Others	7	3.0
Total	233	100.0

Age range of informants

The result shows that the surveyed Chinese top managers involved in international operations are generally quite young. Informants under 51 years old are predominant, accounting for 95.3% of total respondents, and it is noteworthy that informants under 41 years old are most frequently represented of the three age ranges. These managers were adolescents after at the time of the launch of the reforms in China and the “open door” policy in 1978. It may imply that they have received a better education and have more

international information than their parents' generation. It also reflects the fact that the new generation of Chinese managers exerts an increasing influence on Chinese private firms and international operations.

Table 7-7: Age ranges of respondents

Age	Frequency	Percent (%)
51 or over	11	4.7
41-51	65	27.9
41 or under	157	67.4
Total	233	100

Working experience of informants

The length of time that respondents have worked for the firm ranges from six months to 30 years, and the mean of firm experience in the current firm is 5.2 years, which is consistent with the fact that almost all Chinese private firms were established after the reform policy in 1978. In general, informants lack international experience, and they only possess an average of 0.8 years' experience of overseas assignments, 0.7 years' experience of overseas study, and 0.7 years' working experience in any international department. This may reflect the fact that Chinese top managers tap outside world only recently at the average level.

Table 7-8: Length of working experience (unit: year)

	N	Min.	Max.	Mean	Std. Dev.
Firm experience	233	0.5	30	5.2	5.2
Overseas assignment experience	233	0	9	0.8	1.6
Overseas study experience	233	0	10	0.7	1.3
Working experience in International department	233	0	16	0.7	1.9

Industrial distribution and firm characteristics

Industrial sector

Respondents' industries were categorised into eight main industrial sectors, mainly based on the National Bureau of Statistics of China's classification. However, several

modifications were made. Relevant industries were combined into one category to achieve parsimony; for example, the textile and garment industry, as well as the chemical and pharmacy industry. The machinery and component sector covered every industry of general equipment manufacturing, special equipment manufacturing, transportation equipment manufacturing, and hardware. The category of “others” covers craftwork and other non-specified industries.

Although 36.5% of the response firms still operate in labour-intensive industries (Food, textile & Garment, wood production, and toy), more than half of response Chinese firms compete in capital-intensive or technology-intensive industries (electric appliance, machinery, telecommunication, electronic & computer, and chemical & pharmacy). It confirms the recent trend that progresses of industrial upgrade has been achieved in China coast area. The sector of telecommunication, electronics & computer contains 51 firms and thus has the largest number of firms in one single sector.

Table 7-9: Industrial distribution of responding firms

	Count	Percent (%)
Food industry	10	4.3
Textile & garment industry	38	16.3
Wood production industry	11	4.7
Toy industry	26	11.2
Telecommunications, Electronics & Computers	51	21.9
Electric Appliance	13	5.6
Chemical & pharmacy industry	37	15.9
Machinery and components	38	16.3
Others	9	3.9
Total	233	100

Firm size and international experience

In China, SMEs in the manufacturing sector are defined as firms having fewer than 2000 employees, and whose annual turnovers are below RMB ¥ 300 million (roughly £30 million) or whose total assets are below RMB ¥ 400 million (Zhang, 2005). Middle-sized firms should satisfy three conditions simultaneously: having over 300 employees, over

RMB ¥ 30 million turnover, and with over RMB ¥ 40 million total assets.

Responding firms in the study are mainly SMEs; according to the definition above, SMEs accounts for 85.5% of total respondents and small firms make up 56.7% of total respondents. There are only 34 firms with turnovers of over RMB ¥ 300 million. This reflects that, Chinese private firms in the manufacturing sector are currently still relatively small. In general, responding firms have very limited international experience. Respondents' international operation experience ranges from one to 31 years, but averages only 2.7 years. Generally, larger firms have more international operation experiences than small ones; for instance, firms having turnovers of over RMB ¥ 300 million possess 3.6 years of international operation experience on average in comparison with the 2.6 years of those having turnovers below RMB ¥ 5 million.

Table 7-10: Firm size and international experience

			Count	%	Mean	Std Deviation
Company turnover (Unit: RMB ¥ 0000s)	Below 500	No. of employees	36	15.5	74.1	142.4
		No. of years of intl. operation			2.6	2.3
	500 ~ 3000	No. of employees	96	41.2	248.1	1023.6
		No. of years of intl. operation			2.1	1.2
	3000~30000	No. of employees	67	28.8	477.1	1377.7
		No. of years of intl. operation			3.3	4.8
	30000 or over	No. of employees	34	14.6	533.2	646.5
		No. of years of intl. operation			3.6	2.8

Characteristics of the most important international entry

Destination region and country

East Asia, North America, EU (European Union), ASEAN (Association of Southeast Asian Nations), and South Asia are the top five destination regions of entry for responding firms. 208 entries occurred in these regions and account for 89.3% of total entries. To some extent, the figure was confirmed by the 2007 Statistical Bulletin of China's Outward Foreign Direct Investment (issued by the Ministry of Commerce of People's Republic of China) which stated, that Asia was the region most invested in by Chinese firms. As responding

Chinese firms are still at the early stage of internationalisation and only have 2.7 year international operation experience on average, it is not surprising that many responding firms chose to enter regions with a short cultural or psychic distance (Johanson and Vahlne, 1977).

Table 7-11: Destination region and top 10 countries

Region	Count	%	Ranking	Top 10 Countries	Count	%
East Asia	70	30.0	1	US	51	21.9
North America	54	23.2	2	Japan	38	16.3
EU	39	16.7	3	Hong Kong	17	7.3
ASEAN	31	13.3	4	South Korea	15	6.4
South Asia	14	6.0	5	Vietnam	12	5.2
Africa	9	3.9	6	UK	11	4.7
Russia & Central Asia	5	2.1	7	India	10	4.3
Australia	4	1.7	8	Germany	7	3.0
Middle East	4	1.7	9	Malaysia	6	2.6
South America	3	1.3	10	Thailand	5	2.1
Total	233	100			172	73.8

Top ten destination nations comprise seven Asian nations, two EU nations, and one North American nation. 172 entries were conducted by respondents into these countries, which account for 73.8% of total international entries. Followed by Japan and Hong Kong, US is the nation the highest number of responding Chinese firms entered, and 51 entries (accounting for 21.9% of total entries) were reported into this country. This figure may reflect the incomparable market size of the US. The UK and Germany are the nations most entered nations in the EU by respondents and account for 11% and 7% of total entries, respectively. Seven Asian nations or regions are both geographically and culturally close to China, such as Japan, Hong Kong, and South Korea.

International entry mode employed

According to Williamson's (1985) classification, international entry mode is concerned with the choice between markets and hierarchical forms of governance. In this study, most response firms used market-based non-equity modes, such as exporting and contractual

modes, which account for 72.1% of the total entry modes used. In particular, 147 firms adopted the exporting mode to enter the foreign market, significantly more than any other entry mode used. Contractual modes including franchising or licensing are the modes used least by respondents. To some extent, this may reflect the fact that most responding firms lack intellectual properties.

Hierarchical equity modes, including wholly-owned foreign subsidiaries and joint ventures, involved more risks, control and commitments (Anderson and Gatignon, 1986) only account for 11.2% and 15.9% respectively of total entry modes used in this study. This proportion of equity-based mode is highly consistent with the figure (27.12%) of Shen's (2007) study on international entry modes of Chinese firms, but substantially departs from the result (10.4%) of Sun (2006). In addition, two firms did not choose either market or hierarchical types of above common modes, but rather, chose "others". A possible explanation for that choice is OEM (Original Equipment Manufacturing). Shen (2007) indicated that some Chinese firms are involved in international operations passively by simply providing a manufacturing assembly function for foreign partners.

Table 7-12: International entry mode used

	Count	Percent (%)
Solo venture	26	11.2
Joint venture	37	15.9
Contractual mode	21	9.0
Exporting	147	63.1
Others	2	0.8
Total	233	100

For those firms using equity modes (wholly-owned venture and joint venture) to enter foreign countries, the investment projects ranged from RMB¥0.2 million to RMB¥150 million, and the average size was RMB¥16.5 million (roughly £1.65 million). Nearly half of the investment projects were concentrated in the range between RMB¥1 million and RMB¥10 million. 25.4% of investment projects varied from RMB¥10 million to RMB¥50 million. In general, the scales of those investments are not large, which is consistent

with the relatively small size of Chinese private firms, as stated previously.

Table 7-13: Investment size of equity modes

Investment amount (Unit: RMB ¥ 0000s)	Count	Percent (%)	Key indicators	Value (Unit: RMB ¥ 0000s)
5000 and over	4	6.3	Minimum	20.0
1000~5000	16	25.4	Maximum	15000.0
100~1000	30	47.6	Mean	1646.7
100 and below	6	9.5	Std. Deviation	2601.7
Missing Value	7	11.1		
Total	63	100.0		

Motives and business activity

The motivation for foreign investment underlies the very nature of MNCs (Multinational Companies) (Deng, 2007) and their international expansion behaviours. Narula and Dunning (2000) summarised the motives of FDI into four types: resource-seeking (to seek natural resources), market-seeking (to seek new markets), efficiency-seeking (to restructure or rationalise foreign production to seek efficiency), and strategic asset-seeking (to seek strategically-related created assets). By studying the motives and behaviours of micromultinationals, Dimitratos et al. (2003) added other motives including linkage seeking and following the competitors, and they also indicated that these motives were not mutually exclusive. This study only attempts to capture respondent's dominant motive for the entry.

127 firms reported that the motive of new market seeking was their main purpose in entering foreign nations, representing 54.5% of the total of investigated firms. Firms from developing countries usually lack intellectual knowledge or properties (Mathews, 2006), and internationalisation provides them with opportunities to obtain necessary knowledge or assets unavailable in the domestic market. For instance, Makino et al. (2002) suggested that the reason that Asian firms invest in industrial countries is to address and compensate for their competitive disadvantages. 29 firms (accounting for 12.4% of respondents)

indicated that they entered foreign nations for strategic-asset seeking and 22 firms (9.4% of respondents) reported the motive to establish a foothold in the foreign nation for their future development, categorized into global strategic motivation (Kim and Hwang, 1992). 19 firms (8.2% of respondents) stated that seeking cooperative relationships with foreign partners was their dominant motive to enter foreign countries.

Consistent with the motive of new market seeking, 124 (53.2% of respondents) and 49 firms (21% of respondents) indicated that their business activity in the foreign country could be best described as sales or marketing. 25 firms (10.7%) reported that they conducted R&D activities in entering foreign countries. Only five firms stated that production activities were conducted for their foreign entries.

Table 7-14: Business activities and motives of the entry

Business activity	Count	%	Motives of the entry	Count	%
Sales	124	53.2	New market seeking	127	54.5
Marketing	49	21.0	Strategic-asset seeking	29	12.4
Distribution	29	12.4	Global strategic motivation	22	9.4
R&D	25	10.7	Linkage seeking	19	8.2
Production	5	2.1	To follow the customers	14	6.0
Others	1	0.4	Efficiency seeking	13	5.6
			Natural resource or labour seeking	5	2.1
			To follow the competitors	4	1.7
Total	233	100		233	100

7.4.2 Binary logistic regression analysis and hypothesis testing

Analytical technique

This study employs a logistic regression analysis to test the study's hypotheses for two reasons. Firstly, as the dependent variable in this study is the equity/non-equity decision that is dichotomous, logistic regression is likely to be the most appropriate analysis method (Nakos and Brouthers, 2002). Empirically, this technique is the one of most widely-used statistical models to study international entry mode decision (Gomes-Casseres, 1989; Erramilli, 1991; Brouthers and Nakos, 2004; Makino and Neupert, 2000; Erramilli and Rao,

1993), which to some extent, enables the comparison of this study's results to prior studies. Moreover, logistic regression analysis does not require the normal distribution of independent variables (Janzen and Stern, 1998), or other assumptions in terms of linearity and homoscedasticity in the multiple regression model (Bewick et al., 2005), which make it suitable for this study, as it includes dichotomous independent variables, and the non-linear relationship between the dependent variable and independent variables.

Secondly, conceptually, a potential alternative could be SEM, but practically, it is difficult to use to deal with the categorical variables (Kupek, 2005). As stated before, a basic assumption of the ML estimation method of SEM is the normality of data collected. The distribution of categorical data, especially binary categorical data, is far from a normal distribution, and the violation will lead to the increasing possibilities of rejecting the model (Holbert and Stephenson, 2002). Moreover, although SEM also provides ADF (asymptotic distribution-free) or other estimation methods for non-normal data, they firstly require very large sample sizes, which are not available for this study. Moreover, the data with severe violation of normality, like binary data in this study, greatly decrease estimation precision (Kupek, 2005) and thus significantly affect the conclusion drawn from this study.

Descriptive statistics and preliminary assessment of multicollinearity

Firstly, it is worth assessing the descriptive statistics of variables included in the logistic regression model. There are several interesting indications from the descriptive statistics. Firstly, the mean of Confucian dynamism of Chinese managers is 5.06, which is greater than "4", the middle point of the nine-point scale, which reflects the high level of the preservation of traditional Confucian values among current Chinese business managers in this sample.

Secondly, of the three characteristics of decision-making process, procedure rationality has the highest mean value (4.95), while the dimension of centralisation of decision-making has the highest standard deviation (S.D.) (1.24). This may imply that during the international entry mode decision-making process, relatively great efforts were made concerning the decisional rationality, and the centralisation level for the decision-making

fluctuates among different firms.

Finally, foreign environmental conditions were reported with scores approaching the average level – “4” (e.g. environmental hostility: 4.4; environmental uncertainty: 3.98), while the internal condition in terms of manufacturing advantage was reported with a relatively high mean value (5.06).

Multicollinearity is a potential problem not only in the multiple regression model, but also in the logistic regression analysis (Bewick et al., 2005). It is necessary to examine it among individual variables in the model before applying statistical techniques to test the hypotheses of this study. Multicollinearity occurs when the explanatory variables are strongly intercorrelated (Field, 2006). It is likely to increase the standard errors on the slope parameters and destabilise the estimates (Hoerl and Kennard, 1970). Although the discriminant validity of employed constructs had already been assessed, a check of multicollinearity was indispensable as this study also uses four other single-item indicators.

Table 7-15: Correlation matrix of variables and collinearity statistics

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Collinearity Statistics	
Mean	5.06	328.50	4.40	4.95	4.45	4.12	3.98	4.62	4.26	5.06	2.73	0.25	0.21	0.27		
S.D.	0.98	1027.77	1.06	1.00	1.10	1.24	1.33	0.90	1.15	1.00	3.09	0.44	0.41	0.45	Tolerance	VIF
1. Confucian dynamism	1														0.82	1.22
2. Firm size	-0.07	1													0.92	1.09
3. Environmental hostility	0.10	-0.03	1												0.76	1.31
4. Procedural rationality	0.29*	0.08	0.15	1											0.69	1.46
5. Problem-solving dissension	0.12	-0.04	0.24*	0.43*	1										0.67	1.50
6. Hierarchical centralization of decision	5.51E-04	0.15	0.15	0.19*	0.23*	1									0.87	1.15
7. Environmental uncertainty	-0.13	4.81E-03	0.31*	-0.06	0.19*	0.13*	1								0.79	1.27
8. Psychic distance	0.16	0.12	0.24*	0.20*	0.24*	0.04	0.22*	1							0.79	1.26
9. Contractual risk	0.06	0.04	0.38*	0.16	0.37*	0.15*	0.34*	0.39*	1						0.65	1.54
10. Manufacturing advantage	0.30*	0.06	0.22*	0.35*	0.23*	0.07	-0.03	0.20*	0.26*	1					0.73	1.36
11. Years of international operation	-0.02	0.02	0.15	-0.01	-0.06	0.10	0.04	0.02	0.06	0.19*	1				0.9	1.12
12. Most frequently used mode in the past	0.09	0.10	-0.07	0.10	0.08	0.06	0.01	0.03	-0.08	0.09	0.14	1			0.78	1.29
13. Mode most frequently used by major rivals	0.11	0.07	-0.05	0.09	0.01	-0.04	-0.04	-0.03	-0.15	0.02	0.01	0.42*	1		0.79	1.26
14. Equity mode (equity = 1)	-0.07	0.22*	-0.04	0.06	0.11	3.35E-03	0.05	0.02	0.05	0.20*	0.29*	0.44*	0.32*	1		

*: Correlations significant at 0.01 level.

There are two methods employed to detect the potential problem preliminarily. Firstly, this study produced a Pearson correlation matrix of all individual variables (Nakos and Brouthers, 2002). There is no sign of high multicollinearity among individual variables, as the highest correlation in the matrix is only 0.44. In order to be prudent, secondly, the Tolerance and VIF (variance inflation factor) indices of these variables were then examined. Tolerance examines the seriousness of multiple correlations between an explanatory variable and the other explanatory variables, and VIF indicates how much the variance of the coefficient estimate is being inflated by multicollinearity (Pryce, 2005). All the VIF levels are far less than five, and the Tolerance index levels are close to one. All this suggested that there is no real problem of multicollinearity among individual variables. The details of the two examinations can be seen in Table 7-15 above.

Model specification

The decision of international entry mode in this study is to choose an equity or a non-equity mode to enter foreign country. A binary logistic model was made to assess the effect of the explanatory variables on the probability that each of two alternatives (equity mode and non-equity) would be chosen (Kogut and Singh, 1988; Gatignon and Anderson, 1988). The formula (Kogut and Singh, 1988) for this study can be specified as follows:

$$P(Y_i) = \frac{e^{\alpha + \beta\chi}}{1 + e^{\alpha + \beta\chi}}$$

Where Y is the response variable; e is the natural logarithm base; β : coefficients of the marginal utilities of each of the independent variables; and χ is the vector of the explanatory variables.

As this link between independent variables and dependent variable is non-linear, in order to gain linear estimates through a regression analysis, a transformation of the above formula is necessary by employing a measure of odds (the ratio of the probability of using equity mode against the probability of non-equity mode for this study) and a log function (Hutcheson and Moutinho, 2007). As a consequence, the final formula can be obtained: $Logit(Y_i) = \alpha + \beta\chi$, where logit is log [odds] and odds is the probability that one event will happen against the probability that it will not happen (Hutcheson and Moutinho,

2007).

The dependent variable of this study is the international entry mode decision coded as ($i = 1$: equity mode; $i = 0$: non-equity mode). Independent variables included Confucian dynamism, firm size, and environment hostility. Moderators for this study were procedural rationality, problem-solving dissension, and hierarchical centralisation of decision-making. Control variables include years of international operation, environmental uncertainty, psychic distance, contractual risk, manufacturing advantage, most frequently used mode in the past, and mode most frequently used by major rivals.

All multi-item variables in the model used the mean value of their respective individual items, continuous single-indicator variables were kept unchanged, and dichotomous variables were coded as ($1 = \text{equity mode}$; $0 = \text{non-equity mode}$).

Analysis result and hypotheses testing

The logistic regression analysis for this study is classified into three parts. (1) The first part covers logistic regression model 1, model 2, and model 3, which were employed to assess the main effects of firm size, environmental hostility, and Confucian dynamism on the international entry mode decisions of Chinese firms. (2) The second part includes logistic regression model 4, model 4.1, and model 4.2, which were used to examine the moderating effects of Confucian dynamism and firm size, and Confucian dynamism and environmental hostility on the international entry mode decisions. (3) The final part contains logistic regression model 5, model 6.1, model 6.2, model 7.1, model 7.2, model 8.1, and model 8.2, which were utilized to evaluate the moderating effects of characteristics of decision-making process, Confucian dynamism, and also internal and external conditions on the international entry mode decisions of Chinese firms.

The models of part 1 were employed to test the proposed hypotheses 1–3, the models of part 2 were used to assess the proposed hypotheses 4–5, and the models of part 3 were used to examine hypotheses 6a–8b.

Logistic regression results of Part 1 (main effects of internal and external conditions and Confucian dynamism on international entry mode decision)

In model 1, all control variables including international experience, manufacturing advantages, environmental uncertainty, psychic distance, contractual risks, most frequently used mode in the past, and mode most frequently used by major rivals, were put into the model. These variables were taken from prior literature reflecting theoretical perspectives of ownership advantages, location considerations, transaction cost concerns, and also institutional elements. It served as the base model for Part 1.

In model 2, two independent variables, environmental hostility and firm size, were added into the equation. Although the direction of its effect is correctly specified, environmental hostility was not found to exert a significant influence ($p=0.20$) on adopting the equity mode. However, the logistic regression result indicates that the firm size has a statistically significantly positive impact ($p<0.05$) on using the equity mode. Thus, hypothesis 1 was not confirmed, while hypothesis 2 was supported by the logistic regression results. The total model fit for the model 2 is good, as it correctly classifies 80.20% cases of the sample, the Nagelkerke R^2 for the model is 0.43, and the model χ^2 is significantly large (d.f.=9; $p<0.01$). All these demonstrate the significance of the overall model for model 2.

Compared to model 2, model 3 includes a newly-introduced independent variable, i.e. Confucian dynamism, which is tested for the first time for its effect on the equity mode decision of Chinese firm. The result demonstrated that it has a significantly negative impact ($p<0.05$) on Chinese firms' equity mode decisions. Thus, hypothesis 3 was supported by the logistic regression result. In addition, the overall model fit was further improved from model 2. Nagelkerke R^2 of the model was increased from 0.43 for model 2 to 0.46 for model 3, Model χ^2 was improved from 81.67 to 87.75 (d.f.=10; $p<0.01$), and percentage of correct classification was raised from 80.2% to 81.5%. All these show the significant improvement and the overall effectiveness of model 3.

