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**Impact of Cultural Differences on Market Entry  
into China for  
Austrian Small and Medium Sized Enterprises**

Doctoral Thesis

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## **ANNOTATION**

Austrian small and medium-sized companies (SME) face a small home market and little research had been done so far regarding their market entry strategy especially into the economical rapidly ascending China. No model exists which quantifies these influences and the effects of decision-making. Therefore, both a cultural and an operationalizing model have been developed. Over more, published data have been in-depth and statistically re-evaluated. 86 Austrian SME-Managers have been questioned; their answers have been analysed by various statistical methods various methods which include inference- and multivariate statistics.

The result of the executed research and analyses: Austrian SMEs are frequently starting exporting all at once without gaining experience by importing first. Thus, they accept higher risks compared to European SMEs. Additionally, their approach is often characterized by a contingent, coincidental and opportunity-seizing way. For a successful market entry, the weight of cultural differences is important, i.e. one has to understand the Chinese mentality. Austrian SMEs prefer to establish Joint Ventures which leads both to increased cultural differences between management and workforce and heighten competition on the Chinese market. They were hit more by an impropriate form than large enterprises. The influence of the chose entry mode has lasting impacts especially on SMEs; they were hit more by an impropriate form than large enterprises.

Various suggestions based on the results and conclusions of this thesis are offered. An important one is, to build up mutual trust between Chinese and Austrian managers and to endure time delays during the Chinese decision-making processes.

Keywords: SME, internationalization, cultural dimensions, decision-making theory, process of information-seeking, best practices.

# CONTENTS

1	THEORETICAL ASPECTS OF CULTURAL DIMENSIONS, COMMUNICATION AND DECISION MAKING .....	20
1.1	Entry Modes and Literature Review of Internationalization .....	20
1.2	Development of Cultural Concepts and Cultural Dimensions .....	28
1.3	Communication within the System Theory .....	38
1.4	Decision-Making Theory .....	43
1.5	Summary for Current Thesis .....	52
2	SCIENTIFIC RESEARCHES AND FINDINGS IN THE FIELD OF MARKET ENTRY INTO CHINA .....	54
2.1	European Study on Internationalization with a Focus on Small and Medium-Sized Enterprises .....	60
2.1.1	Relevant Characteristics of Internationalization in General .....	60
2.1.2	The Austrian Engagement in Internationalization .....	64
2.1.3	The European Business Activities with China.....	67
2.2	Author's Re-Evaluation of the Austrian-Business-Confidence-Survey.....	68
2.2.1	Data and Used Methods .....	68
2.2.2	Fulfilled Methodical Necessities of Re-Evaluation .....	69
2.2.3	Findings of the Executed Re-Evaluation .....	71
2.2.4	Summary for the Present Thesis .....	75
2.2.5	Deducted Model of Reflected Analysis .....	76
2.3	Procedures and Methods of the Author's Executed Survey .....	79
2.3.1	Implementation of Research Design .....	79
2.3.2	Operationalizing Models of Research.....	80
2.3.3	Used Methods for Data Collection and Data Analysis .....	82
2.3.4	Population and Characteristics of the Realized Sample .....	84
2.3.5	Four Main Summaries for the Present Thesis .....	87
3	EMPIRICAL ANALYSES OF INFLUENCING FACTORS and DEVELOPMENT OF AN INTEGRATED MODEL.....	89
3.1	Information and Decision-Making Process for Market Entry .....	89

3.1.1	Process of Information-Seeking and Analysis .....	89
3.1.2	Process of Decision-Making .....	94
3.1.3	Summary .....	95
3.2	Used Methods and Procedures for Market Entry .....	96
3.2.1	Selected Base for First Transaction .....	96
3.2.2	Reasons and Factors for Selected Market Entry .....	98
3.2.3	Multivariate Cluster Analysis: Two Different Types of Enterprises .....	102
3.2.4	Summary .....	106
3.3	Impact of Chosen Market Entry on Business Performance .....	107
3.3.1	Encountered Difficulties .....	107
3.3.2	Achievements by Market Entry .....	110
3.3.3	Impact of Chosen Market Entry on Business in China.....	112
3.3.4	Repercussive Influences of Market Entry on Austrian Companies.....	119
3.3.5	Validation of Hypotheses.....	121
3.3.6	Summary .....	125
3.4	Recommendations by Responding Managers for the Market Entry into China.....	126
3.4.1	Recommendations for Management of SMEs .....	126
3.4.2	Recommendations for Management of Large Enterprises.....	127
3.4.3	Recommendations to Management for the Chinese Market-Entry Decision on Base of the Selected Theories and Models .....	129
3.4.4	Summary .....	130
3.5	Comprehensive-View Model for Market Entry Decision as a Contribution to Management Science .....	130
<b>CONCLUSIONS AND SUGGESTIONS.....</b>		<b>133</b>
<b>BIBLIOGRAPHY .....</b>		<b>137</b>
<b>APPENDIX .....</b>		<b>152</b>
Appendix A: Re-Evaluation of Austrian Business Confidence Survey 2015 / Questionnaire ....		152
Appendix B: Re-Evaluation of Austrian Business Confidence Survey 2015 / Statistical Tables.....		154
Appendix C: Survey Austrian SMEs 2016 / Questionnaire .....		160
Appendix D: Survey Austrian SMEs 2016 / Statistical Tables and Diagram .....		171

## LIST OF ABBREVIATIONS

<b>Abbreviation</b>	<b>Full Name</b>
Cramer's V	Statistical measure for effect size (for contingency tables RxC)
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross domestic product
IBM	International Business Machines Corporation
ID	Identity = number of respondents within the set of data
IMF	International Monetary Fund
LQR	Leading question of research
LSE	Large-scale enterprise
MNC	Multinational Corporation
OECD	Organisation for Economic Cooperation and Development
OeKB	Österreichische Kontrollbank (in English: Austrian Control Bank)
p-value	Calculated probability (finding the observed data when the null hypothesis is true)
Phi	Statistical measure for effect size (for contingency tables 2x2)
RQ1	Research question one
SME	Small and medium-sized enterprises (in German: KMU)
t-test	Hypothesis test of difference between arithmetic means of two random samples
UK	United Kingdom
USA	United States of America
USD	US Dollar
WFOE	Wholly foreign owned enterprise
WKO	Austrian Chamber of Commerce

## LIST OF FIGURES

Figure 1.1: Two-dimensional Grid of Integration and Responsiveness for a local or a global focus.....	48
Figure 2.1: Internationalization Mode of Exports or Imports by Sector / Percentage of SMEs .....	61
Figure 2.2: Importance of Internal Barriers for Internationalization of European SMEs .....	62
Figure 2.3: Internationalization of European SMEs.....	65
Figure 2.4: Technical Cooperation as Interconnectedness of SMEs.....	65
Figure 2.5: Institutional based Financial Support for SMEs / Top Ten of Countries.....	66
Figure 2.6: Importing from China or Exporting to China of European SMEs.....	67
Figure 2.7: Companies: Strategic Partnership as Initial Legal and Economic Frame .....	70
Figure 2.8: Companies: ‘Cultural Differences/Workforce’ and Legal Entity .....	72
Figure 2.9: Companies: Responses of Managers to Question 5 (Competition) .....	74
Figure 2.10: Integrated Model of Environment, Culture and Enterprise / after Reviewing of Literature and Re-Evaluation of Austrian Business Confidence Survey 2015....	77
Figure 2.11: Generalized Model of Research containing External, Internal, Mixed Factors and Indicators of Success.....	80
Figure 2.12: Specified Model of Research containing independent and dependent Variables	82
Figure 3.1: Main Sources of Information Based for Market Entry Decision .....	89
Figure 3.2: Main Participants of Information Research and Analysis .....	90
Figure 3.3: Best Sources of Information Before Market Entry Decision .....	91
Figure 3.4: Main participants of Decision about First Business Relations .....	94
Figure 3.5: Legal and Economic Decision Base for First Business in China.....	97
Figure 3.6: Reasons for Selecting Mode of First Market Entry .....	98
Figure 3.7: Influence of Cultural Differences on Market Entry grouped by Level of Management and Economic Sector .....	101
Figure 3.8: Predictor Variables in Respect to Realized Cluster Analysis .....	103
Figure 3.9: Difficulties in Realizing the Initial Business in China.....	108
Figure 3.10: Companies: Achievements in the Last Three to Five Years in China .....	110
Figure 3.11: Valued Impact of First Market Entry on Chinese Business within the First Three Years .....	113
Figure 3.12: Valued Impact on Chinese Business of First Market Entry within the First Three Years grouped by SMEs and Large Enterprises .....	113

Figure 3.13: Valued Impact of First Market Entry on Current Chinese Business.....	115
Figure 3.14: Valued Impact on Current Chinese Business of First Market Entry .....	116
Figure 3.15: Valued Impact of First Market Entry on Current Chinese Business.....	116
Figure 3.16: Repercussions of Specific Kinds of Market Entry for SMEs .....	119
Figure 3.17: Repercussions of Specific Kinds of Market Entry for Larger Enterprises .....	120
Figure 3.18: Regression Analysis; Distribution of Standardized Residuum .....	123
Figure 3.19: Recommendations Regarding a Successful Market Entry for SMEs .....	126
Figure 3.20: Recommendations Regarding a Successful Market Entry for Large Enterprises .....	128
Figure 3.21: Comprehensive-View Model of Deciding Market Entry for SME.....	131

## LIST OF TABLES

Table 1.1: Monochronic and Polychronic Cultures.....	34
Table 2.1: Size-Class Definition for Enterprises.....	56
Table 2.2: Size Classes and Austrian Enterprises.....	56
Table 2.3: Import and Export of Austrian Enterprises by Size Class.....	57
Table 2.4: Import and Export of Austrian Enterprises to China / Values .....	57
Table 2.5: Import and Export of Austrian Enterprises to China / Numbers.....	58
Table 2.6: Loadings of Rotated Component Matrix within Exploratory Factor Analysis .....	73
Table 2.7: Design of Empirical Research.....	79
Table 2.8: Population and Sample Structure - Comparison .....	84
Table 2.9: Austrian Firms with start of Business in China, grouped by Size Class.....	85
Table 2.10: Austrian Firms, grouped by Size Categories.....	86
Table 2.11: Austrian Firms grouped by Economic Sector and Size Class.....	87
Table 3.1: Managers and Attribute Accidental, grouped by Level of Management.....	93
Table 3.2: Marking Others or Bypassing First Business, grouped by Branch .....	97
Table 3.3: Austrian Firms and significant Subgroupings of Decision-Making Reasons .....	99
Table 3.4: Austrian Firms and significant Subgroupings of Reason 'Fastest Possible Market Entry', grouped by Branch.....	100
Table 3.5: Austrian Firms and Resource Requirements, grouped by Export/Joint Venture ..	100
Table 3.6: Austrian Firms and Named Clusters grouped by Branch.....	104
Table 3.7: Austrian Firms and Named Cluster grouped by Marking 'Other' (or Bypassing)	105
Table 3.8: Austrian Firms and Named Cluster grouped by Dimension Goal-Oriented .....	105
Table 3.9: Austrian Firms in Super Category 'Cultural Differences' grouped by Level of Management .....	109
Table 3.10: Know-How Expansion of Austrian Firms, grouped by Legal Base.....	111
Table 3.11: Group Statistics and Samples Test for Variables (Question 15 and 16) .....	114
Table 3.12: Current Impact of First Market Entry (Question 16) .....	117
Table 3.13: Current Impact of First Market Entry (Question 16) .....	118
Table 3.14: Institutionalized Group of Decision in Case of Decision-Making grouped by Size Class.....	118
Table 3.15: Regression Analysis: Summary of Model.....	121
Table 3.16: Regression Analysis, Analysis of Variance and Coefficients .....	122
Table 3.17: Hypothesis H-a: Independent Qui-Square-Tests.....	124



## **INTRODUCTION**

Internationalization of business means going into new foreign markets. This leads to several challenges companies are confronted with. An essential challenge is how to start business in the new selected markets. Companies are faced with various factors which determine the success of the entry. Cultural factors seem to play an important role especially if markets are far away and knowledge is limited like the Chinese markets.

As Austrian small and medium-sized companies face a small home market and little research had been done so far regarding their market entry strategy especially into the economical rapidly ascending China, the leading question of the research is, how choose SME in Austria their way of market entry in China. A definite gap of research had been detected: Within the management-literature the impact of cultural dimensions, various company-related factors in relation to strategic decision-making of the market entry and the subsequent success of the company has not been researched. No model exists which quantifies these influences and the effects of decision-making. Therefore, the author looked at the applied information- und decision-making process and the resulting influence of cultural factors and used methods.

Therefore, this thesis looks at Austrian small and medium-sized enterprises (SME) and their way to China. Describing and analysing how they are confronted with culture differences and how they choose the market entry.

### **Actuality of the Topic – Statement of the Problem**

From a perspective of an Austrian SME with rather limited resources, a basic question instantly arises– why China? Why should managers of an SME try to establish business relations with unknown partner companies in a rather far-flung country? Why take risks in a market with such different market structures? Why communicate intensively for years with foreign managers belonging to a different cultural background?

The GDP (gross domestic product) per head as one of the main indicators of economic development reveals an astonishingly rapid development within the last two decades in China. The GDP per head increases from 1995 to 2015 more than twelve times, whereas a comparable country like India increased just four times within the same time span. Several similar macroeconomic figures relating to economic indicators such as GDP in absolute terms, import to China, export from China could be drawn, but the underlying characteristic of an extremely fast increase within the last decades remains.

Despite the slowing of the economy in China in the (most) recent years, the growth potential of the Chinese economy is, compared to most developed countries, still respectable: The International Monetary Fund (IMF) forecasts an annual economic growth of 6.5 % in 2017 and 6.0 % in 2018 (IMF 2017, p. 7) for China. This forecast is around three times higher than the estimated growth for advanced economies such as the US or the EU area, with a forecast 1.9 % for 2017 and 2.0 % for 2018. However, it is not to be forgotten that there is the possibility of “risks of a sharper slowdown or a disruptive adjustment.” (IMF 2017, p. 3).

Austrian firms are interesting because most of the research and focused on leading OECD-countries such as the USA, the UK, Japan and Germany had been done in the past decade: Canabal & White (2008) on the entry mode or Larimo & Vissak (2009) on foreign direct investment. Therefore, present-day-research is needed, especially considering the highly dynamic aspect of the Chinese Economy, the considerable amount of new information and developed models concerning internationalizing (for instance Beugelsdijk et al., 2018 or Klier et al., 2017) Over more, Austrian firms are quite different to bigger countries, for instance, the home market size is quite small. Thus far, however, little attention has been paid to whether and how Austrian companies choose their market entry strategy, how they handle the cultural differences and what impact the market entry has on the general development of the company.

## **Purpose**

The purpose of this dissertation is to investigate the impact of cultural influences on the executed entry-mode of Austrian small and medium sized enterprises (SMEs) in the Chinese market. It is expected to receive results how management of SMEs handle this strategic decision, which cultural related and non-cultural related factors have effects on the long-term success of the companies in the Chinese market.

Plenty of research papers have been published on the development of China, the market entrance of Western companies into Chinese market and the difficulties of doing business in China due to legal restrictions, organisational or cultural problems. But so far, no model exists which quantifies the impact of cultural dimensions, various company-related factors and variables in relation to the success of the market entry. This is a definite gap within the management-literature.

## **Aim and Tasks**

The aim of this dissertation is to develop models which show acting cultural influences and being able to measure the success of market entry. Therefore, this dissertation has to pour light on the process of internationalization of Austrian SMEs, their possibilities to capture new foreign markets and the importance of cultural differences as a variable in the market entry mode – demonstrated by the example of the Chinese market.

The main tasks piloting the research project are:

1. To elaborate and review the research papers and discussed theories in relation to the questions of research, show their limitations in terms of the planned design of research and bring forward new starting points for the ongoing research within this dissertation project.
2. To concentrate on relevant and outstanding empirical surveys (on-topic surveys) by analysing their methods and findings, to connect their findings in terms of the specific analysed market-approaches, their examined factors and circumstances and their results. If required, the researcher has to execute additional calculations with published data of these surveys.
3. To combine the theoretical concepts and the in-between results of the additional analyses into a integrated model of research.
4. To conduct quantitative research in form of a web-survey with Austrian managers
5. To compare three size classes of enterprises: small, medium and large enterprises which already had started business in China. The aspects which have to be analysed are possible different processes of seeking information, decision-making for market-entry, the possible different impacts of the chosen market-entry on the various kind of enterprises and the correlated achievements.
6. To present results on a univariate, bivariate or multivariate base and to test formulated hypotheses.
7. To interpret these results within in the light of the researched literature review and the used theories in order to be able to draw conclusions on the topic on base of a comprehensive view.
8. To provide a contribution within management science to the internationalization processes of SMEs in general and in rapidly emerging market contexts in particular.
9. To develop suggestions to managers of Austrian SMEs.

To operationalize selected topic, the questions of research the underlying hypotheses for defence are presented in the succeeding section.

## **Research Questions**

The leading research question (LRQ – SME and market-entry) is: How do small and medium enterprises in Austria choose their way of market entry in China?

The subsequent research questions (RQ<sub>i</sub>) are:

1. RQ1 – information and decision:

“What was the information and decision making-process in the companies for the market entry in China like?”

2. RQ2 – influence of used methods:

“What was the impact of the methods and the decision-making process on business development in China?”

3. RQ3 – influence of chosen entry mode:

“What aspects of the chosen or adapted entry mode had an impact – or are still impacting – business development in China?”

4. RQ4 – influence on business:

“What is the repercussive impact of the market entry in China on business development in the headquarters?”

To answer these questions the essential part of the research design consists of three developed successive models: (a) Deducted Model of Literature, (b) General Model of Research, (c) Specified Model of Research. The Specified Model of Research describes independent and dependent variables. Independent variables consist of company external factors like the assumed influence of cultural difference on the selected entry mode, company internal factors like the degree of participation of management and mixed factors. As dependent variables are seen the business results like sales, profit, market share. This operationalized model is the base to answer the questions of research and to confirm or discard the stated hypotheses.

## **Hypotheses**

The following statements of defence have been formulated:

1. Main hypothesis H: The management of cultural value factors has a positive impact to the success of market entry.
2. Sub hypothesis H-a: The more enterprises acquire cultural know-how the better are the key performance indicators like turnover, profit, market share and utilization of existing production capacities.
3. Sub hypothesis H-b: The more enterprises acquire cultural know-how the more Chinese relevant business knowledge they have attained.

To operationalize and being able to test the main hypothesis and two sub hypotheses, specific questions within the Survey Austrian SMEs 2016 had been collected and tested by appropriate statistical models like chi-square-test and regression analysis.

## **Methods and Sources Used**

The state of research has been done by review of recent published research papers. Focus has been laid on On-Topic Studies according to the research questions. These important on-topic studies are the extended and broad based European Study on Internationalization in 2009 funded by the European Commission and Austrian Business Confidence Survey Mainland China in 2015. Secondary research by re-evaluating the original data from the just mentioned Austrian Business Confidence Survey has been conducted. These data have been analysed by statistical methods especially calculating factor analysis. Primary research (Survey Chinese Market of Austrian SMEs in 2016) has been done asking managers of enterprises already having business relations with China by an internet-based questionnaire. The target group consisted of Austrian managers of all levels, whose companies have extended experiences with market-entry in China. The chosen method was a web-based survey with a questionnaire containing both closed-ended and open-ended questions. All registered Austrian enterprises active in the Chinese market had been contacted to participate in an internet-based survey. Additionally, two presentation and discussion forums in Vienna with the special issues ‘China and the New Normality’ and ‘Forum Export’ in May and June 2016 served to find potential respondents.

Analysing procedures have been conducted by applying SPSS software (Version 20). Used statistical methods are descriptive statistics, exploratory data analysis, chi-square-tests and regressions analysis. To test the main hypothesis H the statistical procedure linear regression has been used between variables ‘cultural influence’ and ‘impact within first three years’ and associated analysis of variance for the coefficients. To test sub hypotheses H-a and H-b chi-square-tests had been used in the mode of Fisher’s Exact Test for 2-by-2-tables as the scales of the tested variables are dichotomous-nominal.

## **Novelty**

The following points constitute the novelty of this dissertation:

- This dissertation investigates cultural dimensions affecting business on a quantitative base. Quantified are company-external, company-internal and mixed factors which influence the decision-making process. Target-groups of this investigation are Austrian enterprises.
- The author identifies that managers of Small and Mediumsized Enterprises (SMEs) and managers of Multinational Companies (MNCs) have to apply basically different strategic processes when entering the Chinese market. A fundamental structural gap between SMEs and MNCs exists. This key conclusion is derived from analysis in the current dissertation based on the authors identified statistical significant differences, effect sizes and conducted qualitative research.
- A contribution to the theoretical development within science of management: The development of a Comprehensive-View-Model for Market Entry Decision as a theoretical contribution in the way of cause-effect-relations. This model builds a bridge between the theoretical foundation of the science of management and a practical approach for SME-management.
- A further contribution to the theoretical development within science of management: Most of the current applied decision-making theories are not being used by Austrian SMEs. On the contrary, the process of decision-making is characterized by coincidental circumstances. A huge potential of market-shares, influences, sales and profits are simply thrown away by this procedure at random.

## **Limitations**

Two presentation and discussion forums in Vienna, at the Austrian Chamber of Commerce (WKO), in spring 2016 had been the main source for collecting potential respondents. These sources could be biased towards an active and optimistic attitude. First, managers of companies attending such presentation days could be more active and ready for action than managers of companies with connections to Chinese businesses who did not attend. Second, the author of this study had the impression that the presentation days at the WKO are held in an air of straightforward optimism. Again, this could result in data which include statements that tend to be more optimistic.

One indication of this bias can likely be seen in the answers to the open questions, for instance, answers to questions about possible repercussions of? Only one out of 35 answers by managers contained a negative reference.

Question four of the internet-based survey (“How are strategic decisions prepared and implemented in your company?”) with the two options “Management is more strongly involved” and “Management is rather limited” turned out to be unsuitable. Respondents were managers themselves, hence it is understandable that nine out of ten managers marked the first option of strong involvement. Therefore, the results did not allow for further analyses.

Sample size placed another limitation to this study: 86 managers were surveyed. Statistical analyses are meaningful and often reveal patterns in the background. But one should be careful to base calculations only on few comparable, large subgroups or on highly aggregated subgroups. Also, it is widely known that business in China face highly dynamic situations and economic turmoil. Hence, some of the results have a rather early expiration date.

## **Approbation of Specific Results of Research**

The author has reported the progress and research results in the following international scientific conferences and publications:

### **Conferences**

- 1) *Customer Relationship Management – in Consideration of Potential Differences between European and Asian Cultural Area* at “International Business and Economics Conference – Innovative Approaches of Management Research for Regional and Global Business Development”, an international scientific conference organised and

- hosted by the University of Applied Sciences Fachhochschule Kufstein/Austria, August 3-5, 2012
- 2) *Organizational Culture and Organizational Centralization* at “New Challenges of Economic and Business Development 2013”, an international scientific conference organised and hosted by the University of Latvia, Faculty of Economics and Management, Riga/Latvia, May 9-11, 2013
  - 3) *The Impact of Leadership Behaviour to the Organizational Culture* at “EBEN 2013 Research Conference”, an international scientific conference organised and hosted by the University of Navarra, Faculty of Economics and Management, Pamplona/Spain, June 6-8, 2013
  - 4) *Internationalization of Enterprises – in an Emerging Market Context* at “International Business and Economics Conference Current Approaches of Modern Management and Strategy Research”, an international scientific conference organised and hosted by the University of Applied Sciences Fachhochschule Kufstein/Austria November 29-30, 2013
  - 5) *Internationalization of European Small- and Medium-Sized Enterprises* at “EDAMBA 2014 Trends and Innovations in Economics and Management”, an international conference organised and hosted by the University of Economics in Bratislava/Slovakia, November 13-14, 2014
  - 6) *Reappraisal of Austrian Business Confidence Survey for Mainland China* at “FIKUSZ ’16 Symposium for Young Researcher”, an international scientific conference organised and hosted by the Obuda University, Kelety, Faculty of Business and Management Budapest/Hungary November 25 -26, 2016

## **Publications**

The progress and research results concerning the subject of this doctoral thesis were published through the following publications:

1. Haas, Franz, *CRM Success Factors* in New Challenges of Economic and Business Development – 2013 International Scientific Conference, May 9-11, 2013, Riga, Latvia, 2013, ISBN 978-9984-45-714-7, pp. 38, available from [http://www.bvef.lu.lv/fileadmin/\\_migrated/content\\_uploads/Abstracts\\_of\\_Reports\\_29\\_04\\_2013.pdf](http://www.bvef.lu.lv/fileadmin/_migrated/content_uploads/Abstracts_of_Reports_29_04_2013.pdf),



2. Haas, Franz, *Internationalization of European Small- and Medium-Sized Enterprises* in EDAMBA 2014 Trends and Innovations in Economics and Management, Bratislava (Slovakia), 2014, ISBN 978-80-225-4005-6, pp. 20-32, available from <https://edamba.euba.sk/wp-content/uploads/2017/01/edamba2016proceedings.pdf>,
3. Haas, Franz, “*Systematisch in neue Märkte*” in RELEVANT, magazin of the Oesterreichische Kontrollbank (OeKB), 2015, pp. 16-17, available from <http://www.oekb.at/pageflip/RELEVANT-1-2015/2015/html/files/assets/basic-html/page17.html>,
4. Haas, Franz, *Reappraisal of Austrian Business Confidence Survey for Mainland China* in FIKUSZ '16 Symposium for Young Researcher, Budapest (Hungary), 2016, Published by Óbuda University <http://kgk.uni-obuda.hu/fikusz>, available from [https://kgk.uni-obuda.hu/sites/default/files/06\\_Haas.pdf](https://kgk.uni-obuda.hu/sites/default/files/06_Haas.pdf),
5. Haas, Franz, *Deciding the Entry Mode in Chinese Markets. Practices Managers Should Avoid Pursuing* in Expert Journal of Business and Management, Volume 5, Issue 2, 2017, ISSN 2344-6781, pp. 68-73, available from <http://business.expertjournals.com/23446781-507/> and retrievable from EconPapers <http://econpapers.repec.org/scripts/search.pf?ft=Franz+Haas>
6. Haas, Franz, *Model Building – a Circular Approach to Evaluate Multidimensional Patterns and Operationalized Procedures* in Expert Journal of Business and Management, Volume 5, Issue 2, 2017, ISSN 2344-6781, pp. 136-141.

## Structure of this Thesis

This dissertation is divided into three chapters:

1. Chapter one presents definitions and deals with the basic terms of the present dissertation, such as culture, size of enterprises, and internationalization. This chapter describes the theories which serve as a base for this thesis and explain their necessity to grasp essential elements of the decision-making processes which lead to business relations between China and Austria or not. These models show, from different points of view, the specific aspects of communication, cultural differences, decision-making, best practice and the system theory (as a unifying concept), highlighting various aspects of possible entry modes into the Chinese market. The culturally oriented models are the cultural theory according to Hofstede, Hall's two classical concepts of context (1969) and Trompenaars and Hampden-Turner's patterns of values and behaviour (1997). Luhmann's model of system theory (2011) is presented with a focus on communication. Also, four approaches of decision-making theory are presented: the quantitative and qualitative approaches, strategic processes changing between global integration and local responsiveness, and best-practices models.
2. Chapter two shows relevant aspects of internationalization regarding entry modes and challenges for SMEs (with respect to factor size class) in Europe, Austria and China. Therefore, - after a review of recent research papers - important results of the large European Study of Internationalization 2009 are presented. Equally important for this promotional work is a current study of Austrian SMEs regarding business with China in 2015. This survey contains data which are relevant to the third research question of this thesis, but the results had been published only in the form of simple statistics until so far. Hence it seemed to be of importance to unlock the real potential of these results by a re-evaluation of the data pool which is presented in this chapter. Further sub chapters describe the applied models and methods. They describe the input both from the developed general and specific model of research and the procedures for data collection in detail.
3. Chapter three presents analyses of data, answers to the research-questions and validation of the hypotheses. The focus lies on the process and factors of input for the market-entry-decision of Austrian SMEs in China and selected aspects of the consequences (effects). An overview of recommendations by responding managers and a final Comprehensive-View Model for the entry-mode-decision are shown and interpreted.

## **Acknowledgement – Words of Gratitude**

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# 1 THEORETICAL ASPECTS OF CULTURAL DIMENSIONS, COMMUNICATION AND DECISION MAKING

This chapter provides the state of the research (review of literature), a theoretical foundation of the present thesis, with applied theories and models. At the end of this chapter, a summary for the current thesis is drawn.

## 1.1 Entry Modes and Literature Review of Internationalization

The following sections discuss the different approaches for companies when entering international markets. The first concept reviewed is the Incremental Internationalization model and the second is the Rapid Internationalization model. Within these two, the stage models, such as the Uppsala and the Innovation, and the Rapid models like International New Ventures (INVs) and Born Globals are compared. This is followed by a review of the Networking Approach and Resource based Views and International Entrepreneurship Perspectives.

### Incremental Stage Models of Internationalization

Internationalization process models see internationalization as an incremental process. The commitment of resources grows over time as experience and knowledge of foreign markets increase. The Incremental Internationalization model (IIM) draws its foundations from economic theory, organization theory and marketing theory. Within this perspective, internationalization processes posit that firms move into foreign markets through gradual development and in distinct stages (Johanson & Vahlne 2009). This is also discussed in Penrose and Pitelis (2009).

The two major models dominating the Incremental Internationalization perspective are the Uppsala (Johanson & Vahlne 2009) and the Innovation-Related Internationalization (Zhang et al. 2003). The Uppsala model comes from Sweden, whilst the Innovation-Related Internationalization model, formulated in the USA; however both share the same notion that firms engage in international activities in incremental steps and through distinct stages. Resource based view which argues that internationalization is a gradual involvement process and lines of business. But out of the view of a company it is disputable that internationalization is really such a gradual process. Out of strategic reasons companies often

start entering foreign markets companies on base of heavy investments. Overmore, entering new markets is usually not a unidirectional process administered by the entering company but involves other parties.

### Rapid Internationalization Models

This models emerged due to evidence that many firms avoid incremental schemas in their internationalisation process and claims that firms go into international markets right from their birth (Loane & Bell 2006; Oviatt & McDougall 1994). Some empirical evidence conforms to this behaviour which challenges the validity of incremental models, in particular the Uppsala model. This perspective is associated with many concepts, such as Born Global, International New Ventures, Global Start-ups, Born International, High Technology Start-ups, Instant Internationals, and Virtual Instant Global Entrepreneurs (Loane & Bell 2006). The rapid models are identified by the total turnover, speed or pace of internationalisation and the scope. In face of the many concepts associated with the Rapid Internationalisation models the most prominent ones are International New Ventures and Born Globals (Gabrielsson & Gabrielsson 2013).

Usually, these models are backed and strengthened by strategic aims of enterprises to realize projects within a certain period. However, protectionist measures by governments have the potential to delay entering the market, at least to prolongate the process of entering the foreign market.

### Incremental versus Rapid Internationalization Models

Bell and McNaughton (Bell & McNaughton 2000) propose that the firm's internationalisation is mainly distinguished by being a traditional firm utilising an incremental approach to internationalisation or a born global firm that has high value-added products and services. The distinctions between these two pathways – rapid or incremental internationalization - have six distinct features: 1) motivation to internationalise, 2) international objectives, 3) international expansion, patterns, 4) pace of internationalisation, 5) method of distribution, and 6) international strategies. In order to support internationalization Bell and McNaughton (2000) suggest that government involvement in international trade policy and industrialisation in relation to SMEs should be aimed toward value-added products/services and a knowledge-based economy.

This contrasting pair of models can be completed by a mixture of both models depending on national policies and environmental or market conditions.

### *Factors Influencing Entry Mode and Market Selection*

Internal factors like products, resources and commitment are important to determine the foreign entry mode, if the products are highly differentiated and export entry mode is favoured, but if the products are technology intensive then contractual entry, such as with licensing is preferred. Having varied resources gives a firm more entry options ranging from low to high commitment modes. External forces, like the home country and foreign market characteristics, environmental and production factors also affect the entry mode chosen for targeted countries. Both internal and external forces influence the choice of foreign market selection and entry mode: “External factors, like the host countries business environment and the feasibility of certain industries are affected by the companies experience and measures to handle risks” (Root 1994, p. 168). Which means, that the specificities of industries and characteristics of foreign markets determine the possible and upcoming risks.

Internationalisation motives and mechanisms have been changing in the last decades quite dramatically. The business environment in the aftermath of the Second World War was giving the ground for the more macro-economic models for explaining international investment and trade of corporations. The second wave of internationalization research can be found by the behavioural theory of the firm and its influence on decision-making concerning international activities of the firm (Johanson & Vahlne 1990, Luostarinen 1979).

More recent perspectives on the internationalisation of the firm deal with the eclectic paradigm of internationalisation (Dunning 1996) and the Born Globals debate (Gabrielsson & Gabrielsson 2013; Loane & Bell 2006). Globalisation as a phenomenon is quite topical as well, albeit a very complicated matter.

Currently in the aftermath of the the global financial crises and fundamental political changes in great national economics like the US globalization itself is being put under pressure. Rules which are in force for decades are now changing fast. Trade wars cannot be ruled out.

### *Current State of Internationalization-Research*

Finding a suitable institutional frame for international business activities is not a simple task as it has far reaching implications for the practice of management. In fact, researching on entry mode decisions is mostly the central focus for business scholars studying internationalization – in waves - within the last five decades (Beugelsdijk et al., 2018; Johanson and Vahlne, 2017). Hereby, firms are faced with critical decisions when seeking a balance between maximizing profits and minimizing losses (Marano et al., 2016). The choice for a specific international entry mode can be seen as an institutional arrangement (the

establishing of a system) for foreign operations of a company. Advantages and disadvantages of choices, based on various theories, have been discussed at least since the basic PhD-dissertation of Stephen Hymer published in 1960. Recent interests of specific research lead to investigations of borders, when various effects can be empirically observed (Beugelsdijk et al., 2017). An essential accompanying concept within this kind of research is the concept of distance between countries (Harzing and Pudelko, 2016) - especially the concept of cultural distance (Lopez-Duarte et al., 2016). This subject is not only still of high relevance for strategic management but progress in understanding fundamental factors influencing the circumstances of this basic decision and their consequences seem to be rather small as Shaver had highlighted in 2013.

As the choice process is often complex the studies of choices are methodological complex subsequently. Furthermore, many entry mode decisions depend on entry mode decisions and accompanying experiences of the same company in other markets. Consequently, the definitely not as a rhetorical meant question of Shaver “Do we really need more entry mode studies?” (2013) led to a fruitful discussion. For instance, Hennart (2015) proposes three important questions of research, two of them are relevant for the current dissertation: “How is the entry mode decision process structured?” and “What determines the evolution of operations resulting from suboptimal mode choices?”. A specific methodological strain is characterizing this area of research: the meta-analytical method (Duran et al., 2016). However, one has to mention, that selecting a specific entry mode in a foreign market should be based on a large set of careful thoughts. Textbooks for strategic management emphasize this concept. Therefore, it doesn't come to a surprise that a uniform theoretical framework for this basic management-decision lacks.

Quite a lot of theories and models of internationalization have been proposed, each focusing various aspects (Onetti et al., 2010; Malhotra, 2003). To name only a few of these proposed different basic frames (Li et al., 2013, p. 163): (a) evolution as a long-lasting process of both acquiring experiences and gradual investment of company resources, (b) transaction cost regarding the economic efficiency of the company, (c) capability theory where the choices depend on the abilities of the company, (d) system theory in looking at the overall stability and integrity of the company, (e) decision-making theory as a behavioural theory based on selected important factors. However, how the challenge to link them in a practical way is not solved so far in a universal way and has to be researched (Kirkman et al., 2017). This dissertation focuses on (e) with contributions of (c) and following a cultural difference

approach which is currently in the international focus of research.

A novel result of the empirical survey done within this dissertation-project is that Austrian SMEs face significant heighten economic risks – compared to firms in other European countries - as Austrian institutions offer a wide and attractive range of export-supporting programs such ignoring the advantage of accumulation of experiences by import. This can be seen as an institutionally fixed bias or anti-thesis of the evolution theory (a). Internationalization has gained pace within the last years, it is a dynamically developing process. This dynamic leads to rapidly increasing - even the very existence of the company threatening - risks (Törnroos 2002). As a result of this process which is increasing in its speed a specifically context-related multi-theoretical approach seems to be a base to utilize results already accumulated in various areas.

From the perspective of a decision-making theory (see letter c from the enumeration of theories above) governing factors can be broadly differentiated into internal factors (company-related) and external (environmental-related) factors. By definition external factors have to be accepted as they are at a certain time. Therefore, knowledge of them is of utmost importance. External factors refer to the closeness or openness of the targeted market, the influence of international organizations like the World Trade Organization, or other factors like political, ethnical or religious influences (Li et al., 2013, p. 169). Even a chain of combination of these factors exists: for instance, on base of an internal internationalization the company moves to an outward internationalization because of relationships to suppliers, that are already active in foreign countries (Johanson & Mattson 2015; Jones 1999). This can be seen as an example of an applications of network-theory.

An important internal factor is the size of the company, as usually this determines also resources and the extent of experiences in internationalization. This means that there is a (slight) tendency that large enterprises prefer proprietorship over partnership. But this relation is not generally supported by research so far (Ninerola et al., 2017, p. 39). Some studies could not find such a relationship between the size of the company and the selected entry mode. In further consequence the questions of research should be redefined and the researching disigns broadened by incorporating addiotional factors.

The choice between an establishing mode and an entry mode (Dikova and Brouters, 2016) has to be classified as a strategic decision as the final decision means a long-term investment and a – for considerable time - irrevocable commitment of firm resources (Klier et al., 2017).



The process of decision-making has dominating influence on the outcome. Therefore, it is remarkable that in practice, top-managers – independent of the size of the company - often come to these decisions with poor rational information, on the base of narrow analysis and/or within a limited schedule of time and/or disregarding associated risks (Li et al., 2013, p. 162). Since the very beginning top-managers often prefer cooperative risk-reduction strategies (Morschett et al., 2010, p. 61). Reasons for this unsatisfactory behaviour and decision-making can lie in different managerial cultural values on both sides.

For the potential Chinese partner, it is valid that Confucian thinking is still a traditional and culturally highly appreciated value. Confucianism in form of a hardly changed Neo-Confucianism exerts a – sometimes dominating - influence upon Chinese management practice (Ji, 2010). Essential parts of the Chinese philosophy of Confucianism can be understood in a comprehensive way by striving both on individual and social level for social harmony, created by a proper order of state, business and family relations. Important human values include personal steadiness, having respect for tradition, a sense of shame and reciprocity. The philosophical doctrine of Confucianism arose in turbulent times and therefore stresses social order and emphasizes the importance of a harmonious coexistence. If there is harmonious life in society no conflicts need to be solved (Lin, 2012). Additions like the incorporation of different cultural values and associated antagonistic managerial perceptions into the decision-making process improves both the understanding of the very process itself and the possible outcome. But one could also challenge this classical Chinese assumption that a harmonious life prevents conflicts. This assumption is based on the notion of traditional family values and is maybe not suited for interactions between international working companies and their (Chinese) environment.

A considerable amount of research in international business has been done within the last decades dealing with national culture (see for an overview Pinto et al., 2013). On base of an overall view the concept of cultural difference has been widely adopted. Cultural difference can be defined as the degree of distinction of two nations cultural norms, habits, languages, religions or approached as a system (Moran et al., 2014; Shenkar, 2001). This distinction is named cultural distance by researchers. Cultural distance reflects the normative distance between the internationalizing company and targeted host-country environment (Brouthers and Hennart, 2007; Yiu and Makino, 2002). From other perspectives, this distance can be understood as the amount of normative pressures imposed by resident people or it also can be understood as the total difference of psychic mind sets. But one has to keep in mind, that

operationalizing the corresponding terms is a complex task for research.

A meta-study of 72 independent primary studies comes to the following conclusion: „[...] one of the most frequently investigated variables – cultural distance – cannot be considered to have a clear direct influence on the mode of entry choice.“ (Morschett et al, 2010). The results have been ambiguous. It could be that due to a high degree of cultural distance cooperative modes of entry are preferred because the potential of the local partner can be made the most of. But also, the opposite seems to be an often selected approach: by installing wholly owned subsidiaries the company avoids the complexity in a situation of high cultural distance. Thus, large companies, especially MNCs (multinational companies) are able to transfer their know-how and to exert high control (Morschett et al, 2010). A recent case study about a large retail-MNC underscores this pattern (Gollnhofer and Turkina, 2015): the management preferred the commitment of high resources in spite of a high cultural distance to be able to implement its business model and keep control. This company takes cultural differences into account but executes successfully a broader overall strategy of integration.

An almost identical comprehensive concept as cultural distance has been proposed: the concept of psychic distance (Dow and Karunaratna, 2006). It already has been critically remarked by the author of this dissertation, that this concept is based on a thoroughgoing individual approach. The necessary transition of the basic psychic cultural frame from an individual approach to collective (for instance organizational or sociological) approaches, which themselves are definitely based on fundamental different assumptions, is blurred. See additional arguments against the concept of psychic distance: Buckley, 2014, Meyer et al., 2017. Notice especially the heightened risk of delivering methodological artefacts when applying this concept on a 100%-quantitative base.

An adopted comprehensive view of cultural difference in terms of ‘cultural distance’ or ‘psychic distance’ seems to neglect the weight of specific areas and leads in a dead end when looking for a general theory or wide ranged managerial suggestions. Therefore, these non-differentiating concepts have not been adopted in the current dissertational project.

Surveys of qualitative or quantitative nature had looked at the assumed cultural influence into different areas of culture by using Hofstede’s classification of different cultural dimensions within the last three decades. These dimensions comprise power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance, long-term orientation. Though these dimensions can be criticized too, they still offer potential for

fruitful and more detailed explanations, because different contexts can advance the understanding of entry mode decisions: “But that requires that studies be designed explicitly for that. An advantage of new empirical contexts is they have the potential to invoke variance in factors [...]” (Shaver, 2013). Hence, the concept of proposed dimensions by Hofstede has been selected as one of the applied theories for this dissertation considering the context of internationalization, Austrian SMEs and the Chinese market.

At the first glance, it seems to be a platitude saying that communication is an important tool to support and coordinate collective undertakings. But communicating across cultural borders both is an extremely challenging task as well as it offers unique benefits. Messages in local, regional or national settings are relatively uniform, they often contain just different versions of the same core of information. Whereas messages from global sources contain usually various and substantial different information (Vorobeychik et al. 2017). This is absolute necessary in coordinating global business activities and advantageous for seeing and checking different options if a company tries to reach a target or to solve a problem.

Another feature of communication is the fact, that it is relevant both in internal factors and external factors like different national cultures. External factors (external environment) are especially influential for the success of SMEs in emerging economies precisely because of limited company resources and of vigorous often chaotic nature of these markets. Due to the dynamism, Chinese markets exhibit frequent changes in important legal regulations on a national level gaps of knowledge open regularly. As a result, SMEs are easier attackable by competition within a hostile environment than large enterprises or MNCs (Bulis and Skapars, 2012). On the other hand, a smaller size of the company offers advantages in the process of internationalization (Sarapovas et al., 2016). On one side, smaller firms can straighten this process, react faster on market changes or offers low bureaucracy, tendencies to innovations and seizing opportunities. On the other side, smaller firms face existential risks considering the often rapidly changing nature and conditions of foreign markets.

#### Summary for Current Thesis

Internationalization theories convey partially insights into the motives and drivers of internationalization. In a limited way they are also useful for a description and classification of different internationalization stages. However operational knowledge that helps management to find orientation for possibilities to influence and design elements of the evolution from a company point of view is restricted. An also interesting perspective from a

small and mid-sized firm's point of view is the rise of network organisations and the role of outsourcing of functions of large multinational companies (MNCs). Relationships between firms in the forms of sets of connected exchange relationships in business gives SMEs new growth opportunities. But one has to bear in mind that the possibility of failures increase dramatically. The network perspective on internationalisation forms also an productive opportunity for firms with small resources but e.g. specialised skills. These skills can be connected to specific needs in foreign markets through other actors. But it is a complex and difficult task to integrate these actors.

## **1.2 Development of Cultural Concepts and Cultural Dimensions**

To be successful in the global market, managers do not only have to understand both their own culture and the culture of the trading partners, but they also have to understand values in the background and specific cultural patterns and how these values and manifested patterns shape communication and, finally, decisions. Hence, first, it is important to be able to use empirical-based models for comparing cultures.

This chapter describes the theories which serve as a base for this thesis and explain their necessity to grasp essential elements of the decision-making processes which lead to business relations between China and Austria or not. These models show, from different points of view, the specific aspects of communication, cultural differences, decision-making, best practice and the system theory (as a unifying concept), highlighting various aspects of possible entry modes into the Chinese market. The culturally oriented models are the cultural theory according to Hofstede, Hall's two classical concepts of context and Trompenaars's patterns of values and behaviour. Luhmann's model of system theory is presented with a focus on communication. Also, four approaches of decision-making theory are presented: the quantitative and qualitative approaches, strategic processes changing between global integration and local responsiveness, and best-practices models. The final section of this chapter consists of the conclusion drawn for the current thesis.

A basic and frequently discussed work in the area of cultural theory is the oeuvre by organisational anthropologist Geert Hofstede. Hofstede conducted research in the context of international management und culture. He showed that national-based cultures or clusters of regional cultures do have an influence on the behaviour and organisation of enterprises. He

proposed cultural dimensions by especially studying varying values of workers of the IT company IBM.

### Classification of Cultural by Quantifiable Indices

Based on his own empirical work and review articles about national characters, Hofstede at first arranged culture on four dimensions in the form of quantifiable indices: Power Distance, Individualism/Collectivism, Masculinity/Femininity and Uncertainty Avoidance. Later on he added a fifth index – Long-term Orientation. These dimensions are determined – together with aspects concerning the current thesis – as follows.

- 1) Power Distance is defined as “the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally” (Hofstede 1994, p. 28). The less power people of a population hold, the higher is the corresponding index of Power Distance. The more power people hold the smaller this index.

This dimension describes not only the acceptance of power-concentration or dispersion, but also the expectations of members of a specific culture. This definition implies two different aspects, acceptance as an aspect of past and present, and expectations as an aspect of the (near) future. Therefore, within the field of management and organizing processes, this second aspect is very important, as this aspect refers/alludes to the readiness to accept or to tolerate new forms of handling processes or organizing people.

- 2) The second dimension originally proposed as an index by Hofstede is Individualism/Collectivism. Hofstede defines this dimension stating that “individualism pertains to societies in which the ties between individuals are loose: everyone is expected to look after himself or herself [...]. Collectivism [...] pertains to societies in which people [...] are integrated into strong, cohesive in-groups, which throughout people’s lifetime continue to protect them in exchange for unquestioning loyalty” (Hofstede 1994, p. 51).

Considering relevant political and economic mainstream ideas in the decades from the early 1980s on – for instance, the clash between capitalistic and communistic systems or the leading neoliberal concept in the years after 1991 –, it becomes evident that this very concept has been discussed and researched intensively. Within each of the mentioned ideas there is the specific assumption that the individual person or the

society as a whole is in the centre of all doing and thinking. A word of caution is in order, however. There is one basic but hidden assumption in the dimension of Hofstede: stability over time (Baskerville, 2003, p. 1). If one looks at the history of China in the last 35 years, one can see that the individual and societal values have changed quite considerably. Now, Chinese people seem to be more inclined to change and self-enhancement – quite the opposite of overall expectations during the communistic time (Egri and Ralston, 2004, p. 218).

- 3) Hofstede defined a dimensional index for Masculinity/Femininity stating that “masculinity pertains to societies in which social gender roles are clearly distinct [...], femininity pertains to societies in which social gender roles overlap” (Hofstede 1994, p. 82).

From a contemporary and tendential gender-egalitarian viewpoint, the naming of this dimension is somewhat puzzling. It raises the question if such a dimensional index may generate more confusion than clarity, especially if one looks at the data and processes based upon which Hofstede developed this index. He related his Masculinity/Femininity dimension to development data from the UN (United Nations) and associating shares of women in the workforce (Baskerville, 2003, p. 9). China is by no means a developing country.

In conclusion, this dimension – although it had been applied and discussed frequently in the past – should be handled very carefully in the comparison of Austrian with Chinese culture.

- 4) An index which indicates the amount of uncertainty, which a person from a specific culture tries to avoid, is Hofstede’s fourth dimension. He defines Uncertainty Avoidance as “the extent to which the members of a culture feel threatened by uncertain or unknown situations” (Hofstede 1994, p. 113).

One can invert this definition and ask if a member of a certain culture feels comfortable in defined and structured situations or not. Also, one can consider to what extent members of a culture try to control specific situations or to what extent they are willing to accept risks. Ambiguity and the unknown threaten members of those cultures with a high index of Uncertainty Avoidance. This dimension should be considerably helpful in business negotiations, but one has to find reliable instruments for measuring the index.

5) Later on, Hofstede (2001) proposed a fifth dimension, which he called Long-term Orientation. In Short, Long-term Orientation refers to concepts of time, i.e. where the focus of people's values, efforts and relationships lie (on the future, the present or the past) and the encompassing perseverance expressed in the time-span overlapping these concepts. Long-term Orientation, for instance, means that essential events of life will emerge in the future, a person should adapt to changing circumstances, one should try to learn from others and so on. Short-term Orientation means that essential events of life have already happened or are happening now, a person remains as they are (and always remains the same), a person should obey tradition and so on.

In 2011, Hofstede states that – based on empirical calculations – that the “long-term-oriented countries are East Asian countries, followed by Eastern and Central Europe.” (p. 15). Thus, for the purpose of the present thesis, the difference between the respective long-term orientation index of the Austrian and the Chinese culture could be small.

#### Critics to the Dimensional Concept

Some remarks concerning limitations to the dimensions proposed by Hofstede can be made. When studying culture, one basically compares societies and not individuals. Therefore, dimensions like Masculinity/Femininity or Uncertainty Avoidance, which are fundamentally defined on the individual level, have to be thoroughly examined for what their corresponding content is on a societal level. Moreover, concepts like Masculinity/Femininity on the individual level are contemporarily in more or less constant flux. As a result, the very base on which this dimension is built, may change within a few years. Furthermore, which of the many different concepts of Masculinity/Femininity which are currently established on a global scope should be selected as the pivotal concept? This leads to the next methodical complication: is this pivotal concept stable long enough so that it can be used as a grounding measure? Otherwise comparisons will lose their differentiating power quickly.

Basically, the proposed indexical dimensions by Hofstede are building a statistically based model of factors. An important requirement for such a model is that the defined factors (dimensions) are independent from each other. Otherwise there is an intermingling of influences which are not controlled. If one looks at the published literature of the work following Hofstede's path in establishing cultural dimensions, one has the impression that this important requirement is either overlooked or just calculated as an inferior requirement in

hindsight. Also, there seems to be a hype of suggesting new dimensions. For instance, the famous Globe Study expanded the five dimensions of Hofstede to nine. The authors of the Globe Study split some of Hofstede's dimensions and added others (House et al., 2004). Hofstede himself proposed with co-author Bond (1988) a sixth dimension - indulgence versus retention. This is based on a Confucian conception. Hofstede himself stressed 2011 the difference between his proposed social dimensional concept and the values one can find on the individual level.

In the end, it seems that each new study proposes new ad-hoc dimensions if the set of data is just large enough to allow for doing so. But independency, the very foundation of a concept of dimensions (meaning geometrically for instance that the proposed theoretical dimensions are at a 90-degree angle to each other) is seldom tested.

### *Complementary Models of Culture*

Culture was defined as a man-made material, a psycho-social fabric. In the beginning of the second half of the 20<sup>th</sup> century, a more systematized approach had been established. The purpose was to obtain classifications of cultures by using systematic methods. Hart determined the year 1959 as being the start of solid research in the field of intercultural communication, which was when Hall started publishing. In his review of the history of intercultural communication, Hart (1997) dates the beginning of intercultural communication to the year of 1959. The following two sections look at how humans as bearers of a specific culture interact with each other and presents themselves: (1) Halls two classical concepts of context and time orientation, (2) Trompenaars' patterns of values and behaviour. The focus hereby lies on communication and patterns of behaviour. Then Edward Hall published "The Silent Language". For him, context was of the utmost importance – he described high-context cultures and low-context cultures. Later on, Trompenaars and Hampden-Turner (1997) offered a detailed classification of cultures with explicitly formulated values. But critics (compare Ali et al., 2008) see this and similar classification as predefined archetypes which ignore the dynamics of change or the different levels of culture within the same society.

### *Halls Two Classical Concepts of Context and Time Orientation*

Concepts of cultural context and time have been discussed for more than halve a century. Studies find varying effects on changing aspects – whether to the performance of the subsidiaries or the company as a whole to name just one aspect (for a review: Beugelsdijk et al., 2018). Not surprisingly heavy critics with following intense discussions dominated this field regularly for some time. On the other hand, these concepts of cultural context and



distances found their ways into other sciences like psychology in form of the seemingly different sizes of the personal space of people (Gharaei and Rafieian, 2018). It is therefore worth and fruitful looking back to the origins of the debate. The American anthropologist Edward T. Hall published two basic works which focus on cross-cultural concepts, one in 1959 - as already stated above - and one book (“The Hidden Dimension”) in 1969. Hall defined two dimensions of culture which attained classical status in the years after. According to him, context was of the highest importance. Therefore, Hall described High-context Cultures and Low-context Cultures. “High context transactions feature pre-programmed information that is in the receiver and in the setting, with only minimal information in the transmitted message. Low-context transactions are the reverse. Most of the information must be in the transmitted message in order to make up for what is missing in the context” (Hall 1976, p. 101).

The concept of high context at the one end of the scale and low context on the opposite side is still often used today, particularly in personal and real-life situation; in face-to-face “communication”, as is the authors regularly formulate it in their analyses. But it also has to be seen that cultures “are on a sliding scale with respect to context” (Mooij, 2010, p. 71), therefore, paradoxes in every-day business still remain and can’t be solved by this concept.

From a critical point of view, one has to say that such approaches are not applicable to the term communication as it is used in scientific discussion. Hall’s definition misses at least the most essential element of intercultural communication: the echo and feedback of transmitted messages. Communication does not deal with sending or receiving information alone. To cite, for instance, one definition of many, “communication is a transaction whereby participants together create meaning through the exchange of symbols” (Fielding, 2008, p. 10). This definition, for example, shows that communication is composed of transactional processes whereby participants reach a more or less commonly shared meaning after several rounds of information exchange (symbols). This ‘shared meaning’ does not imply, for instance, a common opinion among communicating people of certain subjects, but only that people do now know what the communicative partners mean.

It seems that Hall had based his ideas on the classical information-sending concepts of Shannon and Weaver in a very broad sense of communication of “procedures by which one mind may affect another” (1949, p. 3). Models of this time had been approaches where the functions of encoding and decoding were very important. They were technically oriented pure information sender-receiver models. One of the typical applications was a wireless radio

station which “airs” news and music. Whether people receive this information and how they react to it is not known. As a consequence, the dimension of high/low context proposed by Hall should be handled carefully when analysing communicative processes between people of different cultures. Maybe it can be classified as a prerequisite of an improved model and analytic procedures. Of course, the high/low context concept indicates causes for difficulties arising when people from a high-context country (like China) interact with people from low-context countries (like Germany or Austria).

Hall established, another cultural concept as an antagonistic model to the high/low-context model – the polychronic versus monochronic time orientation. The question behind the latter is how the handling of tasks and interpersonal relations is dealt with by cultures with a focus on time. The following table gives an overview of two opposite concepts and their associated patterns of co-ordinational behaviour. Hall called these opposite concepts monochronic and polychronic. The two basic underlying patterns could be called “one task at a (one) time” and “multiple tasks at multiple times”.