Table 7-16: Logistic regression results for the main effects of internal and external conditions and Confucian dynamism on international entry mode decision

Variables	Model 1	Model 2	Model 3
Step 1: Control variables			
Years of international operation	0.27** (0.08)	0.28** (0.09)	0.26** (0.09)
Manufacturing advantage	0.39* (0.20)	0.45* (0.21)	0.63** (0.22)
Environmental uncertainty	0.08 (0.14)	0.15 (0.15)	0.10 (0.16)
Psychic distance	-0.08 (0.20)	-0.07 (0.21)	3.45E-03 (0.22)
Contractual risks	0.13 (0.18)	0.23 (0.19)	0.23 (0.21)
Most frequently used mode in the past	1.81** (0.39)	1.73** (0.41)	1.90** (0.43)
Mode most frequently used by major rivals	1.05* (0.41)	1.07* (0.43)	1.20** (0.44)
Step 2: Main effects of internal and external variables			
Firm size (No. of firm employees)		7.20E-04* (3.09E-04)	5.99E-04* (3.05E-04)
Environmental hostility		-0.32 (0.20)	-0.33 (0.22)
Step 3: Main effect of managerial values			
Confucian dynamism			-0.55* (0.24)
Constant	-5.10** (1.36)	-5.05** (1.05)	-3.34* (1.64)
Model χ^2	71.22**	81.67**	87.75**
d.f.	7	9	10
$\Delta\chi^2$	-	10.45	6.08
Nagelkerke R ²	0.38	0.43	0.46
Percentage of correct classification	81.50%	80.20%	81.50%
N	233	233	233
**p < 0.01; *p < 0.05; +p < 0.10 (two-tail test).			
Dependent variable: 0=non-equity mode, 1= equity mode; S.E. in parentheses			

To sum up, firstly, among three independent variables, two variables, firm size and Confucian dynamism, were found to have significant impacts on the international entry mode decision, while environmental hostility was not observed to have a significant influence on the equity mode decision. Thus, hypotheses 2 and 3 were supported by the logistic regression results, while hypothesis 1 was not confirmed. The summary of the

hypotheses tests in part 1 can be seen in Table 7-17:

Table 7-17: Summary of results of hypotheses testing in Part 1 (main effects)

Hypothesis	Description	Statistical testing result
Hypothesis 1 (external condition)	Other things being equal, the environmental hostility in host country has a negative effect on the adoption of equity-based modes by Chinese firms.	Not supported
Hypothesis 2 (internal condition)	Other things being equal, the size of a Chinese firm has a positive effect on the adoption of equity-based mode.	Supported (P < 0.05)
Hypothesis 3 (Managerial cultural values)	Other things being equal, the Confucian dynamism of decision-makers has a negative effect on the adoption of equity-based mode by Chinese firms.	Supported (P < 0.05)

In addition, among control variables, international experience and manufacturing advantages were found to be significantly positively related to the usage of equity mode by Chinese firms, which is consistent with prior studies (Erramilli, 1991; Tsai and Cheng, 2002). Institutional factors of most frequently used mode in the past and mode most frequently used by major rivals were observed to be significantly related to the adoption of equity mode, which further supported Yiu and Makino's (2002) finding of the effect of historical norm and mimetic entry. However, contractual risks and environmental uncertainty addressing transaction cost considerations were not found significantly to be related to equity mode. In addition, psychological distance did not significantly impact on equity mode decision although the direction is consistent with the findings of prior literatures (Demirbag et al., 2009; Kogut and Sigh, 1988).

Logistic regression results of Part 2 (moderating effects of Confucian dynamism on international entry mode decision)

In order to examine the moderating effects of Confucian dynamism on the equity mode decision, firstly, we took model 3 in Part 1 as the base model for Part 2 as it included all

main effects of independent variables on the equity mode decision for this study. Then three models were utilised to assess the effects of interactions on the dependent variable. Binary logistic regression results for each model can be seen in Table 7-18.

In the model 4, two interactions in terms of the interaction of firm size and Confucian dynamism, and the interaction of environmental hostility and Confucian dynamism were simultaneously put into the equation. The total model fit is very good [Model $\chi^2=120.83$ (d.f.=12; $p<0.01$); Nagelkerke $R^2=0.59$; 84.10% total cases classified correctly]. The slope coefficients for both interactions are highly significant ($p<0.01$). All this evidence seemed to support the hypotheses developed. However, the researcher was aware that standard errors for variables of firm size, environmental hostility, and Confucian dynamism increased greatly from the base model, which may be a sign of multicollinearity (Shen and Gao, 2008; Lin, 2008). Then the correlations among these variables were examined, and it was found that firm size and environmental hostility were highly correlated to its related interaction ($r>0.8$). Further examinations of VIF and Tolerance confirmed the problem of multicollinearity.

Table 7-18: Logistic regression results for the moderating effects of Confucian dynamism on international entry mode decision

Variables	Base Model	Model 4	Model 4.1	Model 4.2
Step 1: Control variables				
Years of international operation	0.26** (0.09)	0.25** (0.10)	0.27** (0.10)	0.25** (0.09)
Manufacturing advantage	0.63** (0.22)	0.84** (0.27)	0.60* (0.25)	0.79** (0.24)
Environmental uncertainty	0.10 (0.16)	0.07 (0.17)	0.09 (0.17)	0.06 (0.15)
Psychic distance	3.45E-03 (0.22)	0.20 (0.25)	0.10 (0.24)	0.07 (0.23)
Contractual risks	0.23 (0.21)	0.47* (0.22)	0.40 ⁺ (0.23)	0.24 (0.20)
Mode most frequently used in the past	1.90** (0.43)	2.10** (0.49)	1.91** (0.46)	1.99** (0.44)
Mode most frequently used by major rivals	1.20** (0.44)	1.65** (0.48)	1.48** (0.47)	1.34** (0.45)
Step 2: Independent variables				
Firm size (No. of firm's employees)	5.99E-04* (3.05E-04)	0.02** (0.01)	0.02** (0.01)	6.79E-04* (3.19E-04)
Environmental hostility	-0.33 (0.22)	-4.03** (1.35)	-0.39 ⁺ (0.23)	-2.54* (1.10)
Confucian dynamism	-0.55* (0.24)	-2.62* (1.05)	0.18 (0.31)	-2.43* (0.95)
Step 3: Moderating effects of Confucian dynamism				
Confucian dynamism × Firm size		-4.15E-03** (1.06E-03)	-3.74E-03** (1.00E-03)	
Confucian dynamism × Environmental hostility		0.66** (0.24)		0.42* (0.20)
Constant	-3.34* (1.64)	4.90 (5.02)	-8.40** (2.24)	5.45 (4.49)
Model χ^2	87.75**	120.83**	113.08**	91.2**
d.f.	10	12	11	11
$\Delta\chi^2$ to the base model	-	33.08***	25.33***	3.45+
Nagelkerke R ²	0.46	0.59	0.56	0.48
Percentage of correct classification	81.50%	84.10%	82.30%	83.20%
N	233	233	233	233
**p < 0.01; *p < 0.05; +p < 0.10 (two-tail test).				
Dependent variable: 0=non-equity mode, 1= equity mode; SE in parentheses				

Multicollinearity makes related estimates unstable, and it also causes large standard errors that affect the significance of the t or Wald's value of individual coefficients (Brouthers et al., 2000). Therefore, the results of the aforementioned tests should be interpreted with caution. However, they do not influence the overall model fit, and thus, the index of total model fit terms of χ^2 and change in χ^2 are still valid (Hair et al., 1998; Brouthers et al., 2000). Thus, any significant improvements in χ^2 of model 4 from the base model can be only attributed to these two interactions. Actually, in model 4, the improvement in χ^2 to the base model is very significant (change in $\chi^2=33.08$; d.f.=2; $p<0.001$), which indicated that these two interactions jointly have a significant effect on the equity mode decision. In order to identify which interaction was responsible for the effect, two additional analyses were conducted in model 4.1 and model 4.2. In each model, only one interaction was permitted in the base model each time, which enabled the detection of the impact of each interaction in the explaining equity mode decision.

In model 4.1, the overall model fit is good [Nagelkerke $R^2=0.56$; Model $\chi^2=113.08$ (d.f.=11, $p<0.01$)]. The change in χ^2 to the base model is highly significant (change in $\chi^2=25.03$, d.f.=1, $p<0.001$), which indicates that the interaction between firm size and Confucian dynamism have a very significant impact on the equity mode decision. In model 4.2, the overall model is also fine [Nagelkerke $R^2=0.48$; Model $\chi^2=91.20$ (d.f.=11; $p<0.01$)], and the change in χ^2 to the base model is only marginally significant ($\chi^2=3.45$, d.f.=1, $p<0.1$), which demonstrates the limited magnitude of impact from the interaction between environmental hostility and Confucian dynamism on the equity mode decision.

Then two correlational analyses were conducted to further examine the magnitude and direction of these two interactions. In facilitating the operation, Brouthers et al. (2000)'s approach was followed to classify managers' Confucian dynamism into two group, "strong" and "low", through the median split (median=5.2). Then the relationship between the dependent variable - equity mode choice and firm size and environmental hostility

respectively were examined by the point-biserial correlation method. The result showed that the first interaction between firm size and Confucian dynamism was consistent with the suggestion of hypothesis 5. For decision-makers with strong Confucian dynamism, the relationship between firm size and equity mode choice is much weaker (0.04) than for decision-makers with weak Confucian dynamism (0.38). The examination of the second interaction between environmental hostility and Confucian dynamism did not show large differences of associations through the structural break of Confucian dynamism, which confirmed the test result of change in χ^2 . An illustrative map of the first interaction between firm size and Confucian dynamism can be seen below. It reflects that when decision-makers holding weak Confucian dynamism, the positive impact of firm size are strong than the situation that decision-makers hold strong Confucian dynamism.

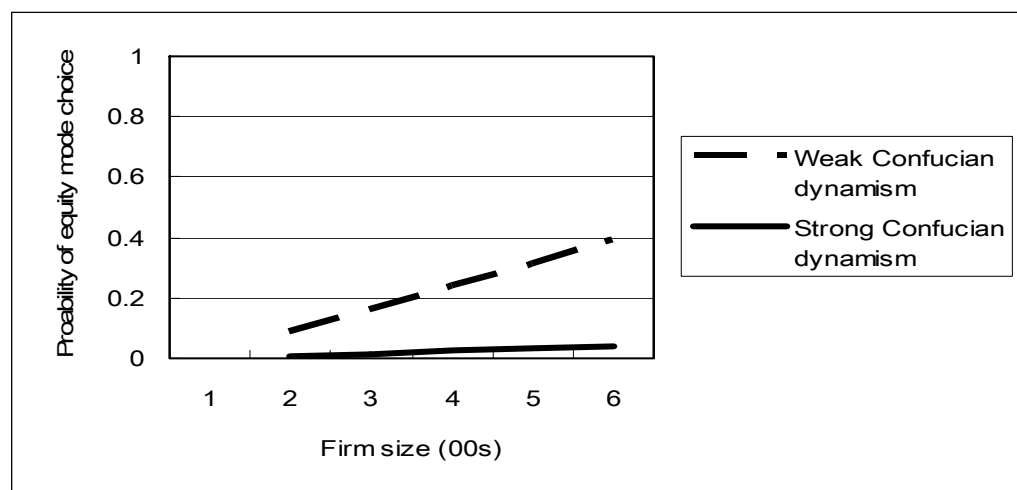


Figure 7-1: Moderating effect of Confucian dynamism

Finally, the offending variables were identified in models 4.1 and 4.2 respectively (see Table 7-19). In model 4.1, firm size and the interaction between firm size and Confucian dynamism were the two offending variables, while in model 4.2 the three offending variables were environmental hostility, Confucian dynamism, and the interaction between them. We found that in each model, the Wald's values for all variables in multicollinearity were significant (see Table 7-18) besides the good overall model fit. Although multicollinearity exists in each of these two models, this provided further information that the explanatory power of each of those offending variables in multicollinearity is strong enough.

Table 7-19: Multicollinearity statistics in Model 4.1 and Model 4.2

Model 4.1			Model 4.2		
Variables:	Collinearity Statistics		Variables:	Collinearity Statistics	
	Tolerance	VIF		Tolerance	VIF
Confucian dynamism * Firm size	0.02	40.51	Confucian dynamism * Hostility	0.02	60.47
Firm size (No. of employees)	0.02	40.69	Environmental hostility	0.03	36.49
Years of international operation	0.92	1.08	Confucian dynamism	0.05	21.85
Manufacturing advantage	0.78	1.29	Years of international operation	0.91	1.10
Environmental uncertainty	0.81	1.23	Manufacturing advantage	0.73	1.37
Psychic distance	0.82	1.21	Environmental uncertainty	0.81	1.23
Contractual risk	0.68	1.47	Psychic distance	0.79	1.27
Most frequently used mode in the past	0.77	1.29	Contractual risk	0.70	1.43
Mode most frequently used by major rivals	0.78	1.28	Most frequently used mode in the past	0.79	1.27
Environmental hostility	0.77	1.30	Mode most frequently used by major rivals	0.80	1.25
Confucian dynamism	0.75	1.33	Firm size (No. of employees)	0.95	1.05

To sum up, based on the results of Chi-square test of change in χ^2 in the nested models, correlational tests, and significant slope coefficients of all variables in multicollinearity, hypothesis 4 did not receive the support and hypothesis 5 gained full support respectively.

Table 7-20: Summary of results of hypotheses testing in Part 2
(Moderating effects of Confucian dynamism)

Hypothesis	Description	Statistical testing result
Hypothesis 4	The Confucian dynamism of the decision-maker moderates the relationship between environmental hostility and the adoption of an equity-based mode by Chinese firms. Specifically, Confucian dynamism enhances the negative effects of environmental hostility on the propensity to equity mode adoption.	Not statistically supported
Hypothesis 5	The Confucian dynamism of decision-maker moderates the relationship between firm size and the adoption of equity-based mode by Chinese firms. Specifically, Confucian dynamism diminishes the positive effects of firm size on the propensity to equity mode adoption.	Statistically supported (change in $\chi^2=25.03$, d.f.=1, $P < 0.001$)

Logistic regression results of Part 3 (Moderating effects of SDMP on international entry mode decision)

In this part, six binary logistic regressions were employed to examine the moderating effects of variables from three aspects, including internal and external conditions, managerial cultural values, and characteristics of strategic decision-making process on the equity mode decision. The logistic regression result of each model can be seen in Table 7-21.

Model 5 was taken as the base model for Part 3 through adding three moderators (procedural rationality, problem-solving dissention, and hierarchical centralisation of decision-making) to model 4 in the part 2. These three moderators neither brought great improvement to the model [change in $\chi^2=3.67 < 7.82$ ($p=0.05$, d.f.=3)], nor had significantly individual slope coefficients.

This study intended to examine whether or not the addition of characteristics of strategic decision-making into the two-way interactions (Confucian dynamism and firm size, and Confucian dynamism and environmental hostility) will add the new explanatory power to the dependent variable. Two two-way interactions (Confucian dynamism and firm size, and Confucian dynamism and environmental hostility) were kept in the base model unchanged. Then each of the six three-way interactions was added to the base model separately from model 6.1 to model 8.2.

Table 7-21: Logistic regression results for the moderating effects of SDMP Characteristics on international entry mode decision

Variables:	Model 5 (Base model)	Model 6.1	Model 6.2	Model 7.1	Model 7.2	Model 8.1	Model 8.2
Step 1: Control variables							
Years of international operation	0.26** (0.10)	0.23* (0.10)	0.27**(0.10)	0.24* (0.11)	0.26** (0.10)	0.26* (0.020)	0.27** (0.10)
Manufacturing advantage	0.86** (0.29)	0.95**(0.30)	0.83**(0.29)	0.95** (0.30)	0.83** (0.30)	1.05** (0.32)	0.84** (0.29)
Environmental uncertainty	0.15 (0.18)	0.16 (0.18)	0.15 (0.18)	0.25 (0.19)	0.18 (0.19)	0.15 (0.19)	0.16 (0.18)
Psychic distance	0.21 (0.26)	0.14 (0.27)	0.22 (0.260)	0.21 (0.28)	0.11 (0.27)	0.11 (0.28)	0.20 (0.26)
Contractual risks	0.49 (0.24)	0.52* (0.25)	0.53* (0.25)	0.40 (0.26)	0.43+ (0.25)	0.51 (0.25)	0.46+ (0.25)
Most frequently used mode in the past	2.12** (0.50)	2.01**(0.51)	2.12** (0.50)	2.10** (0.53)	2.17** (0.51)	2.30** (0.55)	2.14** (0.50)
Mode most frequently used by major rivals	1.68** (0.49)	1.88**(0.51)	1.74**(0.50)	1.87** (0.51)	1.63** (0.52)	1.71** (0.52)	1.62** (0.50)
Step 2: Independent variables							
Firm size	0.03**(0.01)	0.01+ (0.01)	0.03**(0.01)	0.02* (0.01)	0.02** (0.01)	0.02* (0.01)	0.03** (0.01)
Environmental hostility	-4.53**(1.43)	-4.85**(1.45)	-5.04**(1.57)	-4.88** (1.45)	-3.26* (1.63)	-5.07** (1.48)	-4.27** (1.50)
Confucian dynamism	-3.00**(1.12)	-3.72**(1.19)	-3.46**(1.25)	-3.61** (1.19)	-1.98 (1.29)	-3.84** (1.24)	-2.80* (1.18)
Step 3: Two-way interactions							
Confucian dynamism × Size	-4.33E-03** (1.11E-03)	-8.48E-04 (1.70E-03)	-4.37E-03 (1.13E-03)	-3.59E-03 (1.50E-03)	-4.19E-03** (1.12E-03)	-1.20E-03 (1.30E-03)	-4.34E-03** (1.11E-03)
Confucian dynamism × Hostility	0.75**(0.25)	0.82**(0.26)	0.95** (0.35)	0.82** (0.26)	0.23 (0.37)	0.86** (0.27)	0.65* (0.30)
Step4: Decisional moderators							
Procedural rationality	0.03 (0.27)	0.19 (0.29)	0.52 (0.64)	0.01 (0.29)	0.01 (0.28)	-0.02 (0.29)	0.05 (0.28)
Problem solving dissension	0.24 (0.24)	0.23 (0.25)	0.25 (0.24)	-0.09 (0.29)	-1.07 (0.70)	0.08 (0.26)	0.23 (0.24)
Centralisation of decision-making	-0.37+ (0.21)	-0.43* (0.21)	-0.40 (0.21)	-0.35 (0.22)	-0.44* (0.21)	-0.08 (0.28)	-0.68 (0.54)

Step 5: Three-way

interactions

Size × Confucian dynamism × rationality		-2.04E-04* (9.85E-05)					
Hostility × Confucian dynamism × rationality			-0.02 (0.02)				
Size × Confucian dynamism × dissension				2.94E-04* (1.34E-04)			
Hostility × Confucian dynamism × dissension					0.06* (0.03)		
Size×Confucian dynamism × centralisation						-2.66E-04+ (1.41E-04)	
Hostility × Confucian dynamism × centralisation							0.01 (0.02)
Constant	6.62 (5.25)	9.21+(5.39)	6.57 (5.30)	10.26+ (5.54)	8.24 (6.08)	9.51+ (5.68)	6.95 (5.39)
Model χ^2	124.50**	128.94**	125.21**	134.85**	129.21**	134.45**	124.90**
d.f.	15	16	16	16	16	16	16
$\Delta\chi^2$ to the base model	-	4.44*	0.71	10.35**	4.71*	9.95**	0.40
Nagelkerke R^2	0.60	0.62	0.61	0.64	0.62	0.64	0.60
Percentage of correct classification	84.10%	83.60%	84.90%	85.8%	84.5%	85.3%	84.5%
N	233	233	233	233	233	233	233

**p < 0.01; *p < 0.05; +p < 0.10 (two-tail test)

Dependent variable: 0=non-equity mode, 1= equity mode; SE in parentheses

In model 6.1, one three-way interaction of firm size, Confucian dynamism, and procedural rationality was entered into the base model. Firstly, the result showed that the total model fit for model 6.1 was good ($\chi^2=128.94$, $p<0.01$, d.f.=16; Nagelkerke $R^2=0.62$). Moreover, the slope coefficient for the interaction is also significant ($p < 0.05$), but as multicollinearity still exists in the equation, the significance of change in χ^2 to the base model was also examined. The result showed that this three-way interaction contributed a significant improvement to the base model in explaining the equity mode decision (change in $\chi^2=4.44$, d.f.=1, $p<0.05$). This demonstrated that the interaction significantly improved the base model and that procedural rationality played a role in this joint effect in explaining the equity mode decision. Thus, hypothesis 6a received at least partial support.

In model 6.2, another three-way interaction among environmental hostility, Confucian dynamism, and procedural rationality was added to the base model. The slope coefficient was not significant and neither was the change in χ^2 (0.71, d.f. =1). It failed to demonstrate a significant effect of this interaction on the equity mode decision. Thus, hypothesis 6b is not confirmed by the test.

In models 7.1 and 7.2, a different characteristic of strategic decision-making, problem-solving dissension, replaced procedural rationality in the three-way interactions.

In model 7.1, a three-way interaction of firm size, Confucian dynamism, and problem-solving dissension was entered into the base model. The overall model fit for model 7.1 was very good ($\chi^2=134.85$, $p<0.01$, d.f.=16; Nagelkerke $R^2=0.64$). In addition, the change in χ^2 is highly significant (10.35, d.f. =1, $p<0.01$), which demonstrates that the great improvement to the base model can be only attributed to the new added interaction. Finally, the slope coefficient of the interaction was also significant although it was not simply relied on to make the judgment. Based on the above evidences, Hypothesis 7a gained at least partial support.

In model 7.2, the three-way interaction of environmental hostility, Confucian dynamism, and problem-solving dissension was added into the base model of part 3. The overall model fit for model 7.2 was good ($\chi^2=129.21$, $p<0.01$, d.f. =16; Nagelkerke $R^2=0.62$, and the improvement to the base model was also significant (change in $\chi^2=4.71$, d.f.=1, $p<0.05$). Moreover, the slope coefficient was significant ($p<0.05$). Based on the above results, Hypothesis 7b gained at least partial support.

In models 8.1 and 8.2, problem-solving dissension in the three-way interaction was substituted for another decision process dimension, hierarchical centralisation of decision.

In model 8.1, one three-way interaction of firm size, Confucian dynamism, and hierarchical centralisation of decision was entered into the base model. The overall model fit for model 8.1 was very good ($\chi^2=129.21$, $p<0.01$, d.f. =16; Nagelkerke $R^2=0.64$). A great improvement to the base model was made through adding the three-way interaction (change in $\chi^2=9.95$, d.f.=1, $p<0.01$). Moreover, the slope coefficient for the interaction was marginally significant. Because of the existence of multicollinearity, the judgment was made based mainly on the level of improvement of total model. Thus, Hypothesis 8a received partial support.

In the model 8.2, the result showed that the improvement to the base model was negligible (change in $\chi^2=0.4$, d.f. =1), and the slope coefficient was not significant. This indicated that the interaction of environmental hostility, Confucian dynamism, and hierarchical centralisation did not have a significant impact on the equity mode decision. Thus, Hypothesis 8b was not supported.

So far, we have examined the magnitude of impacts from six three-way interactions, but it would be not reliable to judge the direction of these interactions through the signs of related slope coefficients. From model 6.1 to model 8.2, multicollinearity exists among three-way interactions, two-way interactions, and related individual variables. Coefficients

among offending variables are likely to be negatively correlated when severe multicollinearity exists, which easily provides the wrong signs of directions (Lin, 2006). In order to assess the direction of three-way interactions, two-way interactions were dropped from each model above and the above binary logistic regression model was re-run. The result showed that some signs of three-way interactions changed, but the multicollinearity still existed in each model among three-way interaction and related variables. Hence, the reliance on coefficients in these re-running models was still not reliable. Further correlational analyses would not be credible as too few cases would be included through two stage of classification recommended by Aiken and West (1991).

To sum up, according to the results of Chi-square test of change in χ^2 in the six nested models, four out of six three-way interactions made the significant contributions to the improvement to the base models, which indicated that the inclusion of characteristics of strategic decision-making process into the interactions brought new and great explanatory power to the equity mode decision. The judgment is valid as the two-way interactions were kept in all nested equations. However, due to the problem of multicollinearity, we were not able to identify the direction of the three-way interactions. Thus, four out of six hypotheses gained partial supports and details can be viewed in the Table 7-21.