**Table 1.1: Monochronic and Polychronic Cultures**

Single aspects of culture	Monochronic	Polychronic
Interpersonal relation	Current task is subordinated to present schedule	Present schedule is subordinated to multiple task
Activity coordination	A fixed and rigid schedule coordinates interperson activities	Interpersonal relations coordinate current activity in a flexible way
Task handling	one task at a time	Multiple tasks are being handled tendentially simultaneously
Breaks and personal time	Sacrosanct regardless of personal ties	Personal ties dominate possible breaks
Temporal structure	Inflexible	Flexible
Separability of work and personal time	Separate	Intermingled
Organisational perception and activity	Activities are isolated from organisation	Activities are integrated in and related to organisation

*Source: Base for operationalizing research-designs in management science (Pauluzzo, 2018) in accordance with Hall (1987).*

The designation of “chronic” of the model is partially misleading. Other authors, like Stephan Dahl, regard the table above as an order where interpersonal relations dominate, and time just follows (1998). To go even further, if one looks at the statement of each cell and captures on a global view the explicit and implicit references, the very base of this models turns out to be more an interwoven, multi-dimensional concept than a strict two-dimensional one. The author of the present thesis argues that the base of this concept is constituted by a threefold relation between (1) humans, (2) activities and tasks which have to be done (3) in a certain time.

Therefore, the name label of this concept as model of monochronic-polychronic culture is somewhat misleading as already mentioned above. Although the very fabric of this so-called monochronic-polychronic model lacks empirical quantitative evidence in a total view, it can be a useful instrument, because

- it brings the complexity of the term culture back into memory and
- many observers of contemporary societies would suggest that the polychronic attributes of this model are the attributes of many developed societies nowadays – like China, Germany, or Austria.

As a consequence, this model is less a model for differentiating between two societies but a model that offers an agreed common background.

#### *Trompenaars' Patterns of Values and Behaviour*

For management dealing with internationalization effective patterns of behaviour on base of cultural values are a very important and practical supplement of the above presented cultural concepts - see for instance the cross-cultural meta-analysis of how leader's emotional intelligence influence how subordinates are performing (Miao et al., 2018). In a structural-functional analysis, the US sociologists Parsons and Shils in their famous publication “Toward a General Theory of Action” offered potential answers to the classical psychic-social situation: what is going on within and between two persons meeting each other face-to-face, how do they establish a relation to one another when they are members of (different) social systems? The authors identified basic dilemma values and also characterized communication as a process where people interact with each other. The scheme of this interacting process is that one opts for a specific value and expects related reactions from others<sup>1</sup>.

On base of the early work by Parsons and Shils (1965), a generation later, the authors Trompenaars and Hampden-Turner (1997) presented a more detailed classification of

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<sup>1</sup> Out of currently accepted definitions of communication and in contrast to Hall's concept of context, Parsons and Shils thus indeed offer a true model of intercultural communication.

cultures. They had simplified basic situations but enriched them with explicitly formulated value dilemmas. Their procedure offers the possibility of transferring the ideas of Parsons and Shils into the real world, especially into the world of culture, economics and business. Later on, Trompenaars and Woolliams (2004) concentrated on preferred behaviour that can potentially be encountered in work and private situations.

One underlying assumption of their work is that behaviour follows values. Values dominate behaviour – at least channel behaviour<sup>2</sup>. Basic orientations of values can be seen on continua of rather opposite terms. Three of these continua are presented as follows (Trompenaars & Hampden-Turner 1997):

#### Universalism versus Particularism

The universalism-particularism value orientation describes a continuum<sup>3</sup> where, on the one end, an explicit preference for abstract rules lies, and, on the other end, the preference of relationships with concrete persons in concrete situations. Universalism is rule based; societies in nations like Germany, Switzerland, or Austria belong – to a different extent – to this value orientation. Rule-based societies have a tendency to classify situations and behaviour. They also try to avoid exceptions as much as they can. Societies oriented toward the opposite classify people and relationships. They see congeneric people, friends or enemies having special relations to oneself. So, members of these societies tend to support or to hamper people independently of the situation in which they are (Trompenaars & Hampden-Turner 1997, p. 30).

Some remarks regarding the perception of this dimension is that this line of two opposite orientations can be interpreted partly in terms of Hofstede's uncertainty avoidance dimension (how to avoid uncertainty) and partly on the base of the collectivist/individualist dimension (who is the target of the behaviour). In conclusion, members of a universalist culture (like German-speaking countries) are well advised to incorporate far more time for establishing or starting a project with members of a particularistic culture. It is important to establish trustworthy relationships before everything else happens.

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<sup>2</sup> This assumption is for instance one of the fundamental elements of the widespread ACT (Acceptance and Commitment Therapy) in psychotherapy (Ciarrochi & Bailey, 2010, p. 15).

<sup>3</sup> Parsons and Shils, who established a general theory of action in 1951 originally used the term 'dilemmas of orientation', meaning just twofold opposite options (1965, p. 12).

### Communitarianism versus Individualism

The communitarianism-individualism describes a dilemma where, on the one hand, people give “primacy to the moral standards of the social system“ (Parsons et al., 1965, p. 16) and, on the other hand, people evaluate and decide just on the base of their own normative ideas. In other words, to which orientation do people of a certain culture tend as a prime orientation – to common targets of the society or to the goals of the self? The latter orientation is called individualism and is usually regarded as being typical for modern societies. The first orientation can be called communitarianism and is usually associated with traditional societies.

Some remarks regarding the perception of this dimension are that, from a theoretical point of view, the communitarianism-individualism orientation incorporates more of a complementary orientation than of an antagonistic one. . Frequently use „we“ and seldom „I“ or „me“, take time for lengthy negotiations in the project groups, etc. (Trompenaars & Hampden-Turner, 1997, p. 67). Therefore, practical tips for doing business as a person within an individualistic culture are nevertheless somewhat similar to conclusion drawn in the last subchapter.

### Affective versus Emotionally Neutral

This orientation describes the scale how feelings are expressed. People of Emotional Neutral cultures try to accurately control affection and emotions. Naturally, people from these cultures have emotions, but is regarded as bad manners to show them. People from affective cultures do not suppress emotions but show them instantly. For them, subduing affection is bad manners.

Some remarks to the perception of this dimension are that, as international (intercultural) communication is an exchange of information (and being aware that humans are the carriers of this information), the difference between verbal and nonverbal communication is an intrinsic part of this affective-emotional neutral orientation. Voice, personal space and body gestures may lead to different interpretations of certain information. Recent psychological embodiment research shows that there are distinct cultural patterns of nonverbal signals. These nonverbal signals are interconnected with each other, they have an enormous impact and exhibit a certain directness which may lead to many unintended misinterpretations (Trautmann-Voigt & Voigt, 2012, p. 2). Hence communication should be seen based on an integrated (360 °) view.

Critical remarks from the author of this dissertation regarding Trompenaars’s approach are:

- (1) The basic orientations of values and behaviours presented above exhibit dimensional characteristics, but they do not seem to be independent from each other,

as dimensions should definitely be. For instance, where is the border between the rules of universalism and the moral standards of social systems of the communitarianism? It rather seems that these areas overlap.

(2) Another critical point can be made regarding the assumed continuum ‘affective versus emotionally neutral’. Concrete manifestations on this continuum appear in the form of attitudes and behaviours of single (to some degree individual) persons. Again, where is the assumed border between the used terms?

(3) Therefore, it is no surprise that a meta-analytic review from nearly 600 empirical studies, for instance, state that “cultural values were most strongly related to emotions, followed by attitudes, then behaviors” (Vas & Kirkman & Steel, 2010, p. 1; similar recent reviews like Miao et al., 2018). In the end, the benefit of Trompenaars’s approach depends on clear definitions, demarcations between the used terms, and specific assignation of the terms to the relevant continua. Then, it can be promising to combine these terms.

### **1.3 Communication within the System Theory**

So far, with the cultural theory according to Hofstede, the model for intercultural communication, the decision-making theory and the models for best practice, we have proposed four relevant models which help to grasp essential elements of the processes which lead or do not lead to business relations between China and Austria. These models show specific aspects of the events and processes of intercultural collaboration, but still the overall and integrating view is missing. One of the most important contemporary theories for a global and interrelated view of organisations operating in certain environments is systems theory.

#### *Three Levels of Social Systems*

To get a synchronized and interdisciplinary view of the subject of this dissertation concerning possible entry modes into the Chinese market, the theory formulated by German sociologist Niklas Luhmann (2011) appears to be relevant. One of the great advantages of his systems theory is the basic use of an abstract terminology which leads to impressions of alienation in the beginning. Terms like “autopoieses”, “auto-reference”, “sense”, “operatively closure” or “structural couplings” sometimes offer new, refreshing and profound views of complex situations. One of the main theoretical assumptions is that there is a border between a social

system and its environment and that the environment is always more complex than the social system. This assumption implies that establishing systems (or reasoned defining of systems by the scientist) offers the advantage of reduced complexity.

Luhmann (1986) distinguishes three types of social systems: interactions based on an immediate and personal situation (face to face), organisation, and society as a whole. The common underlying processes of all three systems are composed of processes of communication. Social systems reproduce by themselves. Then there is another fundamental – in the beginning rather peculiar sounding – assumption: subjects do not exist at all in social systems. Subjects as basic building stones are not included in this theory. In this manner, Luhmann ignores the entire philosophical, psychological and sociological tradition of the Western world (Schuldt, 2012, p. 22). However, the three basic types of social systems mentioned above show various types of communication. A comparably easy one to explain is the system of interactions.

#### *System of Interactions*

Interactions are face-to-face systems which replicate by communication. In contrast to society, the third social system according to Luhmann, however, communication is of a specific kind (Schuldt, 2012, p. 23): (a) communication in this form needs the physical presence of the participants, (b) communication cannot be stored, (c) perception is a psychological phenomenon, and (d) in the very moment that communications finishes (for instance, when participants leave the room where communication had been taken place), the system of interactions ceases to exist.

Some remarks regarding the conception of this type of social systems are that an important consequence of the specified situation during face-to-face communication is the fact that looping and reflexive elements start to appear. Elements like perceiving of perceiving, expectations of perceiving, expectations of expectations are each connected with a potential different behaviour. Having the model of system theory in mind, this is the point where the proposed advantage, namely the reduction of complexity, simply vanishes already at this basic level of social systems.

#### *System of Organisation*

The second and more complicated system according to Luhmann is the social system presented in the following. Membership is the dominant sign. Membership is integrated in specific settings. For example, normally you can only sign contracts if you are the employee of an enterprise. You sign it for the enterprise. Therefore, the enterprise takes over duties and

has to obey certain rules. This way, an organisation has the ability to synchronise a great amount of interactions within the organisation and with the environment outside it (Schuldt, 2012, p. 23).

Some remarks regarding the conception of this type of social systems are that a decision is a very special and condensed form of communication. Decisions possess again some reflexive and looping character (Luhmann 2000, p. 185; Luhmann 1992, p.166) as they select and prepare the used channels of communication. Hence, it can be stated that organisations reproduce on the base of decisions. What is particular about decisions is that they are 'compact communication' (Luhmann 2000, p. 185) which supply their own contingency. Decisions shape communicating situations in the time following. One conclusion for the present thesis is that, in this respect, organisations as social systems refer to the Decision-Making Theory, which will be discussed later on.

### *System of Society*

The third type of social systems is the system of society. It is a system of higher order and contains all systems of lower order, like systems of organisations or systems of interactions. Society, as the highest possible type of systems, is all-encompassing. Thus, an aspect like a social environment does not exist anymore. From the point of view of a globalized world, society means human society in total. Everyone is part of it. None can be externalized as stability would decline (Luhmann 2011, p. 117). Hence there is no communication outside society. The limits of society are the limits of communication (Luhmann 1995, p. 408). This implies and warrants structural system stability. Additional remarks regarding the conception of this type of social systems is that society includes all substantiations of communication, it also includes specific international communication between enterprises, which in turn rest on decisions within the enterprises.

For the current thesis, especially the two types of social systems – organisation and society – have integrating functions for an adequate synopsis of research.

### *Intersystemic Relationship and Structural Couplings*

Due to specific conditions for the entry modes into the Chinese market, the relationship between systems, in this case between two organisations (a Chinese enterprise and an Austrian enterprise), is of importance. For Luhmann, structural coupling is based on both exclusion and inclusion with the aim of reducing complexity in the environment (2011, p. 117). These structural couplings have as prerequisites certain system abilities (2011, p. 120). Organisations should be able to meet new and challenging situations with adequate responses.



Structural couplings between two systems result in mutual irritation. Irritation may lead to processes of searching, making new decisions and therefore, in the long run, to new identifications (2011, p. 122) and mutual penetration of the two systems. Coupled systems remain independent, but coupled system often experience a structural drift with repercussion on their respective environments.

Summary for the current Thesis:

Two main conclusions for the current thesis can now be drawn: (1) The term society within systems theory by Luhmann refers to the cultural dimensions discussed before, (2) The models of intercultural communication refer to interactions (first level of social systems) which are on the second level of social systems, channelled by Chinese organisations on the one side and Austrian organisations (SMEs) on the other side. Each side is governed by the corresponding society (third level of social systems), both as a base and a background that is not directly visible.

This dissertation focuses on evaluating, analysing the behaviour and decision-making process of Austrian small and medium-sized enterprises entering the Chinese market. As an overall theoretical foundation for analysing different nations or countries, the concept of culture as a man-made, psycho-social fabric has been selected. This should help to look deeper into the so-called internationalization of a firm, which concerns the relationship between the firm and its respective environment in foreign countries.

The basic building ideas for modelling the theoretical background for this thesis are threefold:

- going from the general to the particular,
- selecting overlapping subjects within models in concordance with the field of research (subject of this thesis)
- trying to develop a synopsis of research, targeted at offering fertile ground for the questions of research.

The most general and overall foundation of this thesis is the concept of culture. As this concept is both broad and to some degree vague, it is important to be able to pinpoint certain dimensions. The choice of Hofstede's cultural dimensions as an adequate tool for shedding more light on the complex concept of culture seems appropriate because of two reasons: (1) Hofstede's cultural dimensions focus on the national level, and the values and norms are distinctly derivable from a national culture, the analysis can therefore show some aspects of the cultural differences between Austria and China. (2) Data for a great number of countries are available, including Austria and China. Hofstede notes that "the usefulness of country

scores is not for describing individuals, but for describing the social systems these individuals are likely to have built” (Hofstede 2001, p. 253; similar as an undifferentiated assumption of total cultural homogeneity: Ali et al., 2008). Thus, while the analysis of single individuals and their behaviour, based on cultural dimensions, (for countries) at the national level might be less accurate, Hofstede’s analysis of cultural dimensions could be more accurate at the level of organisations.

The next detailing step in background-modelling is conceptualising the fundamental structure of (cultural or intercultural) communication. Here, the high/low context by Hall can be chosen as the first step in the analysis of communicative processes between people of different cultures. One may find causes for difficulties arising when people from a high-context country (like China) interact with people from low-context countries (like Germany or Austria). This means one has to carefully consider the mutual context in which messages are exchanged. A practicable hint is to enrich overt messages with hidden elements. Furthermore, from the perspective of the second classical concept by Hall, the traditional Chinese culture could be considered a polychronic culture in comparison to the rather monochronic culture in Austria.

From a modelling point of view, one can see Hall’s two classical concepts of context and time orientation (Hall 1969, Hall and Hall, 1987) as a latent background mixture of values and patterns according to Trompenaars and others. These authors described certain values and chosen specific patterns of intercultural communication. Trompenaars and Hampden-Turner (1997) proposed continua of antagonistic values. Three of them have been selected for the current thesis: Universalism versus Particularism (or rule-based versus people-based societies, mainly to avoid uncertainty); Communitarianism versus Individualism (or modern versus traditional societies, revealing at which level of society people and their behaviour are evaluated) and Affective versus Emotionally Neutral (or societies that are affective-prone or non-affective-prone when displaying feelings, mainly based on their non-verbal communication).

The next and third step in modelling the field of research is focusing on the concept of communication. As already stated, merely sending information is definitely not communication. Communication rather consists of transactional processes where participants exchange signs and symbols and create meaning by that. Communication needs looping

(reflexive) processes of exchange. A theoretical tool, which both offers exactly this view and deals with organisations, is systems theory according to Luhmann. Here, the sole base of everything is communication. But one has to keep in mind that communication also has the basic function of reproducing the own social system. If a system has emerged in a specific environment, now, doing communication with the purpose of communicating with other systems can lead to failing communication in the short or middle term, or failing reproduction of the social system in the long term. Therefore, one can probably find a hierarchical order if these functions get into a conflicting mode. Reproduction of the own social system will be most important and subjugate communication of other social systems.

The leading question of the research in the present case is, 'How do small and medium-sized enterprises in Austria choose their way of market entry in China? Choosing means deciding. The fourth and last modelling step for obtaining a toolkit for analysis and data interpretation at hand is therefore the selection of appropriate models from decision-making theory. Decision-making highlights a crucial focus function of management. All the steps in these conclusions brought together lead to a detailed synopsis of research for the present theses as outlined in the following chapter.

## **1.4 Decision-Making Theory**

Decision-making theory as an academic discipline is a relatively young field. It has attracted continuing interest in the literature on business and management. The traditional decision-making perspectives maintain that uncertainty leads executives and entrepreneurs to search for additional relevant information to increase certainty (Rauch et al., 2009; Zahra and George 2002) and Simon shows already 1987 the limits of rationality (Ketchen et al. 1996, p. 276): "As decision-making has more and more been seen as a central managerial activity, the centre of this activity is the problem of choosing a course of action under conditions of ambiguity and uncertainty and in the process reducing these".

As soon as 1963 Cyert and March found a strong link between the psychological theory of the decision-maker and the economic and organisational theories of how organisations, as opposed to individuals, learn and adapt to changing conditions. Behavioural sciences – sociology and psychology – contribute to the field of knowledge.

Strategic decisions have attracted considerable research attention and different models of decision-making have been developed. The earlier models tend to be normative and prescriptive – they are mostly quantitative approaches (Schmidli, 2008; Nilsson & Jiliberto

2004). Normative theories of decision-making, such as classical economic theory, propose that decision-makers follow a highly hierarchical and rational procedure for making decisions distinguished by different levels of decision-making.

On the premise that a model links the theoretical world of our minds with the empirical world of our senses, different decision-making models have been developed. They are the result of differing perceptions, different phases or intervals (Nippa 2001) and the application of these perceptions to diverse decision situations (Shepherd and Rudd, 2014). The later models of decision-making are of a descriptive nature and characterize levels of decision-making as more closely related to each other, claiming rationality cannot be assumed in every decision-making situation. Thus, a generic view of the decision-making process has led to the development of an understanding that strategic decision-making processes are not necessarily deterministic or programmable as a whole and take place in distinctive time-intervals and within a specific context.

The descriptive view attempts to explain how decisions are actually taken in practice, which may substantially differ from the normative type. As a result, behavioural decision-making can be grouped after Sonnenberg (2018, p. 367), according to different characteristics, into quantitative and qualitative approaches, with authors of this field noting that there are programmed, routine or more rational decisions, no routine decisions or decisions shaped by various social-psychological factors.

### Quantitative Approaches

As decisions are made by man, let us start with a psychologically oriented definition of decision-making (Plessner, 2014, p. 483): “Decision-making is the process of choosing between at least two options, with the objective (objectives) to achieve desired consequences and to avoid undesirable consequences. In the best case the process results in a decision. By choosing the selected option the decision (the intention) is being formed to realize this. An example for realizing this intention is to execute it by an action”<sup>4</sup>

The main points of this definition<sup>5</sup> are interrelated with relevant aspects of time:

- 1) Decision-making is seen as a process and not as a specific moment in time.

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<sup>4</sup> Translated from German into English by the author of this dissertation.

<sup>5</sup> One of the main prerequisites when presenting und discussing models and theories is to get a clear – or at least an improved – picture of the used terms. This simple step of regarding – taken for granted in scientific debates –, however, contains itself some difficulties, as with regard to the definitions of used terms, there are often fragments of the proposed theory or these definitions at the same time lay out and limit the area in which the subsequent model or theory is established. Therefore, definitions of basic terms already shape the outlined theory to a considerable extent. This is also true for the comparatively young field of decision-making.

- 2) Decision-making comprises two or three main phases, preparation of the options, the process of choosing between the options, and the finalizing and realizing phase. This last phase depends on whether a decision had been stated in the preceding phases or not, which leads to the third aspect,
- 3) The process of decision-making can result in a concrete decision but must not end in such.

On the base of Plessner's definition, early decision-making theories like those of Simon (1987) or Eisenhardt (1989) concentrate on the phases two and three, and handle phase one just as a premonitory time in order to decrease uncertainty as the main function (Kedia et al., 2002, p. 41). Hence, if decision-making is viewed from a procedural view, it automatically becomes a notion of being normative and quantified, tending to be rather driven by data. Therefore, one has to scan the external environment or the internal sources of the enterprise for relevant data and harmonize and aggregate these data. Then certainty will increase, and decision-making can be improved.

For Simon, decisions against an administrative or business management background are mostly purposively orientated towards goals or objectives. The decision can be distinguished in the selection of final goals, which he calls "value judgment", and the implementation of such goals, which he calls "factual judgments". Decision-making can thus be described as a process by which a number of alternatives are narrowed down to one alternative (Plessner, 2013, p. 483).

Having in mind the term decision-making as defined above, one has to conclude that the presented concepts are representatives of a purely quantitative approach, although one usually does not see this fundament within the proposed arguments and steps anymore. These concepts derive their ideas from probability statistics, especially from the theory of expected value. There, one chooses the option for which the probability-weighted average of various possible values is the highest (Plessner, 2013). The practical risk of these concepts lies in the fact that assumptions of steadiness and (comparably long-lasting) economic and political periods with no fractures at all have to be made. In the light of the amount of global crises within the last twenty years, these assumptions appear to be unrealistically.

### Qualitative Approaches

Any analysis of organisations and decision-making systems has to look not only at 'what' is being decided but also at 'how', 'by whom' and 'under what circumstances' it is being decided. Broadly speaking, one can associate the 'what' with quantitative approaches to

models of decision-making, and the 'how' or 'who' with qualitative approaches. The 'under what circumstances' can be used for both approaches.

The 'How' mainly refers to processes in an organisation and includes time-related aspects resource-capacities, therefore, many theorists see the analysis of the decision-making process as the key to understanding how organisations function (Muchiri et al., 2011; Simon 1997). In strategy literature, strategy is characterized as long-term planning and an integrative pattern of decisions. There is a wide debate in economic and management research on whether, and if so, how strategic decisions differ from ordinary decisions (Shepherd and Rudd, 2014; Ketchen et al. 1996). For the main categories of strategic research, a differentiation according to context, content and process of strategy is made.

A concept which states quite the opposite of the classical quantitative approach presented above is the constructivist- and process-oriented theory of US sociologist Karl Weick. In 1985, he published "sense making in organisations". In his provocative book, Weick assumes that human beings are basically not able to handle problems in a truly rational way. They actively do something and justify the outcome afterwards. They do this by making sense of the already produced new situations. By this, they rationalize the implicit decision by arguing with reasons and aims – which fit the already taken decision – in retrospect. In the view of Weick, organizing an enterprise happens within loops. Decisions emerge from a dialectically based process of changing and preserving. After Weick (2001, p. 124) first comes acting and then follows enrichment by interpretation of the accomplished acting and by associating reasons, arguments and aims to the acting.

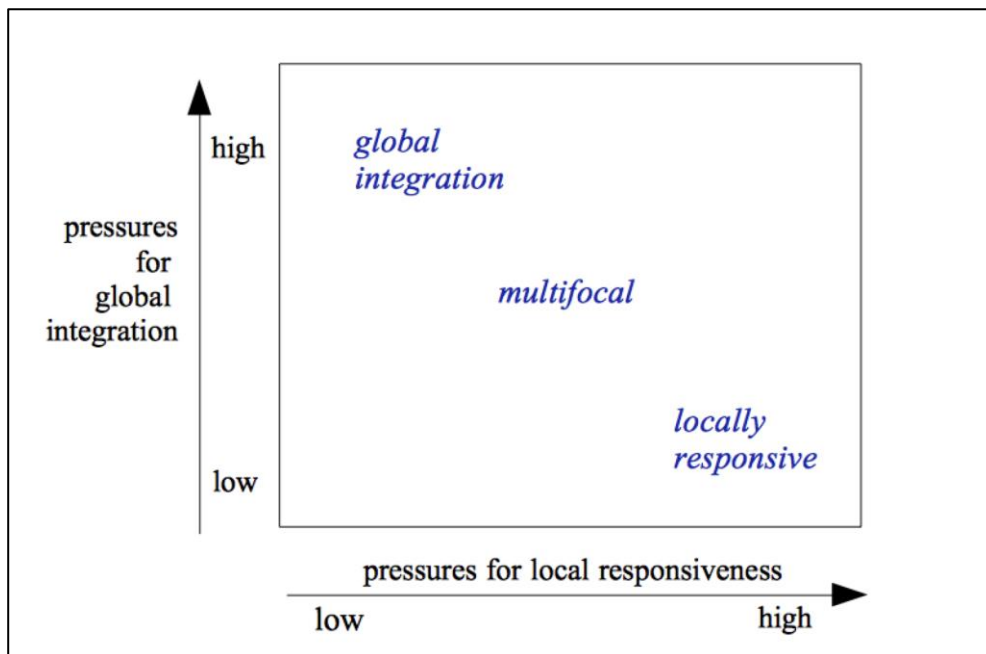
The 'Who': The normative (quantitatively oriented) models of management studies have a decisive influence on the routine work of the lower and middle levels of organisations and almost no influence on the higher levels (Nippa 2001). There is a notion that strategic decisions are taken at the discretion of top management, often with a long-term effect, affecting the application of the firm's resources to secure the survival of the firm. Strategic decisions reflect the interaction between an organisation and its environment, often with a high level of uncertainty, and show how an organisation manages this relationship (Pettigrew 1992). As early as 1987 Harrison (p. 20) argued that strategic decision-making is not a text book decision-making under uncertainty, where alternatives are given even if their consequences are not, but decision-making under ambiguity, where almost nothing is given or easily determined.

In analogy to the models of buying or investment centres in business-to-business-markets, models of role-taking could offer new insights into the process of decision-making. In these cases, one not only looks at the decider (usually a member of the top management or the owner in SMEs), but also on roles like the initiator, the influencer, the gatekeeper (who researches, selects and filters information), the consultant, and the coach (Pförtsch and Godefroid, 2013, p. 54). The characteristics of this approach are that members of such a centre build an informal group, that an external people may belong to this group, that there could be a group with no exactly defined relations etc.

‘Circumstances’: Contexts of strategic decision-making include not only environmental factors but also organisational, decision-specific and social-psychological factors at the top management level (cf., for instance, Ferrell and Fraedrich, 2015; Bateman and Zeithamel, 1989; Papadakis et al., 1998). Also, circumstances of strategic decision could mean that the significant content and context of the decision problem can both shape the process of deciding (Shepherd and Rudd, 2014) or even change the process over time, as already Pettigrew 1990 stated.

#### *Strategic Processes between Global Integration and Local Responsiveness*

Whereas a single decision can be grounded on either a quantitative or a qualitative base, several decisions – which are interconnected – need further strategic input. Due to globalization of businesses, enterprises have developed various kinds of strategies. Enterprises may concentrate on domestic markets and just export products and services to foreign markets. Or enterprises launch subsidiaries to adjust to local needs. Or enterprises go global with global products. The following figure shows these basic approaches.



**Figure 1.1: Two-dimensional Grid of Integration and Responsiveness for a local or a global focus**

*Source: Prahalad & Doz, 1987*

Depending on the position in the shown grid, one can define three main strategies for a company: aiming at a strategy of global integration, at a strategy of multifocal (multidomestic) concern, or at a strategy of being locally responsive. There seems to be skewness of application in this figure. It is imaginable to be multifocal (provided the enterprise has access to adequate resources) and look at local needs and demands. But it is hardly imaginable to integrate products on a real global level and to regard incalculable local needs and to adjust products as a consequence at the same time. Global integration means that there is a single perspective in the whole enterprise completely independent of any ‘home’ market. Global integration implies more or less continuously observed uniformity in the decision processes.

*Practice based Models: Best Practices*

A first step to come closer to the concept of best practice is to see how the term *best practice* is used in management studies in general. In this field of study, best practice “refers to the most efficient way of doing something. The fastest method that uses the least resources (including labour and parts) to create the highest quality output is the ‘best practice’” (Encyclopedia of Management 2009). According to this source, best practices as a result of benchmarking (i.e. of looking how others are doing and performing well) has frequently been



applied especially in areas of technological development, manufacturing, quality control, sales and project management but also in fields like health-care and teaching.

### Benchmarking

Benchmarking refers to a more or less continuous process of discovering improved strategic ways to reach the goals of an enterprise. “It is a search for identification, understanding, adaptation and implementation of solutions leading an enterprise to far superior performance” (Searles et al. 2013, p. 9). The main value added from benchmarking compared to other improvement tools is to learn from others how to improve. The dimensions that are typically measured are quality, time and cost. The focus lies on the processes and the results. In the process of benchmarking, management identifies well-performing, competing firms in their industry, or in another industry where similar processes exist, and compares the results and processes of the studied (the “targets”) of one's own results and processes.

### Best Practice

Several interrelated terms are used in the literature to refer to research in the sense of best practice. They include the terms “best practice”, “good practice” and “smart practices” (Vesely 2011). These terms are sometimes used interchangeably and sometimes refer to different things. Matters are complicated even more by the fact that various disciplines apply the terms differently or in different contexts. There is no consensus on what “best practice” or “good practice” is, or how “good practice” research should be conducted (Myers et al. 2006). Many authors also avoid any definitions. Table 2.7 reveals that definitions of the above terms overlap in some respects and differ in others also.

**Table 2.7 Terminology and Definitions of Best Practice**

Definition	Source
In a general sense, the term best practice refers to the most efficient way of doing something. The fastest method that uses the least resources (including labour and parts) to create the highest quality output is the “best practice.”	“Best Practices.” Encyclopaedia of Management (2009)
The term “best practice” implies that it is best when compared to any alternative course of action and that it is a practice designed to achieve some deliberative end.	Bretschneider et al. (2005, p.309)
The phrase “best practices” or, in the singular, “best practice” is business jargon arising from the management tool known as	“Best Practices” Encyclopedia of Small

<p>“benchmarking.” The assumption underlying this term is that production and management processes are uniform enough so that a “best practice” can be identified and then adopted more or less “as is” by another entity.</p>	<p>Business. 3rd ed. Vol. 1. Detroit: Gale, 2007, pp. 90–92. Gale Virtual Reference Library</p>
<p>The most precise definition of BPR [best practice] is the selective observation of a set of exemplars across different contexts in order to derive more generalizable principles and theories.</p>	<p>Overman and Boyd (1994, p.69)</p>

*Source: Focused after Cornelissen, 2017; adapted from Arnošt Veselý, 2011*

Within a frequently cited paper Bretschneider et al. (2005) formulated a set of necessary and sufficient conditions for identifying true “best practices” and critically evaluate different techniques that are available for such identification. According to Bretschneider et al., the term “best practice” implies a way of action that appears better than any alternative way of action and, at the same time, attains a defined goal. The authors’ theoretical analysis led them to the conclusion that there are two necessary and sufficient conditions for identifying a best practice: completeness of cases included in the comparison and comparability of these cases.

- First, the condition of completeness presupposes that in order to truly identify a “best practice”, method of identification must include all comparable examples from a given area; a sample survey will not suffice. In the case of a sample survey (as the base of statistical inferences about the population as a whole), a better case may exist outside the sample and the term “best practice” is misleading.
- Second, the condition of comparability presupposes that examples in a given set are comparable in terms of actions (practices), outcomes and the contexts they exist in.

Both conditions are difficult to fulfil. The first condition depends on the specification of ‘a given area’. But the term best practice itself refers to one single and only best way (i.e. attaining extreme results like highest profit, minimal cost, minimal investment, minimal spent time, or combinations of input which lead to an optimum) of doing things, so this very best way will probably be lost if the area one is looking at is broadened. The second condition is even harder to fulfil in case the term context of instance is specified. Each enterprise is, by definition, different. It usually has different internal processes and procedural organisations, which are often more or less strictly connected to different environments in which the enterprise is performing and behaving. A specific enterprise usually has different goals to reach, depending on its size, shares of markets, portfolio of products, attitudes of ultimate buyer, and so on.

## Good Practice and Smart Practice

There is no unambiguous definition of good practice. The identification of a particular practice as a good one depends on the people or organisations responsible for the identification and on the context in which the practice is thus identified. “Good practice” is a concept which has been used inconsistently. According to Stenström and Lain (2006, pp. 12-13), good practice emphasises functionality, a process orientation, transformability and innovativeness.

### Functionality:

- 1) Good practices can be anything which works fully or partially; they can be useful sets of functions which generate learning.
- 2) Good practices have worked well elsewhere; they have been proven to be good and they have led to good results.
- 3) Good practices are outcomes which can be transferred elsewhere as functional sets.

### Processes:

- 4) Good practices stand for advantageous methods which help to achieve the objectives defined for an activity, open up avenues of action, and make a company more profitable.
- 5) Good practices include the same elements as benchmarking, even if the associated data collection procedures are more research-based.

### Innovativeness and transformability:

- 6) Good practices are innovative. They create opportunities to introduce new procedures and approaches.
- 7) Good practices are associated with successful projects.
- 8) Good practices can be turned into new practices. Good practices include elements needed in problem-solving, in which case they can be transformed to suit different situations.

According to Bardach, the term ‘best practice’ is misleading because we are rarely certain that we have really identified the best of all options which might solve the problem we are facing or the goal we are trying to fulfil (Bardach 2015, p. 71). Such extensive research that would really take all options into consideration is practically never feasible. The result of such research is, at best, ‘good practice’. But even this term is, according to Bardach, rather inappropriate. What is and what is not ‘good practice’ also depends on the context: ‘good

practice' in one setting may not be 'good practice' in another setting. Therefore, Bardach (2015) finds the term *smart practice* to be the most appropriate.

The term "smart practice" suggests the existence of a smart or interesting idea in a given practice, one that deserves attention. It is precisely this smartness that the researcher should look for, study, verbalise and evaluate for applicability in the context of the target site. One of the characteristics of 'smart practice' is getting something for nothing. In contrast to the popular belief that there is no such thing as a free lunch, Bardach wants to demonstrate the existence of such practices that cost nothing or relatively little and are highly beneficial nonetheless. For example, the alphabetic ordering of information or the lining up of waiting persons are cost-free operations that can make life significantly easier and more efficient. Another example is the invisible hand of the market which creates social values automatically, without additional direct cost.

## **1.5 Summary for Current Thesis**

If decision-making is viewed from a procedural and normative view, it automatically becomes quantified, tending to be rather driven by data. Therefore, one has to scan the external environment or the internal sources of the enterprise for relevant data, and harmonize and aggregate those data. Then, there is quite a large likelihood that certainty will increase and decision-making can be improved. But to realize a well-based decision with a quantitative approach, a considerable amount of information is needed. Therefore, one needs information which – within the context of deciding the entry mode into the Chinese market – is usually not easy to get. Compared to large enterprises, SMEs have less resources at their disposal for the necessary researching. Therefore, it is advisable for SMEs to have additional a close view on qualitative approaches. In this thesis, it is realized by open-ended questions in the questionnaire for the Survey Austrian SMEs 2016.

Doing benchmarking is – at best – learning to improve businesses by seeing how others perform in a more efficient way. Results of benchmarking can be sets of alternative methods, materials and processes which can be implemented in the researching enterprise. In management jargon, these sets are called best practice. To a certain and unknown degree, however, this term is misleading as it implies a claim which can rarely be justified. Good practice or smart practice are therefore the terms should be preferred to best practice. Within the current thesis good practice can be seen in the successful combination of company-

relevant factors, the realized strategic decision concerning the market-entry and the indicators of success (like sales, profit, market share, etc.).

## **2 SCIENTIFIC RESEARCHES AND FINDINGS IN THE FIELD OF MARKET ENTRY INTO CHINA**

The purpose of this chapter is to show directly and in-depth relevant aspects of internationalization regarding entry modes and challenges for SMEs (factor size class), in Europe, Austria and China. Therefore, - after a review of recent research papers - important results of the large European Study of Internationalization 2009 (with the number of participating SMEs reaching almost 10,000) are presented. Equally relevant is a current study of Austrian SMEs regarding business with China in 2015. This survey contains data which are relevant to the third research question of this thesis, but the results have been published only in the form of simple statistics. Hence it seemed to be of importance to unlock the real potential of these results by a re-evaluation (reappraisal) of the data pool.

The following section covers basic terms of the present dissertation, such as culture, size of enterprises, and internationalization.

### *Culture*

The notion of culture is complex. Although this term derives from the Latin word ‘cultura’ (with the original meaning of cultivation, in the sense of caring; etymological source: Harper, 2016), but it is a relatively new and modern term. The current associations with social life (instead of theological associations of honouring and veneration on an individual level) arose at the end of the 18th century. The use of the term culture is not limited to a single scientific discipline but used in various disciplines (Schrage, 2014, p. 253). Therefore, the meaning of ‘culture’ is not distinct, it varies to a certain degree according to a specific academic field.

The term culture bears at least three basic meanings (Schrage, 2014, pp. 254-255): (1) the perception of a man-made psycho-social fabric. This fabric stands in contrast – typically only to humans – to every other produce of nature. (2) A second basic meaning of the term of culture lies in differentiation. Culture in this sense means the differences and variations of different human lifestyles. This aspect reflects the experiences and feelings of alienation when confronted with foreigners. (3) Although culture is grounded on a collective inventory of beliefs and values, the bearer of culture is the individual person.

Let us consider, just the first basic meaning, culture as a man-made material, psycho-social fabric. The various fibres within this fabric can be connected in different and complex ways. A specific model which proposes a stratified version of these connections is the layer

approach of Trompenaars and Wooliams (2005, p. 27). They compare culture to an onion, with its different layers which can be peeled off. There are three main layers: (1) Core assumption in the centre (2) norms and values as psychological and social patterns in a middle layer (3) concrete products in the surface-layer.

The outer layer of culture is the most visible, for example, behaviour, food, language, clothes, and it is the explicit level of culture, i.e. the expressed manifestation of culture (Trompenaars & Wooliams 2004, p. 24). The middle layer consists of the norms and values of a culture. According to Trompenaars and Wooliams, “values are shared orientations of a group of people of what people define as the things they like and desire [...] [and] of what people believe should be done” (Trompenaars & Wooliams 2004, p. 25). The deepest layer of culture consists of the unquestioned and implicit culture. The core of the onion corresponds to basic assumptions. The next layer consists of routines and methods of arranging oneself with regular problems. The various elements and layers of the onion core are so basic that one is not aware of these elements, nonetheless it affects all actions and thoughts of an individual unconsciously.

A similar approach was proposed by the Dutch anthropologist Geert Hofstede. He views culture as entailing different layers: the deep core of the innermost layer consists of assumptions, beliefs, and values, while patterns of activities and behaviours can be viewed as culture’s outwardly visible manifestations. Visible manifestations of culture can be described by the following concepts<sup>6</sup>: symbols, heroes and rituals. Symbols refer to words and objects that often carry meanings recognized only by those who share the culture. Heroes are persons, alive or dead, who possess traits that are highly awarded in a culture and thus serve as models for behaviour. Rituals are collective activities that, within a culture, are viewed as socially important (Hofstede 2001, p. 10). In conclusion, from the view of business managers and for the purpose of this dissertation, it is useful to see culture as both some modus and a way of behaviour doing business and solving problems.

### *Size of Enterprises*

The distinction between small and medium-sized enterprises (SME) and larger firms can be based on several criteria, and thus there is no one shared definition for an SME (OECD, 2002)

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<sup>6</sup> Although these manifestations are visible to an outside observer, their cultural meanings are invisible because only an insider can interpret the underlying cultural meaning (Hofstede 2001, p. 10).

The definition for this thesis is based on the definition established by the European Commission: “Enterprises qualify as micro, small and medium-sized enterprises (SME) if they fulfil the criteria laid down in Recommendation 2003/361/EC (European Commission 2009) which are headcount, turnover, and balance sheet total. If an enterprise does not fulfil the criteria for an SME, it is a large-scale enterprise (LSE)” (2003/361/EC Recommendation). The criteria mentioned above are determined by staff headcount and especially by financial ceilings. The categorisation is displayed in the following table.

**Table 2.1: Size-Class Definition for Enterprises**

Enterprise	Employed persons	Annual turnover €	Annual balance sheet total, €	Autonomously
Micro	< 10	≤ 2Mio	≤ 2Mio	< 25% outside capital or voting rights
Small	10-49	≤ 10 Mio	≤ 10 Mio	
Medium-sized	50-249	≤ 50 Mio	≤ 43 Mio	
Large	≥ 250	> 50 Mio	> 43 Mio	

*Source: author's own construction, based on European Commission Report*

Ideally, all four criteria apply if for an enterprise to belong to the category of SME. Due to practical statistical reasons, the main criterion is number of employed persons. On the base of this statistically oriented definition, it is now easier to obtain concrete numbers which denote the situation and characteristics of SMEs in Austria:

**Table 2.2: Size Classes and Austrian Enterprises**

Size class	Enterprises	Persons Employed	Gross Turnover in Mio €
<b>TOTAL</b>	<b>324.709</b>	<b>2.830.248</b>	<b>756.220</b>
0-9	283.515	698.344	126.892
10-19	22.635	302.092	56.585
20-49	12.059	359.599	87.384
50-249	5.368	538.491	208.333
<i>SME 0-249</i>	<i>323.577</i>	<i>1.898.526</i>	<i>479.195</i>
250 +	1.132	931.722	277.026

*Source: Statistik Austria, “Leistungs- und Strukturstatistik”, 2013, extracted: 30.06. 2015*

From this table, one can quickly deduct that SMEs play a very important role in the Austrian economy. SMEs make up 99.7 % of all enterprises, they employ 67.1 % of all employed



persons and they are responsible for 63.4 % of total turnover. The following table shows foreign trade and size classes.

**Table 2.3: Import and Export of Austrian Enterprises by Size Class**

Size Class	Import in Mio €		Export in Mio €	
	absolute	%	absolute	%
<b>TOTAL</b>	<b>128.646</b>	<b>100,0</b>	<b>122.682</b>	<b>100,0</b>
0 - 9	26.035	20,2	19.895	16,2
10 - 49	19.652	15,3	10.848	8,8
50 - 249	32.964	25,6	29.252	23,8
<i>SME 0-249</i>	<i>78.651</i>	<i>61,1</i>	<i>59.994,9</i>	<i>48,8</i>
250 and more	49.994	38,9	62.687	51,1

*Source: Statistik Austria, "Leistungs- und Strukturstatistik", 2013, extracted: 08.10. 2015*

On this table, one can see that, in foreign trade, SMEs also play an important role in the economic international relations of Austria: nearly half of the Austrian exports (48.8 %) account for export by SMEs. The Austrian Trade Chamber estimates that at least 150,000 SMEs export their goods (WKO 2016, S. 18). Likewise, it is safe to draw the conclusion that SMEs hold an important share in the export business of Austria in total.

What does the situation concerning the size of enterprises that especially trade with China look like? Basically, there is an imbalance in trading: the value of imports from China was 4,445 million Euros in 2013 and export amounted to 2.570 Euros. This imbalance, subdivided into size classes, shows: around three fourths of the imports were carried out by SMEs, but only one third of the exports accounted for these size classes (see following table).

**Table 2.4: Import and Export of Austrian Enterprises to China / Values**

Size Class	Import from China 2013 in Mio €		Export to China 2013 in Mio €	
	absolute	%	absolute	%
<b>TOTAL</b>	<b>4.445</b>	<b>100,0</b>	<b>2.570</b>	<b>100,0</b>
0 - 9	1.406	31,6	220	8,5
10 - 49	1.269	28,5	130	5,1
50 - 249	682	15,3	553	21,5
<i>SME 0 - 249</i>	<i>3.357</i>	<i>75,5</i>	<i>903,5</i>	<i>35,2</i>
250 and more	1.088	24,5	1.666	64,8

*Source: European Union Eurostat, extracted: 01.08.2016*

The size class enterprises with a workforce of 50-249 dominates among SMEs. The following tables offers an overview of trade with China for Austrian enterprises.

**Table 2.5: Import and Export of Austrian Enterprises to China / Numbers**

Size Class	Import from China 2013 Number of enterprises		Export to China 2013 Number of enterprises	
	absolute	%	absolute	%
<b>TOTAL</b>	<b>9.250</b>	<b>100,0</b>	<b>1.888</b>	<b>100,0</b>
0 - 9	5.414	58,5	531	28,1
10 - 49	2.128	23,0	528	28,0
50 - 249	1.105	11,9	504	26,7
<i>SME 0- 249</i>	<i>8.647</i>	<i>93,5</i>	1.563	<i>82,8</i>
250 and more	603	6,5	325	17,2

*Source: European Union Eurostat, extracted: 01.08.2016*

At least four out of five enterprises (82.8 %) exporting to China belong to the size class of SMEs. In total, they number 1.563. One could turn the number of exporting SMEs around and deduce the largest potential for increasing export form Table 2.2 on page 56 by their associated SME shares, which leads to the conclusion that 504 exporting enterprises/50-249 workforce amount to just nine percent of the total of 5.368 enterprises/50-249 workforce in Austria. Whereas within the next class of enterprises (250+) there is a relative value of twenty-nine percent of enterprises exporting to China. This is three times the value of enterprises/50-249. This distinctly higher percentage of this SME-sized class could be understood as a hint at an even greater potential of SMEs producing considerably more exports in the future.

In conclusion, more than four out of five Austrian enterprises which export to China belong to the size class of SMEs and especially the SME size class of 50-249 still seems to have quite a large potential of increasing exports to China. This is one of the main reasons for carrying out the research undertaken in the present thesis.

### Internationalization

As a quick introduction to the term of internationalization one can state: internationalization within the field of business can be seen as a process of participation in markets outside the domestic market of an enterprise. Lehtinen and Penttinen (1999) conducted a thorough analysis of the evolution of the internationalization concept since the early 1960s to propose a holistic definition which connects foreign markets, the acting enterprise and attitudes and

behaviour of individual persons with the enterprise, “Internationalization of a firm concerns the relationships between the firm and its international environment, derives its origin from the development and utilization process of the personnel’s cognitive and attitudinal readiness and is concretely manifested in the development and utilization process of different international activities, primarily inward, outward, and cooperative operations.” (Lehtinen & Penttinen 1999). According to Kaarna and Mets (2011) this has often to be seen together or in context with a technology-based path of internationalization.

The important advantages of this definition are the links to seemingly fundamentally different fields: (a) the psychological features of individuals, the social entity of an enterprise and explicitly mentioned relationship to an outside environment; (b) the various aspects of manifestations on (c) the various individual and collective levels; (d) the implicit elements link the above defined term culture. To formulate it practically, from the point of view of an enterprise, internationalization refers not only to exports or imports of goods or services, but it refers to a meaningful relationship with a – maybe not so foreign anymore – partner. It comprises direct investment, subcontracting, technical or personal co-operation.

An essential disadvantage of this definition is that the term which is to be defined (internationalization) is to some degree represented and explained by a term of the same linguistic kinship (‘international’). Also, one has to keep in mind that the term internationalization is derived from the two words *inter* and *nation* and literally means ‘between nations’. In the current era of globalization and trading agreements negotiated by greater supranational units (like the EU, for instance), the term internationalization does not include all of the current dimensions of the involvement of enterprises outside the domestic market (if such a thing as a domestic market still exists in the entire content or extent). Also, one has to keep in mind that a nation is usually not identical to culture. One nation can contain several cultures and, on the other hand, one culture can extend itself to many nations. To complicate the subject even more, in literature, the term country is often used as a synonym for nation or vice versa. As the subject of this dissertation is Austrian SMEs and their specific entry mode as an important step in establishing international relations to China and the results of studies, the author will concentrate on the use and meaning of culture if nothing else is hinted at explicitly.

Apart from these considerations concerning the decision for the dimension global integration versus local responsiveness, a conclusion can be drawn for the current subject in research: SMEs are most probably prone to choose – within internationalization – between local responsiveness or the multifocal approach. In spite of these disadvantages, the definition for

internationalization cited above is useful because it not only integrates all of the essential elements of the previous views, but also provides an operational base for research in this area.

## **2.1 European Study on Internationalization with a Focus on Small and Medium-Sized Enterprises**

In 2003 and 2007 the European Commission/Enterprise and Industry promoted two studies to observe the international activities of European SMEs. The purpose of the survey “Internationalisation of European SMEs” – conducted in spring of 2009 – was to offer a broad and encompassing view of internationalization and to allow to draw conclusions and formulate recommendations. Hence this study did not only refer to trading but also to other modes of internationalization like foreign direct investment or technical cooperation. In order to also make justified statements for subgroups, the survey has been based on a large number of participating enterprises (n = 9.480). Concerning both for their volume and their depth, these data are still the most recent data in May 14, 2018.

As the definitive aim of this study was to receive a standardized and thus comparable picture of 33 European SMEs this study offers within the current dissertation a comparative framework for the situation of Austrian small and medium sized companies. By applying predominantly standardized questions by researchers the advantage of this study goes at the expense of an in-depth-view for specific situations within European countries and therefore it is not able to go intensively into details for Austrian SMEs. There is one exception from this approach: In the annex to this European survey policy support measures which fosters internationalization of SMEs are presented. 2009 out of 17 mentioned programs (from 33 countries) two policy programs stemmed from Austria. This already gives a first hint for the heavy support of Austrian SMEs by Austrian policy. A specific limitation of this study is of statistical origins: It is a disproportional sample and had therefore to be weighed by three different dimensions. This should guarantee to obtain results for each country.

### **2.1.1 Relevant Characteristics of Internationalization in General**

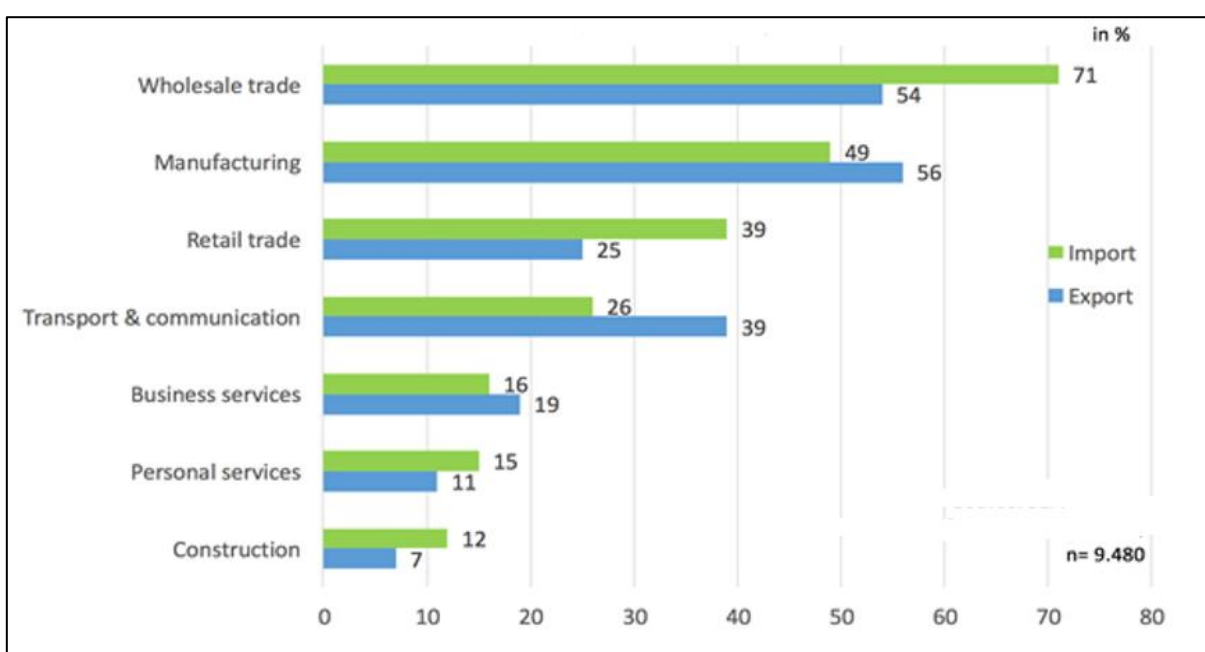
Essential characteristics of the situation and ongoing activities of European SMEs according to the, latest available extensive study (n=9480) which identify main barriers of internationalization are:

### The size class effect:

There is a significant effect of size class. Larger enterprises have the clear tendency to be more internationalized. This is especially true for SMEs employing the mode FDI<sup>7</sup>, which usually correlates with the entry modes. Only 2 % in the size class of micro (1-9 employed persons) had invested in this mode of internationalization, 6 % in the size class of small (10-49) and 16 % in the size class of medium-sized (50-249) (European Commission 2010, p.17).

### Internationalization by economical sector:

This study analysed 26 economic sectors. Trade, manufacturing, transport and communication are the most internationalized sectors among SMEs, as one can see in the following diagram.



**Figure 2.1: Internationalization Mode of Exports or Imports by Sector / Percentage of SMEs**

*Source: European Commission Report, p. 19, Available at [http://ec.europa.eu/enterprise/e\\_i/index\\_en.html](http://ec.europa.eu/enterprise/e_i/index_en.html), Accessed on May 14, 2018.*

The specific mode of internationalization which is in the focus of the research subject is FDI. Foreign direct investment scores show – though at a very low level of 3 to 4 % –relations similar as those presented in the diagram above: manufacturing, wholesale trade, transport and communication, business services.

### Age of enterprises

Basically, only few SMEs have plans to go into internationalization in near future – merely 4 % of European SMEs plan to head for international operations. But those who start

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<sup>7</sup> FDI: Foreign Direct Investment.

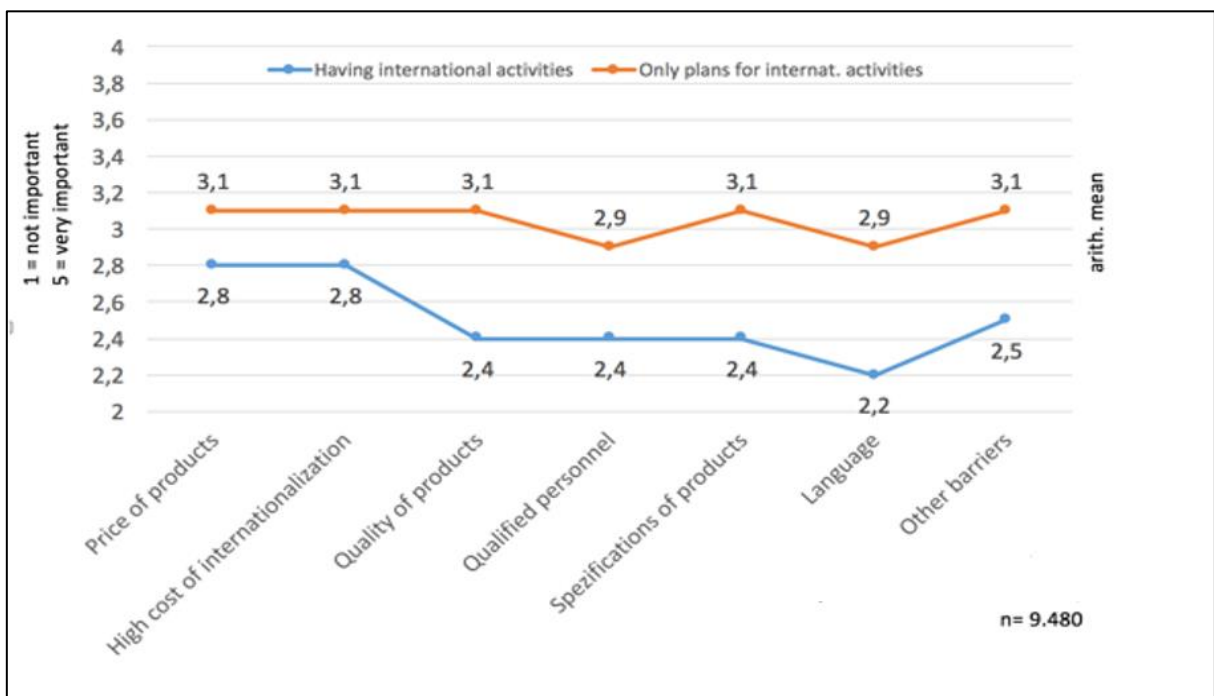
internationalization usually start with importing. This seems to be the easiest mode of internationalization. Young firms of up to 4 years already score in importing with 25 %, settled firms of 25 years and more show a rate of internationalization of 34 % (European Commission, 2010, p. 21).