Table 7-22: Summary of results of hypotheses testing in Part 3
(Moderating effects of characteristics of SDMP)

Hypothesis	Description	Statistical testing result
Hypothesis 6a	Confucian dynamism's enhancement of the negative effect of environmental hostility on the equity mode adoption is likely to decrease when using a more rational decision process.	Not supported
Hypothesis 6b	Confucian dynamism's diminishment of the positive effect of firm size on the equity mode adoption is likely to decrease when using a more rational decision process.	Partially supported (change in $\chi^2=4.44$, d.f.=1, $P<0.05$)
Hypothesis 7a	Confucian dynamism's enhancement of the negative effect of environmental hostility on the equity mode adoption is likely to increase when the greater dissension occurs in the decision process.	Partially supported (change in $\chi^2=4.71$, d.f.=1, $P<0.05$)
Hypothesis 7b	Confucian dynamism's diminishment of the positive effect of firm size on the equity mode adoption is likely to increase when the greater dissension occurs in the decision process.	Partially supported (change in $\chi^2=10.35$, d.f.=1, $P<0.01$)
Hypothesis 8a	Confucian dynamism's enhancement of the negative effects of environmental hostility on the equity mode adoption is likely to increase when a more centralized decisional process is used.	Not supported
Hypothesis 8b	Confucian dynamism's diminishment of the positive effect of firm size on the equity mode adoption is likely to increase when a more centralized decisional process is used.	Partially supported (change in $\chi^2=9.95$, d.f.=1, $P<0.01$)

7.5 Conclusion

This chapter firstly presented the process of initial measurement selection, purification, and confirmation for this study. EFA and CFA were employed to conduct analyses for the validation process. After achieving satisfactory construct unidimensionality, reliability, and within-method convergent and discriminant validity, this study employed a binary logistic regression method to test hypotheses proposed in Chapter 5. Seven out of eleven hypotheses received full or partial support. Specifically, Confucian dynamism and firm size were found to have significant relations with the adaptation of equity mode. Moreover, the two-way interaction between Confucian dynamism and firm size was observed to have

a very significant negative impact on equity mode decision. It was also found that the explanatory power of the model increased with the inclusion of the three-way interaction, in which characteristics of strategic decision-making process were added to two-way interactions. However, due to the occurrence of multicollinearity, it was only possible to identify four out of six three-way interactions as having a significant impact on equity mode decision in terms of magnitude, but not direction. Thus, partial support was gained for four hypotheses addressing the relations between three-way interactions and equity mode decision.

Chapter 8: Follow-up Case Study and Discussion

8.1 Introduction

This chapter reports the findings of the case-study method, which was preceded by the quantitative analysis. As mentioned in the methodology chapter, a qualitative approach serves as a complementary method for the survey design. It was employed principally to provide richer information and in-depth analyses to enhance the understanding of the roles of the manager and the decision process in international entry mode decision. There are two core questions relevant to the interests of this study that the qualitative method was used to explore: (1) How do Chinese decision-makers with varying degrees of Confucian dynamism evaluate market hostility and firm size related to their most important entry in making the decision of entry mode? (2) How do different dimensions of the decision process in terms of procedural rationality, problem-solving dissension, and hierarchical centralisation of decision-making affect the decision-makers' evaluations of a situation and thus decision outcome? Then, based on relevant theories, both quantitative and qualitative findings and their implications were discussed integrately to further examine the key questions of this study.

The chapter consists of four sections. Firstly, it presents the background of four Chinese private manufacturing firms, their most important international entries, and related decision processes for the modes of entry. In the second section, the evaluations of internal and external conditions by the decision-makers of studied firms are illustrated. Then, the impacts of different dimensions of the decision-making process on the outcomes of decisions are explored. Finally, based on the results of the qualitative analysis and quantitative evidence, there is an integrative discussion to examine further the key questions of this study.

8.2 Background of cases

Firms for case study were chosen to examine questions of interests in the real settings (Bryman, 2004; Yin, 2003). These cases provide a suitable and rich context in which to present the interactive and dynamic effects of Confucian dynamism and decision processes in terms of real international entry mode decision-making. Besides potential validation of statistical testing results, it also enables the identification of possible reasons for unconfirmed hypothetical relationships in statistical testing. Since the phenomenon of interest in this study is firms' decisions of equity/non-equity mode for their international entries. Thus, two firms were selected as they had chosen the equity modes for their most important entry, while the other two were chosen for having adopted non-equity modes.

8.2.1 Profiles of four firms, their most important international entries, and related decision processes

The basic background of firms, their most important international entry, and the international entry mode they used are summerized in Table 8-1.

Table 8-1: Firms investigated

Firm	Main products	Size (approximate no. of employees)	Location	Years of international operation	Most important international entry	Entry mode used
Firm A	Car parts	1350	Shanghai	12	U.S.	Equity mode (Acquisition)
Firm B	High-speed counter current chromatography instruments	120	Shanghai	4	U.S.	Non-equity (Franchising)
Firm C	Family furniture	100	Hangzhou	7	U.K.	Non-equity (Exporting)
Firm D	Car and motorcycle batteries	700	Beijing	10	Vietnam	Equity mode (Joint venture)

Firm A

Overview of firm A

Firm A was established by two partners in May, 1997 and initially it was a trading company exporting car parts to overseas market. In 1998, it bought a township enterprise in Jiangsu province and the firm expanded its operations into the manufacturing sector. In 1999, it moved its headquarters to the Songjiang district of Shanghai and has operated there since then. Its main products cover three categories; tyre valves, tyre pressure monitoring gauges, and car exhausts. It has grown rapidly and the number of its employees increased from 120 in 1999 to around 1350 in 2005.

Its internationalisation and most important entry

To some extent, the process of internationalisation started at its very beginning as an international trading company. It mainly used the exporting method to sell its products to foreign business partners in the US and elsewhere, based on their orders. The foreign partners usually retyped their brands on the imported products and resold to large automobile companies, such as Ford and GM (General Motors). As it lacked direct sales channels to automobile giants, the firm had struggled for several years to obtain a formal position in automobile giants' procurement systems.

The acquisition of the tyre valve manufacturing unit of ALPHA (a US company) was considered to be the most important international entry for firm A. ALPHA was an important supplier of car parts for GM and Ford. In 2005, ALPHA decided to sell its business unit of tyre valves as it was not as profitable as other business units. This generated an opportunity for Company A to obtain sales channels and connections to American automobile producers. Before the purchase, Company A had cooperated with ALPHA for three years.

The decision process for the entry mode

The decision process began with receiving the sale information released by ALPHA. Shareholders and executives (seven people in total) arranged a meeting to discuss the matter shortly after receiving the message. There were two viable options for the

decision-makers to conduct the international entry: (1) purchasing the unit (equity mode); (2) maintaining supplier status to the new owner of the unit (non-equity mode).

Most of the participants agreed that it was a very good opportunity to gain formal partnerships with car-makers. However, almost all the decision-makers were frustrated by the great uncertainties on the legal, capital, and managerial issues associated with the potential acquisition. One founder explicitly expressed concern about the investment risks, and suggested that it was better to maintain the current way of doing business. The other founder suggested that more information and investigation should be conducted before making the final decision, which gained the support from most of participants.

The investigation was conducted in several ways including: (1) consulting American lawyers to gain an understanding of the legal requirements for the acquisition; (2) sending a special team of experts to conduct an on-site evaluation of the price against its real value, as well as its financial report; (3) confirming the information they had about the unit from other business partners. Intensive analyses were conducted on the collected information, and the analytical result decreased the concerns about uncertainties as the decision-makers came to believe that most of the uncertainties could be controlled. The acquisition decision was then made.

Firm B

Overview of firm B

Firm B is a manufacturer of HSCCC (high-speed counter current chromatography) instruments, and was founded by a Chinese researcher who returned to Shanghai in 2002 after the completion of his study in Japan. HSCCC is equipment to extract, separate, and purify antibiotics or proteins from natural products, and is widely used in the fields of biochemistry, pharmacy, agriculture, etc. The product was developed in 2002, and the manufacturing technology for HSCCC is patented. The company has around 120 employees and it occupies over 10% market share in this highly specialised segment in China.

Its internationalisation and most important entry

The founder of the firm was conservative about international expansion, as he believed that the Chinese market should be the first priority for the firm. However, the cost advantage of the product enabled the firm to compete effectively with international firms considering that the advanced level of the product was on a par with that of their rivals.

In 2005, the company began to export its products to Singapore and Korea and started its internationalisation process. It found that sporadic exports could not generate stable revenues. As it mainly targeted the professional segments, including higher education and R&D institutes, local connections were critical to increase the overseas market share. In 2007, only 15% of sales came from the international market. It was therefore necessary to obtain the assistance of a local sales agency to conduct market development for the product.

In 2007, the firm franchised Company Beta (a U.S. company) to sell its product exclusively in the U.S. market, which was considered to be the most important international entry for the firm.

The decision process for the entry mode

The decision process began at a biotechnology conference in U.S. in 2007, when several U.S. companies showed their interests in the firm's product (which cost only 2/3 the price of their rivals' products). At that time, the firm only had limited exporting experience. The founder (CEO), sales manager, and production manager (three people in total) had a meeting to discuss the issues concerning entering the U.S. market. There are a great number of higher education and research institutes in U.S. which could be one of the strategic markets for the company's further growth. Two choices in terms of exporting and franchising were discussed, as the decision-makers all agreed that equity mode was not necessary for several reasons: (1) Operational cost was much lower in China; (2) the firm lacked international experience, financial strength, and qualified staff; (3) all the decision-makers felt great uncertainty about how to operate a subsidiary independently, which could have affected the speed of the entry, and; (4) at their current stage, the firm

decided to specialise in R& D and manufacturing rather than marketing.

The founder preferred to use the franchising method to exploit the U.S. market incrementally and controllably. Other decision-makers supported the suggestion of the founder. Firstly, the U.S. market was perceived as being much more open to new products from China than the EU (European Union) or Japanese markets, and it was relatively easier for a new product to be accepted in the U.S. market. Greater efforts made there can generate much better performances. Secondly, exporting was considered as too passive a way, as it meant being almost inactive and simply waiting for orders. The method of franchising a U.S. company as the sales agency enabled the firm to establish a foothold for later market development. Finally, intellectual property is well protected in U.S. and the product used different manufacturing procedures to rivals' products, which made it hard to imitate.

The background information of potential sales agencies was then evaluated and Company Beta was selected, as it was an aggressive and rapidly growing company, and it had relatively strong connections to many higher education or research institutes. Finally, firm B came to an agreement with Company Beta to sell its product exclusively in the U.S.

Firm C

Overview of firm C

Firm C is located in the Xiaoshan district of Hangzhou city, and is a family furniture manufacturer. It was established by the founder in 2000 and is currently run by the founder and his son. It has grown from having twelve employees in the year 2000 to currently having around one hundred employees. As the furniture industry is a labour-intensive industry and well-developed one in China, the competition has become fierce in the domestic market. Larger companies with famous brands such as Qumei, Hongpingguo, and Huari took the largest share of the high-margin segment. Small and middle-sized firms have to compete in the low-end segment.

Its internationalisation and most important entry

As the profit of the firm was being eroded by increasing competition, the founder sought a new market for growth. The internationalisation of the firm started at the Canton Fair (China Import and Export Fair) in Guangzhou, which is the largest trade fair in China, in 2002. Several Libyan businessmen made enquiries about its products, and subsequently they visited the firm and placed an order. The firm then took advantage of subsequent fairs and cost advantage and used an exporting method to enter into Japan, Korea, and Singapore. In 2005, the entry into the UK market was considered the most important international entry for the firm, as it was the first time the firm had attempted to broach an EU market.

The decision process for the entry mode

The need to make the decision arose from several British traders' enquiries about its products at the Canton Fair in 2005. The founder and his son (two people in total) discussed the possibilities and ways of entering the UK market. Based on the information provided by the potential customers, the decision-makers found that the EU set more rigorous standards than China for the oil paints and cabinet hardware, which will increase the production cost and require a more advanced processing technique. But, based on their experiences in Asia, the fulfillment of the order could bring other opportunities from the EU market. The decision-makers decided to have a try.

Only two ways of entry were seriously discussed: (1) exporting, and (2) the establishment of a sales agency. The firm was familiar with exporting procedures, meaning that it could rely on its British partners' distribution channels and need not deal with ultimate sales. It also significantly reduced the uncertainties felt by the decision-makers in entering a new market. However, the establishment of a sales agency was also attractive for several reasons. Firstly, the founder's relatives were operating businesses in the UK. They could provide help in establishing the agency. Secondly, the sales agency could collect business information and build connections with a great number of business partners in the EU, which could generate more business opportunities in the short-term. The founder discussed all the above issues with his son and also with relatives in the UK by phone. Finally,

mainly based on their relative's suggestions and experiential knowledge, the two decision-makers decided to choose the incremental approach. Through this approach, the firm used the exporting mode several times to gain experience and also obtain some information from British importers. If the exporting performance was good, the firm was hoping to establish a sales agency in UK.

Company D

Overview of firm D

Firm D was established by two brothers in 1988 and is located in Beijing. Firm D is a manufacturer of batteries for cars and motorcycles. Facilitated by the rapid development of motorcycle sector in China from the 1980s to the early 1990s, company D has grown from a small private factory to a firm with more than 700 employees. It also produced car batteries in the mid-1990s to target the booming car market in China. It qualified for the International Organization for Standardization's ISO9001 certificate in 1996 and has also ploughed back 10% of its profits into R&D continuously for several years.

Its internationalisation and most important entry

It exported motorcycle batteries to Malaysia in 1989 and so began its internationalisation process. By using exporting, it then entered Vietnam, Indonesia, and Thailand between 1989 and 1997. Through these entries, the decision-makers perceived that the market for motorcycles in many countries of Southeast Asia was experiencing rapid development. They also found that more and more Chinese battery manufacturing firms, mainly from the Pearl River Delta, used aggressive pricing tactics to export their products to these markets. Geographic closeness made them competitive in response time and transportation cost. As a result, in 1998, the firm considered building a factory in Vietnam to respond to the competition, and this was considered the most important international entry by the firm.

The decision process for the entry mode

In 1998, the profit margin for exporting decreased severely with the emergence of an increasing number of competitors. The business partners in Vietnam also required the firm to reduce production and delivery time and lower prices further. Because of the prosperity

of the motorcycle segment in Vietnam and other Southeast Asian nations, the two founders and three top managers (the directors of the production, finance and accounting, and international departments) discussed the possibility of carrying out the manufacturing in Vietnam, by which the production cost and the transportation time to the market could be reduced.

Three options for the entry were discussed, including licensing Vietnam partners to manufacture the firm's proprietary products, establishing a joint venture production subsidiary, and setting up a solo venture subsidiary. The founders preferred not to use the contractual method, as the intellectual protection system in Vietnam was very weak, and also because the quality of the batteries was largely dependent on the manufacturing process, which set high requirements for the training of licensee's employees as well as the risk of cultivating potential competitors. The two founders preferred a joint venture approach with a local partner, while the director of the international department and production director suggested the solo venture approach. Through the wholly-owned approach, the subsidiary could take full advantages of the low cost labour and local resources, and fulfil business partners' orders more efficiently. The absolute control enabled the firm to deal with competition more effectively and the firm could also send quite a few proficient operation technicians to be in charge of key positions to ensure the quality of the product. However, the two founders and the director of finance and accounting were hesitant about this option, as the firm did not have any production experience in a foreign context and also because the approach required a large capital investment. The directors of production and the international department insisted that the environmental conditions in Vietnam were similar to those in China five to ten years previously. In addition, negotiations and potential cultural conflicts of the joint venture subsidiary would slow the pace of establishing a solid foothold there. In order to avoid the confrontations of the two parties, the two founders had a discussion and proposed a compromise plan. They suggested looking for a local cooperator to conduct the project jointly at first, and then further adjustment could be made depending on the performance of the subsidiary. The potential cooperator should have certain financial strengths, be familiar with local regulatory environments, and have strong connections with local government.

However, if the appropriate partner was not available, it was decided that the firm would carry out the project itself. Although the directors of the international department and the production department still considered that the plan was too conservative, they decided to support it, as their suggestions had been considered and they had good personal relationships with the founders. Then, the search for project cooperators was begun by contacting existing business partners and by consulting commercial advisors at the Chinese embassy in Vietnam. A partner was decided on out of several rounds of evaluations and the final decision of joint venture was made.

8.3 Decision-makers' Confucian dynamism values and their evaluations of environmental hostility and firm size

8.3.1 Confucian dynamism values of interviewees

As stated in the methodology chapter, before starting interview questions, each interviewee was asked to rate each statement of Confucian dynamism values to obtain the degree of their acceptance of these cultural traits. The greater the interviewee's score, the higher degree his/her acceptance of these traditional Chinese work values. Results showed that only the interviewee 2 of firm A and interviewee 7 of firm D demonstrated a relatively lower level of Confucian dynamism in comparison with the average score obtained through the survey, reflecting that the interviewees had a relatively high degree of traditional work values. The scores of the interviewees' Confucian dynamism can be seen in Table 8-2.

Table 8-2: Confucian dynamism values of interviewees

Firm	Interviewee	Confucian dynamism
Firm A	Interviewee 1	5.8
	Interviewee 2	4.6
Firm B	Interviewee 3	5.5
	Interviewee 4	5.7
Firm C	Interviewee 5	6.1
	Interviewee 6	6.2
Firm D	Interviewee 7	4.9
	Interviewee 8	5.5

8.3.2 Interviewees' evaluations of environmental hostility

Covin and Slevin (1989, p.75) indicated that a hostile environment is “characterized by precarious industry settings, intense competitions, harsh, overwhelming business climates, and the relative lack of exploitable opportunities”. Prior studies (Elbanna and Child, 2007; Khandwalla, 1977; Papadakis et al., 1998) operationalised the concept into three elements: competitors, richness of opportunities, and environment.

Thus, interviewees from all firms were asked to give their assessments on growth opportunities, competition, and the business environment of the country entered when making the entry mode decision. Then, the researcher conducted a thematic analysis on the transcripts of interviews to understand the interviewees' attitudes to three aspects of the host environment. The key points of their evaluations are summarized and the exemplar words of interviewees are presented in Table 8-3, which reflect their overwhelming opinions to host environmental conditions. The opinions were either recurrent or semantically emphasized when interviewees made the evaluations on the three aspects of host environment.

The results generally showed the pattern that was consistent with Jaw et al.'s (2007) conclusion, as the interviewees with stronger Confucian dynamism demonstrated a more conservative attitude to environmental hostility. More specifically, interviewees with strong Confucian dynamism were more concerned with risks or uncertainties stemming from the competition and the new business environment. Conversely, the interviewees with low Confucian dynamism focused on the opportunities or benefits brought by the new environment and were confident about encountering competition, although they were also aware of threats or uncertainties. For instance, a typical example can be viewed through comparing the comments of interviewee 1 with strong Confucian dynamism, with the comments of interviewee 2 with weak Confucian dynamism of firm A, on the market opportunities, competitions, and business environment of the foreign market. Interviewee 1 recognised the opportunity but he also expressed his concerns about the internationalisation capability of firm, difficulties of competition, and environmental

threats when operating in U.S. market. In comparison, interviewee 2 showed a more positive attitude to opportunities and potential benefits, and he was also confident about dealing with competition and adaptation to the environment. Another finding is that interviewees who held a similar degree of Confucian dynamism in the same firm tended to give similar evaluations of environment hostilities, including interviewee 3 and 4 in Firm B, and interviewees 5 and 6 in Firm C.

In sum, interviewees with different degree of Confucian dynamism tend to evaluate host environmental conditions in terms of opportunity, competition, and business environment differently. Interviewees with strong Confucian dynamism show more concerns with risks or uncertainties stemming from the competition and the new business environment. Conversely, the interviewees with low Confucian dynamism focused on the opportunities or benefits brought by the new environment and were confident about encountering competition.

Table 8-3: Evaluations of interviewees of environmental hostility

Environmental hostility				
Firm	Interviewee	Opportunity (key points of interviewee's evaluation)	Competition (key points of interviewee's evaluation)	Business environment (key points of interviewee's evaluation)
Firm A	1	<ul style="list-style-type: none"> Acknowledging the opportunity Expressing little confidence in exploiting it <p><i>Exemplification:</i> “We recognised that it (the acquisition) was an opportunity for us which could bring other market opportunities, but I was still doubt as to whether or not we can successfully conduct it”.</p>	<ul style="list-style-type: none"> Having little confidence in dealing with local competition <p><i>Exemplification:</i> “I was not sure whether or not we could control the production cost well in U.S. and handle the competition from local rivals, even after more positive information was obtained.”</p>	<ul style="list-style-type: none"> Evaluating host country environment positively Still having other concerns <p><i>Exemplification:</i> “The business environment in the U.S. was more mature than in China as the regulations were complete and detailed, but personally I felt a little uncertain about how to deal with the relationship with the workers' union”</p>
	2	<ul style="list-style-type: none"> Acknowledging the opportunity Stressing the importance of opportunity to the company <p><i>Exemplification:</i> “The U.S. market is full of opportunities, as GM, Ford, and Chrysler are all U.S. companies. In order to achieve further development, it is critical for us to become one of their global procurement partners. So the acquisition is meaningful for us not only in that we can have a foothold and establish a formal partnership with U.S automobile makers, but also in that it can facilitate our gaining cooperation with other car-makers such as Toyota and Honda”.</p>	<ul style="list-style-type: none"> Having a positive attitude to deal with competition <p><i>Exemplification:</i> “The purchased unit was still profitable, which demonstrated its competitiveness and we would transfer some production capacity to China and further reduce the production cost. I was quite confident about our product quality and cost advantage”.</p>	<ul style="list-style-type: none"> Acknowledging the challenge of adapting to the new environment Stressing the favourable conditions of host environment <p><i>Exemplification:</i> “The business environment in U.S. was stable and accountable, and I mean that you need not spend much time and effort to deal with local government, and legal regulations do not change frequently there. The only thing that I concern was how to deal with worker's union there and it was the new challenge for us”.</p>
Firm B	3	<ul style="list-style-type: none"> Acknowledging the opportunity Recognising the operational difficulties <p><i>Exemplification:</i> “The U.S. has thousands of higher education and R&D institutes, and it could be another important strategic market for us. Additionally, the U.S. market has a much more open attitude to new products than the EU or Japan, so it is in the market that we should make</p>	<ul style="list-style-type: none"> Acknowledging both competitive advantages and disadvantages of the firm <p><i>Exemplification:</i> “In the U.S. market, the main competitive advantages for us are our price and product quality, while we are quite weak in branding and local connection. These drawbacks are difficult to</p>	<ul style="list-style-type: none"> Acknowledging the favourable host environmental conditions. Stressing the costs of adaption. <p><i>Exemplification:</i> “The business environment in U.S. is not as complicated as it in China, and the critical point for us is how to adapt another way to do business, and it costs time</p>

		more effort. However, we are also aware of the difficulties in seizing the opportunities provided by the market, such as lack of local business connections”.	overcome without a long-term marketing plan”.	to learn”
	4	<ul style="list-style-type: none"> ● Acknowledging the opportunity ● Recognising the difficulties arisen from unfamiliarity with the market <p><i>Exemplification:</i> “During the decision-making, we all agreed on the great potential of the U.S. market, and the real problem for us is how to make the most of it in a totally different environment”.</p>	<ul style="list-style-type: none"> ● Worried about the entry barriers ● Being confident of dealing with competition <p><i>Exemplification:</i> “We are not afraid of the competition, but in fact, you usually simply do not have a chance to compete in this highly specialised segment.....”</p>	<ul style="list-style-type: none"> ● Acknowledging the favorable host environmental conditions ● Stressing unfamiliarity of host environment <p>“The environment should be better, but it is unfamiliar”.</p>
Firm C	5	<ul style="list-style-type: none"> ● Subjective estimates of the opportunities in the market <p><i>Exemplification:</i> “When making the decision, we were not sure about how many opportunities there were but we estimated that they were okay, as around four or five British traders made the detailed enquiries about our products and prices, and most of them said that they would like to visit our factory later’.</p>	<ul style="list-style-type: none"> ● Estimating firm’s competitive advantages and competitors’ situation <p><i>Exemplification:</i> “I thought that we should have cost advantages and that was why they (British traders) came here and placed the order. I thought that the competition was mainly from other Chinese providers ”</p>	<ul style="list-style-type: none"> ● Understanding the stricter regulatory environment of the market ● Worried about the impact from regulations on production cost <p><i>Exemplification:</i> “The E.U. has stricter product requirements on our cabinet hardware and paintings, which may increase our production cost”.</p>
	6	<ul style="list-style-type: none"> ● Estimating the opportunities ● Feeling uncertain about how many opportunities of the market <p><i>Exemplification:</i> “It was the first time we had discussed the UK market as we had mainly exported our furniture to Asian or African countries before. There should be opportunities as several British businessmen contacted us and showed their interest in our products, but to be honest, I was not sure whether or not there would be follow-up orders.</p>	<ul style="list-style-type: none"> ● Worried about product quality ● Being confident of dealing with price competition <p><i>Exemplification:</i> “If we keep our production in China, we obviously had competitive advantages in price, but our quality need to be further improved to match market demands and compete with local enterprises”.</p>	<ul style="list-style-type: none"> ● Understanding the stricter regulatory environment of the market <p><i>Exemplification:</i> “I heard from my relative in UK that EU upgraded requirements on wood products in recent years, and we have to follow the regulations”.</p>
Firm D	7	<ul style="list-style-type: none"> ● Being sure of the emergence of the opportunity ● Stressing the strategic importance of the opportunity to the company <p><i>Exemplification:</i> “The motorcycle sector in Vietnam and</p>	<ul style="list-style-type: none"> ● Being sure of competitive advantages over local rivals ● Being confident of product quality <p><i>Exemplification:</i></p>	<ul style="list-style-type: none"> ● Being confident of adapting local environment <p><i>Exemplification:</i> “I thought that the business environment was similar like China, and so local connections</p>

	other Southeast Asia nations started experiencing a high rate of development similar to that of China five years ago, and we believed there were lots of opportunities for our products there, and additionally, success in Vietnam would be the first step towards entering other countries in this region”.	“As local firms were not strong, the competition was mainly from Chinese battery manufacturing firms in the Pearl River Delta with their aggressive pricing. However, our quality and design should be better than these rivals”.	were important, and we know how to build and use them”.
8	<ul style="list-style-type: none"> ● Estimating the emergence of the opportunity based on experiential knowledge <p><i>Exemplification:</i> “Based on our exporting experience and information from local importers, I estimated that the rapid growth stage for our products was approaching in Southeast Asia, which could indicate opportunities for us.</p>	<ul style="list-style-type: none"> ● Being aware of price competition ● Being cautious of competitors’ other advantages <p><i>Exemplification:</i> “Some Chinese exporters quoted unbelievably low price for their products, which generated great pressure for our pricing in exporting, and they also had a certain advantage in delivering their products”.</p>	<ul style="list-style-type: none"> ● Being aware of turbulence of local environment ● Being aware of the role of government <p><i>Exemplification:</i> “Because the country was undergoing reform, their import regulations kept changing at that period of time to protect their domestic industries. We also worried about the administrative efficiencies of the government”</p>

8.3.3 Interviewees’ evaluations of firm size

The size of firm demonstrates resource advantages over competitors (Brouthers and Hennart, 2007). The theoretical reasoning for the positive impact of firm size on the equity mode is mainly relied on the following two aspects, including: (1) Cost requirement for international operations (Agarwal and Ramaswami, 1992; Nakos and Brouthers, 2002); (2) Sufficient or unique resources to compete with local firms (Dunning, 1988). Thus, the interviewees were asked to evaluate their sufficiency of resource for the international operation and competitions. Similarly, the key points of their evaluations are summarized and the exemplar comments of interviewees are presented in Table 8-4, which reflect their overwhelming attitudes to the firm size. The opinions were either frequently repeated or semantically emphasized when interviewees made the evaluations on firm size.

Prior literature indicated that the decision-makers with strong Confucian dynamism orientation are modest and conservative (Jaw et al., 2007), and also cost-cautious (Chinese Culture Connection, 1987; Browaey and Price, 2008). They preferred a holistic thinking

method (Redding, 1980), and non-competitive (Chew and Lim, 1995; Ahmed and Li, 1996; Yeung and Tung, 1996) approach in dealing with things. The evaluations on resource sufficiency by interviewees generally demonstrate the tendency suggested by the literature. More specifically, interviewees with less Confucian dynamism tended to show more confidence on meeting the resource requirements in terms of the entry cost and competition for the international entry, while interviewees with stronger Confucian dynamism were usually cautious to the severance of cost and competition for the entry. Typical examples of this are the evaluations of interviewees 7 and 8 from Firm D. Both interviewees 7 and 8 agreed that the firm had enough resource to conduct the international entry and deal with competition in Vietnam market, while interviewee 8, with strong Confucian dynamism, still voiced concerns of intangible cost expenditures and local rivals' advantages to reflect his cautious and moderate thinking. This could decrease the willingness to make a decisive international entry mode decision. The evaluations of firm size by interviewees 1 and 2 also showed a similar pattern, as interviewee 2 held a more optimistic attitude than interviewee 1, who was very concerned with potential losses and the premises to win competitions. Additionally, strong Confucian dynamism holders such as interviewees 5 and 6 from firm C, also demonstrated their thrift orientation in using the firms' resource to conduct the international entry and also deal with the competition, which may decrease the impact of sufficiency of resources on the equity mode choice. Details of the valuation of each interviewee of resource requirements for international entry can be viewed from Table 8-4, which reflects their key ideas of internal conditions.

Table 8-4: Evaluations of interviewees of firm size

Firm size			
Firm	Interviewee	Cost requirement (key points of interviewee's evaluation)	Resource for competition (key points of interviewee's evaluation)
Firm A	1	<ul style="list-style-type: none"> ● Having great concerns on the cost of acquisition ● Being aware of the risk of financial liquidity <p><i>Exemplification:</i> “The cost of exporting was not a concern for us as we had been doing it for several years. The acquisition was costly at that time, and we had to apply for a special loan from the bank for the purchase. If the purchased unit was not successful after the handover, our cash flow could have run out in a short time.....”</p>	<ul style="list-style-type: none"> ● Being conditionally confident of sufficiency of resources for competitiveness <p><i>Exemplification:</i> “If we can transform this production-oriented unit into a sale-oriented subsidiary, we can utilise both local sales channels in U.S. and massive production in China, which would enable us to handle the competition effectively, but we have to be quick to finish the transformation”.</p>
	2	<ul style="list-style-type: none"> ● Having confidence of meeting the cost requirement of acquisition ● Being positive to finance through bank loan <p><i>Exemplification:</i> “It (the acquisition) was expensive but we could afford to it. I was optimistic about the acquisition as the acquired subsidiary was profitable and the financial status for our firm was good as well, and additionally, the bank was confident about our purchase plan and willing to offer the loan.....”</p>	<ul style="list-style-type: none"> ● Holding a positive attitude to resource available for competition <p><i>Exemplification:</i> “We should be capable of dealing with the competition better by adding the new subsidiary, which provides a reliable sales channel for our competitive production.....”</p>
Firm B	3	<ul style="list-style-type: none"> ● Having relative confidence of meeting the cost requirement of sales agency ● Excluding the possibility of establishment of production or R&D subsidiary due to high cost <p><i>Exemplification:</i> “The good business model for us was to leave production and R&D functions in China, and to cooperate with local partners to set up sales agencies in several strategic markets. At the current stage, we did not have enough financial and managerial resources to operate production and R&D functions in the developed countries.</p>	<ul style="list-style-type: none"> ● Acknowledging insufficient resource to handle the competition independently <p><i>Exemplification:</i> “Although we did have qualified products with competitive price, we did not have enough financial, HR, and sales channels, or international operations experience to compete independently in the foreign market, which was difficult to overcome in a short-term”.</p>
	4	<ul style="list-style-type: none"> ● Lacking current competency to adopt equity modes due to high cost ● Being willing to make an investment attempt later 	<ul style="list-style-type: none"> ● Acknowledging insufficient resource to handle the competition independently ● Stressing the importance of foreign partners

		<p><i>Exemplification:</i></p> <p>“Investments were expensive for us at the current stage, but would be used in some key markets later when conditions were appropriate”.</p>	<p><i>Exemplification:</i></p> <p>“I thought that we were not strong enough to compete aggressively in a foreign country, and we had to rely on local business partners to open new markets for a long period of time”.</p>
Firm C	5	<ul style="list-style-type: none"> ● Having confidence of meeting the cost requirement of exporting ● Hesitating at the cost of establishment of sales agency <p><i>Exemplification:</i></p> <p>“We thought that exporting was the least costly way. We could afford the establishment of a sales agency in UK but we could lose money if the agency could not find orders”.</p>	<ul style="list-style-type: none"> ● Acknowledging insufficient resource to deal with direct competition in the foreign market ● Stressing the importance of acquisition of new resource in order to enter the new market <p><i>Exemplification:</i></p> <p>“Our competitiveness was based on the low-cost labour and land, and we needed to train our employees and also buy new equipment to enhance our competitive advantages in entering the EU market.”</p>
	6	<ul style="list-style-type: none"> ● Showing little confidence and great caution on the cost of establishment of sales agency <p><i>Exemplification:</i></p> <p>“It is costly and risky to establish a sales agency which may throw our money away”.</p>	<ul style="list-style-type: none"> ● Being confident of cost advantage ● Worried about the impact from potential changes of government policies on its competitive advantage <p><i>Exemplification:</i></p> <p>“Our competitiveness would be decreased if the foreign country’s importing policies and China’s preferential policies changed.....”</p>
Firm D	7	<ul style="list-style-type: none"> ● Demonstrating great confidence to meet the cost requirement of operation in the market <p><i>Exemplification:</i></p> <p>“As the operation cost in Vietnam was lower than China, we had enough financial resources to invest in Vietnam”.</p>	<ul style="list-style-type: none"> ● Being confident of firm’s competitive advantages ● Having a understanding of local rivals <p><i>Exemplification:</i></p> <p>“As far as we knew, the local competitors were not big and their processing techniques were not advanced, we were confident to compete with them as we had enough financial resource and advanced techniques.....”</p>
	8	<ul style="list-style-type: none"> ● Demonstrating confidence to conduct production in the country ● Concerning other intangible costs <p><i>Exemplification:</i></p> <p>“Direct production cost in Vietnam was low, and we had to consider the other costs such as costs and time to deal with administrative institutes....although we thought that we were able to afford all of them”</p>	<ul style="list-style-type: none"> ● Being confident of firm’s competitive advantages ● Also concerning rivals’ competitive advantages <p><i>Exemplification:</i></p> <p>“We were better in terms of techniques and production scale than local firms, but they did have other advantages such as local connections and the support of local government”.</p>

8.4 Effects of characteristics of decision process

Three characteristics or dimensions of the decision process were discussed in terms of procedural rationality, problem-solving dissension, and hierarchical centralization of decision-making under case contexts, which would enrich our understanding on the effects of decision processes (Fredrickson and Mitchell, 1984; Dean and Sharfman, 1993a; 1996; Amason, 1996; Ensley and Pearce, 2001; Miller, 1987) under real settings. In order to understand the general pattern of firms' decision-making processes in terms of these three characteristics, this study conducted a thematic analysis of four firms' decision-making processes. Based on the interviewees' descriptions of decision-making process, this study dissects these decision-making processes on three dimensions according to the key conceptual components suggested by prior literature (Dean and Sharfman, 1993a; Amason, 1996; Ensley and Pearce, 2001) in Table 8-5. For instance, through examining the transcripts of interviewees, firm A demonstrated more elements of conceptually rational intention in its decision-making, while firm C show many fewer elements of rationality. The summary enables us understand the general picture of these decision-making processes on the three characteristics, which benefits the following in-depth comparative analysis of these decision-making processes.

Table 8-5: Three dimensions of firm's international entry mode decision

International entry mode decision for:	Firm A	Firm B	Firm C	Firm D
<i>The key components of procedure rationality:</i>				
To gather relevant information intensively	✓			✓
To analyse relevant information	✓	✓	✓	✓
To use analytic techniques	✓	✓		
To focus attention on crucial information	✓			
To make decision based on the result of analysis	✓	✓		✓
<i>The key components of problem-solving dissension:</i>				
Disagreement on the objectives sought by the decision				
Disagreement on the proper methodology to follow				✓
Disagreement on the proper solution to the problem	✓			✓
<i>Hierarchical centralisation of decision making (number of participants):</i>				
	7	3	2	5

Note: 1. This table depicts three dimensions of investigated firms' decision processes through comparing interviewees' transcripts with the key conceptual components of these dimensions suggested by prior literature.

2. The number of participants for Firm A's decision excludes a few consulting staff who contributed to information collection and assessment for the final decision.

8.4.1 Procedural rationality

Procedural rationality indicates “the extent to which the decision process involves the collection of information relevant to the decision, and the reliance upon analysis of this information in making the choice” (Dean and Sharfman, 1993, p.589). In strategic decision-making, a decision process with high rationality was believed to generate a better quality decision (Eisenhardt, 1988; Dean and Sharfman’s, 1996), as the decision largely reflects the real situations of the internal and external conditions of firm by constraining the interventions of decision-makers’ biases. In order to examine its effect, we compared firm A’s international entry mode decision-making process, characterised by the high procedural rationality with firm C’s, characterised by low rationality.

At the initial stage of decision-making, all the decision-makers of firm A, especially interviewee 1 (one founder), felt greatly uncertain in deciding on whether to acquire the tyre valve unit of U.S. company, ALPHA, or continuing to use the exporting method. Interviewee 1 strongly preferred the traditional exporting way as he said “lots of uncertainties including environmental, competitive, financial, and managerial aspects are associated with the method (the acquisition), which are largely out of our control and may cause severe losses for us”. Rather than ending with a conservative decision here, great efforts were made to conduct intensive information collection and analyses, including consulting local lawyers, on-site investigations, and making enquiries of business partners, as well as professional risk, cost and profit forecasts. Finally, based on the result of analysis, many uncertain elements were found to be manageable. Interviewee 1 admitted this and he commented that “although I personally still hold a doubtful attitude to the acquisition as some issues were not totally resolved, many of my concerns were found to be controllable”. The final decision was made by a vote among the decision-makers after provision of the results of all the necessary analyses, and most of the decision-makers supported the acquisition option.

In a comparison, low procedural rationality can be observed from the international entry mode decision for firm C to enter UK market. During the decision-making, little effort was

made about information collection and information analysis. Information for the decision came mainly from potential business partners and relatives. The information analysis and interpretation was done mainly through their relatives' suggestions and the decision-makers' subjective evaluations, and the final decision was made through their experiential knowledge. As interviewee 6 stated, "We actually did not know how many opportunities there were, but according to my experience and the relatives' suggestions, we took a way that taps the market by following a step-by-step pattern in order to avoid risks".

The comparison between these two decision-making processes reflects that more the decision process includes more external and internal information, analytical methods, and objective judgment criteria, the less likely is the intervention of values of decision-makers in evaluating external and internal conditions. To some extent, firstly, during the decision, firm A used much more time and money, and many more information sources to understand the foreign market than firm C did. It brought a more complete picture of the situation, rather than a subjective or selective estimation on internal and external conditions. Secondly, firm A intensively employed experts to conduct analyses and assessments of situation, while firm C mainly relied on decision-makers' subjective evaluations and informal consulting from their relatives, which were inevitably affected by the cultural values of the decision-makers (Ralston et al., 1999). Finally, the outcome of the decision of firm A was based on the judgment of the majority of decision-makers with reference to the results of the experts' analysis, rather than being based on individual experiential knowledge and subjective evaluations, as in the case of firm C.

In sum, the cases illustrated above reflects that comprehensive and rational decision-making process largely limits the effects of cultural values on information scanning, attention distribution, interpretation, and final selection. On the contrary, low rationality decision process lacks sufficient information, intensive analyses, and objective judgment criteria, and enhances the effect of subjective preferences in information selection and interpretation. The final choice inevitably strongly reflects their value-based interpretations of internal and external conditions (Ralston et al. 1997).

8.4.2 Problem-solving dissension

Problem-solving dissension signifies different views on objectives, methods, and solutions among decision-makers during the decision-making process (Papadakis et al., 1998). Previous literature has tended to indicate that high problem-solving dissension during decision-making has a negative impact on the decision quality in the Chinese context, as it breaks harmony and introduces more decisional uncertainties (Olson et al. 2007; Chen et al., 2005). Under these circumstances, it is likely to generate an inferior decision (Forbes and Milliken, 1999; Ensley and Pearce, 2001) as more attention is paid to the maintenance of appropriate relationships among decision-makers rather than internal and external conditions.

Only the case of firm D's international entry mode showed a certain level of problem-solving dissension, which is not uncommon, as conflict-avoidance is emphasised in the Confucian society (Olson et al. 2007). During the decision-making, decision-makers were divided into two parties and supported the options of solo venture and joint venture, respectively. As the powerful coalition (two founders and one manager) (Eisenhardt and Bourgeois, 1988) was conservative-oriented (Interviewee 8 was the key player with strong Confucian dynamism), the final outcome of the decision finally reflected their preferences, but it also took into consideration the other party's suggestion. As a result, the firm decided to find an appropriate partner from its current business connections and if such was not available, the solo venture plan would be initiated.

Several implications can be drawn from the case study. Firstly, the cases reflect that the evaluations on internal or external conditions by a powerful coalition holding strong Confucian dynamism are likely to affect the determination of the competing ideas during the decision-making. In particular, strong Confucian dynamism holders tend to insist on their own ideas to enhance their authoritative positions (Lockett, 1988), but they also take some measures to show respect to others' suggestions to maintain a harmonious relationship. Interviewee 8 commented "We (the two founders) thought that the joint venture option was more reasonable and should be selected, but we should consider other

people's face, otherwise they may not speak their minds the next time". Secondly, due to the high degree of trust among the decision-makers in this case, the cognitive differences did not develop into affective conflicts, which is consistent with the prior finding of Chen et al. (2005). High loyalty from the other decision-makers to the powerful coalition decreases the introduction of decisional uncertainties, as suggested by Olson et al. (2007).

In sum, the case above implies that the power coalition's evaluations on internal and external conditions will strongly impact the outcome of a decision when the decision-making is in dissension. Most Chinese managers of current generation with strong Confucian dynamism (Ralston et al., 1999), in order to maintain the ordering relationship and their risk-avoidance preference (Hofstede and Bond, 1988), tend to insist on their conservative evaluations on internal and external conditions in making the final decision. Even if decision-makers hold low Confucian dynamism, they tend to be open to different opinions (Ralston et al., 1999) in dissension. Different evaluations, including Confucian dynamism-based evaluations, are likely to be included in the final outcome as well. However, the enhancement effect of dissension is also dependent on the degree of trust among the decision-makers with strong Confucian dynamism. If a high degree of trust exists among decision-makers, other perspectives on internal and external conditions are likely to be incorporated in the outcome of the decision.

8.4.3 Hierarchical centralisation

Hierarchical centralisation of decision-making refers to the level and relative size of participation in strategic decisions in an organisation (Hage, 1980; Wally and Baum, 1994). To some extent, all cases in this study demonstrated a high level of hierarchical centralisation during their international entry mode decision processes with one exception – firm A. In most of cases, only the founders and related top executives participated in the decision process and the number of participants was very limited. However, the decision process for firm A introduced internal and external experts for decisional information collection and evaluation. The effect of hierarchical centralisation can be examined through the comparison between firm C's and firm A's international entry mode decisions.

In the former case, only the founder and his son were involved in it and they mainly utilised their subjective evaluations and experiential knowledge to process received information. Due to the high centralisation of the decision process, no cognitive differences existed between the two decision-makers during the decision process. Their subjective evaluations on internal and external conditions largely determined the outcome of the decision without challenges from different views. Interviewee 5 said that “Based on our evaluations and past experiences, both of us agreed to follow a step-by-step pattern to exploit the new market”. In the latter case, more decision-makers as well as external and internal experts were involved for information collection and analysis. The final choice also passed through challenges from the different opinions. The final decisional outcome was made through judgments of analytical results by the majority of decision-makers. Interviewee 1 commented that “In the decision-making process, individual judgment of a situation should be consistent with objective analyses and win the support of the majority”. The impacts of individual evaluations of internal and external conditions on the outcome of decision are likely to diminish as different perspectives are included and results of an objective analysis were provided.

In sum, the comparison of the two firms’ decisions showed the pattern that the more centralised the decision, the more likely it is that the impact of cultural value-based evaluations of the situation will be enhanced. The first possible reason is that the chance of decisional consensus is likely to increase when there are a limited number of participants (Wally and Baum, 1994, Eisenhardt, 1989). As a result, the cultural value-based evaluations of the situation of a decision-maker can be relatively easily passed through and subsequently generate the decisional outcome. The second possible reason for is highly hierarchical centralisation produces a very limited cognitive capability and information overload could occur (Hodgkinson et al., 1999). Decision-makers tend to rely greatly on their value systems to simplify the process (Ralston, et al., 1993; Hodgkinson et al., 1999). Conversely, a less centralised decision process will include more varied perspectives and more detailed objective analyses, which may limit the effect of cultural values on the evaluations of the situation.

8.4.4 Discussion of the case studies

The case studies contribute two valuable points to this study. Firstly, they provide additional evidence to support the theoretical reasonings of the effects of the decision-maker and decision process on the outcome of entry mode decision under the real decision-making settings. To some extent, this increases the reliability of the statistical testing result. Secondly, they reveal the complexity of entry mode decision-making process. A few other elements need to be considered when studying the decision-making process; for instance, power coalition, team context, and attitude to external consultation. These elements emerged from the decision process and facilitate the search for possible clues of explanations for quantitatively unconfirmed hypothetical relations. The following discussions of case studies are therefore arranged according to these two aspects.