Both importing and exporting activities tend to increase in intensity by age of enterprise: Trading is around 20 % for newly established firms (of up to 9 years of age). It continually increases to around 30 % for firms of 25 years and more (European Commission, 2010, p. 21). Most exporting SMEs orient toward European countries, “[...] most SMEs (86 % of importers) focus on other EU Member States, but here also China is quite important (27%).” (European Commission 2010, p. 6).

Perceived barriers for internationalization

Barriers can be categorized into internal and external barriers. Internal barriers stem directly from the firm itself and they more or less refer to a lack of capabilities. External barriers lie in the environment or characteristics of the targeted market.

SMEs perceive two internal main barriers as the most important ones: the price of their own products or services and the high cost of internationalization (European Commission, 2010, p. 58). These and the other barriers reported by SMEs are the perceived ones. In reality, they may not be as important as a split of the answers from internationally active and internationally planning SMEs discloses (see following figure).



**Figure 2.2: Importance of Internal Barriers for Internationalization of European SMEs**

Source: European Commission Report, p. 59, Available at [http://ec.europa.eu/enterprise/e\\_i/index\\_en.html](http://ec.europa.eu/enterprise/e_i/index_en.html), Accessed on May 14, 2018.

In the chapter ‘Perceived Barriers’ in the published study, the most interesting split of data is the break-down per SME/already having international activities and SME/Only plans for international activities. There are fairly huge gaps between the items Quality and Specification of products, qualified personnel and Language. SME-managers who only plan to go abroad seem to trust their own products and personnel considerably less than SME managers who are already doing international business. This leads to the conclusion that starting internationalization (and thereby choosing the entry-mode in foreign markets) also goes hand in hand with distorted assumptions inclined toward a more pessimistic side. This is especially true for the item language. In reality, it turns out that skills of the language are not so relevant as thought before.

### Entry modes of Internationalization

To leave the domestic market und to start internationalization means to be confronted with several challenges und not so easy decisions. Thus, it is interesting to find out how SME internationalize and which entry mode they mainly choose. The European Study of 2010 (p. 46) offers some insights. Around 60 % of SMEs keep to their domestic market, around 40 % of SMEs are engaged in one of three discernible groups: Enterprises which are only in the import business (13 %), enterprises which are only in the export business (9 %) and enterprises which are doing both importing and exporting (15 %). Just around 1 % of SMEs did importing and exporting and FDI<sup>8</sup>.

From those SMEs which both import and export, 39 % began with importing goods, and only 18 % started with exporting goods (European Commission, 2010, p. 47). There may be a lesson to be learned here: importing seems to be much easier to start internationalization by importing than exporting. This stands in startling contrast with most established support programs – they offer support on export only as it is true for the Austrian situation. It seems that most SMEs choose the other way. They prefer to get into contact with international markets, clients, languages and so on. SMEs in many cases chose to start with importing. This characteristic of support programs could just be based on insufficient knowledge or it could suggest an assumption that there are – at least partially – other aims or purposes behind those SME-support-programs. Those assumed aims or purposes are more maybe more closely connected with the supporting organisations. Those aims seem to target countrywide considerable high export shares independent whatever risks this could mean for the newly export-starting firm. As this could be the case in Austria the development, the realization and

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<sup>8</sup> FDI: Foreign Direct Investment.

the outcome of the supporting programs should be an interesting field of deeper-going academic research.

### Performance of Enterprise

There may be a common theme behind the marked efforts to succeed in exporting since literature also shows a considerable focus on exports and the potential advantages of starting to work in this field. Exports can lead to growth of sales and staff and may also improve financial performance in the long run (Zahra, Neubaum and Huse, 1997; Daniels and Bracker, 1989). It is conventional consensus in business literature that exporting enterprises show better performance than non-exporting ones (for instance: US International Trade Commission, 2010; Bernard and Jensen, 1999).

The European Study on internationalization found substantial differences between SMEs having started internationalization and those who had not. Growth of employment showed:

- 7 % for exporting SMEs versus 3 % for non-exporting SME,
- 8 % for importing SMEs versus 2 % for non-importing SME,
- 16 % for SMEs with FDI versus 4 % for SMEs without FDI. (European Commission, 2010, p. 55)

The positive effect of engaging in internationalization is even greater if one looks at groups of SMEs that already engage in more than one mode of internationalization with groups that are doing business in the domestic market only (European Commission, 2010, p. 56) for instance: 10 % employment growth for SMEs that both import and export versus 3 % employment growth for others.

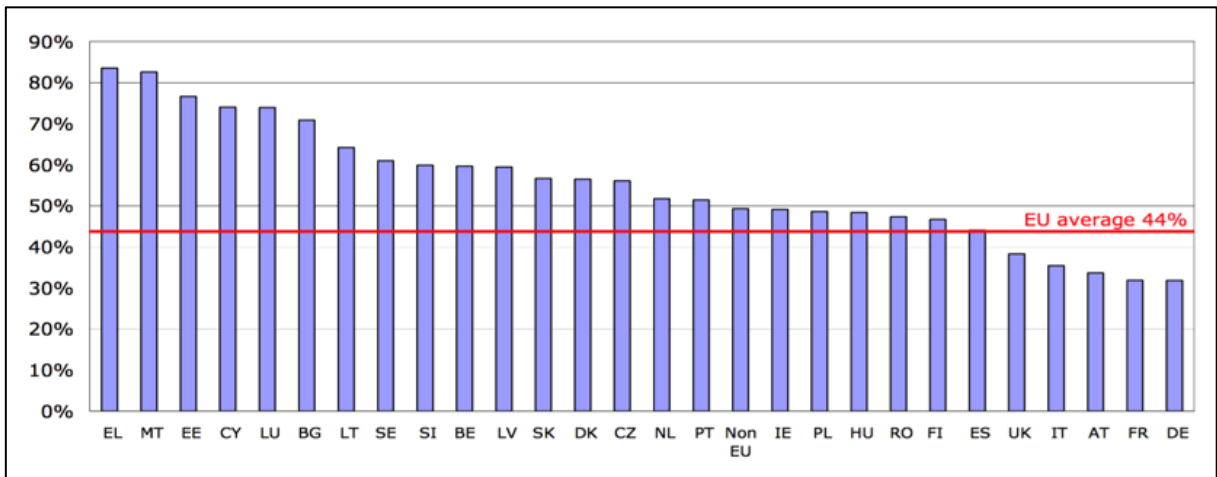
There is also a correlation between innovation and internationalization. Nearly every second firm introduced new products or services from 2005 to 2008, versus only one out of three firms for others (European Commission, 2010, p. 47). Internationally engaged enterprises more often introduce new and innovative products or processes than non-internationally engaged enterprises.

### **2.1.2 The Austrian Engagement in Internationalization**

A considerable number of European SMEs are engaged in international activities. These activities can be related to different modes, reaching from relatively simple trading, like importing or exporting via engaging foreign subcontractors, to direct investments in foreign countries. The most important mode is importing (30 % from 2006 to 2008, European



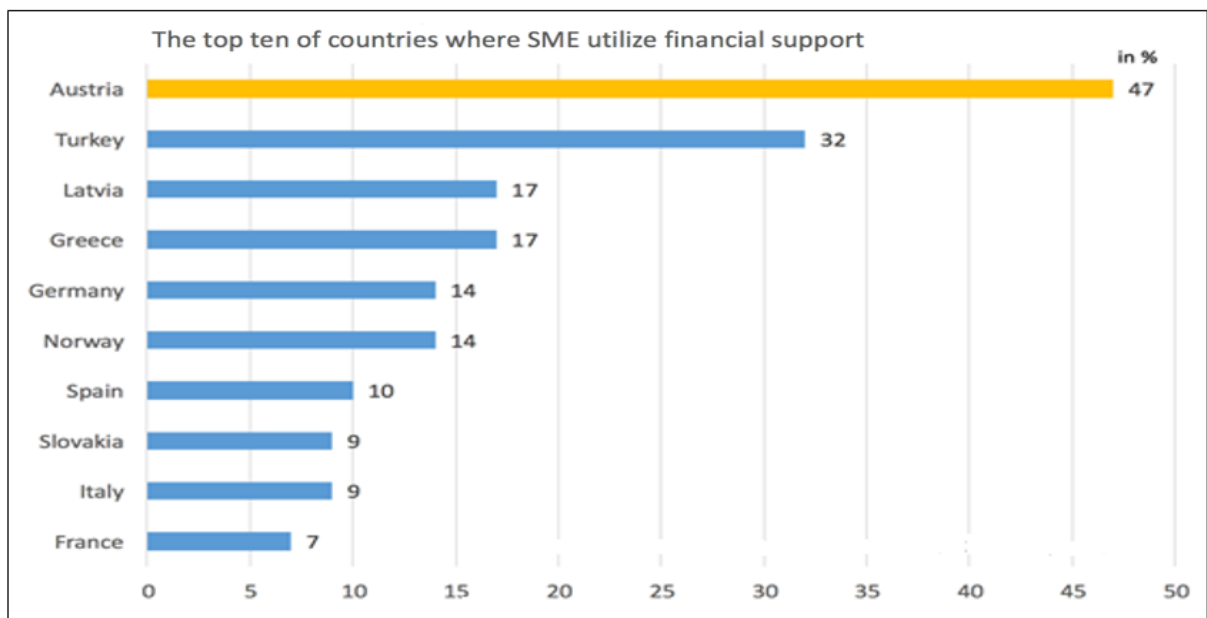
Commission 2010, p. 15) followed closely by exporting (26 %). Merely quantitatively, the least important of these modes is FDI (foreign direct investment) with 2 %. But European SMEs plan to triple this form of internationalization in the near future. The following figure shows the split of internationalization activities according to country. Percentages of European SME for all different modes in total are presented.



**Figure 2.3: Internationalization of European SMEs**

Source: European Commission Report, p. 25, Available at [http://ec.europa.eu/enterprise/e\\_i/index\\_en.html](http://ec.europa.eu/enterprise/e_i/index_en.html), Accessed on May 14, 2018.

As one can see on the right side of the figure, the score for Austrian SMEs is, with 34 %, recognizably below the European average of 44 %. One explanation for this result could be that Austrian SMEs are intensively connected to other European SMEs as the next figure shows.

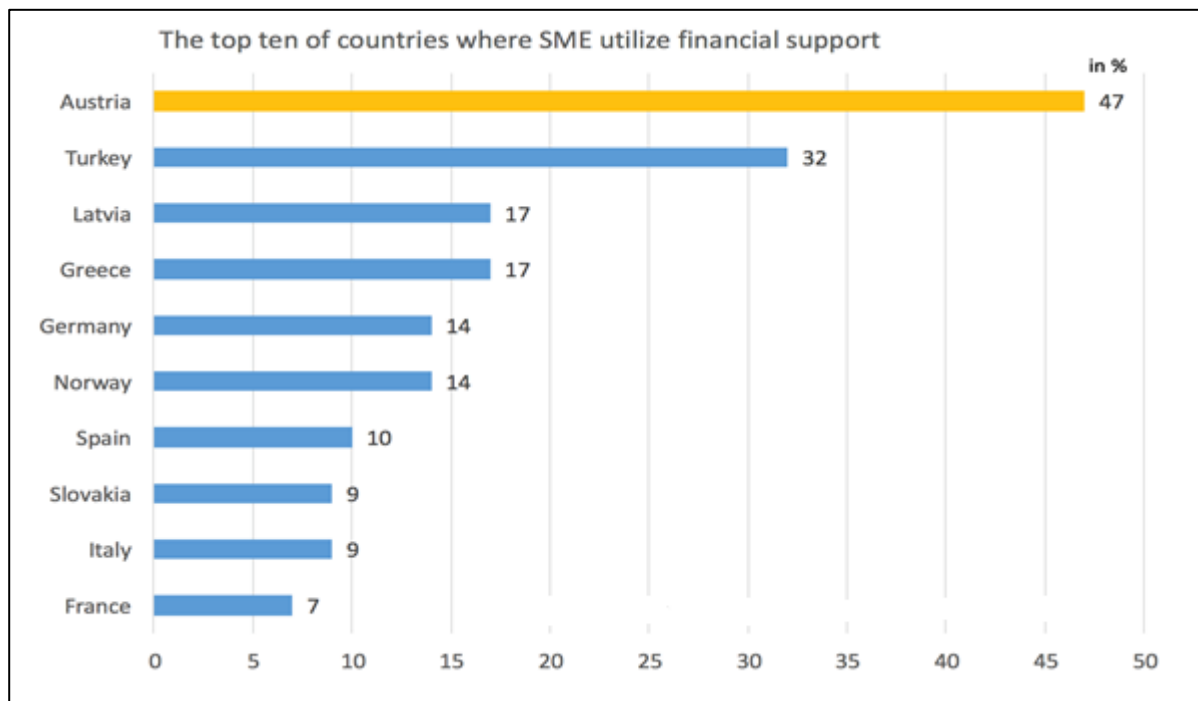


**Figure 2.4: Technical Cooperation as Interconnectedness of SMEs**

Source: European Commission Report, p. 38, Available at [http://ec.europa.eu/enterprise/e\\_i/index\\_en.html](http://ec.europa.eu/enterprise/e_i/index_en.html), Accessed on May 14, 2018.

Among 33 countries, Austria holds the 6<sup>th</sup> rank. This top ten list contains two other countries which are comparable in size: the Netherlands (rank 5) and Switzerland (rank 9). An interpretation of the situation regarding an increase of internationalization of Austrian SMEs can be made as follows. An increasing focus on business with China – especially with more intensive modes of internationalization – could lead to a stagnant or even less interconnectedness among European SMEs. Partly, this could decrease or even substitute established business relations with known forms of communication, cultural patterns, and legal norms in favour of increased hindrances in communication, judicial and cultural challenges.

A further and striking characteristic of the internationalization of Austrian SMEs is their use of various kinds of financial support. In this respect, Austria impressively leads the ranking<sup>9</sup> as the following figure shows.



**Figure 2.5: Institutional based Financial Support for SMEs / Top Ten of Countries**

*Source: European Commission Report, p. 67, Available at [http://ec.europa.eu/enterprise/e\\_i/index\\_en.html](http://ec.europa.eu/enterprise/e_i/index_en.html), Accessed on May 14, 2018.*

Such policy-driven financial support<sup>10</sup> inherently brings advantages but also disadvantages. Disadvantages, for instance, can include distorted strategic decisions, an underestimating of

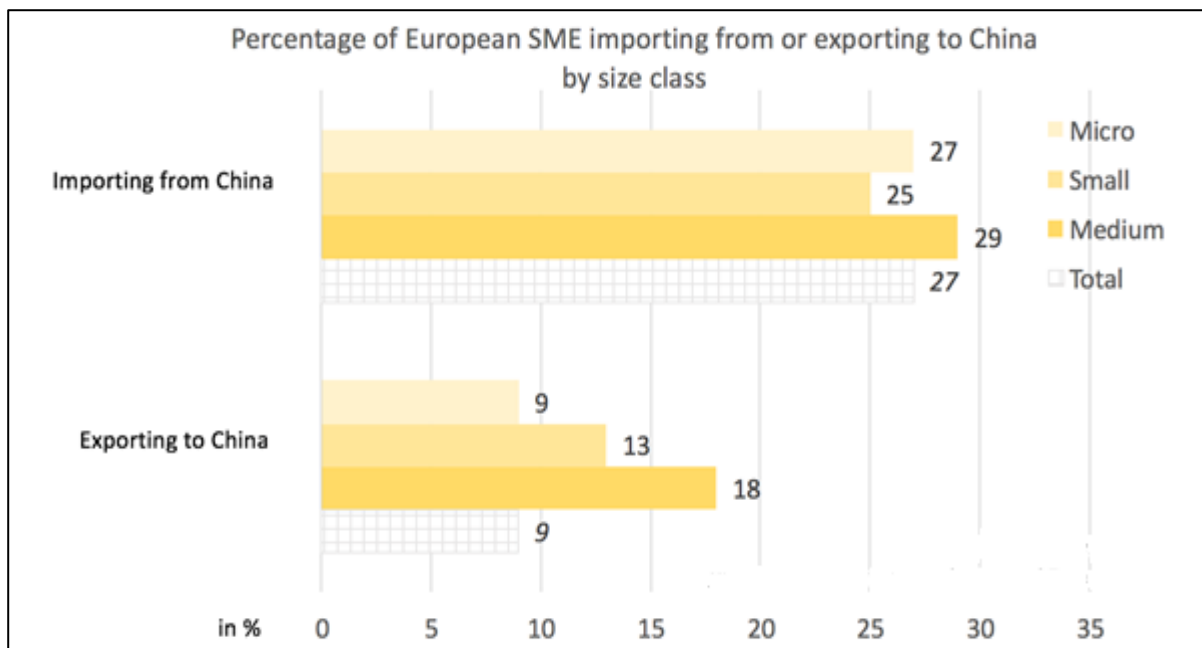
<sup>9</sup> Of course, this list of financial support according to country has to be complemented with a list of non-financial support. Austria holds rank 15 in this complementary list (3 % according to the European Commission 2010, p. 67).

<sup>10</sup> Programs like ‘go-international’, funded both by the BMFWF and the WKO (the Austrian Federal Ministry of Science, Research and Business and The Austrian Chamber of Commerce). The main title of the web-site

long-term risks etc. These disadvantages are especially pronounced in doing business with countries like China that show marked differences between legal systems or communicative and cultural patterns. Also, these risks have the potential to surface in times of less economic growth. These programs may amplify an inclination toward going into foreign markets with few experiences and without being appropriately prepared.

### 2.1.3 The European Business Activities with China

The partner countries of European SMEs are mostly other European countries. This is valid both for imports and exports. Regarding importing and China, it must be stated that China is an outstanding supplier:



**Figure 2.6: Importing from China or Exporting to China of European SMEs**

Source: *European Commission Report*, pp. 35 – 37, Available at [http://ec.europa.eu/enterprise/e\\_i/index\\_en.html](http://ec.europa.eu/enterprise/e_i/index_en.html), Accessed on May 14, 2018.

The diagram above shows that all size classes of SMEs conduct imports by a similar percentage. However, considering exporting, the diagram clearly reveals that there is a direct relation between size class and doing exports – the larger the enterprise is, the higher is the percentage of exporting SMEs. China is relatively unimportant for smaller SMEs.

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reads characteristically: „Startgeld für Mutige“ (“Entry fee for Courageous”; Go-International. <http://www.go-international.at/index.html> [Accessed September 8, 2016]).

## **2.2 Author's Re-Evaluation of the Austrian-Business-Confidence-Survey**

Sub research question three of the current thesis is, “What was (or still is) the impact of the chosen or adapted entry mode for business development in China?”

In the last months of 2015, results of an Austrian survey – structural based on a regular German Survey - concerning business with China were published. This survey contained data which are highly relevant to this sub research question. But data have been published only with rather unsophisticated statistical instruments. As the author assumes that still there are – but not sufficiently exploited – relations with the original data pool of the published results, he undertook a reappraisal of the basic answers to the original questionnaire. This re-evaluation should result in hitherto unexploited answers to sub research question three of this dissertation.

### **2.2.1 Data and Used Methods**

The German Chamber of Commerce measures business sentiment of German enterprises doing business in China. This measurement has been done by internet-based surveys on a yearly base since 2007 (AHK, 2015, p. 15). Since 2012, the Austrian Chamber of Commerce has also been measuring business sentiment and confidence of Austrian enterprises doing business in China. This has been done by using a basic subset of the mentioned German questionnaire complemented with specific Austrian questions (Glatz, 2015). The results are published in the form of a brochure as univariate or bivariate statistics.

As this dataset contains responses to questions like, ‘How important are [predefined] strategic reasons to be present in China?’, or, ‘How significant are [predefined] challenges for your company?’, and sociodemographic variables like type of enterprise, this data could – if related to each other – provide valuable information. Therefore, this dataset has been reappraised by means of more advanced statistical methods of bivariate and multivariate nature applicable to find answers to the research question. The methods applied are dependent on the results of reliability and validity analysis as the preconditions. The used methods are also dependent of the level of data-measurement, they include inference statistics (chi-square-test, Man-Whitney-U-Test) and multivariate statistics like cluster analysis and factor analysis.

## 2.2.2 Fulfilled Methodical Necessities of Re-Evaluation

Two prerequisites for any re-evaluation are the examination of reliability and – at least the internal – validity of data.

### Reliability of Data

One first step is to compare the two sets of data (especially the corresponding sociodemographic variables) as they were generated by the same design of research. The set of the Austrian data consists of 58 total responses, of which legal entities are represented as 21 % Joint Venture, 10 % Representative Office, 64 % WFOE<sup>11</sup>, and 5 % not answered. These values are similar to the German Business Confidence Survey of 2015, for instance, where the WFOE result was 70 %. (AHK, 2015, p. 18). The Austrian sample subdivided into main business activity shows a production of 52 %, sales with 19 %, project/consulting/others with 26 % and 3 % were not answered. Again, these values are similar to the German Business Confidence Survey of 2015, where companies with production as the main business reached 49 % (AHK, 2015, p. 19). If the Austrian sample is divided into subgroups like number of workforce, one obtains a split of 36 % for 1 to 50 employees and 60 % for 50 and more employees. And again, these values are similar to the German Business Confidence Survey (AHK, 2015, p. 18), where companies with a number of workforce greater than 50 employees were set at 63 %.

Comparison of the sociodemographic split of the Austrian results with the German Business Confidence Survey 2015 (based on a total sample of 439), it is justifiable to say that the Austrian sample is similarly structured. In other words, the Austrian data show quite some ‘external’ reliability<sup>12</sup> with respect to the sociodemographic variables. The calculation of Cronbach’s Alpha with 10 items of the theme ‘challenges’ as a method for checking the relevant<sup>13</sup> internal consistency of the Austrian data shows an Alpha with the quite acceptable value of 0.510.

### Internal Validity of Data

The first question in the Business Confidence Survey 2015 inquired about the importance of various strategic reasons for Austrian companies to be present in China. Substantially later in the questionnaire – at question 10 (“In what legal and economic framework did the initial

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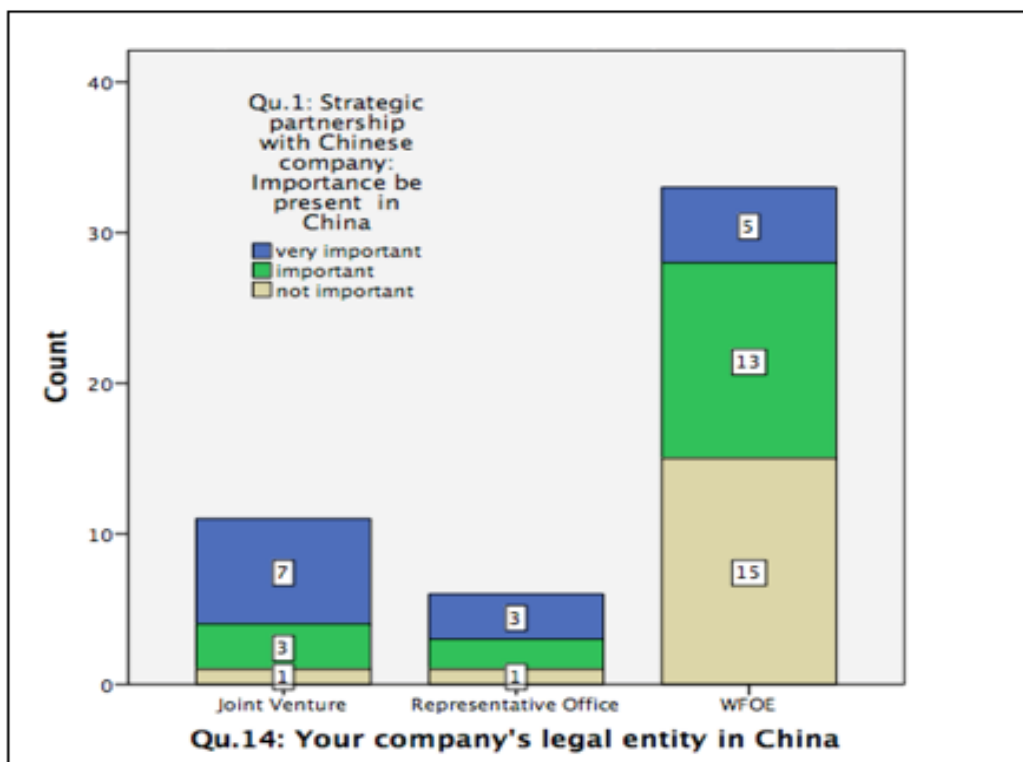
<sup>11</sup> Wholly Owned-Foreign Enterprise.

<sup>12</sup> Reliability as a measure for the tendency obtaining similar results under consistent conditions.

<sup>13</sup> Regarding later presented multivariate statistics where the theme ‘challenges’ is all important.

transaction take place?") – the questionnaire asked for the type of enterprise in China. This considerable difference can serve to evaluate the necessary internal validity of data referring to the research question.

Therefore, it can be tested if there are any differences in the answers by companies to the question of important reasons associated with different legal entities. Six proposed strategic reasons for a company to be present in China have been tested for significant differences concerning the selected legal entity. As the level of the Q.1 data is ordinal, one can apply the Man-Whitney U test.  $H_0$  for each pair of tests states that there are no statistically significant differences between Joint Ventures and Representative Offices, between Joint Ventures and WFOEs, and between Representative Offices and WFOEs. One significant difference has been found – the difference between Joint Ventures and WFOEs when aiming at a Chinese company as a strategic partner. The following figure shows the absolute responses to Question one, split according to the items of type of enterprise as subgroups.



**Figure 2.7: Companies: Strategic Partnership as Initial Legal and Economic Frame**

*Source: author's own construction, based on Business Confidence Survey 2015*

The difference between Joint Ventures and WFOEs, with a p-value of 0.003, is asymptotic significant. Another step in this case is to revise the used askew verbal scale of 'very important, important, not important'. A revised and then formally even verbal scale is *important* (as the sum of very important and important) and *not important*. The p-value of the

now applied chi-square-test (likelihood) is 0.038. A summarized statistic still shows a significant difference.

Based on the current discussion concerning relevance and meaning of the p-value (Wasserstein & Larzar, 2016), it is advisable to add information, for instance, to calculate the possible size of the effect, i.e. the strength of the phenomenon under observation. The effect size of a rank biserial correlation according to Wendt<sup>14</sup> is a relatively high  $r = 0.61$ . In its practical application, the strength of the correlation between Joint Venture as a legal entity and having a strategic partner as a reason to operate in China equals around two thirds of the maximum possible strength. One can draw the conclusion that the internal validity of data is sufficient as well to continue with more sophisticated statistics.