To begin with, the evidence of the case studies strongly suggested that perceptions of situational conditions, managerial preferences, and characteristics of decision-making process were observed to interact to arrive at the final decision (Rajagopalan et al., 1993). Firstly, cultural values were observed to affect the managerial perception and evaluation of host environmental condition and firm's internal condition. Data analysis of different firms consistently shows the pattern that managers tend to perceive more selectively external and internal conditions related to their cultural preferences and allocate more attention to these conditions. For instance, interviewees with strong Confucian dynamism have more concerns about risks or uncertainties stemming from the competition and the new business environment, while the interviewees with weak Confucian dynamism placed greater emphasis on the opportunities or benefits brought by the new environment. This is in line with Schwenk's (1984) argument. Consequently, as attention and emphasis are not placed equally on all internal and external conditions, the effects of some conditions preferred by cultural preferences are enhanced during the decision-making, while the impact of other conditions may be decreased. This provides a strong support to the theoretical reasoning of the effect of managerial values in decision-making (Hambrick and Mason, 1984; Hambrick et al., 1996). Secondly, different characteristics of the decision-making process limit or increase the role of cultural preference in information processing and alternative selection.

Three characteristics of the decision-making process are all found to be related to the extent of information collection, processing, and alternative selection. Studied cases reflect that the decision process characterised by high procedural rationality reduces individual subjective effect on the evaluation of situational conditions. It replaces individual preferential treatment of information and alternative selection by introducing intensive and active information searching and analysis, and joint decision-making. Problem-solving dissension increased information exchange but introduced more tensions and decisional uncertainties into the decision. Power and trust are relevant to finding a solution to the dissension. In high centralisation of decision-making, managers tend to use subjective judgement based on their experiential knowledge and individual preference.

Besides lending the support to theoretical reasoning, the finding of the case studies also revealed some new elements related to the international entry mode decision-making process. Typically, power, trust, and consultation were found to be important to Chinese private firms' entry mode decision. Firstly, during the decision-making, the power coalition's evaluation of a situation tends to be more influential on the final outcome. The power coalition is likely to pursue their interests or preferences through the use of legitimate power and many other tactics when cognitive dissension is presented (Pettigrew, 1973; Eisenhardt and Bourgeois, 1988). In the Chinese context, the effect could be more salient as it emphasises the ordering of relationships to maintain harmony (Fang, 2003). Deference of subordinates is desirable for Chinese decision-makers in decision-making (Olsen et al. (2007). The evidence of firm D showed that Chinese managers of power coalitions used a plan of compromise to persuade the other party. The plan mainly reflected the power coalition's preference but it also combined the opposite party's opinion. It is noteworthy that the compromise was based on the existence of a relationship of trust between the two parties. Thus, these cognitive conflicts did not convert into affective conflicts or confrontations (Amason, 1996). This study suggests that the evaluations of power distribution among top management teams could be more important indicators in the final decisional outcome. However, the team context (e.g. trust) is also critical and it affects the interactions among different parties in the team. Secondly, external consultation seems critical in most of the studied decisions. As the majority of cases consisted of small

firms, limited international knowledge and experience made them heavily reliant on external consultations to make the most important international entry mode decisions. It is noteworthy that they tended to rely on external consultants' provision of external environmental conditions, as this type of information is usually difficult to obtain for SMEs. Case study evidence showed that larger Chinese private firms (e.g. firm A and firm D) tend to employ professional consultants, while smaller Chinese firms (e.g. firm C) are likely to use informal one such as business partners or relatives. However, the influence of external consultation may also depend on the perceived authenticity of information. Firm A tended to employ both external consultants as well as internal experts' on-site investigation. It may reflect their certain intention to examine the reliability of consultation. For instance, Chinese managers of firm C adopted a conservative solution, as their relative was the only source of information on the host environment that they had.

In sum, the evidence of the case studies firstly largely confirms the theoretical reasoning and statistical testing results. Situational perception, managerial cultural values, and decision process are intertwined to reach the outcome of the decision. However, the new elements found by the case studies suggest the complexity of the decision. Power structure, team context, and external consultation also exert an influence on the information sharing and processing, and alternative selection. The inclusion of these elements may contribute to a better understanding of international entry mode decision.

8.5 Integrative discussions on the analytical results of the quantitative data and the findings of the qualitative data

Based on the result of the statistical testing presented in the last chapter and the evidence of case study, this section discusses these findings for this study. These discussions are mainly organised in terms of examining findings related to the key questions of this study. The integrative examinations of both quantitative results and qualitative evidence may provide more reliable findings and theoretical implications. Moreover, explanations for statistically unconfirmed relations are explored.

8.5.1 Discussion of findings

Environmental hostility

Environmental hostility or munificence stresses the extent of the scarcity or abundance of critical resources and opportunities to support the sustained growth of an organisation (Dess and Beard, 1984; Goll and Rasheed, 1997). Based on the literature of location advantages and internationalisation (Dunning, 1988; Agarwal and Ramaswami, 1992; Castrogiovanni, 1991), this study suggests the negative impact from a hostile environment on the equity mode choice in the prior chapter.

The statistical testing result shows that the direction of the impact is correctly specified, but the relationship was not found to be significant. Prior empirical studies also achieved mixed results on the relationship. Some scholars (Agarwal, 1994; Chen and Hu, 2002; Nakos and Brouthers, 2002) found that wholly owned subsidiaries or higher control modes were positively related to the foreign markets with high regional growth and high industrial growth, while Brouthers (2002), Tatoglu and Glaister (1998), Somlev and Hoshino (2005), and Luo (2001) found an insignificantly positive relationship between greater market potential and higher control mode.

A possible interpretation of this lack of significance might be that the study focuses on the most important international entry for Chinese private manufacturing firms, rather than on a variety of firms' past entries (Agarwal and Ramaswami, 1992) or their most recent entry (Nakos and Brouthers, 2002) used in prior studies. This uniformisation may generate low variations of the variable for two reasons. Firstly, it can be estimated that Chinese decision-makers are not likely to choose a foreign market associated with low market potential, slow growth rate, and considerable competition to conduct their most important entry. Furthermore, as Chinese firms are newcomers on the international stage (Mathews, 2006), their firm-specific advantages are mainly based on the abilities of large-scale manufacturing and cost control (Morck et al., 2008), which rely heavily on host country endowments or resources, such as the availability of low-cost labour. As a result, the variation range for the variable may be constrained when conducting their most important

entry, which may produce an insignificant impact on the dependent variable. Additional evidence can be obtained from the studied cases, as most of the interviewees commented positively on opportunities and business environment in the foreign markets where their most important market entries were conducted.

Firm size

Firm size is considered to be an important type of ownership advantage, which reflects the asset power of a firm (Brouthers et al., 1999; Agarwal and Ramaswami, 1992). Prior theoretical arguments tend to support the positive link between firm size and the adoption of equity mode.

The statistical test result confirms that the firm size has a significantly positive impact ($p < 0.05$) on the use of the equity mode for Chinese private firms. It indicates that larger Chinese private firms tend to use the equity mode to conduct their most important international entry. The result is also consistent with other scholars' findings (Shi et al., 2001; Tan et al., 2001; Brouthers et al., 1996). Besides lending support to theoretical reasoning of satisfaction of cost requirement for international operations and competition (Nakos and Brouthers, 2002), and easier absorption of costs (Dunning, 1988; Agarwal and Ramaswami, 1992), it may also reflect the significant role of firm size in influencing Chinese private firms' behaviours during their internationalisation. Firm size demonstrates the economy of scale of a firm, which largely determines a firm's cost advantage. Under conditions of lacking international experience and intellectual properties (Morck et al., 2008; Mathews, 2006), cost advantage not only enables Chinese firms to use aggressive pricing strategy in competing, but also reflects coordinating capability and managerial efficiency (Child, 1972) in production, which are critical for equity mode-based operation for Chinese firms. Hence, it is not surprising that large Chinese firms are more likely to become involved in the equity mode-based operations than small ones.

Evidence of the case study also shows the same pattern as suggested by the statistical result. Firms using equity modes are much larger than ones adopting non-equity modes. Firm A and firm D, which adopted equity mode for their most important entry have around 1350

and 700 employees respectively. In sharp contrast, firm B and firm C, which adopted non-equity mode, only have around 120 and 100 employees respectively. Moreover, evidence from studying firm A may also imply that large firms in China may relatively easily gain special loans from banks for the purposes of internationalisation, which may enable firms to meet the monetary requirement for the equity investment.

Confucian dynamism

Confucian dynamism is a traditional cultural value dimension of Chinese society (Hofstede and Bond, 1988), and still exerts a predominant influence upon today's Chinese business culture and management practices (Robertson and Hoffman, 2000; Ahmed and Li, 1996; Yeung and Tung, 1996). It includes elemental values of *persistence, ordering relationship, thrift, having a sense of shame, personal steadiness, saving face, respect for tradition, and reciprocation*. At the individual level, it reflects individual Confucian work ethics, which stem mainly from Confucius's teachings. Based on the upper echelon theory (Hambrick and Mason, 1984; Hambrick et al., 1996) and cultural studies (Chinese Culture Connection, 1987; Hofstede and Bond, 1988), this study suggested in the prior chapter: (1) Confucian dynamism of decision-makers is negative related to equity mode adoption, and; (2) Confucian dynamism of decision-makers may moderate the relationship between internal or external conditions and international entry mode.

Firstly, the statistical testing lends support to the suggested negative relationship ($p < 0.05$) between Confucian dynamism and equity mode adoption. It indicates that Chinese managers with stronger Confucian dynamism are less likely to use equity mode to conduct their most important international entry. Theoretically, it supports the argument of upper echelon theory (Hambrick and Mason, 1984) that managerial value can directly affect the outcome of strategic decisions. Moreover, it is consistent with some scholars' (Kogut and Singh, 1988; Makino and Neupert, 2000; Shank, 1993) argument that international entry decision is affected by home national culture characteristics. Besides western cultural values including uncertainty avoidance and power distance identified by prior studies (Kogut and Singh, 1988; Shane, 1993), this study found that a new cultural element, Confucian dynamism, a unique Chinese cultural value, also affects the international entry

mode decision. More specifically, strong Confucian dynamism implies conservative values (Jaw et al., 2007) in management and decision-making, and its composite effect of elemental values exerts a negative impact on the equity mode adoption. Furthermore, it also validates the effectiveness of the construct - Confucian dynamism, developed by Jaw et al. (2007) at the individual level to reflect intra-cultural variations (Ralston et al., 1999; Au, 2000).

Secondly, it was also found that high Confucian dynamism has a significantly negative moderating effect on the relationship between firm size and international entry mode (change in $\chi^2=25.03$, d.f. =1, $P<0.001$). That is, Confucian dynamism diminishes the positive effect of firm size on the propensity of the equity mode adoption in such a pattern: under the condition of decision-makers holding strong Confucian dynamism, the relationship between firm size and the equity mode choice are much weaker than when decision-makers hold low Confucian dynamism. The finding further lends support to the upper echelon theory (Hambrick and Mason), that managerial values are intertwined with perception, and they can jointly affect the outcome of decision. It also implies that the non-competitive work ethic and conservative values (Myers, 1987; Jacobs et al; 1995; Chew and Lim, 1995; Ahmed and Li, 1996) of Confucian dynamism impedes decision-makers from fully exploiting their firm's asset powers to conduct the international entry. However, no highly significant moderating effect of Confucian dynamism on the relationship between environmental hostility and the equity mode adoption was found; it was only marginally significant.

The qualitative case study findings also provide additional evidence to support the statistically confirmed relationships. Within each studied firm, the decision-makers with strong Confucian dynamism tend to hold a consistently conservative and prudential attitude to both internal strength and external opportunities. As for firm size, those with strong Confucian dynamism appeared less confident about the cost requirement and resource sufficiency associated with the entry, while the manager in the same firm with low Confucian dynamism held a more positive attitude towards the firm's strength. This supports the view of the important role of managerial values in evaluating internal or

external information in making decisions (Hambrick and Mason, 1984). However, qualitative data also lend a certain support to the unconfirmed proposed relationship. They show that great attention is paid to risks or uncertainties associated with competition and new business environment by the interviewees holding strong Confucian dynamism. In a comparison, the interviewees with less Confucian dynamism focus on the opportunities or benefits brought by the new environment and are confident about the encountered competition or uncertainties. The statistical result indicates that the magnitude of moderating effect is not strong enough, and there is a possible explanation for this. According to the source credibility theory (Hovland, Janis, and Kelley, 1953), the persuasiveness of information is related to trustworthiness of an information source. Compared to more authentic information of internal conditions - firm size or financial status, the information of external conditions, such as environmental hostility, is less credible, as most firms investigated in this study are private SMEs and usually they rely on word of mouth of business partners to collect information on external situations. They also lack the necessary financial capability and connections to confirm information independently. Typical examples can be viewed from firm B's and firm C's information collection process in the case study section. Managers of these SMEs tend to rely on social ties to collect information and to some extent, evaluate situation. Thus, whatever the degree of Confucian dynamism held by decision-makers, they are less likely to make judgments relying and acting simply on less trustworthy information, which may diminish the moderating effect of Confucian dynamism on the relationship between environmental hostility and equity mode adoption.

Procedural rationality

Procedural rationality is an important characteristic or dimension of strategic decision-making process (SDMP). Based on the literature of SDMP (Dean and Sharfman, 1993; Fredrickson and Mitchell, 1984; Tse et al., 1988; Levy, 2005), it is suggested here that comprehensive information processing largely limits the effects of cultural values on information scanning, attention allocation, interpretation, and final selection, and thus the moderating effect of Confucian dynamism is likely to decrease when the rationality of the decision process increases.

The result of the statistical testing supports the premise that procedural rationality significantly moderates the relationship between the two-way interaction of firm size and Confucian dynamism and equity mode adoption. It indicates that the Confucian dynamism's reduction of the positive effects of firm size on the equity mode adoption is likely to decrease when using a more rational decision process. This finding lends support to the SDMP literature which states that the decision process also affects the outcome of the decision (Rajagopalan et al., 1993; Dean and Sharfman, 1993; Fredrickson and Mitchell, 1984). It provides important evidence for the theoretical argument that SDMP can also directly affect the content of decision (Hendron and Fredrickson, 2006), which addresses an important gap in the strategy and international business literature (Pettigrew, 1992; Brouthers and Hennart, 2007). Secondly, the finding supports the view that rational decision process improves the decision quality (Dean and Sharfman, 1993) through including more information and objective analyses. These eventually limit the conservative evaluation (Ralston et al., 1999) on firm size by decision-makers holding strong Confucian dynamism. Additional evidence can be obtained from comparing the decision processes of firm A and firm C. The evidence of the case study reflects that sufficient information, intensive analyses, and objective judgment criteria, decreases the interference opportunities of subjective preferences in information selection and interpretation.

However, this study failed to find statistical support that procedural rationality moderates the relationship between the two-way interaction of environmental hostility and Confucian dynamism and equity mode adoption. Procedural rationality does not seem to limit the effect of subjective evaluations and preferences in external information selection and interpretation. The case studies provided indications as to possible explanations. As Chinese private firms of this study are mainly SMEs, they may find procedural rationality to be relatively easily utilised in evaluating internal conditions rather than external conditions. Evidence of case studies showed that foreign market information is generally difficult to cross-check, as Chinese SMEs usually lack multiple information sources on the foreign market of interest (see firm B and firm C). Thus, more rational efforts are made in the internal situational information collection and analysis. As a result, external

information obtained is perceived to contain great uncertainties. Furthermore, compared to the relatively easy access to internal information, external information can not be exhaustively collected and analysed without incurring a cost. Limited resources (Fredrickson and Iaquinto, 1989) and information processing capability of investigated firms (Levy, 2005) constrain the intended rationality effort on the external information collection and evaluation. Consequently, the moderating effect of procedural rationality may impact more overtly on evaluations of internal condition than on those of external situation.

Problem-solving dissension

Problem-solving dissension is another important characteristic of SDMP that has received a great deal of attention in SDMP literature (Amason, 1996; Papadakis et al., 1988). Past literature tends to indicate that high problem-solving dissension during the decision-making process has a negative impact on the decision quality in the Chinese context, as it breaks harmony and introduces more uncertainties (Olson et al. 2007; Chen et al., 2005). Based on SDMP literature and also justified by the Chinese context, this study suggests that cultural value-based evaluations on internal or external condition (e.g. environmental hostility and firm size) will be further enhanced in the presence of increasing cognitive dissension.

Statistical testing supports this proposed relationship. It was found that problem-solving dissension significantly moderates the relationship between two-way interaction of environmental hostility and Confucian dynamism and equity mode adoption. This study also found that it significantly moderates the relationship between two-way interaction of firm size and Confucian dynamism and the equity mode adoption. These findings indicate that Confucian dynamism's adjustment of the effect of internal or external condition on the equity mode adoption is enhanced when the greater dissensions occur in the decision process. Besides the provision of further evidence of the relationship between decisional content and process, three implications can be drawn from the finding. Firstly, it indicates that the decision process is not only a cognitive process, but also a dynamic and social interaction process. Secondly, in the Chinese context, when high problem-solving

dissension exists in the decision process, subjective information selection, evaluation, and interpretation based on Confucian dynamism are likely to increase, which may lead to a deterioration in the the decision quality (Olson et al., 2007). Finally, based on the evidence of the case study and relevant literature (Dooley and Fryxell, 1999; Olson et al., 2007; Eisenhardt and Zbaracki, 1992), this study found that the enhancement effect of dissension may also depend on the degree of trust and power distribution among the decision-makers with strong Confucian dynamism. If strong trust exists among decision-makers, other perspectives on internal and external conditions are likely to be incorporated into the outcome of the decision in order to maintain good relationship among the decision-makers. In addition, consistent with past studies (Eisenhardt and Zbaracki, 1992; Fahey, 1981), the case study finding also reflects that power is involved in the decision process to solve problem-solving dissension under Chinese context, and decision outcome usually reflects the dominant coalition's evaluations on the situation.

Hierarchical centralisation of decision-making

Hierarchical centralisation of decision-making indicates another dimension of SDMP reflecting the level and size of participation (Hage, 1980; Wally and Baum, 1994). Based on SDMP literatures (Hodgkinson et al., 1999; Miller, 1987; Hall et al., 1993), this study suggests that hierarchical centralisation of decision-making enhances cultural-value based perceptions on internal or external condition (e.g. environmental hostility and firm size) as information overload and conformity associated with this decisional dimension encourage decision-makers to rely on their value systems to make the decision.

The result of statistical testing lends support to the premise that hierarchical centralisation of decision-making significantly moderates the relationship between two-way interaction of firm size and Confucian dynamism and equity mode adoption. It indicates that Confucian dynamism's diminishment of the positive effects of firm size on equity mode adoption increase when using a more centralised process. It provides additional evidence on the impacts of the decision process dimensions on the decision outcome (Hendron and Fredrickson, 2006). In the Chinese context, it also suggest that the centralisation of decision-making increases the effect of cultural values on evaluations of firm size, since

the decision process dimension reduces cognitive capability (Hodgkinson et al., 1999) and encourages value-based evaluations (Ralston, et al., 1993; Hodgkinson et al., 1999) on internal conditions. It also confirms the observation of Redding (1980) that Chinese managers use an intuitive and quick decision-making style considering that the centralisation of decision-making is prevalent in Chinese private firms (Hall et al., 1993). The evidence of the case study also reflects that more perspectives are likely to be included when using a less centralised decision-making process. The interaction of different ideas may eventually limit the cultural value-based evaluations on situation. Moreover, centralisation of decision-making also makes decision-makers, to some extent, rely on the external consultation of external environmental conditions.

However, this study did not find that the three-way interaction of environmental hostility, Confucian dynamism, and hierarchical centralisation of decision-making have a significant influence on the equity mode adoption. The finding of case studies reveals a possible reason. Centralisation of decision-making decreases external information collection and processing capability, and thus decision-makers tend to rely heavily on business partners' information provision and suggestions rather than their own evaluations on external information. To some extent, all firms in the case study referred to their business partners or professional consultancies (Hendron and Fredrickson, 2006) to provide and evaluate external information. In particular, firm B and firm C relied heavily on potential business partners or relatives to offer evaluations of foreign markets, as their decision processes are highly centralized. Their evaluations of host environmental conditions, rather than decision-makers' assessment were more likely to be included into decision-making when evaluating host country conditions. Thus, for Chinese SMEs, the moderating effect of hierarchical centralisation of decision-making may influence more overtly the evaluations of internal condition than those of the external situational conditions, which may offer evidence for the above interpretations.

8.5.2 Discussion related to control variables

Four control variables are significantly related to equity mode adoption consistently across

all models. They include two ownership advantage variables (years of international operation and manufacturing advantage) and two institutional isomorphic variables (most frequently used mode in the past and most frequently used mode by major rivals).

Firstly, years of international operation or international experience was found to be significantly related to the equity mode adoption, which is consistent with the results of past studies (Gatignon and Anderson, 1988; Hennart, 1991; and Tatoglu et al., 2003). This indicated that international experience helps Chinese firms to overcome barriers of culture distance (Kogut and Singh, 1988) and other institutional context differences between home and host country to conduct the equity operation. Secondly, it was found that manufacturing advantage was significantly related to the equity mode adoption. This further confirmed the importance of production cost and quality control to current Chinese manufacturing firms in choosing international entry mode (Tsai and Cheng, 2002). Finally, Chinese private manufacturing firms presented both intra- and inter-organisational imitative behavior in choosing international entry mode. More specifically, Chinese private firms tended to follow the entry mode patterns established by earlier entrants and firms also exhibited consistency in entry mode choices across time. These findings are consistent with Yiu and Makino's (2002) and Lu's (2002) study results of Japanese firms.

Only one of two transaction cost variables - contractual risk - was found to be significantly related to the equity mode adoption in model 4, model 6.1, and model 6.2. These supported the transaction cost perspective (Agarwal and Ramaswami, 1992; Nakos and Brouthers, 2002) that a firm tends to internalise its operations to gain relative benefits from integration as contractual risks increase. The study failed to find the significantly negative relationship between environmental uncertainty and equity mode adoption suggested by scholars (Anderson and Gatignon, 1986; Agarwal and Ramaswami, 1992). One possible reason for this might be that Chinese private SMEs may be accustomed to operating in a high uncertainty environment, as China is also a transition economy with great macro-environmental uncertainties. Additionally, we did not find that psychic distance had a significant effect on equity mode adoption. One possible explanation for this might be that most Chinese private firms rely on the help of Chinese ethnic ties (Zhao and Hsu,

2007) to conduct international entries, and this approach may help Chinese firms to overcome the great differences between home and host country.