### **2.2.3 Findings of the Executed Re-Evaluation**

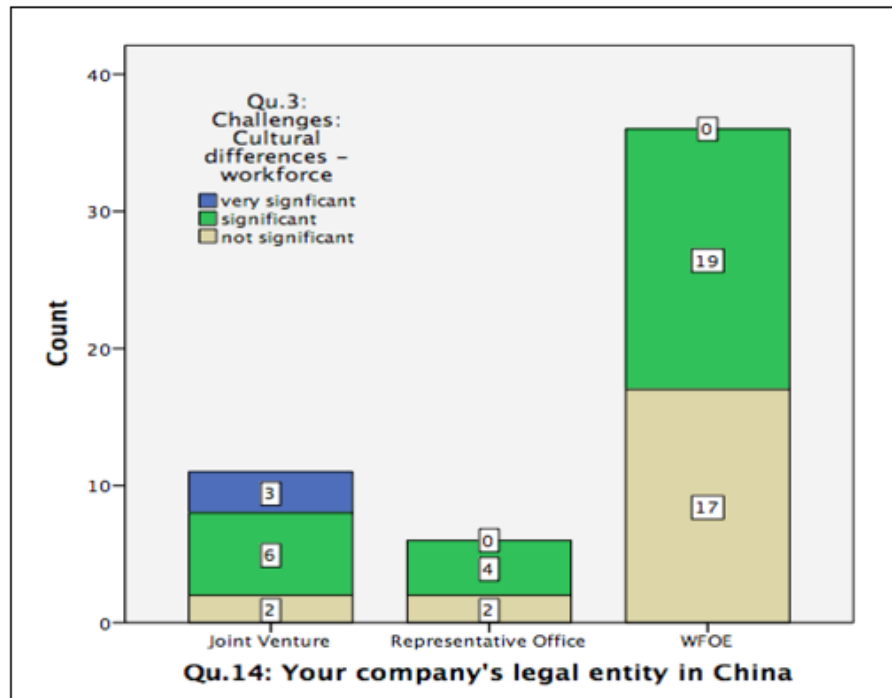
To remember the underlying question of research, “What was (or still is) the influence of the chosen or adapted entry mode for the business development in China?”, an important area of research is to investigate possible connections between legal entities and facing specific challenges. The Austrian Business Confidence Survey of 2015 predefined eleven challenges for contemporary businesses in mainland China. Hence, one can ask which of the challenges correspond to each kind of legal entity. Two methods have been within this re-evaluation applied to receive an answer, bivariate interference statistics and multivariate statistics in the form of factor analysis.

#### *Bivariate Inference Statistics*

As again the level of the Q. 3 data is ordinal, one could apply the Man-Whitney U test. The threefold statistical  $H_0$ -hypothesis for each pair of tests states that there are no significant differences between Joint Ventures and Representative Offices, between Joint Ventures and WFOEs, and between Representative Offices and WFOEs. One significant difference has been found concerning current challenges – again, a difference between Joint Ventures and WFOEs in respect to cultural differences/workforce. The following figure shows the count of the responses to Question 3/Challenge ‘cultural differences/workforce’, split according to the categories of legal entities.

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<sup>14</sup>  $r = 1 - (2U)/n_1*n_2$ , where U is the smaller of the Mann-Whitneys  $U_i$ ,  $n_1$  and  $n_2$  are sample sizes (Wendt, 1972).



**Figure 2.8: Companies: ‘Cultural Differences/Workforce’ and Legal Entity**  
 Source: author’s own construction, based on Business Confidence Survey 2015

As one can see at a first glance, the left column ‘Joint Venture’ is the only one that shows falls under the category ‘very significant’. The Man-Whitney U-test yields an asymptotic significant difference with a p-value of 0.015. It has to be noted that the used verbalized scale is uneven in this case as well: very significant, significant and not significant. A simple method to convert this scale to an even one is to combine the first two items and call the newly combined item *significant*. This leads to a relationship of 9 *significant results* versus 2 *not significant results* for Joint Ventures and respectively 19 versus 17 in the case of the WFOEs. It is again advisable to enrich the results [5]: (a) the effect size of a rank biserial correlation with the original data according to Wendt is  $r = 0.53$ . (b) The p-value of a now applicable chi-square test to the summarized scale is 0.074 (of likelihood).

Conclusion: The interim conclusion A is that cultural differences between the workforces are the current challenges for Joint Ventures. This means that there are difficulties within Joint-Venture-companies. WFOEs themselves are not confronted with this problem.

#### Multivariate Statistics to Reduce Dimensions

The number of the eleven predefined single challenges is quite high for such a short questionnaire. Hence the question arises whether these challenges are reducible to fewer but comprehensive challenges? And if so, is there any nexus traceable to the items of legal entities? To answer this question, an exploratory factor analysis of the eleven items has been



conducted. The analysis – a principal component analysis – proposes that four new components can explain 64.5 % of the total variance in the basic data set. Interpreting these new components is the central task of the next step (Bühl, 2015, p. 600). Interpretation is based on the correlation between each of the original variables and the new components. The following table presents estimated correlations between each of the challenges and the unobserved (new) components.

**Table 2.6: Loadings of Rotated Component Matrix within Exploratory Factor Analysis**

Rotated Component Matrix <sup>a</sup>	Component			
	1	2	3	4
Qu.3: Challenges: Cultural differences - marketing & sales		,779		
Qu.3: Challenges: Cultural differences - workforce		,523		
Qu.3: Challenges: Market access barriers		,721		
Qu.3: Challenges: Quality management				,541
Qu.3: Challenges: Rising costs of raw material			,728	
Qu.3: Challenges: Rising labor costs	,707			
Qu.3: Challenges: Transport & infrastructure			,759	
Qu.3: Challenges: Attracting & retaining staff	,793			
Qu.3: Challenges: Rule of law (transparency, enforcement of rules and regulations)	,697			
Qu.3: Challenges: Competition				,906

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 6 iterations.

Source: author's own construction, based on Business Confidence Survey 2015

One interpretation of these results is the following:

1. The first component is characterized by workforce; how to attract and retain personnel and their rising costs. Closely related to the cultural differences in the workforce is the (insufficient) transparency of rule of law and their enforcement. A short label for this component is *Total Chinese Working Specifiers*.
2. The second component is characterized by the structure of the market: access barriers, problems with marketing and sales and (encompassing) cultural differences with workforce. The label for this component can be called *Different Apprehension of Market*.
3. The third component is characterized by rising costs of raw material, the (accompanying) problems with transport and infrastructure and the handling of these troubling issues by management. The label for this component is *Material Workflow*.

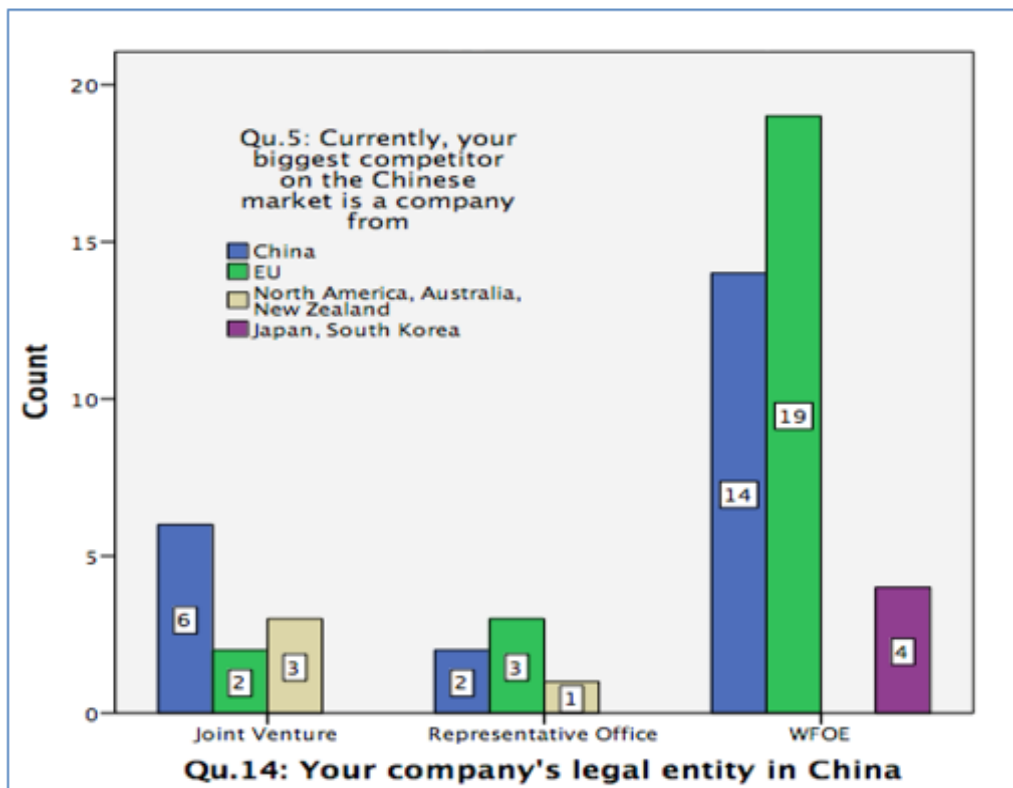
4. The fourth component is characterized by competition and adequate handling by management and labelled *Management in Face of Intense Competition*.

Further correlations between these new components reveal that the first and the third component are narrowly associated with each other. The new influence model of current challenges consists of the following factors: (a) total Chinese working specificities together with a problematic handling of material workflow, (b) a different apprehension of how to approach the market, (c) managing of management in face of intense competition. A theoretical statistical test (Mann-Whitney U) yields a p value of 0.015. Especially WFOEs are confronted with challenges concerning component one (*Total Chinese Working Specifiers*). Joint Ventures however do not face this problem. What do these results mean in their totality? The practical significance (Ellis, 2015, p. 292) of these results can be stated as follows.

Conclusion: The interim conclusion B is that entirely foreign-owned enterprises (WFOEs) are confronted with challenges on a national scale, i.e. challenges involving relations and situations outside the company, challenges related to the total of Chinese Working Specifiers.

#### Types of Enterprise and Competition

Question 5 dealt with business competition on the Chinese market. The respondents had been asked where the biggest competitor originated from.



**Figure 2.9: Companies: Responses of Managers to Question 5 (Competition)**  
 Source: author's own construction, based on Business Confidence Survey 2015

As the figure illustrates, being a Joint Venture means relatively more competition with Chinese companies and being a WFOE means relatively more competition with European companies. A chi-square test would confirm this result (the p-value of likelihood quotient equals .015). But one has to be careful not to over-interpret this result because too many cells within the table of contingency offer too small a base<sup>15</sup>. Therefore, these responses only lead to further questions –to be researched in the future – associated with the aims and motivation of Chinese partners when establishing a Joint Venture with a foreign company (an Austrian company in this case). One of these questions may be, ‘From the sight of a Chinese company is a Joint Venture just a mean to fight competitors within mainland China itself?’. If such considerations prove to be appropriate, the foreign company may then tend to face more challenges in an attempt to understand management decisions by Chinese partners. On the other hand, if a Chinese company establishes a Joint Venture with a foreign company for reasons like going global or becoming more competitive in a general way, then the motivational base for collaboration would probably be the same or at least similar, and it could lead to a more unified decision by the management, provided, of course, that the foreign company has similar aims and motivations.

Conclusion: To avoid problems (“challenges”), it seems to be of great importance to know – at least basic elements of – the aims and motivations of Chinese partners when establishing a Joint Venture with a foreign company.

## **2.2.4 Summary for the Present Thesis**

Assumptions drawn from the European study on internationalization of SMEs are the following.

- 1) Two important conclusions can be drawn from the general characteristics: (1) Conducting international activities lowers most perceived hindrances. Importing seems to be the easiest mode of internationalization. (2) Contrary to this phenomenon, most established SME support programs offer support for exporting. Even the economics literature seems to lay the focus on exporting when researching entry modes of internationalization.

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<sup>15</sup> Out of bivariate calculations no significant correlations could be found between categories of legal entity and Consideration of reducing investment in China within the next two years (Q.8), Positive effects of a company’s presence on the Chinese market on business in other markets (Q. 10), Specific roles (like buyer or supplier) in such a cooperation with a Chinese company (Q. 12), Duration of years company has been present on the Chinese market (Q. 21).

- 2) Three conclusions can be drawn from the survey data regarding Austrian SMEs: (1) In 2009, Austrian SMEs are behind the EU-average regarding all modes of internationalization. (2) The tendential focus of Austrian SMEs is cooperation with EU companies. (3) A striking characteristic of Austrian SMEs is their use of various kinds of financial support when going international, which outrank to other EU members.

Conclusions regarding the type of enterprise, derived from the re-evaluation of Austrian Business Confidence Survey of 2015 for mainland China, are the following.

- 1) Austrian companies aiming at building a strategic cooperation with Chinese companies prefer to establish Joint Ventures. However, within this mutual supportive form of doing business, cultural differences between (Austrian-dominated) management and workforce emerge.
- 2) Establishing a Joint Venture also means to be confronted with more Chinese competitors. Hence, to avoid arising problems (“challenges”), it seems to be of importance to know the basic aims of Chinese partners when establishing a Joint Venture.
- 3) WFOEs, on the other hand, are confronted with challenges on a national scale, i.e. challenges involving relations and situations outside the company. These challenges are typically related with the environment the company operates in. This environment could be labelled as *Total Chinese Working Specifiers*.

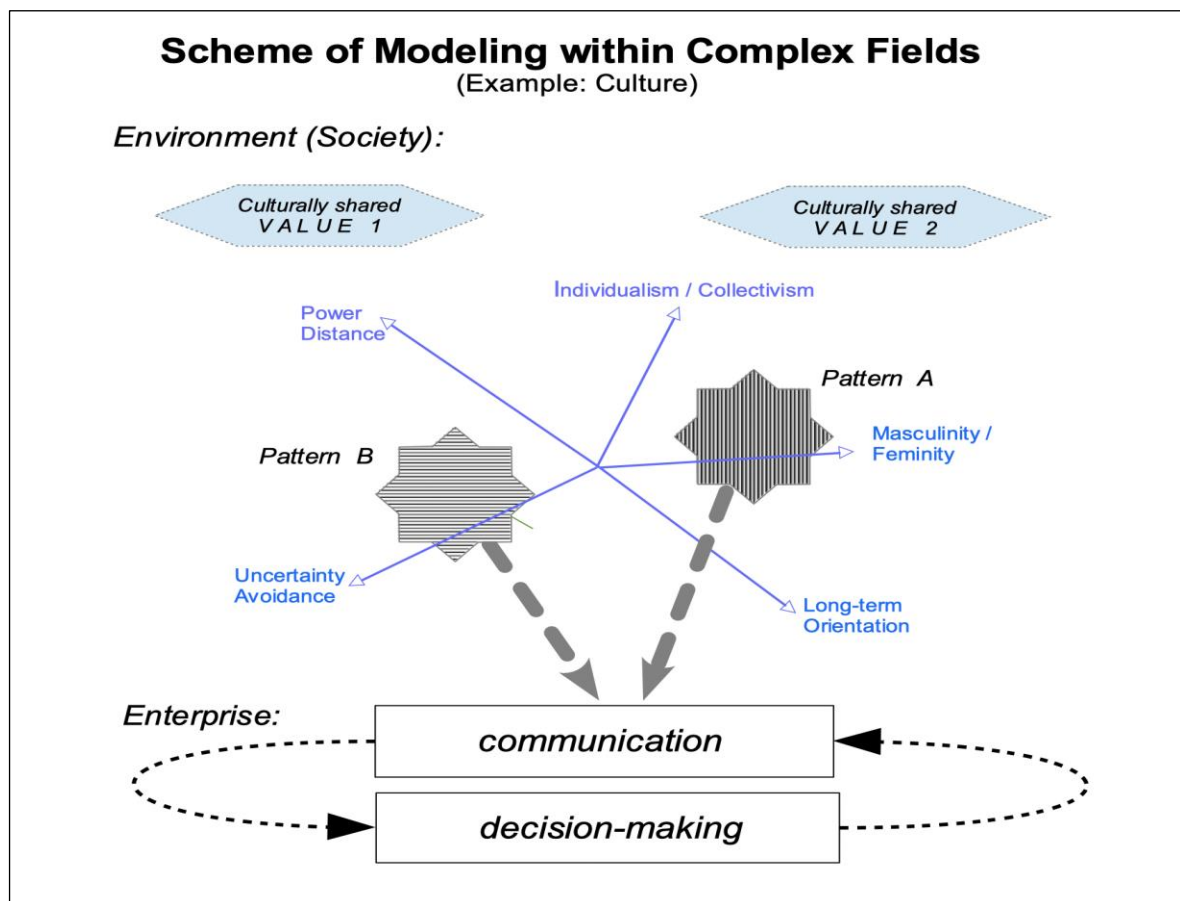
### **2.2.5 Deducted Model of Reflected Analysis**

In the final part of the present thesis, basic definitions and models for culture were compared (see chapter 1.1 on page 24) and discussed models of culture were brought together with the specific result of the executed re-evaluation in a single model of analysis. As shown in the literature review there is a gap within the management-literature concerning the impact of various factors and variables in relation to strategic decision-making of the market entry, the subsequent success, encountered problems or failure of the company and specifically chained theories. This integrated model consists of the following social and individual elements and their relations to each other:

- 1) Culture is seen as a socially shared inventory of values which offer orientation (Schrage 2014, p. 254)
- 2) Behaviour of single persons is based on these collective values.

- 3) The behaviour of single persons often manifests in the form of patterns. Patterns show themselves as a background structure of regularly repeated ways of doing or not doing certain activities. Patterns can be understood as the outwardly seen manifestation of a certain culture (Hofstede 2001, p. 10).
- 4) These patterns can be seen as a net of certain scaling-points assigned to each proposed dimension of Hofstede (1994). From this viewpoint, patterns are part of the layer structure of the culture model by Trompenaars and Wooliams (2005, p. 27).
- 5) These patterns influence the ongoing communication between members of a certain culture. But these patterns also influence communication between members of different cultures in a complicating way. This is an application of system theory.
- 6) Management-decisions are taken by means of communication according to point 5. Deciding is – parallel to communication on base of system theory - assumed to have procedural views. This process can be quantified and seen in a combination of environmental influences and company-relevant factors.

The output-model of literature-review and re-evaluation is displayed as following.



**Figure 2.10: Integrated Model of Environment, Culture and Enterprise / after Reviewing of Literature and Re-Evaluation of Austrian Business Confidence Survey 2015**

*Source: author's own construction, output of literature-review and re-evaluation.*

Steps one to four in the modelling process can also be interpreted as a hierarchical application of theories and models: Cultural theory serves as the frame, the specification of certain values and patterns as the targets or means within communicative models and decision-making as the final focus. Patterns – the outwardly seen manifestation of a certain culture according to Hofstede (2001, p. 10) – are important in this model because patterns are understood to form an essential part of the layer structure of the culture model by Trompenaars and Wooliams (2005, p. 27). To name one example of patterns: (a) Eating and discussing topics together as a family (both male and female members as a form of commensalism) in Western and many Asian cultures in contrast to the Arabic or Indian culture, where often men and boys eat separated from women and girls: “eating with someone connotes social equality with that person” (Kittler et others, p. 5). The reason for these different patterns, in general, lies in the social standing.

As the subject of this thesis is the entry mode into the Chinese market, which regards one relevant decision in the past, it is important to see the consequences of a selected entry mode. In the output-of-literature-model shown above, the consequences are depicted in the form of backwards loops on communication.

Decisions for internationalization are usually associated with high uncertainty. The mode of entry of an Austrian SME in the Chinese market and doing business fits both the definitions and the high degree of uncertainty these SMEs are confronted with. Strategic decisions reflect the core interactions between an organisation and its environment. According to strategic decision-making theory, these decisions show how an organisation handles the relationship between organisation and environment. From an instrumental viewpoint, decision-making can be grounded on a quantitative or a qualitative approach (within a strategic targeted procedures) or not be grounded on research at all but based on decision others had taken with a best-practice approach. Therefore, the output-of-literature-model is used as base to operationalize. Empirical data gathered during the conducted research will show which approach Austrian SMEs have selected in the past and which effects the decided entry-mode had on the companies. The aim is to measure the success of the entry-mode-decision and to come to specific conclusions and to be able to make suggestions and recommendations for management.

## 2.3 Procedures and Methods of the Author's Executed Survey

This section shows the input both from the developed general and specific model of research, the procedure for data collection in detail, data analysis and answers to the research-questions and validation of the hypotheses. The focus lies on the process and factors of input for the market-entry-decision of Austrian SMEs in China and selected aspects of the consequences (effects).

### 2.3.1 Implementation of Research Design

The pivotal elements of a research are the research questions. To be able to answer these questions in both an up-to-date and scientific way, it is advisable to clarify the used theoretical models and to show the most important latest results of scientific research in the field. The present empirical study aims to provide a better understanding of the Austrian SMEs' internationalization processes, decision-making processes in relation to China and to what extent the market entry mode in China has an impact on the business performance in the headquarters. As the research questions are pivotal in a scientific process, they are stated again below.

The following table shows the design of research presented above in concrete terms for the four detailed research questions of this thesis and the leading research question.

**Table 2.7: Design of Empirical Research**

<b>Questions of Research</b>	<b>Theoretical Model (Model of Research)</b>	<b>On-Topic Studies (EU/2009, AT/2015)</b>	<b>Questions of Questionnaire</b>	<b>Methodical Comments for Evaluation</b>
QR1 – information and decision	Cultural patterns, Communication decision	EU: barriers, importing-exporting-difference / national support-programs	Closed-ended: 4, 5, 6, 7, 9, 10, 11, 12 Open-ended: 8, 18	Triangulation of quantitative and qualitative results
QR2 – influence of used methods	Culture in general	EU: importing-exporting-difference	Closed-ended: 14, 15, 16 Open: 13, 18	Analysing: data in correlation with QR3 data
QR3 – influence of chosen entry mode	Communication decision	AT: different challenges for Joint Ventures or WFOE	Closed-ended: 14, 15, 16 Open-ended: 17	Analysing: data in correlation with QR2 data
QR4 – influence on businesses	Communication	AT: different challenges for Joint Ventures or WFOE; Management in Face of Intense Competition	Closed-ended: 14 Open-ended: (partly 13), 17, 18, partly 19	Emphasis on qualitative data in order to evaluate current general implications

LQR – SME and market entry (and socio-demographic context)	Synopsis of research in total	AT: Cultural patterns (Total Chinese Working Specifiers; Different Apprehension of Market)	1-19; especially 1, 2, 3, 5, 10, 17, 18, 19	Triangulation of quantitative and qualitative results and interpretation in the light of the context
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Source: author's own construction, based on questions of research and deduced model of literature

In the right column of this table, basic concepts and steps for analysis and interpretation of gathered data and results are shown. These concepts and steps are important for gaining a general view and answers at an aggregate and comprehensive level.

### 2.3.2 Operationalizing Models of Research

The above described integrated model (as shown in figure Figure 2.10 on page 77) is transferred to a general model of research, containing company-external, company-internal and mixed factors which influence the decision-making and effect thus the long-term success of the company in the market.

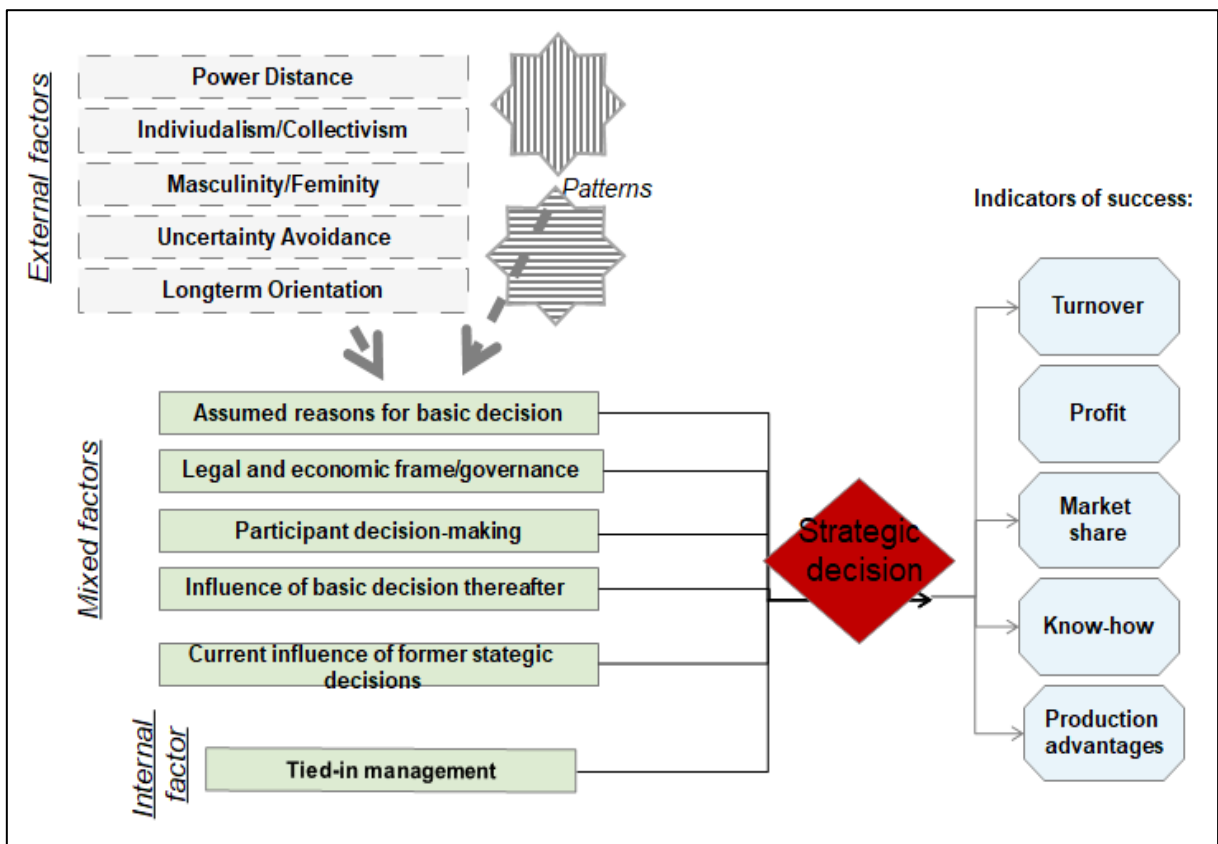


Figure 2.11: Generalized Model of Research containing External, Internal, Mixed Factors and Indicators of Success

Source: author's own construction



The behaviour of single persons often manifests in the form of patterns which can be understood as a manifestation of a certain culture (Hofstede 2001, p. 10). To unravel culture Hofstede postulated five quantifiable dimensions: power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance and long-term orientation (1994). These dimensions and patterns are taken as external factors which influence the communication between members of different cultures. The lower area of the output-model of the literature-review shows the interaction between communication and decision-making of management if they are tied in this process.