8.6 Conclusion

This chapter firstly used a case study method to analyse four Chinese private firms' decisions on their most important international entry mode. Case studies virtually contribute two valuable points to this study. Firstly, it provides additional evidence to support the theoretical reasonings of the effects of decision-maker and decision process on the outcome of entry mode decision under the real decision-making settings. The evidence of the case studies strongly suggested that perception of situational conditions, managerial preferences, and characteristics of the decision-making process were observed to interact in arriving at the final decision. To some extent, it increases the reliability of statistical testing result. Secondly, it reveals the complexity of entry mode decision-making process. A few other elements need to be considered when studying the decision-making process, for instance, power coalition, team context, and attitude to external consultation. These elements emerged from the decision process help this study to search possible clues of explanations for quantitatively unconfirmed hypothetical relations.

Then, based on statistical testing and case study findings, the implications of analytical results were discussed. Case studies also offered the possible explanations to statistically unconfirmed relationships. Managerial cultural values – the Confucian dynamism and characteristics of strategic decision-making process were found to have great direct or indirect effects on equity mode adoption, which appears to fill the void in prior literatures. Confucian dynamism was found to be significantly related to non-equity propensity statistically, and this was further supported by qualitative analysis. This supplements the works of scholars by examining traditional Chinese cultural values (Kogut and Singh, 1988; Shane, 1993; Erramili, 1996; Makino and Neupert, 2000). Furthermore, the effects of Confucian dynamism and characteristics of the decision process were also largely confirmed by the integrative approach.

Chapter 9: Conclusion

9.1 Introduction

This study examines the effects of the cultural values of decision-makers and the characteristics of the decision process in the decision of international entry mode. Although international entry mode decision is considered to be an important strategic decision (Anderson and Gatignon, 1986), prior studies in this field tend rationally to analyse the environmental forces, firm characteristics, and their combinations in determining the decision (McNaughton, 2001). As a result, the variations caused by managerial preferences and decision processes are largely overlooked (Brouthers and Hennart, 2007) despite the literature of SDM suggesting that their effects become overt in a strategic decision making associated with non-routine and unstructured patterns (Hambrick and Mason, 1984; Dearn and Sharfman, 1993; Rajagopalan et al., 1993; Papadakis et al., 1998). Thus, this study intended to address the aforementioned key theoretical and contextual gaps by answering the two major research questions: (1) How do the managerial cultural traits as captured through Confucian dynamism, affect Chinese private firms' international entry mode decision? (2) What is the role of SDMP characteristics in terms of procedural rationality, problem-solving dissension, and hierarchical centralisation of decision-making, in Chinese private firms' international entry mode decision? The first question focuses on examining the effect of the decision-maker, while the second question concentrates on investigating the influence of characteristics of SDMP on the international entry mode decision.

The framework for this study is based on the theoretical reasoning of SDM literature, especially the upper echelon theory (Hambrick and Mason, 1984; Child, 1972) and SDMP literature (Rajagopalan et al., 1993; Papadakis et al., 1998), as well as consideration of the Chinese cultural context (Chinese Culture Connection, 1987; Hofstede and Bond, 1988). As the nature of this study is to detect the magnitude of associations between managerial cultural values and characteristics of SDMP and international entry mode choice, the survey was taken as the main design for this study, supplemented by a follow-up case study approach. This mixed method approach allows an examination of these relations, as well as

providing richer contextual information and offers further validation of the quantitative analysis results.

This chapter will discuss the findings associated with the integrative framework and the key elements, implications, and potential limitations of this study. In order to address these issues, the chapter is organised as follows. Firstly, it summarises the key findings of the present study including overall effectiveness of the framework and findings associated with key factors and their interactions. Then, the implications of this study to literature, methodology, managerial practice, and public policy-making are illustrated. Finally, it indicates the limitations of this study and potential directions for future studies.

9.2 Findings of this study

9.2.1 Findings associated with the general framework

Both statistical testing results and case study findings provide support for the conceptual framework presented in Chapter 1. More specifically, statistical analysis shows that the overall model is significant and also that models are significantly improved when direct and indirect effects of managerial values and characteristics of the decision process are introduced. These demonstrate the appropriateness of including the two new elements suggested by SDM literature, especially the upper echelon theory (Hambrick and Mason, 1984; Child, 1972) and the literature of SDMP (Dearn and Sharfman, 1993; Rajagopalan et al., 1993; Papadakis et al., 1998). Moreover, the finding of case studies also indicates that managerial cultural values and the decision process tend to affect managers' subjective perceptions of the decisional situation, which may exert an influence on the final outcome of the decision. Both quantitative and qualitative analysis confirms the view that managerial preferences and characteristics of decision process also partly explain the variations of international entry mode decision (Brouthers and Hennart, 2007) as well as environmental conditions and firm characteristics identified by prior studies.

9.2.2 Findings associated with managerial cultural values

This study examined the effect of Confucian dynamism held by Chinese decision-makers in their international entry mode decisions, based on Hambrick and Mason's (1984) and Daft and Weick's (1984) theoretical argument and Chinese Cultural Connection's (1987) contextual justification.

Confucian dynamism (independent variable and moderator)

Confucian dynamism is found to have both direct and moderating effects on the equity mode choice. Specifically, statistical analysis shows that it is negatively related to the equity mode choice, and also negatively moderates the relation between firm size and equity mode choice. The finding of the case study indicates that managers holding strong Confucian dynamism tend to focus on environmental risk, competition, and cost requirement associated with the entry, while managers holding low Confucian dynamism are likely to focus on market opportunities and are more confident concerning competition and firm resource.

This evidence provides substantial support to the upper echelon theory (Hambrick and Mason, 1984; Hambrick et al., 1996; Child, 1972) that the outcome of a decision can be partially explained by decision-maker. It confirms the importance of managerial value in the strategic decision (Hambrick and Mason, 1984; Daft and Weick, 1984). Firstly, the composite effect of Confucian dynamism has a directly negative impact on the equity choice, which is consistent with the theoretical proposition suggested by upper echelon theory, that it can directly affect the decision outcome (Hambrick and Mason, 1984). Secondly, the significance of its interaction with the internal condition confirms the view that managerial values are intertwined with perceptions of situations during the decision process, and managerial values can impact on the decision outcome by adjusting the perceptions of situations (Daft and Weick, 1984; Hambrick and Mason, 1984). There are two implications associated with this finding: (1) It is important to examine the effects of interaction between values and perceptions of situations in the international entry mode decision; (2) It further proposes a view of decision bases for a strategic decision.

Previous rational decision models reflect that the outcome of a strategic decision is produced solely on the basis of perception; however, the result supports the view that values and perceptions interact to determine the decision outcome suggested by the upper echelon theory.

Besides lending support to upper echelon theory, the finding also provides additional evidence for the view that home cultural characteristics affect the international entry mode decision. Besides uncertainty avoidance and power distance identified by prior studies (Kogut and Singh, 1988; Shane, 1993) in western culture, Confucian dynamism, a unique Chinese cultural value, is found to be negatively related to international entry mode. The finding broadens our horizon by linking a unique Chinese cultural value to the international entry mode decision, which supplements the past studies based on western cultural values. In addition, it also confirms the view proposed by prior cultural studies that Confucian dynamism is a conservatism-oriented value (Redding, 1980; Jaw et al., 2007), which exerts a negative impact on the equity-based operation choice associated with high risk, return, and control.

Finally, it also lends support to the effectiveness of the construct of Confucian dynamism at the individual level developed by Jaw et al. (2007) to capture intra-cultural variations, which is consistent with the approach of other individual level cultural studies (Triandis et al., 1985; 1988; 1995; Singelis, 1994; Earley, 1989).

9.2.3 Findings associated with the characteristics of SDMP

The decision process exerts significant an influence on the final outcome through the information provision, cognitive capabilities, interactions of decision-makers, and judgment base (Mintzberg et al., 1976; Bourgeois and Eisenhardt, 1988; Fredrickson and Mitchell, 1984) in making a strategic decision. In our study, four out of six hypotheses associated with characteristics of SDMP were found to be significant. The case study also shows that characteristics of SDMP adjust managerial value-based interpretations of internal and external conditions. These results largely confirm that SDMP also exerts an

influence on the international entry mode decision, suggested by SDMP literature (Dean and Sharfman, 1996; Rajagopalan et al., 1993). Furthermore, it supports the view that decision content and process influence each other during a decision-making process (Hendron and Fredrickson, 2006).

Procedural rationality (moderator)

Procedural rationality indicates “the extent to which the decision process involves the collection of information relevant to the decision, and the reliance upon analysis of this information in making the choice” (Dean and Sharfman, 1993, p.589). Based on the quantitative and qualitative analyses, this study found that Confucian dynamism’s diminishment of the positive effect of firm size on equity mode adoption decreases when greater procedural rationality occurs in the decision process.

The result confirms that a decision process associated with sufficient information, intensive analyses, and objective judgment criteria, decreases the effect of cultural value-based subjective preferences in internal information selection and interpretation (Fredrickson and Mitchell, 1984; Levy, 2005). However, in terms of statistics, this study fails to find that it has a similar effect on environmental hostility although evidence of the case study shows the pattern that the more rational the decision process is, the more objective an evaluation of host environment munificent conditions is made. A possible explanation is that as most of the subjects involved in this study are SMEs, they may find that procedural rationality may be relatively more easily utilised in evaluating internal conditions than external conditions, as (1) more uncertainties are involved in external information than internal information (Hendron and Fredrickson, 2006) and; (2) collection and analysis of external information are more expensive than for internal information.

Problem-solving dissension (moderator)

According to the literature of SDMP, problem-solving dissension indicates different views on the objectives, methods, and solutions among decision-makers during the decision-making process (Papadakis et al., 1998). Based on statistical testing, this study found that: (1) Confucian dynamism’s diminishment of the positive effect of firm size on

equity mode adoption increases when greater problem-solving dissension occurs in the decision process; (2) Confucian dynamism's enhancement of the negative effect of environmental hostility on equity mode adoption increases when greater dissension occurs in the decision process.

The finding indicates that Confucian dynamism's adjustment of the effect of internal or external conditions on equity mode adoption is enhanced when greater dissension occurs in the decision process. It confirms the findings of prior studies on the deteriorating effect of cognitive differences on decision quality in the Chinese context (Olson et al. 2007; Chen et al., 2005), as subjective effects are likely to increase during the decision-making process. Since traditional Chinese culture emphasises harmony or risk-avoidance during decision-making, relationship and decision quality are usually treated as being of equal importance (Olsten et al., 2007). Cognitive differences are likely to shift managerial attention from the decision quality to the relationship maintenance. Thus, rational evaluations of situation are likely to compromise the relationship reconciliation. As a result, the effects of objective analyses are likely to decrease, while subjective elements are likely to increase. In addition, this result is also consistent with the report that Chinese managers are not able to manage and benefit from cognitive differences (Olson et al. 2007). Finally, the case study finding indicates that trust among decision makers is critical to prevent cognitive differences from developing into the affective conflicts, which is consistent with Chen et al.'s (2005) findings.

Hierarchical centralisation of decision-making (moderator)

Hierarchical centralisation of decision-making indicates another dimension of SDMP reflecting the level and size of participation (Hage, 1980; Wally and Baum, 1994). Based on statistical testing, this study found that Confucian dynamism's diminishment of the positive effect of firm size on equity mode adoption increases when greater hierarchical centralisation of decision occurs in the decision process.

The result supports the premise that decisional centralisation decreases the cognitive capability of international entry mode decision, and decision makers tend to rely more

strongly on their value systems to simplify the process, as information overload could occur (Ralston, et al., 1993; Hodgkinson et al., 1999). This is consistent with the observation that Chinese managers use an intuitive and quick decision-making style (Redding, 1980) in the context of the centralisation of decision-making in Chinese private firms (Hall et al., 1993). Moreover, when the decision process is highly centralised, case study findings show that: (1) the agreement is relatively easily achieved among Chinese decision-makers, and; (2) Chinese managers tend to rely on their prudent attitude and incremental approach to deal with the decision. All this will enhance the Chinese cultural value-based subjective evaluations of its resources. The qualitative evidence provides further support to the statistical findings. However, statistically, this study fails to find that it has a similar effect on the environmental hostility. A possible explanation is that a highly centralised decision process decreases information collection and processing capability, and thus most of the decision-makers of SMEs may rely heavily on business partners' information provision and suggestions about foreign market conditions rather than their own evaluations of external information.

9.2.4 Findings associated with the environmental and firm characteristics

This study found that quite a few variables reflecting environmental or firm characteristics are significantly related to international entry mode decision. The researcher is also aware that some variables in the same category are not significant. The finding may indicate that certain environmental and firm conditions may have more influence on Chinese firms' international entry mode decision than others.

Firm characteristics

Firm size (independent variable)

This study found that firm size of Chinese private companies is significantly related to the equity mode adoption. This firstly confirms theoretical argument of the effect of ownership advantage or RBV on the international entry mode decision (Brouthers et al., 1999; Agarwal and Ramaswami, 1992). Firm size is a type of ownership advantage reflecting a

firm's asset power and capability to absorb cost (Agarwal and Ramaswami, 1992), which is critical to the expensive equity-based operation. Moreover, the result is also consistent with the finding that firm size is important for international entry mode decision of firms from developing countries (Shi et al., 2001). Generally speaking, Chinese firms are latecomers on the international stage and lack international experience and intellectual properties (Mathews, 2006). Thus, firm size of Chinese private firms is even more critically associated with their international behaviour, as firm size is associated with their cost advantages (Morck et al., 2008).

International experience (control variable)

International experience is another type of ownership advantage (Brouthers and Hennart, 2007), which is a critical factor in determining further international commitment according to the Uppsala school's model (Johanson and Vahlne, 1977). In this study, years of international operation or international experience was found to be significantly correlated to the equity mode adoption, which is consistent with the results of prior studies (Gatignon and Anderson, 1988; Hennart, 1991; and Tatoglu et al., 2003). This indicates that international experience helps Chinese private firms to overcome barriers of culture distance (Kogut and Singh, 1988) and other institutional context differences between home and host country to conduct the equity operation.

Manufacturing advantage (control variable)

It was also found that manufacturing advantage is significantly related to equity mode adoption. Manufacturing advantage is also a type of ownership advantage, which indicates production efficiency and development and improvement capability of product and process (Tsai and Cheng, 2002). Different from western multinationals that hold differentiation ability, the result further confirms the importance of production cost and quality control to current Chinese manufacturing firms in choosing international entry mode (Morck et al., 2008; Tsai and Cheng, 2002).

Environmental constraints

Environmental hostility (independent variable)

This study did not find that environmental hostility has a significant impact on the decision outcome. Environmental hostility refers to the extent of the severity of competition, availability of market opportunity, and dominance of environmental influence (Castrogiovanni, 1991). Although theoretical perspective of location advantage (Dunning, 1988; Agarwal and Ramaswami, 1992) indicates that environmental hostility is negatively related to equity mode adoption, this study did not confirm the proposition. This is in line with results found by some empirical studies (Brouthers, et al., 2002; Tatoglu and Glaister, 1998; Somlev and Hoshino, 2005; Luo, 2001), but differs from findings from certain others (Agarwal, 1994; Nakos and Brouthers, 2002). The possible reason for this is that the international entry mode decision for this study is the most important international entry mode decision the firm has made, which may limit the variations of environmental hostility.

Environmental uncertainty (control variable)

The study failed to find a significant relationship between environmental uncertainty and equity mode adoption suggested by scholars (Anderson and Gatignon, 1986; Agarwal and Ramaswami, 1992). Environmental uncertainties stress the risks associated with a foreign country (Brouthers and Nakos, 2004). Transaction cost analysis indicates that firms are likely to adopt a non-equity mode to decrease exposure to external environmental risks and maintain flexibility (Erramilli and Rao, 1993; Anderson and Gatignon, 1986). However, the empirical results of its effects on international entry mode choices are also mixed in the prior studies. Both Nakos and Brouthers (2002) and Delios and Beamish (1999) also found the insignificance of its impact on equity mode choice. One possible reason for this might be that Chinese SMEs may be accustomed to operating in a high uncertainty environment, as China is also a transition economy with great macro-environmental uncertainties. It may limit the variation of the variable and cause the insignificant result.

Psychic distance (control variable)

In this study, it was not found that psychic distance has a significant effect on Chinese

private firm's equity mode adoption. Psychic distance stresses the perceived socio-economic differences between home and foreign country entered (Klein and Roth, 1990). According to TCA, the unfamiliarity of a context will incur high cost in searching for information, negotiating with other institutions, and monitoring and communicating with local dealers (Erramilli and Rao, 1993; Kim and Hwang, 1992; Erramilli, 1991), which increase investment risks. Thus, a low involvement strategy may be taken by firms (Kogut and Singh 1988). However, the empirical results for the effects of this variable on international entry mode choices are mixed. The result of this study is consistent with findings from Erramilli (1996) and Gatignon and Anderson (1988), but different from the results of other scholars (Kogut and Singh, 1988; Erramilli and Rao 1993; Barkema and Vermeulen, 1997; Hennart and Larimo, 1998). One possible explanation for this might be that most Chinese private firms rely on the help of Chinese ethnic ties (Zhao and Hsu, 2007) to conduct international entries, and the approach may facilitate Chinese firms to overcome the great differences between home and host country.

Institutional isomorphic pressure (control variable)

In this study, Chinese private manufacturing firms presented both intra- and inter-organisational imitative behaviors in choosing international entry mode. This lends supports to institutional theory that an international entry mode decision has to consider the formal and informal rules in a host country to gain legitimacy in the overseas operation (North, 1990; Brouthers and Hennart, 2007). It confirms Yiu and Makino's (2002) argument that due to similar external and internal institutional environment, firms tend to follow the entry mode patterns established by earlier entrants and show consistency in entry mode choices over time. As Chinese traditional culture encourages the respect of tradition and the following of leaders (Chinese Culture Connection, 1987), it is not surprising to find this significance of isomorphic behaviours in international entry mode decision. These findings are also consistent with the results of Yiu and Makino's (2002) and Lu's (2002) studies of Japanese firms.

Contractual risk (control variable)

In this study, contractual risk was found to be significantly related to the equity mode

adoption in several models. This provides partial support for the transaction cost perspective (Agarwal and Ramaswami, 1992; Nakos and Brouthers, 2002) that Chinese private firms tends to internalise their operations to gain relative benefits from integration as contractual risks increase. Contractual risks reflect the degree of transaction cost arising from the relative costs of producing and enforcing a contract, the risk of dissipation of proprietary know-how, and the costs of controlling and monitoring the quality of a product/service (Brouthers, Brouthers, and Werner, 1999; Nakos and Brouthers, 2002; Shi et al. 2001). This result is in line with the finding of Nakos and Brouthers (2002), but different from the results of other studies (Brouthers, Brouthers, and Werner, 1999; Shi et al. 2001).

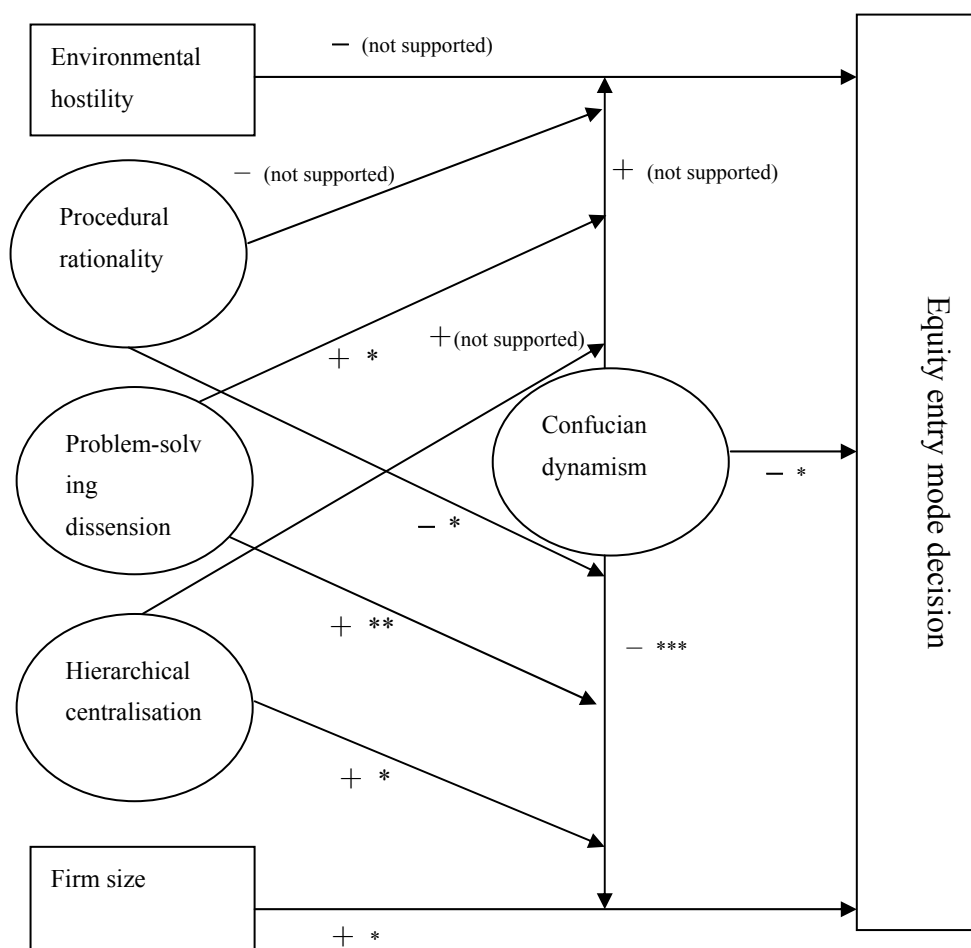
9.2.5 Summary of findings

This study introduced managerial cultural values and characteristics of SDMP into the explanation of international entry mode decision to address the comparative neglect of the roles of decision-maker and decision process in the prior studies. The inclusions are based on suggestions from both streams of literatures of international entry mode (Brouthers and Hennart, 2007; McNaughton, 2001) and strategic decision making (Child, 1972; Hambrick and Mason, 1984; Dearn and Sharfman, 1993; Rajagopalan et al., 1993), and also justified by the Chinese context (Bond and Hofstede, 1988). Generally, the results of the statistical analysis support the necessity to include these two theoretical elements. Firstly, the full model is highly significant, and includes all the variables of interest; secondly, the models are significantly improved when direct and indirect effects of managerial value and characteristics of decision process are introduced. Moreover, most direct and indirect effect of managerial value and indirect effects of characteristics of SDMP are found to be significant. In sum, the quantitative analysis confirms the effects of decision-maker and process in international entry mode suggested by SDM literature (Hambrick and Mason, 1984; Rajagopalan et al., 1993).

In addition, the case study findings also show that strong Confucian dynamism holders tend to focus on investment risks, cost requirement, and competition associated with the

entry, while managers with low Confucian dynamism are more likely to emphasise market opportunities and confidence concerning competition and investment cost. Different decision processes are found to limit or enhance Chinese managerial cultural value-based perception and interpretation of situational conditions for the entry mode decision. All the above evidence demonstrates that variations of international entry mode decision can be partly explained by managerial preferences and characteristics of the decision process as well as determinants of environmental conditions and firm characteristics.

The following figure summarises and illustrates explanatory elements representing the three theoretical components for this study and their relationship to equity mode decision for Chinese private firms, based on statistical analysis.



Significance at: *** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$

Figure 9-1: A summary of statistical testing results

9.3 Implications of the study

This study's importance lies in its implications for business research in the domains of both international entry mode and strategic decision making. It also makes contributions to managerial practices and public policy.

9.3.1 Theoretical implications for business research

This thesis contributes to the literature in both the fields of international entry mode and strategic decision-making study.

International entry mode study

This study constitutes and tests a more complete framework integrating managerial cultural values, characteristics of SDMP, and their interactions with internal or external conditions to explain the international entry mode decision. The inclusion of managerial cultural values and characteristics of SDMP addresses the limitations that have been largely ignored by prior literature only stressing the effects of environmental and firm characteristics (Brouthers and Hennart, 2007). The additions of these behavioural and process elements into the current dominantly economic rational model (Yiu and Makino, 2002) enrich our understanding of the complexity of international entry mode decision. That is, besides the impacts from environmental and firm conditions, decision-makers and SDMP can also partially explain variations of the entry mode decision. This study brought a certain degree of realism through addressing the role of managerial cultural preferences and characteristics of the decision-making process in entry mode decision-making. It essentially moves forwards the current dominant rational decision-making model and also supplements content-oriented research on international entry studies.

Moreover, this study uses Confucian dynamism to represent Chinese managerial cultural values in addressing the impact of strategic choice on the international entry mode decision. There are four implications for this approach. Firstly, to the best of this researcher's knowledge, it is apparently the first time that it has been found that Confucian dynamism, a traditionally Chinese cultural value, has both direct and indirect impacts on international

entry mode. This lends the support to the upper echelon theory (Hambrick and Mason, 1984; Child, 1972) that managerial values also play an important role in determining a strategic decision, as well as the perception of the situation. Secondly, the result of the study supplements prior findings on the impacts of cultural values identified in western culture (uncertainty avoidance and power distance) on the decision process (Kogut and Singh, 1988; Shane, 1993). It adds a new element to the category of the effect of cultural values on international entry mode decision. Thirdly, differently from the past studies operating cultural traits at the societal level to detect environmentally cultural effect on the decision, this study confirms that cultural values can also be operated at the individual level to examine intra-cultural variations among respondents, by following the approach of Triandis et al. (1985; 1988; 1995), Singelis (1994), and Jaw et al., (2007). This approach remedies the unrealistic assumption of homogeneity of managerial cultural attitudes within a particular country in prior studies (McSweeney, 2002; Shenkar, 2001). Fourthly, this study also found that there is a moderating effect of Confucian dynamism on the relationship between firm size and international entry mode decision. The finding suggests that international entry mode choice can be affected by managerial values and perception jointly, which indicates the importance of examining the interaction among different perspectives (Hambrick and Mason, 1984).

Finally, the study includes and statistically examines the impact of SDMP characteristics on international entry mode decision. Characteristics of SDMP are found to adjust the moderating effect of cultural values on the entry mode decision, which confirms the effect of the perspective of SDMP on explaining international entry mode choice. The result adds more realistic elements to the current rational model of international entry studies and supplements and facilitates current content-oriented research in such studies. The finding suggests that scholars should be aware of decision process elements in terms of the involvement of information of situation, knowledge and interactions of decision-makers, as well as final choice bases (objective analysis or values) (Dean and Sharfman, 1996; Fredrickson and Mitchell, 1984) in studying strategic decision-making in the domain of international business.

Strategic decision-making study

This study improves our understanding of the relationship between SDMP and decisional content by examining the effects of procedural rationality, problem-solving dissension, and hierarchical centralisation of decision-making on international entry mode decisions. Although content research has a dominant position in both the fields of international business and strategic management, scholars (Rajagopalan et al., 1993; Mintzberg et al., 1976; Hendron and Fredrickson, 2006) indicate the importance of achieving synergy between content and process research as they affect each other and help us to understand phenomena in business areas more accurately. This study makes the attempt to link process characteristics directly with the outcome of international entry decision, and the result lends support to the argument that characteristics of the decision process affect the decisional outcome through a moderating approach. It is different from the direct effect suggested by past study (Hendron and Fredrickson, 2006).

Secondly, this study directly utilises managerial cultural values rather than demographic characteristics used by prior studies (Hambrick et al., 1996; Carpenter et al., 2001; Tihanyi et al., 2000; Herrmann and Datta, 2002; 2006) to explain the international entry mode decision. Two implications can be obtained from this approach: (1) it avoids more noise contained in the demographic indicators (Hambrick and Mason, 1984); (2) it only focuses on individual reflections of prevailing values in Chinese society, which can rely on cultural studies that are frequently applied in international business and also bypass the complex psychological issues involved.

9.3.2 Contextual implications

Firstly, this study used a large sample survey to investigate Chinese private firms' international entry mode decision. As most prior studies concentrate on examining the international entry mode decisions of firms from the triad area (US, EU, and Japan), the international entry behaviours of Chinese firms, newcomers on the international stage, have not been well understood. This study bridges the gap and enriches our understanding of Chinese firms' international entry behaviour, which has important contextual

implications, as China has emerged as an increasingly important source of outward FDI (Buckley, et al. 2007; Yiu, 2007). In addition, this study focuses on the private sector, which supplements prior limited efforts in studying giant Chinese state-owned firms' acquisition and merger behaviours through the case study approach (Deng, 2007; Child and Rodrigues, 2005; Luo and Tung, 2007). Since Young et al. (1998) call for scholars to shed light on the international entries of Chinese private firms, this study seemingly makes the first attempt to understand their international entry decisions.

9.3.3 Methodological implications

Firstly, this study employs a "mixed method" approach to examine Chinese private firms' international entry mode decision, and includes a large sample survey research with a follow-up case study research. The approach to some extent enables the generalisation of the finding, without losing the study context. The employment of both quantitative and qualitative data helps to achieve cross-validation and better explanations of findings.

Moreover, this study takes advantage of SEM to validate latent constructs developed from other academic fields, including cultural studies and strategic decision-making. This statistical technique enables the researcher to conduct theory-based measurement assessment, control for measurement error, and assess the unidimensionality of constructs of interest, which increases the reliability and validity of the findings.

Finally, this study operationalises Confucian dynamism at the individual level to study international entry mode decision which enables the measurement of managerial variations in this cultural trait within a single national context. It advances the national index approach of Hofstede (1980), which focuses only on national cultural differences and ignores intra-cultural variations (Kirkman et al., 2006).

9.3.4 Implications for managerial practices

It is necessary for Chinese managers to be aware that they are culturally bound as they make strategic decisions during their processes of internationalization. Confucian dynamism is a conservatism-oriented cultural value (Jaw et al., 2007) and may constrain their risk-taking and innovative decisions or behaviour in the process of internationalisation. It is also likely to enhance their isomorphic behavior in their international entry mode decisions, as Chinese traditional cultural values stress obedience to collective norms and respect for tradition (Chinese Cultural Connection, 1987).

Moreover, it is also advisable for them to pay attention to the decision process. Different decision processes may produce very different decision outcomes. The increase of rational elements in a decision may decrease the negative impact from the traditional cultural values. For instance, the inclusion of more information, intensive analyses, and objective decision criteria may limit the cultural value-based selective collection, interpretation, and preferential treatment of particular type of information of situation. In addition, Chinese managers should be aware of the negative effect of cognitive differences during the decision-making process, as Chinese traditional culture emphasises harmony. A possible solution is to enhance the trust among the decision-makers (Chen et al.'s, 2005; Olson et al. 2007), which limits the affective confrontations arising from cognitive differences. Centralisation of decision-making also has a negative impact on the quality of decision-making. In the Chinese context, it is advisable to listen to suggestions from professional consultants and relevant internal middle level managers.

Western counterparts may also benefit from this study on understanding Chinese traditionally cultural preferences when conducting cross-cultural cooperation. Western partners should be aware when making a cooperation decision that Chinese cultural values stress long term cooperation and loyalty rather than a transaction deal (Hofstede, 1993). Economic goals and relationships with partners are sometimes given equal weight by Chinese managers during decision making (Olson et al., 2007). In addition, western managers should understand the importance of face-saving in the Chinese culture, although

it is usually tacit (Lim, 2003).

9.3.5 Implications for policy makers

More and more Chinese private manufacturing firms have begun to tap into the international market recently. This study found that most of them are SMEs and exploit foreign markets based mainly on cost advantages. As acquisition of foreign market information is difficult and expensive, currently they largely rely on their ethnic ties, networking or connections (Gatfield and Youseff, 2001), which may involve certain biases of subjective perception and evaluation. The Chinese government should set up an official institute specialising in consulting and information provision for Chinese firms' international expansion, which could serve as the second type of information source to validate the accuracy of received information. It may reduce decisional uncertainty concerning the international entry mode choice, which will improve the decision quality and facilitate the utilisation of firms' cost advantages.

Secondly, this study found that Confucian dynamism held by Chinese decision-makers exerts a significant influence on the international entry mode decision. However, some Confucian influences have inherent limitations (Oh, 1992) in modern management. Thus, it is advisable for the Chinese government to encourage Chinese managers of private firms to participate in modern managerial training programmes. Ralston et al. (1993, 1999) take a "crossvergence" view, that greater exposure to western societal and managerial influences will decrease the commitment to traditional values. Tse et al. (1988)'s findings also lend support to this view by finding that managers from Hong Kong are characterised by a combination of western and Chinese cultural norms. In addition, foreign governments that want to attract investment from the Chinese private sector should pay attention to the characteristics of Chinese culture and create a harmonious investment environment for potential Chinese investors.

The main implications of this study according to above categories are summarised in Table 9-1 below.

Table 9-1 Summary of main implications of this study

Theoretical contributions (International entry mode literature)	<ul style="list-style-type: none">● It constitutes and tests a more complete framework integrating managerial cultural value, characteristics of SDMP, and their interactions with situational conditions in explaining the international entry mode decision, which advances current dominant rational decision-making model and content-oriented research in international entry mode studies ;● For the first time, this study has found that Confucian dynamism, a traditionally Chinese cultural value, has an negative impact on the international entry mode decision of Chinese firms, which lends a support to the perspective of strategic choice (Hambrick and Mason, 1984; Child, 1972);● As Confucian dynamism was operationalised at the individual level, this study takes into account intra-cultural variations. This approach remedies the unrealistic assumption of homogeneity of managerial cultural attitudes within a particular country in prior studies (McSweeney, 2002; Shenkar, 2001);● This study also found that managerial cultural values interact with perceptions to arrive at the outcome of decision, which addresses the overlooked moderating effects between values and perceptions in prior international entry mode studies.● The study includes and statistically examines the impact of SDMP characteristics on the international entry mode decision.
Theoretical contributions (Strategic decision-making literature)	<ul style="list-style-type: none">● It improves our understanding of the relationship between SDMP and decisional content by examining the effects of procedural rationality, problem-solving dissension, and hierarchical centralisation of decision-making on the international entry mode decisions.
Contextual contributions	<ul style="list-style-type: none">● It uses a large sample survey to investigate Chinese private firm's international entry mode decision, which supplements prior studies that have mainly concentrated on the international entry mode decisions of firms from the triad area (US, EU, and Japan);● This study makes the first attempt to understand Chinese private firms' international entry decisions ignored by extant studies focusing on gaint Chinese stated-owned firms' recent acquisition and merger behaviours.
Methodological contributions	<ul style="list-style-type: none">● It adopts a mixed-method approach combining survey and follow-up case study research methods, which to some extent enables the generalisation of the findings and also without losing the study context. It also helps to achieve cross-validation and better explanations of the findings.● This study employs SEM to validate latent constructs developed from other academic field including cultural studies and strategic decision-making, which increase the reliability and validity of our findings.
Contributions to managerial practice	<ul style="list-style-type: none">● It is necessary for Chinese managers to be aware that they are culturally bound as they make strategic decisions in their processes of internationalisation. Confucian dynamism is conservatism-oriented cultural value (Jaw et al., 2007) and may constrain risk-taking and innovative decisions or behaviour during the process of internationalisation;● Moreover, it is also advisable for Chinese managers to pay attention to the decision process as different decision processes may produce very different outcome of the decision.

Contributions to public policy-makers	<ul style="list-style-type: none"> ● The Chinese government should set up a official institute specialising in consulting and information provision for Chinese firms' international expansion, which may reduce decisional uncertainty in Chinese SMEs' international entry mode decision; ● It is advisable for the Chinese government to encourage Chinese managers of private firms to participate in modern managerial training programmes to recognise cultural and managerial differences.
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9.4 Limitations and directions for the future research

In this section, the limitations of this study and potential directions for future studies are indicated and discussed.

To begin with, the study examines and lends support to the effect of the new framework incorporating managerial cultural values, characteristics of SDMP, and their interactions with situational conditions only in explaining international entry mode decision of Chinese private firms in Chinese settings. Although theoretical reasoning for including these elements is likely to be universal (Hambrick and Mason, 1984; Dearn and Sharfman, 1993; Rajagopalan et al., 1993), it is still important to examine their effects in other contextual settings or through studying different subjects, for instance, firms from different countries or multinationals rather than SMEs. Future studies employing the framework in different contexts would be very helpful for its generalisation.

Secondly, this study only assesses the impact of the most salient cultural trait, Confucian dynamism, of Chinese managers on international entry mode decision. Although it is an innovative step in examining the effectiveness of managerial cultural values in a strategic decision-making proposed by the upper echelon theory, the inclusion of more representative cultural values in the Chinese context, or examinations of relevant cultural traits in other national contexts may provide further evidence. It also enhances our understanding of the relationship between managerial cultural values at the individual level and international entry mode decision. For instance, Ralston et al. (1999) suggested that individualism, collectivism and Confucianism are all good indicators for assessing Chinese

managers' work values. Earley (1989; 1994) suggested that individualism and collectivism are important cultural traits affecting self-efficacy or social loafing behaviour between U.S. and Chinese managers or employees. Recently, Leung (2008) indicated that scholars should pay attention to interplay between contemporary social forces, such as materialism, and traditional values and beliefs in order to understand Chinese managers' economic behaviours. Thus, a possible direction for future study is to examine the impacts from other relevant cultural traits and how they interact with perceived situations in determining international entry mode decision in the same or different national contexts.

Thirdly, besides managerial values, the upper echelon theory also indicates the importance of managerial cognitive capability in the perception of a situation (Hambrick and Mason, 1984; Hambrick, et al., 1996). During SDM, besides information sufficiency, managerial cognitive capability is essential in order to understand the situation. Information overload and subjective biases may occur due to insufficient cognitive capability (Hodgkinson et al., 1999). It is necessary for future research to include and measure managerial cognitive capability in international entry mode decision.

Fourthly, due to practical difficulties, this study only investigated one decision-maker from each company of interest. As most of studied firms are private SMEs, the flaw is not serious as the number of decision-makers is limited in this study. However, Hambrick and Mason (1984) also indicated the importance of other top managers in making strategic choices. Some studies in SDM literature focus on the relationship between the demographic composition of top management team, and internationalisation behaviour or competitive strategy (Athanassiou and Nigh, 2000; Tihanyi et al., 2000; Reuber and Fischer, 1997; Hambrick et al., 1996). For future studies, scholars could use the decision-making team as respondents to capture more accurate evaluations of the situation and potential dynamical interactions of competing preferences among decision-makers in international entry mode decision.

Moreover, although this study has examined the effects of three characteristics of the decision process in international entry mode decisions under Chinese context, the

researcher is aware that there are still other characteristics of SDMP such as formalisation and lateral communication (Papadakis et al., 1998), which have not been examined in terms of the relation to international entry mode decision. The most recent findings show that formalisation is found to be significantly related to the dimension of uncertainty avoidance of national culture (Dimitratos et al., forthcoming). Prior studies (Kogut and Sigh, 1988, Shane, 1993) indicated the existence of the relationship between this cultural dimension and international entry mode decision, but it is not known whether or not formalisation has an effect on the international entry mode decision. Future studies may include and examine more strategic decision process characteristics to enrich our understanding of their effects in the international entry mode decision.

Furthermore, another limitation of this study is that it does not assess the relationship between international entry mode choice and performance. Performance is considered to be an importance consequence for the international entry mode decision (Brouthers and Hennart, 2007). On the one hand, prior international entry mode studies (Brouthers, 2002; Brouthers et al., 2003) have assessed the relationship and suggested that firms using modes predicted by TCA performed significantly better than firms using modes not predicted by TCA. This reflects that modes predicted by TCA represent the most efficient ones in different situations. On the other hand, SDM literature indicates that a decision process characterised by high procedural rationality or comprehensiveness will generate a better performance than a decision process associated with low rationality. Thus, future studies could examine whether or not a highly procedurally rational decision process is more likely to drive decision-makers to generate an outcome of decision reflecting transaction cost considerations.

Finally, this study used logistic regression analysis to test hypotheses of interest, as control variables have categorical variables which may violate the normality assumption of the ML estimation method and decrease the accuracy of the estimation (Kupek, 2005). However, the SEM statistical technique has developed rapidly and it has inherent advantages over the traditional regression analyses. It enables scholars to analyse the relationship among latent constructs as well as the relationship between manifest indicators and latent constructs

simultaneously and more accurately, which is suitable for understanding the complex and implicit relationship between decision process and managerial values. In future studies, researchers could use SEM to explore these relationships.

Appendix 1: Research Questionnaire (Chinese version)

中国私营企业国际市场进入方式的研究调查问卷

尊敬的先生或女士：

感谢您在百忙之中参加我们的调查项目！此项目问卷采用匿名方式进行，调查资料全部用于学术研究，如果贵公司需要，我们会将调查结果反馈给您。谢谢！

课题组联系人：季俊哲； email: j.ji.1@research.gla.ac.uk

一、基本信息

您的工作职位：_____； 公司所在主导产业：_____；
公司主要产品：_____； 公司员工人数：_____；

提示：本问卷中所涉及的“国际市场进入”¹是指贵公司**最重要**的一次“**国际市场进入**”。您可综合评估以下三个方面以确定某次国际市场进入的重要性：此次国际市场进入对贵公司的关键性；此次国际市场进入的结果对贵公司的影响；以及推迟此次国际市场进入的后果严重性。

二、关于这次最重要的国际市场进入

1. “此次国际市场进入”的年份_____ 2. 进入国家或地区_____

3. “此次国际市场进入”的进入方式（ ）（单选）

a) 独资（如在该国独立投资建厂、设立贸易公司、代表处、或研发中心等）； **b)** 合资（如在该国合资建厂、合建贸易公司或代表处、合建研发中心等）； **c)** 契约型（技术转让、许可证经营）； **f)** 出口贸易； **g)** 其他

——如果贵公司的国际市场进入方式是 **a)** 和 **b)** 中的一种，请回答问题4-5；否则请跳过：

—4. 在该国投资规模约为（人民币RMB ¥, 万元）：_____

—5. 在该国海外分厂、分公司、或代表处全职工人数：_____

6. 对贵公司“此次国际市场进入”的商业活动的**最合适**描述为：（ ）（单选）

a) 生产制造； **b)** 销售产品； **c)** 开展研发； **d)** 市场推广 **e)** 建立分销渠道； **f)** 其他

7. 以下哪项陈述能够**最好的**描述贵公司的“此次国际市场进入”动机（ ）（单选）

- a)** 获取自然资源或廉价劳动力；
- b)** 开发新市场；
- c)** 获取被投资国当地较高生产效率以便再出口；
- d)** 获取被投资国当地先进技术、品牌或其他战略性资产；
- e)** 与被投资国当地企业建立联系来弥补公司资源的不足；
- f)** 在被投资国建立立足点来了解当地市场情况以便以后扩张；
- g)** 跟随竞争对手进入；
- h)** 跟随公司客户进入；
- i)** 其他动机，请注明：_____。

¹ “国际市场进入”是指贵公司将某个或几个环节的商业活动（如生产制造、销售、研发等）放在海外市场进行。进入不同的国家或采用不同方式（如出口、合资或独资）进入同一国家都算作不同的一次国际市场进入。

8. 在尺度 1 “非常不满意”至 7 “非常满意”之间, 选择相应尺度以代表您不同的满意程度, 评估贵公司在该国多大程度上达到以下目标 (请在相应尺度处打勾):

	非常不满意					非常满意	
a) 该次国际市场进入的预定目标	1	2	3	4	5	6	7
b) 建立了有价值新的生意联系	1	2	3	4	5	6	7
c) 更好的市场竞争地位	1	2	3	4	5	6	7
d) 成功学习到国际化经营的技巧和能力	1	2	3	4	5	6	7
e) 综合评价	1	2	3	4	5	6	7

三、 关于决策者和决策过程

9. 请选择您的年龄范围 (); a) 51岁或以上; b) 41岁 - 51岁; c) 41岁或以下

10. 您为该公司服务年限: _____

11. 请选择您主要工作经验的类型: () (从以下两个选项中选择一项)

- a) 生产运作、 会计和财务、 数据处理、 信息系统、 或流程研发类;
b) 市场销售、 产品研发、 或创业类

12. 请您指出过去花费在以下各项相应的时间 (单位: 年):

海外工作任务 _____; 海外学习 _____; 工作过的任何公司国际部 _____

13. 您是否有过政府机构或国有企业的全职工作经验 () 1: 是; 2: 否

-----在尺度 1 “非常不同意”至 7 “非常同意”之间, 选择相应尺度以代表您特定的赞同程度, 评估以下陈述 (请在相应尺度处打勾):

	非常不同意					非常同意	
14. 在我看来:							
a) 勤奋和节俭对生意的成功至关重要	1	2	3	4	5	6	7
b) 付出是为了立刻得到回报;	1	2	3	4	5	6	7
c) 留给别人的第一印象并不重要	1	2	3	4	5	6	7
d) 和容易相处的同事一起工作对我很重要	1	2	3	4	5	6	7
e) 自我控制和对企业忠诚是员工的重要特征	1	2	3	4	5	6	7
f) 传统方法在现代仍然可行	1	2	3	4	5	6	7
g) 为一个有声望的成功公司工作很重要	1	2	3	4	5	6	7

15. 我认为:

	非常不同意					非常同意	
a) 员工更喜欢在团队中工作而不是单独工作	1	2	3	4	5	6	7
b) 如果团队使我工作效率降低, 最好是离开它单独工作	1	2	3	4	5	6	7
c) 一个人杰出必须特立独行	1	2	3	4	5	6	7
d) 单独工作比团队工作效果更好	1	2	3	4	5	6	7
e) 我宁愿自己解决个人的问题也不愿和朋友讨论	1	2	3	4	5	6	7
f) 一个员工应该接受团队意见即使个人有不同意见	1	2	3	4	5	6	7
g) 通过团队解决问题比个人解决问题效果要好	1	2	3	4	5	6	7
h) 我把亲朋好友的需求排在我个人需求之前	1	2	3	4	5	6	7

16. 对我而言:

	非常不同意		非常同意
a) 我喜欢在不确定的环境中工作	1 2 3 4 5 6 7		
b) 我公司外部经营环境的不确定性妨碍我做到最好	1 2 3 4 5 6 7		
c) 我经常为意外的事情打乱我的计划而烦恼	1 2 3 4 5 6 7		
d) 我很喜欢不确定环境带来的挑战	1 2 3 4 5 6 7		
17. 在贵公司决定采用何种方式进入该被投资国的决策过程中, 在多大程度上, 您同意以下陈述: ...