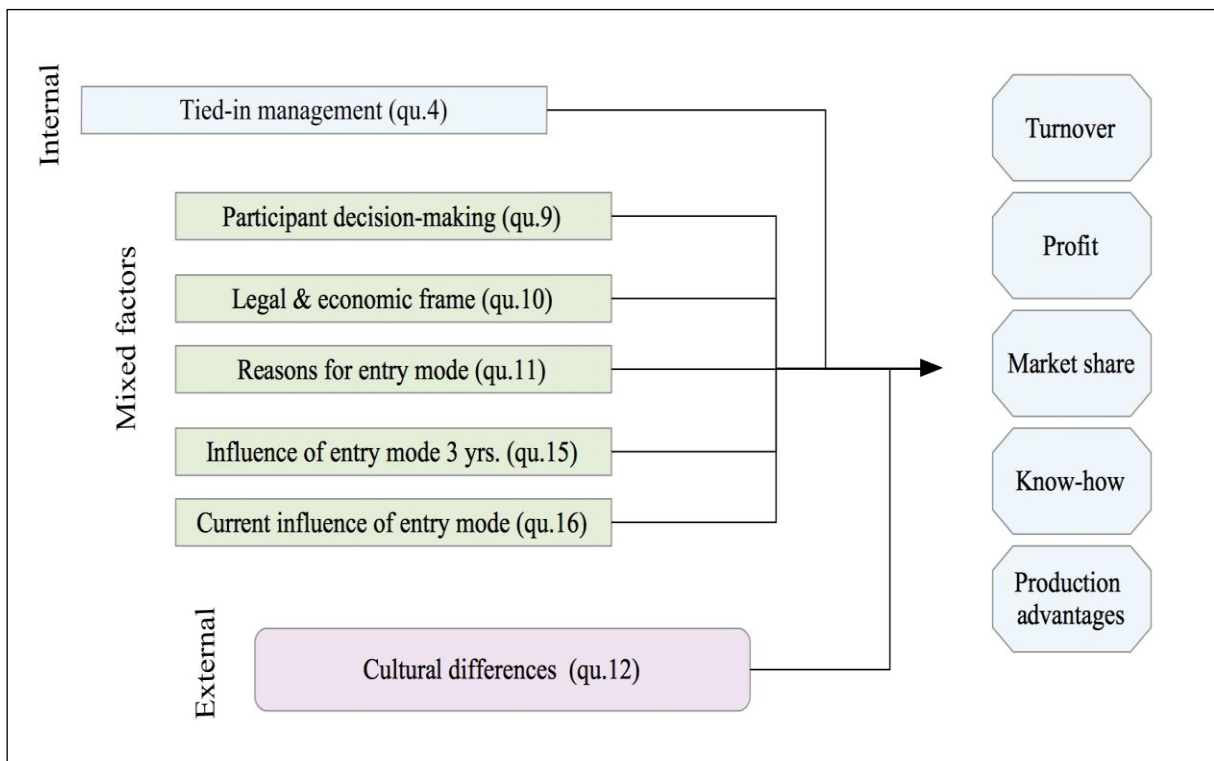
Therefore, a specific model of research has been developed containing independent and dependent variables:

#### *Independent Variables*

Company internal factor is the degree of tied-in of management in the decision-making process (question 4). Mixed (internal and external) factors encompass participant in the decision-making process for the first business connection with China (question 9), the legal and economic frame for the first business transaction (question 10, “In which legal and economic framework was the first transaction settled?”), reasons for selected entry mode (question 11, “What were the reasons for the initial entry into the market?”), influence of the selected entry mode within the first three years (question 15, “What was the influence of the first market entry on the market success in China?”), current influence of the selected entry mode (question 16, “What was the impact of the first market entry on your current business in China?”). The used company external factor consists of the influence of cultural difference on the selected entry mode (question 12, “How was the influence of cultural differences on the chosen form of the market entry?”).

#### *Dependent Variables*

As dependent are seen the business results like sales, profit, market share, ... . These are the results by the company activities in the last three to five years in China (question 14, “What have you achieved in the last three to five years through your engagement in China?”).



**Figure 2.12: Specified Model of Research containing independent and dependent Variables**  
*Source: author's own construction*

Variables are derived from answers to specific questions. Basically, the level of measurement is nominal (yes or no), except for the data from question 15 (“What was the influence of the first market entry on the market success in China?”), question 16 (“What was the impact of the first market entry on your current business in China?”) and question 12 (“How was the influence of cultural differences on the chosen form of the market entry”). As cultural differences lie in the focus of the current study, statistical tests like analysis of variance (ANOVA) could be performed with the data of question 12.

### 2.3.3 Used Methods for Data Collection and Data Analysis

The method for collecting empirical data was an electronically supported internet-based survey. The basic tool for data analysis was the statistical software package SPSS 20.

#### Research Phases of Survey Austrian Small and Medium-Sized Enterprises

Two different phases of empirical research can be distinguished: (a) collecting data and (b) analysing and interpreting data. During the first phase, three different methods for accessing the target group were used. All of them were applied in cooperation with the Austrian Chamber of Commerce (WKO).

- 1) 330 emails were sent out to all – in the Austrian Chamber of Commerce registered - firms active in the Chinese market. They were asked to participate in the internet-based survey, see appendix C. Two additional reminder-emails to the same population had been sent in two-weeks-intervals.
- 2) The newsletter by the ‘Advantage Austria Shanghai’, a subsidiary of the WKO, contained some information about this study and a link to the internet-based survey, see appendix C.
- 3) Two presentation and discussion forums in Vienna with the special issues ‘China and the New Normality’ and ‘Forum Export’ in May and June 2016 served to find potential respondents. These forums had also been organized by the WKO.

After some testing, the survey went online from February 18<sup>th</sup> until July 6<sup>th</sup>, 2016. Based on the research questions, executives of Austrian firms (SMEs) already engaged in the Chinese market were the target group. The title page substantiated that all information would be handled confidentially and that each participant had the possibility of receiving a management summary after the study was finished.

#### *Internet based Questionnaire in More Detail*

The web-based questionnaire contained 19 questions containing both closed-ended questions and open-ended questions (allowing free response). For more details, see *Appendix C: Survey Austrian SMEs 2016 / Questionnaire* on page 160. Of 19 questions in total, 14 were closed-ended questions which consisted of yes/no, multiple-choice and scaled questions. Five open-ended questions were completely unstructured.

The questionnaire can be divided into four main sections:

- 1) Sociodemographic information concerning the enterprise of the respondent.
- 2) Processes of information and decisions relevant for the entry into the Chinese market.
- 3) Possible impacts of the entry mode through cultural differences and encountered hindrances in the beginning.
- 4) Results of the entry mode both for the Chinese affiliate and perceived repercussions for the headquarters in Austria.

Recommendations based on experience and questions regarding the current situation of the “New Normality” completed the questionnaire. The total number of respondents with valid input was 86.

### Realized Sample

This chapter describes both the relation of the basic feature of this doctoral thesis (size class) with the total universe (population) of Austrian SMEs and some additional characteristics of the sample.

#### 2.3.4 Population and Characteristics of the Realized Sample

##### Comparison of Sample to the Population

Question 1 (“how many employees did your company have in 2015?”) of the questionnaire asked for the number of employees in the enterprise in the year 2015. Out of 86 sets of data, the size class of *micro* is represented by 25 sets, the size class of *small* by 10 sets, the size class of *medium-sized* by 15 sets, and the size class of *large* by 33 sets. Three sets of data contained no information in the variable size class. For statistical reasons and for drawing conclusions, it is important to see possible differences between the total universe and the realized sample. Below, there is a table containing shares of the basic population (both imports and exports) and shares based on the sample (column on the right).

**Table 2.8: Population and Sample Structure - Comparison**

Size Class (base: number of enterprises)	Import from China	Export to China	Sample of Study
	2013	2013	2016
	%	%	%
Total	100	100	100
0/1 - 9	59	28	29
10 - 49	23	28	12
50 - 249	12	27	17
<i>(SME 0 - 249)</i>	<i>(93)</i>	<i>(83)</i>	<i>(60)</i>
250 and more	7	17	38
Missing	0	0	3

*Source: Statistik Austria, Leistungs- und Strukturstatistik Import and Export for size classes (2013) and Sample of Study (2016)*

As one can see, there is a distortion (bias) in the sample: small and medium-sized enterprises are underrepresented, large enterprises are overrepresented. The conclusions for the analyses are that, (1) as the focus of this thesis is on SMEs, the focus of analysing the results also lies on the size class’s micro to medium-sized. Therefore,  $n(\text{SME}) = 53$  for this evaluation. (2) As there are similarities between the size classes of medium-sized and large (see, for instance, chapter 2.1.2 *The Austrian Engagement in Internationalization* on page 64) one can also look

– with considerable caution, of course – at figures of the large class size segment. Therefore, in this context, it is always necessary to state on which ground analyses and conclusions were conducted and drawn.

### Further Characteristics

The respondents were also asked when their first Chinese business operation had been started. The overall results (n = 77) are that 25 % had started in the years before 1989, 38 % between 1990 and 2009, and 38 % between 2010 and 2016. The split by size class results in the following table.

**Table 2.9: Austrian Firms with start of Business in China, grouped by Size Class**

<b>F1 Size classes 4 items * Q5: Year of first business in China, categorized Crosstabulation</b>						
		<b>Q5: Year of first business in China, categorized</b>				
		bis 1989	1990 – 2009	2010–2016	Total	
F1 Size classes 4 items	1 - 9	Count	3	5	16	24
		% within F1 Size classes 4 items	12,5%	20,8%	66,7%	100,0%
	10 - 49	Count	1	4	5	10
		% within F1 Size classes 4 items	10,0%	40,0%	50,0%	100,0%
	50 - 249	Count	3	7	2	12
		% within F1 Size classes 4 items	25,0%	58,3%	16,7%	100,0%
	250+	Count	12	13	6	31
		% within F1 Size classes 4 items	38,7%	41,9%	19,4%	100,0%
Total		Count	19	29	29	77
		% within F1 Size classes 4 items	24,7%	37,7%	37,7%	100,0%

<b>Symmetric Measures</b>					
		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Ordinal by Ordinal	Kendall's tau-c	-,382	,094	-4,052	,000
N of Valid Cases		77			

a. Not assuming the null hypothesis.  
b. Using the asymptotic standard error assuming the null hypothesis.

*Source: author's own construction, based on author's conducted survey*

The differences between size classes are significant. The larger the enterprises were, the earlier the start of business operation in China had taken place, the smaller a company was, the later the start had taken place. The strength of correlation ist middle (- 0.382). In conclusion, Austrian SMEs had started business operations in China rather later, predominantly in more recent year.

The next step is to look at who the respondents of the study were, at which level of management they operated. To get an overview, the predefined functions are pooled at two levels: the first level of management (the sum of company management and managing directors) and the second level of management (sum of all others). A crosstabulation of this calculated categorical pooled variable yields the results shown in the following table.

**Table 2.10: Austrian Firms, grouped by Size Categories**

<b>Case Processing Summary</b>							
		<b>Cases</b>					
		<b>Valid</b>		<b>Missing</b>		<b>Total</b>	
		<b>N</b>	<b>Percent</b>	<b>N</b>	<b>Percent</b>	<b>N</b>	<b>Percent</b>
F1 Size classes 4 items		81	94,2%	5	5,8%	86	100,0%
* F3_Function Categories							

<b>F1 Size classes 4 items * F3_Function Categories Crosstabulation</b>						
		<b>F3_Function Categories</b>				
				<b>Second Level of Management</b>		
				<b>First Level of Management</b>		
<b>F1 Size classes 4 items</b>		<b>Count</b>			<b>Count</b>	<b>Total</b>
1 - 9	Count	18		7	25	
	% within F1 Size classes 4 items	72,0%		28,0%	100,0%	
10 - 49	Count	5		5	10	
	% within F1 Size classes 4 items	50,0%		50,0%	100,0%	
50 - 249	Count	3		11	14	
	% within F1 Size classes 4 items	21,4%		78,6%	100,0%	
250+	Count	2		30	32	
	% within F1 Size classes 4 items	6,2%		93,8%	100,0%	
<b>Total</b>	Count	28		53	81	
	% within F1 Size classes 4 items	34,6%		65,4%	100,0%	

<b>Symmetric Measures</b>					
		<b>Value</b>	<b>Asymp. Std. Error<sup>a</sup></b>	<b>Approx. T<sup>b</sup></b>	<b>Approx. Sig.</b>
Ordinal by Ordinal	Kendall's tau-c	,613	,092	6,692	,000
N of Valid Cases		81			

a. Not assuming the null hypothesis.  
b. Using the asymptotic standard error assuming the null hypothesis.

*Source: author's own construction, based on author's conducted survey*

As one can see, micro SMEs are more represented at the first level of management, whereas large enterprises are far more represented at the second level of management. This difference is significant. The adequate effect size for rectangular crosstabs Kendalls tau-c is 0.613, which means that the strength of the connectedness is great.

The split of the sample into subgroups by economic sector is the following: 44 % business-to-business goods like machinery, 14 % consumer-goods and 42 % services. Crosstabulation with size class leads to the following table.

**Table 2.11: Austrian Firms grouped by Economic Sector and Size Class**

F1 Size classes 4 items * F2_Branche Crosstabulation						
		F2_Branche				
		Business-to-business goods (mashinery,..)	Consumer goods	Rights or services	Total	
F1 Size classes 4 items	1 - 9	Count	5	4	16	25
		% within F1 Size classes 4 items	20,0%	16,0%	64,0%	100,0%
	10 - 49	Count	5	3	2	10
		% within F1 Size classes 4 items	50,0%	30,0%	20,0%	100,0%
	50 - 249	Count	7	3	4	14
		% within F1 Size classes 4 items	50,0%	21,4%	28,6%	100,0%
	250+	Count	18	1	11	30
		% within F1 Size classes 4 items	60,0%	3,3%	36,7%	100,0%
Total		Count	35	11	33	79
		% within F1 Size classes 4 items	44,3%	13,9%	41,8%	100,0%

Chi-Square-Test: Likelihood Ratio: 0,013; effect size Cramer's V: 0,308.

*Source: author's own construction, based on author's conducted survey*

The chi-square test reveals that there is a significant difference between all samples of the population. Large enterprises produce machineries, whereas small enterprises offer services. The strength of this association (as Cramer's V shows) is middle.

### 2.3.5 Four Main Summaries for the Present Thesis

Four summaries within the following areas could be drawn at the end of this empirical subchapter of introduction.

1. Area of bias in the sample: small and medium-sized enterprises are less represented, large enterprises are overrepresented. Therefore, in this context, it is always necessary to state on which base analyses were conducted and conclusions drawn.
2. Area of special respondents' characteristics: (a) the larger the enterprises were, the earlier the start of business operations had taken place, the smaller a company was, the later the start had taken place. (b) The smaller a company was, the more it was represented at first level management, the larger an enterprise was, the more it was

represented at second level management. (c) The smaller a company was, the more likely it offered services, the larger an enterprise was, the more likely it offered business-to-business products.

3. General methodical issue: the term *SME* (small and medium-sized enterprise) – denoting differences between enterprises – is not suited to stand alone. There is a methodical problem with this definition of classes of enterprises. The definition distinguishes enterprises on an axis of small to large and cuts off the large segment. One glance at the small and medium-sized enterprises suffices to realize that this approach of categorisation is somewhat artificial and truncated, as many characteristics of SMEs are opposed to those of large enterprises and vice versa.
4. Methodical issue for further analyses in this doctoral thesis: (a) the size class of *micro* and the size class of *small* are merged into one size class. (b) A contrasting comparison between a twofold-split between SMEs and large enterprises can prove to be fruitful for the following chapters of analysis.



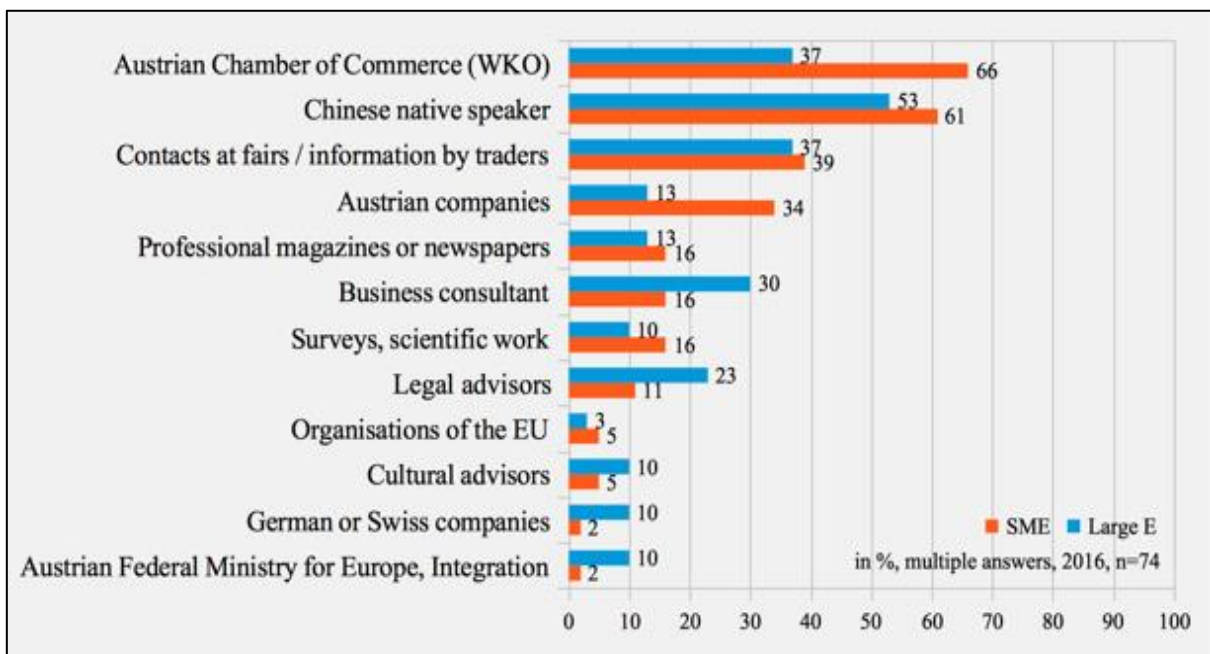
### 3 EMPIRICAL ANALYSES OF INFLUENCING FACTORS AND DEVELOPMENT OF AN INTEGRATED MODEL

#### 3.1 Information and Decision-Making Process for Market Entry

The first research question (RQ1) reads, “What was the information and decision-making process in the companies for the market entry in China like?”. Data for answering RQ1 derives from answers to the questions 6 (“Which were the main sources of information for the decision of the market entry in China?”), 7 (“Who was involved in the process of generating and analysing the possible business relationships with China?”), 8 (“If you remember, what was the best information before you came to China?”) and 9 (“Who or what was important in the decision-making process for the first business relationship in China?”) of the questionnaire.

##### 3.1.1 Process of Information-Seeking and Analysis

Question 6 (“Which were the main sources of information for the decision of the market entry in China?”) offered twelve predefined answers, which could be answered in multiple ways. The following diagram shows the results for the subgroups of SMEs (1-249 employees) and large enterprises (250+ employees).



**Figure 3.1: Main Sources of Information Based for Market Entry Decision**

*Source: author's own construction, based on author's conducted survey*

There are two main information sources for SMEs: the Austrian Chamber of Commerce (WKO) with 66 % of agreement among respondents and a native Chinese with 61 %. Additionally, approximately one out of three respondents used information from traders/ established contacts at a fair or had been informed by other Austrian companies. The profile of large enterprises differs significantly from the SMEs' profile insofar as the WKO (chi-square-test with p-value of 0.013) and Austrian firms (chi-square-test with p-value of 0.039) are less important. Consultants of different kinds play a greater role if the company seeks information before taking the entry decision.

As another part of the phase 'information and deciding' the respondents were asked who the main participants of information research and the analysis of possible business relations were. Question 7 ("Who was involved in the process of generating and analysing the possible business relationships with China?") offered eleven predefined answers.



**Figure 3.2: Main Participants of Information Research and Analysis**

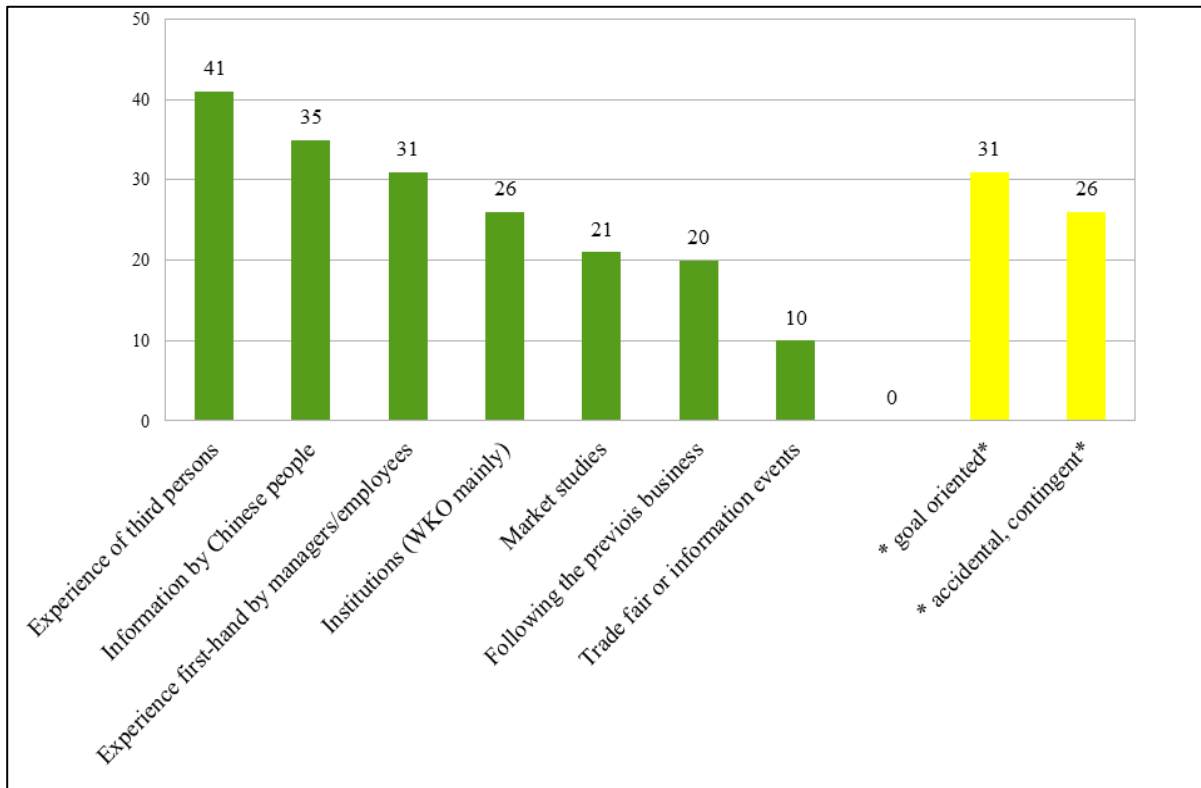
*Source: author's own construction, based on author's conducted survey*

In total, there are three essential differences for information research and analysis regarding SMEs and large enterprises:

- 329 accumulated total percentage points over all questions account for SMEs, as opposed to 421 accumulated percentage points for large enterprises. This means that large companies engage far more in doing research and analysis.
- Large enterprises more often establish project-teams.
- Large enterprises use more external consultants.

These three differences lead to the conclusion that SMEs carry out less research and analysing of possible business relations than large enterprises.

To go into depth, participants were asked to name the best source of information they had found before their market entry into China. One of the subject-specific question was open-ended. 38 respondents out of 86 indicated two or three items as their best source of information. Total answers (SMEs plus large enterprises) are categorized and shown in the following figure.



**Figure 3.3: Best Sources of Information Before Market Entry Decision**  
*Source: author's own construction, based on author's conducted survey*

It is interesting that the first two ranks of the most valuable sources of information are outside of the company: *Experiences of third persons* and *Information from Chinese people*. *First-hand experience of managers/employees* of the deciding enterprise, followed by *Institutions (WKO mainly)*, an institution which is either at least neutral or supporting the efforts of the enterprise, rank third and fourth. Detailed answers regarding important categories are:

The category *Experiences of third persons* includes “Personal contact of the consultant” (n 21), “Experience made by other companies” (n 1), “German and Italian manufacturers of machinery” (n 5), “Rumours about success projects” (n 5), “Visits of non-Chinese] traders” (n 13) or “Professionals from the industry” (n 40).

The category *Information from Chinese people* includes “Potential [Chinese] partners” (n 79), “Chinese people in Austria” (n 71), “Chinese marital partner of employee” (n 65), “Chinese traders from Hongkong” (n 43) or “Local Chinese partner” (n 36).

The category *First-hand experience of managers/employees* encompasses “Previous experiences as vice-president of another company in Shanghai” (n 29), “Personal contacts with representatives of a Chinese company” (n 40), “Self-experiences by extensive travels in Southeast Asia” (n 5) or “On-site research by production manager” (n 81).

On the right of the preceding diagram, one can observe two attributes which could be assigned to many items (categories) on the left side. One attribute is interpretatively called *goal-oriented*.

The total of assignments for the first attribute is 31 %. This attribute reflects the rational and standard textbook way of entering a foreign market: having specified targets, complementary strategies, doing market research, evaluate the results, etc. Here, one can find statements like, “Where are our customers?”, “What is the additional profit after establishing a local representation?”, “What are the risks?” (n 3), “Potential of market, competition, possible partners” (n 79), “financing, taxes, law” (n 60) or “country reports by WKO, analysis of competitors” (n 82).

In contrast to the first attribute mentioned above, the somewhat antagonistic attribute is *accidental, contingent*. The total of assignments for this is 26 %. This attribute shows coincidental ways of going to China like (not specifically planned) meetings with possible traders or partners on fair trades or having an employee whose partner is of Chinese origin. Going to China often results from the business operations done so far, as a simple consequence of previous products or services offered. Here, one can find statements like, “Our customer went to China and we followed him, it was not really a strategic decision, but simply noticing and grabbing a business opportunity” (n 75), “Going to China with existing customers as a supplier” (n 81) or “inquiries of potential customers” (n 21).

Some theoretical notes need to be made at this point. The terms complexity and contingency are essential in Luhmann’s systems theory. According to him, the complexity of systems limits the ability to connect elements of the system with other elements. This leads to selections which manifest in the form of concrete statuses, a situation which could have arisen vice versa. In the end, order is established for some time as a type of fixed form of complexity (Luhmann 1997, p. 137). All this is done on the essential base of communication containing

no subjects at all as formulated for the model relevant for this thesis (see *Communication within the System Theory* on page 38). In conclusion, the contingent aspect of receiving (contingent) information could be seen in a considerable number of answers to question 8 (“If you remember, what was the best information before you came to China?”).

The interim conclusion runs: when applying the method of open questioning which leads to spontaneous (and perhaps deep reaching) answers, it becomes clear that often not so clearly separated processes come up, such as seeking information at first, analysing the data in a second step, and taking decisions in the third. Instead, there is a tendential continuous chain of steps, which start contingently by chance and lead to a realized market entry in China in the end.

Some methodological notes have to be made. In order to discover general trends, it is advisable to summarize certain data (Wasserstein & Larzar, 2016). Therefore, we will look at the sociodemographic data from question 3 (“What function do you have in the company?”) and summarize it in two classes. Thus, the management of a company and the managing directors will become the *First Level Management*, distribution, marketing, finance, controlling, coordination of foreign business, and the other respondents will become the *Second Level Management*. When doing this, and now looking at the SME respondents of only question eight, one finds a surprising relationship between the accidental, contingent attribute and the two different levels of management (see significant differences in the following table).