	非常不同意		非常同意
a) 我公司大量搜集信息来进行此项决策	1 2 3 4 5 6 7		
b) 在做出决策前, 我公司广泛的进行相关的信息分析	1 2 3 4 5 6 7		
c) 在此决策过程中, 数量分析手段十分重要	1 2 3 4 5 6 7		
d) 此项决策过程大部分靠的是直觉	1 2 3 4 5 6 7		
f) 在决策过程中, 我公司把侧重点放在关键的信息上并有效滤去非相关信息	1 2 3 4 5 6 7		
18. 在贵公司决定采用何种方式进入该被投资国的决策过程中, 在多大程度上, 您同意以下陈述:

	非常不同意		非常同意
a) 对于进入方式所要达到的目标有很多不同的意见	1 2 3 4 5 6 7		
b) 对于“解决问题所要遵循适当的流程”的意见很统一	1 2 3 4 5 6 7		
c) 对于问题的解决方案不同意见很多	1 2 3 4 5 6 7		
19. 在贵公司决定采用何种方式进入该被投资国的决策过程中, 在多大程度上, 您同意以下陈述: ...

	非常不同意		非常同意
a) 我在决策过程中高度授权给下级	1 2 3 4 5 6 7		
b) 此决策过程中, 我们决策层必须意见一致后才能采取行动	1 2 3 4 5 6 7		
c) 虽然我知道应该去做什么, 但在此决策过程中有时我搜集更多信息, 因为此项决策必须让他人觉得合理	1 2 3 4 5 6 7		
d) 在决策进程中, 我能控制进程, 或灌输意图	1 2 3 4 5 6 7		
e) 一线员工如果对此决策有好的建议, 建议到达我之前要通过各层管理层	1 2 3 4 5 6 7		

四、关于该被投资国的情况

20. 关于该被投资国环境:

	非常不同意		非常同意
a) 该国的政治、社会、经济情况总体上很稳定	1 2 3 4 5 6 7		
b) 该国的换汇和汇款回国的风险很高	1 2 3 4 5 6 7		
c) 该国没收公司财产或限制公司股权的风险很高	1 2 3 4 5 6 7		
21. 请您评估觉察到的中国和该被投资国环境差异:

	非常不同意		非常同意
a) 两国语言非常不同	1 2 3 4 5 6 7		
b) 两国认同的生意惯例非常不同	1 2 3 4 5 6 7		
c) 两国经济发展水平相似	1 2 3 4 5 6 7		
d) 两国法律系统非常不同	1 2 3 4 5 6 7		
e) 通信基础设施非常不同	1 2 3 4 5 6 7		

22. 相对于中国, 请您评估 <u>该被投资国</u> 以下情况:	非常不同意					非常同意	
a) 被投资国起草和履行合同的成本相对高	1	2	3	4	5	6	7
b) 泄露知识产权技术的风险高	1	2	3	4	5	6	7
c) 控制和监督当地合作伙伴产品质量的成本低	1	2	3	4	5	6	7

23. 关于 <u>该被投资国</u> 商业经营环境, 你在多大程度上同意:	非常不同意					非常同意	
a) 生意生存的威胁大	1	2	3	4	5	6	7
b) 当地的投资和市场机会很多	1	2	3	4	5	6	7
c) 当地商业环境对公司经营起着决定性影响	1	2	3	4	5	6	7

五: 关于贵公司

24. 该次“国际市场进入”前一年的公司销售额 (人民币RMB¥, 万元) ()

a) 少于500; b) 500 - 3000; c) 3000 - 30000; d) 30000 或以上

25. 贵公司首次进入国际市场年份: _____

26. 请选下列情况的进入方式 (单选):

(1) 在“此次国际市场进入”之前, 公司最常用的国际市场进入方式 ();

(2) 在“该被投资国”, 主要竞争对手最常用的市场进入方式 ().

a) 独资; b) 合资; c) 契约型 (技术转让、许可证经营); f) 出口; g) 其他.

27. 请您在尺度1“非常不重要”至7“非常重要”之间选择相应尺度, 评估以下情况对贵公司进入该国
国际市场的决定重要程度: ...

实际市场的决定重要程度: ...	非常不重要					非常重要	
a) 相关公司 (贵公司曾经有过生意关系的、在该国经营的当地或外国企业)	1	2	3	4	5	6	7
b) 在被投资国的华人(如: 家庭成员、亲戚、或 朋友)	1	2	3	4	5	6	7
c) 被投资国政府	1	2	3	4	5	6	7
d) 比贵公司更早进入的中国同行公司	1	2	3	4	5	6	7

28. 在此次进入前, 贵公司在“该被投资国”经验:	非常不同意				非常同意			
a) 公司非常熟悉被投资国	1	2	3	4	5	6	7	
b) 公司在该国的经营时间很长	1	2	3	4	5	6	7	

29. 请您评价您觉察的贵公司相关的国际化能力如下: ...	非常不同意					非常同意	
a) 公司国际化程度高	1	2	3	4	5	6	7
b) 公司有足够财务能力进行国际商务	1	2	3	4	5	6	7
c) 公司有足够的技术能力进行国际商务	1	2	3	4	5	6	7
d) 公司有足够的管理能力进行国际商务	1	2	3	4	5	6	7

30. 相对于“该被投资国”当地公司, 您多大程度同意: .	非常不同意					非常同意	
a) 我公司的生产效率高;	1	2	3	4	5	6	7
b) 我公司的产品和流程的发展和改进能力强	1	2	3	4	5	6	7

再次感谢您对此次学术研究的支持!

Appendix 2: Research Questionnaire (English version)

Questionnaire on Your Firm's Internationalization

PART A: GENERAL INFORMATION

Your job title: _____;

Primary industry: _____; Main products of your company: _____;

Number of full-time employees: _____.

Note: The *international entry* in this questionnaire refers to **the most important international entry decision** that your company ever made on entering a country abroad. **Importance of entry** can be overall assessed through the importance of this international entry to your company, magnitude of impact from consequences of the entry, and seriousness of delaying the entry.

PART B: ABOUT THE INTERNATIONAL ENTRY²

1. Year of the INTERNATIONAL ENTRY _____ 2. Destination country _____

3. Mode of the INTERNATIONAL ENTRY () (mark only one from the following options)

a) Wholly-owned subsidiary; b) Joint venture subsidiary; c) Licensing or Franchising; d)

Exporting; f) Others.

-----If your company adopted Entry mode (a) — (b), please answer question 4 and 5:

4. Project size (Approximately , RMB ¥ ,0000s): _____

5. Number of full-time employees of the subsidiary: _____

6. Which value-added activity does the ENTRY best refer to ()

a) Production; b) Sales; c) R&D; d) Marketing; e) distribution; f) others

7. Which of the following statements best describes your firm's motivation for entering THIS COUNTRY: () (mark only one from the following options)

a) To seek a better source of natural resources and labor;

b) To seek a new market;

c) To seek an efficient production for re-export;

d) To seek advanced technologies, brands, and other strategic assets;

e) To seek linkages with local companies to compensate resource constraints;

f) To establish a foothold to learn foreign market conditions for later expansion;

g) To follow competitors;

h) To follow internationalization of customers;

i) Other motives, please specify _____

² International entry in this survey refers that a Chinese firm performs one or more business function (e.g., production, sales, and marketing et al.) outside of Mainland China.

8. Using a scale from 1 to 7, please evaluate to what extent your company has achieved the following from the INTERNATIONAL ENTRY:

	<i>Very dissatisfied</i>				<i>very satisfied</i>		
a) Primary objective of the entry	1	2	3	4	5	6	7
b) New and valuable business linkages	1	2	3	4	5	6	7
c) Better competitive position	1	2	3	4	5	6	7
d) Successes in learning critical skill(s) or capabilities of international operations;	1	2	3	4	5	6	7
e) Overall achievements	1	2	3	4	5	6	7

PART C: ABOUT THE DECISION-MAKER AND DECISION PROCESS

9. Could you please specify your age range? ()

a) 51 or over; b) 41~51; c) 41 or below

10. Please indicate number of years working for the company:

--	--

11. Please choose the type of your dominant functional experience: () (choose only one type from following two options)

- a) Experiences including production/operations, finance and accounting/data processing/information systems, or process R&D;
- b) Experiences including sales/marketing, product R&D, or entrepreneurship.

12. Could you please indicate respective number of years spent on:

Abroad assignment_____; Study abroad_____;

International department of any company where you have worked_____.

13. Have you even had full-time work experiences in government or state owned enterprises () Yes/No.

-----Using the scale below, where 1 indicates "strongly disagree" and 7 indicates "strongly agree", please evaluate the following statements:

14. From my point of view.....	<i>Strongly disagree</i>				<i>Strongly agree</i>		
a) Diligence and thrift are very important to the business success;	1	2	3	4	5	6	7
b) Devotion is to ask for immediate compensation;	1	2	3	4	5	6	7
c) First impression to others is not very important	1	2	3	4	5	6	7
d) Working with people who are easy to cooperate with is very important for me	1	2	3	4	5	6	7
e) Self-control and organizational commitment are important characteristics of an employee	1	2	3	4	5	6	7
f) Convention methods are still workable even in modern times	1	2	3	4	5	6	7
g) Working for a reputable and successful company is very important	1	2	3	4	5	6	7

15. I think.....**Strongly disagree Strongly agree**

- | | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) Employees prefer to work in a group rather than by themselves; | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b) If a group is slowing me down, it is better to leave it and work alone; | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c) To be superior, a man must stand alone; | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d) One does better work alone than in a group; | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| e) I would rather struggle for a personal problem by myself than discuss it with my friends; | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| f) An employee should accept the group's decision even when personally he or she has a different opinion; | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| g) Problem solving by groups gives better results than problem solving by individuals; | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| h) The needs of people close to me should take priority over my personal needs | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

16. As for myself.....**Strongly disagree Strongly agree**

- | | | | | | | | |
|--|---|---|---|---|---|---|---|
| a) I enjoy working in uncertain situations. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b) The uncertainty surrounding my firm prevents me from doing my best. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c) I often get irritated when unexpected events ruin my plans. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d) I enjoy the challenges of uncertain situations. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

17. During the decision-making of how to ENTER THIS COUNTRY of your INTERNATIONAL ENTRY, to what extent do you agree:**Strongly disagree Strongly agree**

- | | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) My company looked for information extensively in making the decision | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b) My company analyzed relevant information extensively before making the decision. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c) Quantitative analytic techniques were important in making the decision | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d) The process of the decision was mostly intuitive | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| f) My company focused its attention on crucial information and ignored irrelevant information effectively in the decision-making process. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

18. During the decision-making referring to ENTER THIS COUNTRY, to what extent do you agree:.....**Strongly disagree Strongly agree**

- | | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) The degree of disagreement on the objectives sought by the entry decision was high | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b) The degree of disagreement on the proper methodology to follow was low | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c) The degree of disagreement on the proper solution to the problem was high | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

19. During the decision-making referring to ENTER THIS COUNTRY, to what extent do you agree:..... Strongly disagree Strongly agree

- | | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) I practiced a high level of delegation of the decision making | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b) Our decision group should have reached consensus for action to occur in this decision. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c) Although I knew what should be done, sometimes I sought more information during the decision making process because this decision should have been justified to others. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d) I could stop, reverse, or inspire the decision | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| e) If a frontline employee had a new idea on this decision, it would pass through layers of management before reaching me. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

PART D: ABOUT THE FOREIGN COUNTRY THAT YOUR COMPANY ENTERED

20. The HOST country can be described as..... *Strongly disagree* *Strongly agree*

- | | | | | | | | |
|--|---|---|---|---|---|---|---|
| a) The general stability of the political, social, and economic conditions in country is high | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b) The risk of converting and repatriating your income in country is high | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c) The risk of expropriation of firms of the country is high | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

21. Please evaluate perceived differences between the home and HOST country with respect to:..... *Strongly disagree* *Strongly agree*

- | | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) Languages are very different | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b) Accepted business practices are very different | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c) Economic environments are very similar | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d) Legal systems are very different | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| e) Communication infrastructures are very different | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

22. Compared with China, please evaluate the following conditions:.....

- | | <i>Strongly disagree</i> | | | | <i>Strongly agree</i> | | |
|---|--------------------------|---|---|---|-----------------------|---|---|
| a) The relative costs of making and enforcing a contract is high | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b) The risk of disseminating proprietary know-how is high | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c) The costs of controlling and monitoring product quality of local partners is not high | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

23. With regard to the operational environment of the HOST country, to what extent do you agree.....

- | | | | | | | | |
|--|---|---|---|---|---|---|---|
| a) The threat to survival is pretty high | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b) The richness in investment and marketing opportunities are great | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c) The operational environment exerts its dominance over the company | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

PART E: ABOUT YOUR COMPANY

24. Company turnover (RMB¥0000s, Year before the ENTRY) ()

- a) Below 500; b) 500 ~ 3000; c) 3000~30000; d) 30000 or over

25. Year of your company's first international activity_____

26. From the following options, please choose ONE entry mode that is:

- (1) *Most frequently used* by *your company* in the past international operations before this international entry ();
 (2) *Most frequently used* by *your main competitors* in this specific foreign country ().
 a) Wholly-owned subsidiary; b) Joint venture subsidiary; c) Licensing or Franchising; d) Exporting; e) Others.

27. Using a scale from 1 to 7, please evaluate the importance of each following conditions for your company's decision to ENTER THIS COUNTRY.....

	<i>least important</i>			<i>most important</i>			
a) Related firms in this country (local or foreign firms in the country with which your company has had previous trading relationships)	1	2	3	4	5	6	7
b) Overseas Chinese community in this country (e.g. family members, relatives, friends)	1	2	3	4	5	6	7
c) Local government of this country	1	2	3	4	5	6	7
d) Chinese firms from the same industry that invested in this country before your company's entry	1	2	3	4	5	6	7

28. With regard to HOST country experience:.....

	<i>Strongly disagree</i>			<i>Strongly agree</i>			
a) My firm is very familiar with this country	1	2	3	4	5	6	7
b) My firm's experience in operating in this country is long	1	2	3	4	5	6	7

29. Please evaluate the international capabilities of your company with respect to:.....

	<i>Strongly disagree</i>			<i>Strongly agree</i>			
a) My company operates in many foreign countries	1	2	3	4	5	6	7
b) Perceived financial capability to handle international business is sufficient	1	2	3	4	5	6	7
c) Perceived technological capability to handle international business is sufficient	1	2	3	4	5	6	7
d) Perceived managerial capability to handle international business is not sufficient	1	2	3	4	5	6	7

30. Compared with local competitors in THE SPECIFIC COUNTRY of your ENTRY, to what extent do you agree:.....

	<i>Strongly disagree</i>			<i>Strongly agree</i>			
a) Production efficiency of your company is higher;	1	2	3	4	5	6	7
b) The product and process development and improvement capability is stronger;	1	2	3	4	5	6	7

THANK YOU FOR YOUR PARTICIPATION IN THIS RESEARCH PROJECT!

Appendix 3: Generic Interview Guide

Research objectives

- Understanding the background of company, its internationalization process, and its most important international entry;
- Explore the relationship between managerial cultural value (Confucian dynamism) and their perceptions on market hostility and firm size related to the mode decision;
- Explore the relationship among characteristics of decision process and decision-makers' evaluations of situation.

Questions

Part A: Questions about background of interviewee and firm

1. Could you tell me your job position and responsibilities? Could you tell me about the history and business activities of your company?
2. Could you rate the each statement (to measure the degree of Confucian dynamism) in the form?
3. Could you please give an introduction on the company's internationalization process? Which entry is also considered to be the most important international market entry among foreign entries in the past, and please could you tell me something about it?

Part B: Questions about the evaluations of host environmental munificence and firm size related to the entry

1. How did you evaluate the opportunity, competition, and business environment in the host country when the decision was made?
2. How did you think of the sufficiency of firm resources for cost and competition associated with the entry?

Part C: Questions related to decision process

1. Could you describe the general decision process for the international entry mode decision?
2. How did your company conduct information collection, analysis, and final choice

during the decision process?

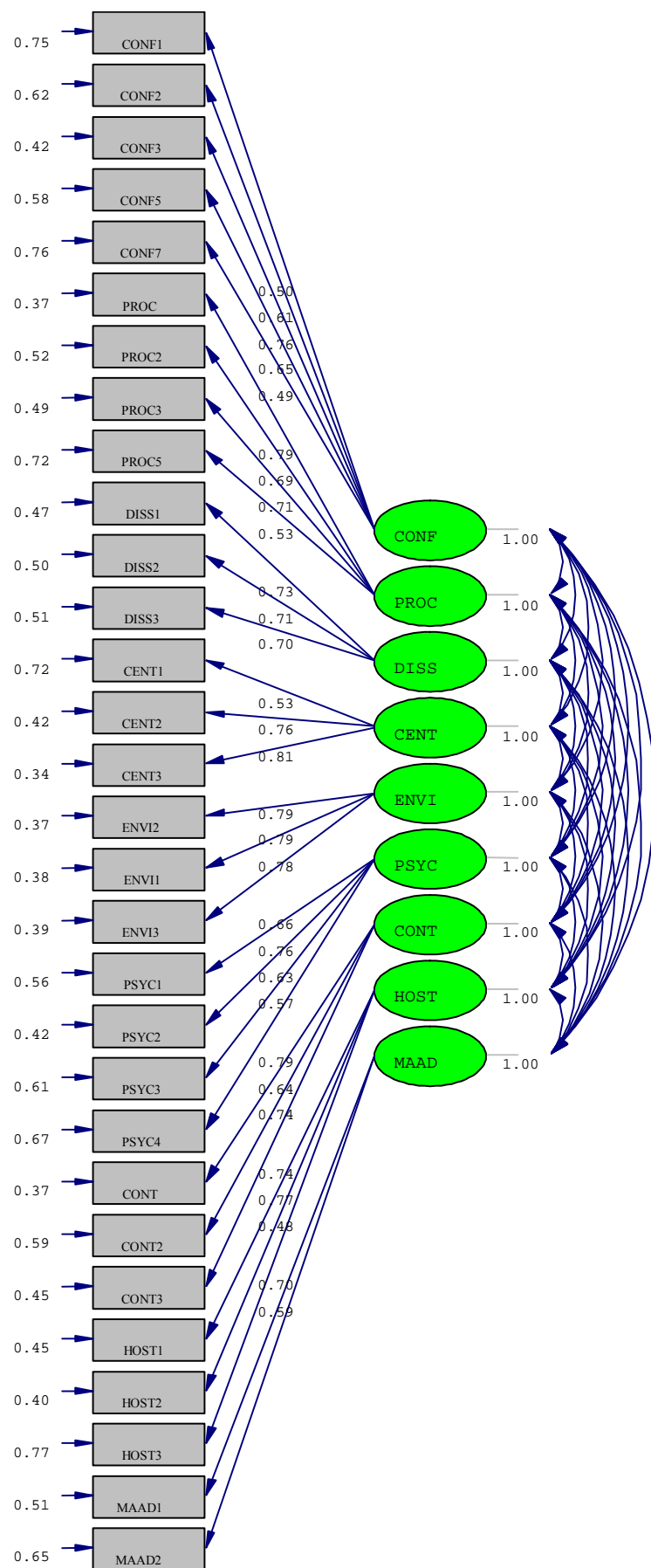
3. Did any different opinions arise from the discussions on the decision? How did this happen? How was it solved?
4. How many people were involved into the entry mode decision? What job positions did they hold?

Appendix 4: Test of Univariate Normality for Continuous Variables

Variable	Skewness		Kurtosis		Skewness and Kurtosis	
	Z-Score	P-Value	Z-Score	P-Value	Chi-Square	P-Value
CONF1	-1.330	0.183	-2.435	0.015	7.700	0.021
CONF2	-0.746	0.455	-1.547	0.122	2.950	0.229
CONF3	-1.366	0.172	-2.197	0.028	6.692	0.035
CONF4	-0.701	0.483	-0.943	0.346	1.381	0.501
CONF5	-0.735	0.462	-1.434	0.152	2.597	0.273
CONF7	-0.946	0.344	-1.698	0.090	3.777	0.151
PROC1	-0.578	0.563	-0.717	0.473	0.848	0.654
PROC2	-0.654	0.513	-0.881	0.378	1.204	0.548
PROC3	-0.704	0.481	-0.815	0.415	1.160	0.560
PROC5	-0.706	0.480	-0.675	0.500	0.954	0.621
DISS1	-0.230	0.818	-0.278	0.781	0.130	0.937
DISS2	-0.160	0.873	-0.469	0.639	0.246	0.884
DISS3	-0.415	0.678	-0.675	0.499	0.628	0.730
CENT1	-0.262	0.793	-0.853	0.394	0.796	0.672
CENT2	-0.098	0.922	-1.397	0.163	1.960	0.375
CENT3	-0.024	0.981	-1.318	0.188	1.737	0.419
CENT4	-0.004	0.997	-0.848	0.397	0.719	0.698
CENT5	-0.342	0.732	-0.713	0.476	0.625	0.732
ENVI2	-0.161	0.872	-0.618	0.537	0.408	0.816
ENVI1	0.354	0.723	-1.881	0.060	3.662	0.160
ENVI3	-0.026	0.980	-0.973	0.331	0.947	0.623
PSYC1	-0.749	0.454	-1.093	0.274	1.756	0.416
PSYC2	-0.267	0.789	-0.455	0.649	0.278	0.870
PSYC3	-0.268	0.789	-0.087	0.931	0.079	0.961
PSYC4	-0.185	0.853	-0.380	0.704	0.179	0.914
PSYC5	-0.181	0.856	-0.900	0.368	0.843	0.656
CONT1	-0.237	0.813	-0.349	0.727	0.177	0.915
CONT2	-0.094	0.925	-0.791	0.429	0.635	0.728
CONT3	-0.251	0.802	-0.360	0.719	0.193	0.908
HOST1	-0.220	0.826	-0.487	0.626	0.285	0.867
HOST2	-0.245	0.806	-0.255	0.799	0.125	0.939
HOST3	-0.426	0.670	-0.634	0.526	0.583	0.747
MAAD1	-0.578	0.563	-0.503	0.615	0.587	0.746
MAAD2	-0.645	0.519	-0.762	0.446	0.997	0.607

Relative Multivariate Kurtosis = 1.157

Appendix 5: Path Diagram of CFA



Chi-Square=633.27, df=369, P-value=0.00000, RMSEA=0.056

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