**Table 3.1: Managers and Attribute Accidental, grouped by Level of Management**

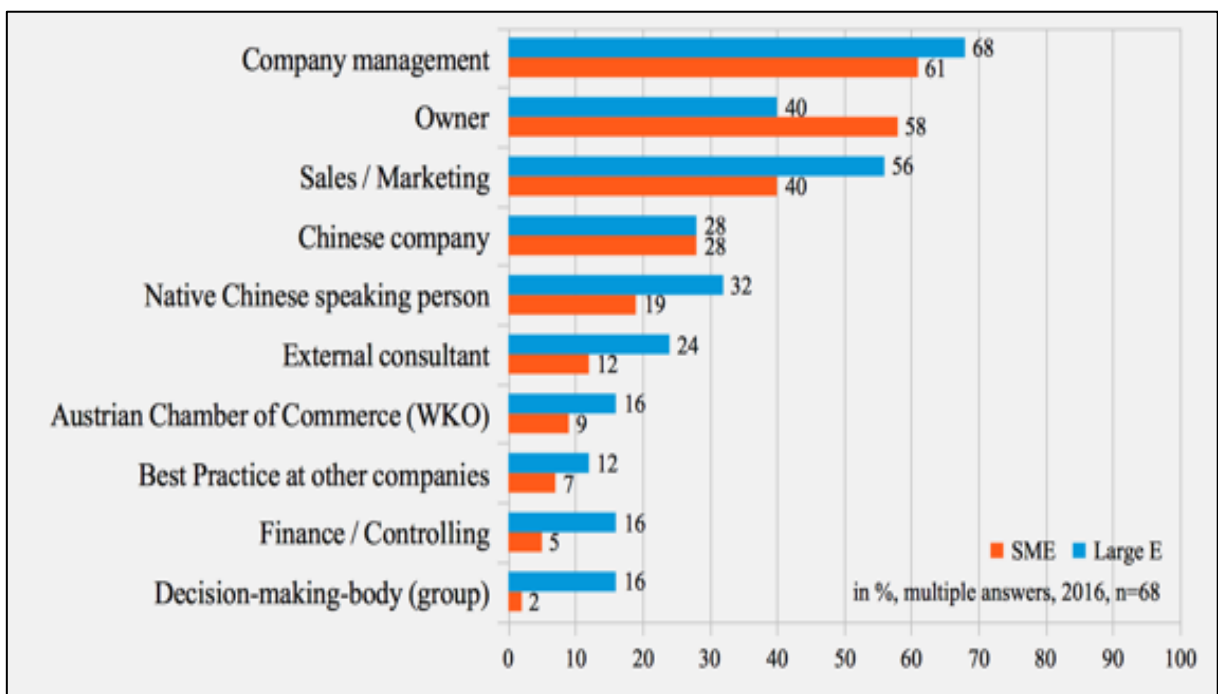
Crosstab					
		F3_Function Categories			Total
		First Level of Management	Second Level of Management		
Attribute accidental, contingent	not true	Count	16	20	36
		% within F3_Function Categories	61,5%	87,0%	73,5%
	true	Count	10	3	13
		% within F3_Function Categories	38,5%	13,0%	26,5%
Total		Count	26	23	49
		% within F3_Function Categories	100,0%	100,0%	100,0%

*Source: author's own construction, based on author's conducted survey*

The first level of management far more often describes ways of getting information (and deciding about going to China or not) by noticing and seizing accidentally offered opportunities. 39 % of first level managers say so in contrast to 13 % second level managers. The p-value of a chi-square test is 0.040, the associated effect size  $\phi = -0.287$ , which also hints at a medium strength of cohesion. A further in-depth interpretation cannot be conducted at this point, as there could be many possibilities: (a) first level managers are more confident and therefore tell the truth even if it is the opposite of what a textbook recommend, (b) first level managers oversee important processes of the whole business and are therefore in a position to tell what really happened, (c) after the decisive seizing of accidental opportunities by first level managers, second level managers are busy with implementing all or some of the recommended strategical and research-oriented actions when entering a foreign market.

### 3.1.2 Process of Decision-Making

Question 9 (“Who or what was important in the decision-making process for the first business relationship in China?”) dealt with the final process of deciding. The answers for the predefined options can be seen in the following figure, where SME-only answers are confronted with answers from large enterprise respondents.



**Figure 3.4: Main participants of Decision about First Business Relations**

*Source: author's own construction, based on author's conducted survey*

Just by looking at the differences between SMEs and large enterprises, one notices that, in large enterprises, more persons or institutions are involved when deciding about the first business relations (308 points) than in SMEs (241 points).

We will now look at the single items of deciding participants. As one could have expected, both the management of the company and the owner play the main roles in deciding about internationalization. In large companies, the head of distribution and marketing are also involved in this fundamental decision. Somewhat less but also involved are Chinese companies, native Chinese and consultants from outside the firm. One would not have expected that these persons are involved in the basic decision. Goals and interests of the Chinese companies and these people – to some extent excluded from the deciding enterprise – might not overlap with the goals and interests of the deciding enterprise.

These unexpected results can be interpreted in various ways: (a) even within the process of deciding the enterprise intending to enter the Chinese market is not independent from sources outside the enterprise, (b) this result may be based on an insufficiently formulated question, where words like ‘final decision’ were missing in the questionnaire.

### **3.1.3 Summary**

A summary of these results – which simultaneously corresponds to research question one (QR1: “What was the information and decision-making process in the companies for the market entry in China like?”) can now be made.

The single processes of seeking information, analysing it and making decisions with respect to going to China are often not separated. Moreover, essential information sources and participants in the analysis process of possible business relations stem from outside the enterprise. These include conveyed experience of third persons, information presented by Chinese natives, various chambers, of commerce or external consultants. It cannot be ruled out that these sources and participants in the different phases of the process also follow their own interests and goals, which may be different from the companies’. Especially the very first steps of going to China can be attributed at roughly equal importance to two antagonistic dimensional attributes: the rational and goal-oriented, textbook-like way or the contingent, coincidental and opportunity-seizing way.

The rational way of information-seeking-analysis and the deciding process is characterized by

- The Austrian chamber of commerce (WKO) as a source of information,
- General management, owners of the company and relevant directors of distribution and marketing as participants both in the information-seeking process, for conducting market studies and in the final deciding process.

The contingent way of the information-seeking- analysis and the deciding process is characterized by (a) experiences of third persons, (b) information and participation in the overall process of Chinese natives and potential Chinese partners, and (c) going along as situations arise.

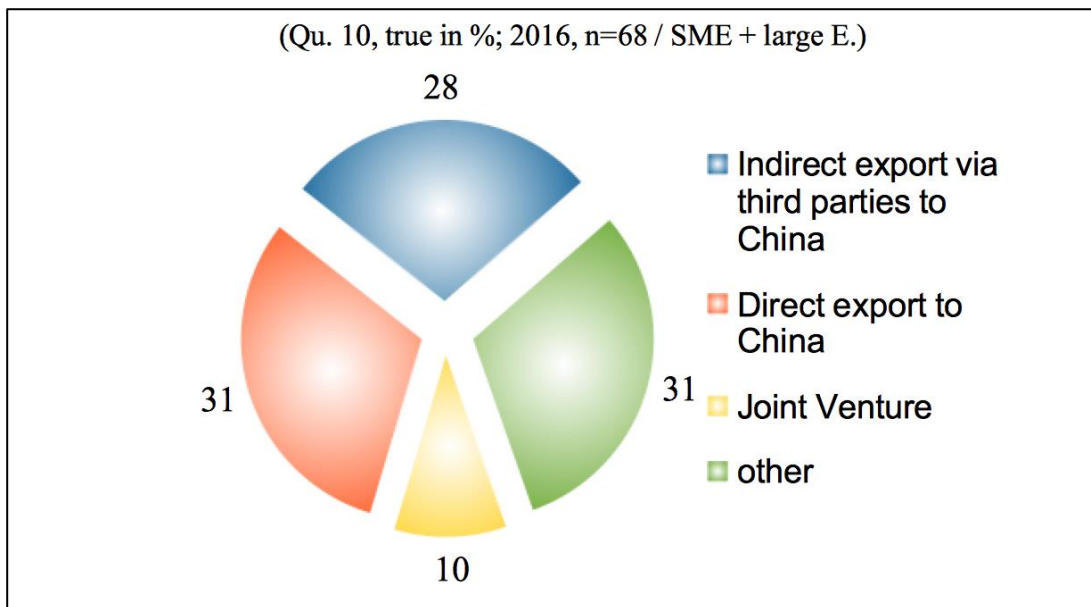
### **3.2 Used Methods and Procedures for Market Entry**

The second research question (RQ2) reads, “What was the impact of the used methods and the decision-making process on business development in China?” The data for answering RQ2 is mainly gathered from answers to questions 10 (“in which legal and economic framework was the first transaction settled?”), question 11 (“What were the reasons for the initial entry into the market?”) and question 12 (“How was the influence of cultural differences on the chosen form of the market entry”) and partly from the open-ended question 8 (“If you remember, what was the best information before you came to China?”) of the questionnaire.

#### **3.2.1 Selected Base for First Transaction**

The results for question 10, “In what legal and economic framework did the initial transaction take place?”, seem to be quite easy to understand: 31 % of respondents opted for direct export to China, 28 % for an easier und almost risk-free transaction in the form of indirect export via third parties to China, and 28 % for other forms of transactions. Quite impressively, 10 % of transactions was carried out on the base of a more difficult criterion – an already established joint venture (see following figure).





**Figure 3.5: Legal and Economic Decision Base for First Business in China**  
*Source: author's own construction, based on author's conducted survey*

However, 39 interviewed persons out of 86 (45 % of the respondents) marked either *other* or bypassed this question. A subgrouping of these respondents by branches shows significant differences (chi-square test / p-value of 0.003), with quite a strong association (Cramers V = 0.376), see also the following table.

**Table 3.2: Marking Others or Bypassing First Business, grouped by Branch**

Q10: marking other or bypassing first business * F2_Branche Crosstabulation						
		F2_Branche			Total	
		business-to-business goods (mashinery, etc.)	consumer goods	rights and services		
Q10: marking other or bypassing first business	export or joint venture marked	Count	26	8	12	46
		% within F2_Branche	74,3%	72,7%	36,4%	58,2%
	other marked or bypassed	Count	9	3	21	33
		% within F2_Branche	25,7%	27,3%	63,6%	41,8%
Total		Count	35	11	33	79
		% within F2_Branche	100,0%	100,0%	100,0%	100,0%

*Source: author's own construction, based on author's conducted survey*

One interpretation of these results is that, for the economic sector rights and services, the predefined answers were not specifically suited. The term 'exports' is usually associated with material goods and not with immaterial goods. Operating in this economic sector, business seems to go by other terms and circumstances.

As for methodological remarks, the first two options of the predefined answers directly addressed exports, the third option addressed exports indirectly. Therefore, there is a possibility that respondents merely concentrated on exports. The easier way of starting internationalizing business – namely importing – could have been out of the respondents’ focus. Consequently, it is most probable that the results gathered from the answers to these questions apply to exporting

The interim conclusion for the first (exporting) transaction is that three out of ten enterprises used a convenient and possibly nearly risk-free way of exporting indirectly via third parties to China as their first transaction. Three out of ten enterprises chose to take considerable risk and exported to China already in their first transaction. One out of ten enterprises seemed to have started by establishing a joint venture as the base of the first transaction. For three out of ten respondents, the formulated question and the multiple-choice options did not suit in the way they had been formulated – respondents may not have known exactly what was referred to with ‘base of the first transaction’ or their companies had already maintained business relations with China for decades (see, for instance, the results of question 8).

### 3.2.2 Reasons and Factors for Selected Market Entry

Question 11 (“What were the reasons for the initial entry into the market?”) dealt with proposed reasons for the first selected modus of market entry. The following figure shows the results sub-grouped by SME-only and large enterprises.



**Figure 3.6: Reasons for Selecting Mode of First Market Entry**  
*Source: author’s own construction, based on author’s conducted survey*

The two most important reasons for selection of a mode by SMEs Low risk of selected market entry mode (56 % of all respondents), *Necessity of involving Chines partners* (56 %). To a lesser degree, important reasons for SMEs are *Fastest possible market entry* (36 %) and *Lowest resource requirements* (27 %).

As the diagram already shows, there are two significant differences between SMEs and large enterprises: large enterprises prefer *Positive experience with this specific market entry in other markets* (36 %) and *Most effective control of China engagement* (36 %).

**Table 3.3: Austrian Firms and significant Subgroupings of Decision-Making Reasons**

Crosstab					
			F1 Size Class SME Large		Total
			SME (1-249)	large (250+)	
F11_reason: Good experiences with market entry in other markets	not selected	Count	36	16	52
		% within F1 Size Class SME + Large	87,8%	64,0%	78,8%
	selected	Count	5	9	14
		% within F1 Size Class SME + Large	12,2%	36,0%	21,2%
Total		Count	41	25	66
		% within F1 Size Class SME + Large	100,0%	100,0%	100,0%
Chi-square test / p-value = .023, effect size phi = .282					
Crosstab					
			F1 Size Class SME Large		Total
			SME (1-249)	large (250+)	
F11_reason: Most effective control of China engagement	not selected	Count	38	16	54
		% within F1 Size Class SME + Large	92,7%	64,0%	81,8%
	selected	Count	3	9	12
		% within F1 Size Class SME + Large	7,3%	36,0%	18,2%
Total		Count	41	25	66
		% within F1 Size Class SME + Large	100,0%	100,0%	100,0%

Chi-square test/p-value = .004, effect size phi = .361

*Source: author's own construction, based on author's conducted survey*

These two reasons also highlight different capabilities and different priorities of large enterprises in comparison to SMEs. It can be assumed that experiences regarding a specific mode of market entry exist in large companies. It is also reasonable that the importance of controlling subsidiaries is more emphasized in large companies than in SMEs.

Also, the eight predefined reasons are sub grouped by branch and by level of management. Only one out of these 16 tests proved to have a significant difference: the reason 'Fastest

possible market entry' is especially important for business-to-business enterprises. When testing chi-square, the calculated p-value was 0.055. Cramer's V as a measure of the strength of cohesion can be rated as middle (0.296) (see following table).

**Table 3.4: Austrian Firms and significant Subgroupings of Reason 'Fastest Possible Market Entry', grouped by Branch**

Crosstab						
		F2_Branche				Total
		business-to-business goods (mashinery, etc.)	consumer goods	rights and services		
F11_reason: Fastest possible market entry	not selected	Count	13	7	17	37
		% within F2_Branche	41,9%	77,8%	68,0%	56,9%
	selected	Count	18	2	8	28
		% within F2_Branche	58,1%	22,2%	32,0%	43,1%
Total		Count	31	9	25	65
		% within F2_Branche	100,0%	100,0%	100,0%	100,0%

*Source: author's own construction, based on author's conducted survey*

It seems that speed is not so important for consumer goods or enterprises offering rights and services, but it is absolutely relevant for investment goods like machinery.

To gain relevant information from data gathered from smaller samples, it is valuable to aggregate detailed data at a more general level. As the data gained from answers to question 10 ("in which legal and economic framework was the first transaction settled?") and economical base for decision about first business in China) are essential to research question two, data for exports have been aggregated to the item 'exports', the item 'joint venture' remains as it is, other items were neglected. There is one interesting piece of information revealed by crosstabulation of data from question 11 ("What were the reasons for the initial entry into the market?") and the aggregated variable Export/Joint Venture.

**Table 3.5: Austrian Firms and Resource Requirements, grouped by Export/Joint Venture**

Crosstab					
		Qu10_Legal Base categorized			Total
		Export	Joint Venture		
Qu11_Reason: Low resource requirements	not selected	Count	29	2	31
		% within Qu10_Legal Base categorized	72,5%	28,6%	66,0%
	selected	Count	11	5	16
		% within Qu10_Legal Base categorized	27,5%	71,4%	34,0%
Total		Count	40	7	47
		% within Qu10_Legal Base categorized	100,0%	100,0%	100,0%

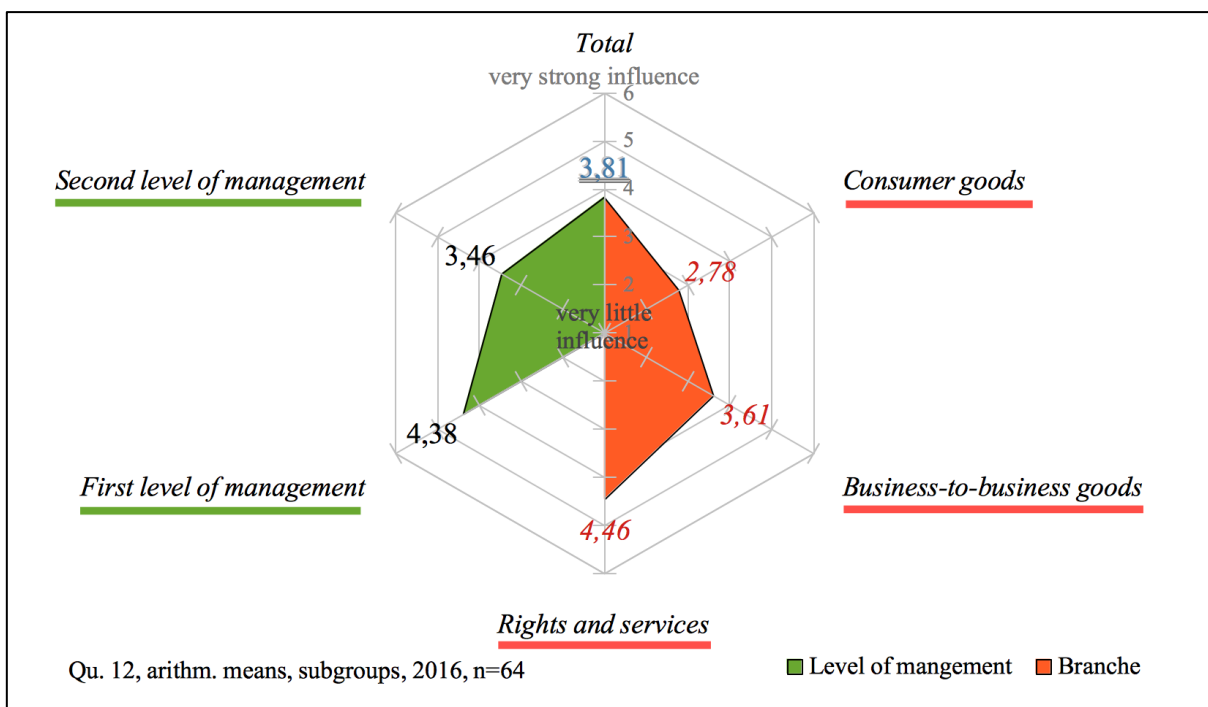
*Chi-square test / p-value = 0.028, effect size phi = 0.330*

*Source: author's own construction, based on author's conducted survey*

A relevant reason for establishing a Chinese joint venture is Low resource requirements. Interim conclusions for reasons concerning the modus of first market entry are that, in comparison, reasons of SMEs to extend business operations to China are evenly spread between low risk, (legal) necessity to have a Chinese partner, fastest possible market entry, and lowest resource requirements. Each SME seemed to have its own main reason depending on the specific situation and goals the company was aiming at. SMEs do not agree with the two main reasons large enterprises often state. Large enterprises use experience from other market entries and they also wish to control newly founded subsidiaries. A relevant reason for establishing a Chinese joint venture is Low resource requirements.

The assumption that cultural factors also play an important role when choosing the mode of market entry has been operationalized partly through question 12 (“What influence did cultural differences have on the chosen form of the market entry?”). The respondents had to mark a point on a scale with six partitions, from *very little* to *very strong* influence.

The following figure shows the results in form of arithmetic means. The respective tables can be found in the appendix on page 172. The overall arithmetic mean is 3.81. This general central tendency lies near the scaling point *rather strong* [influence]. As there are two significant differences when applying analysis of variance, the following figure is also sub-grouped by level of management and by branch.



**Figure 3.7: Influence of Cultural Differences on Market Entry grouped by Level of Management and Economic Sector**

Scale from 1 = very little influence to 6 = very strong influence.

Source: author's own construction, based on author's conducted survey

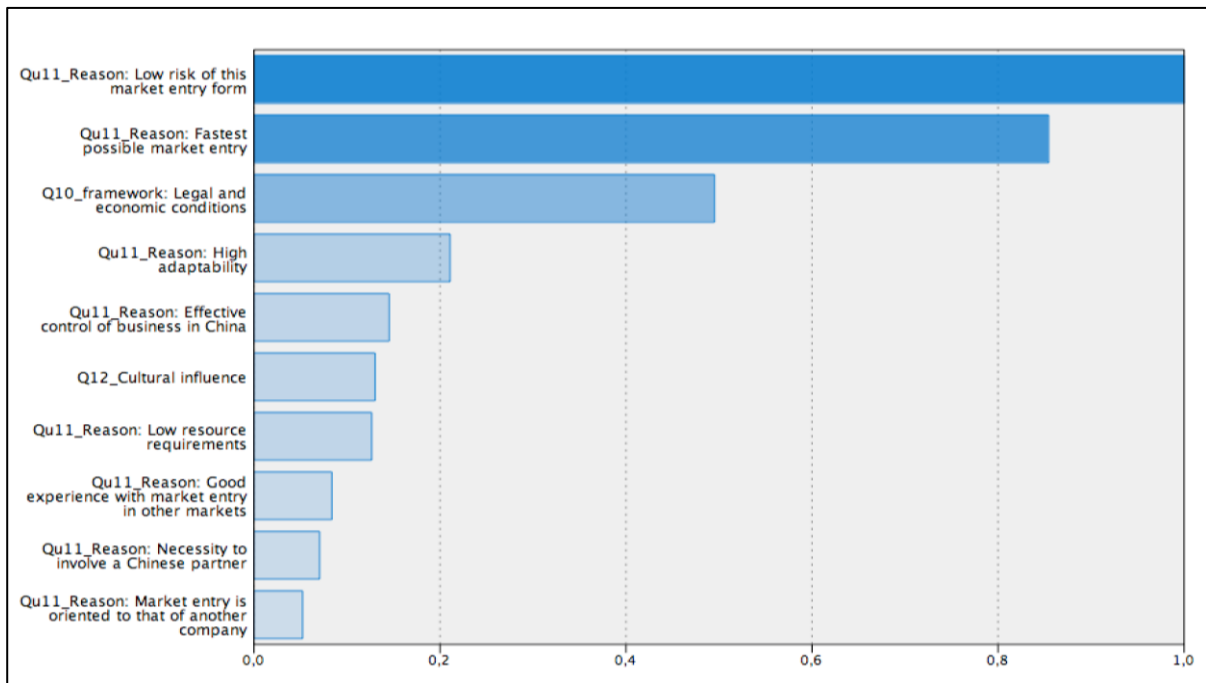
This spider diagram shows the subgrouping of the management level (green area) on the left and the subgrouping of the economic sector (branches in red) on the right. The mean of the first level of management (4.38) is by one scaling interval higher than the mean of the second level of management. With respect to branches, the biggest impact can be found in the branch of rights and services (4.46). The interpretation is that both the first level of management and the branch of rights and services are confronted with the challenges located especially outside the enterprises. It is an essential part of their job to look outside the company.

One methodological and precautionary remark should be stated here. There is an overlapping zone between the first level of management and the branch of rights and services. In the sample, 14 persons (43 % of respondents/rights and services) belong to the first level of management. This share is greater than the corresponding shares for consumer goods (37 %) or business-to-business goods (29 %). Therefore, the same 14 respondents are assigned both to first level management and to branch services and goods. To circumvent such problems, it is sometimes useful to use multivariate statistics. This means that more than two variables and their mutual influence are calculated simultaneously. Clustering data as an example for this problem is shown in the following subchapter.

### **3.2.3 Multivariate Cluster Analysis: Two Different Types of Enterprises**

If one considers RQ2, “What was the influence of the used methods and the decision-making process on business development in China?” and the answers to questions 10, 11 and 12 in combination, then one can ask how the respondents (companies) can be grouped in such a way that members of one group are similar to each other and dissimilar to members of other groups. In short, one can ask what types of companies can be detected. This type of clustering according to dis/similarities is called multivariate cluster analysis.

The parameters of the realized cluster analysis are: ten variables served as input; the algorithm was a two-step hierarchical clustering; the output were two clusters on the base of  $n = 65$  containing both SME and large enterprises; the average silhouette measure of cohesion (similarity) and separation (dissimilarity) was 0.3, which can be rated as “fair”. The most important variables can be seen as predictor variables. In this calculation, the influence of various predictors looks as shown in the following diagram.



**Figure 3.8: Predictor Variables in Respect to Realized Cluster Analysis**  
Coefficient from 0,0 to 1,0

*Source: author's own construction, based on author's conducted survey*

The two most important reasons that predict pertinence to a cluster are *Low risk of this market entry form* with an importance coefficient of 1.00 and *Fastest possible market entry* with a coefficient of 0.85. The next most important cluster is *Legal and economic conditions as framework* with 0.50. Overall, the importance of *Cultural influence*, with a coefficient of 0.13, is rather small (this varies according to the cluster, of course).

The output of the performed cluster analysis are two different types of enterprises with approximately equal shares. Cluster one covers 51 % of the sample, with  $n = 65$ , cluster two covers 49 %. Cluster one can be labelled *controllers with few prerequisites*, cluster two, *strategical accomplishers*. In detail, they can be described as follows.

- *Controllers with few requirements* are characterized by two main properties: (1) a strong dedication to effectively control Chinese business and (2) a comparatively low estimation of the influence of cultural differences (arithmetic mean of 3.52). The term controlling, here, seems to be more associated with the German term “Kontrolle”, meaning rather ex post facto and not to govern or navigate ex ante.
- *Strategical accomplishers* – they could also be called “entrepreneurs” –, on the other hand, are characterized by many motives or requirements: nearly all input-variables were marked as true in this cluster. The main reasons for the kind of market entry selected reaches from ‘Low risk’ to ‘Fastest possible entry’ or ‘High adaptability’,

even if these requirements interfere with each other at an overall level. Also, members of this cluster estimate the influence of cultural differences comparatively stronger (arithmetic mean of 4.16).

The results of the most important predictor variables can be seen in appendix C on page 173. With respect to sociodemographic variables, the variable cluster presents significant differences only for the variable branch:

**Table 3.6: Austrian Firms and Named Clusters grouped by Branch**

Crosstab					
		F2_Branche			Total
		Business-to-business goods (mashinery,..)	Consumer goods	Rights or services	
Controllers with few prerequisites	Count	11	7	15	33
	% within TwoStep Cluster Number	33,3%	21,2%	45,5%	100,0%
Strategical accomplishers	Count	20	2	9	31
	% within TwoStep Cluster Number	64,5%	6,5%	29,0%	100,0%
	Count	31	9	24	64
	% within TwoStep Cluster Number	48,4%	14,1%	37,5%	100,0%

*Chi-square test/Likelihood ratio p-value = 0.030; with middle effect size Cramer's V = 0.327  
Source: author's own construction, based on author's conducted survey*

This difference is an important one. Business-to-business enterprises offer special products to other companies that produce concrete products themselves. Business-to-business enterprises should simply do research, define requirements, and have strategical plans. On the other hand, enterprises offering rights or services find themselves in a far less stringent situation. They offer products which are applicable in/for many branches.

There are two other significant differences between the two clusters generated by procedural data which confirms the content of clusters.

(A) The first difference a considerable number of respondents either marked the predefined option 'other' (question 10, "in which legal and economic framework was the first transaction settled?") or bypassed the whole question at all. Now, if one crosses variable cluster for these respondents, the following table is the result.



**Table 3.7: Austrian Firms and Named Cluster grouped by Marking ‘Other’ (or Bypassing)**

<b>Crosstab</b>					
			TwoStep Cluster Number		Total
			Controllers	Accomplishers	
Q10: Marking 'other' or bypassing question first business	export or joint venture marked	Count	15	31	46
		% within Q10: Marking 'other' or bypassing question	32,6%	67,4%	100,0%
	other marked or bypassed	Count	18	1	19
		% within Q10: Marking 'other' or bypassing question	94,7%	5,3%	100,0%
Total		Count	33	32	65
		% within Q10: Marking 'other' or bypassing question	50,8%	49,2%	100,0%

*Chi-square test/Likelihood ratio p-value = 0.000; with large (!) effect size Phi = -0.565*  
*Source: author's own construction, based on author's conducted survey*

As shown above, members of the cluster *Accomplishers* are to a great extent business-to-business enterprises and those who plan and decide the first kind of business operation in China. They either decide to do exporting or to establish a joint venture, whereas controllers more or less rely on unpredicted events. So, their legal and economic framework for doing business in China was less certain or planned in detail.

(B) The second difference is that spontaneous answers to question 8 (best information for market entry) could be assigned to the dimensional attribute of \*goal-oriented\*. Now, if one crosses variable cluster by those answers, the following table is the result.

**Table 3.8: Austrian Firms and Named Cluster grouped by Dimension Goal-Oriented**

<b>Crosstab</b>					
			TwoStep Cluster Number		Total
			Controllers	Accomplisher	
Attribute goal-oriented	not true	Count	23	15	38
		% within Attribute goal-oriented	60,5%	39,5%	100,0%
	true	Count	10	17	27
		% within Attribute goal-oriented	37,0%	63,0%	100,0%
Total		Count	33	32	65
		% within Attribute goal-oriented	50,8%	49,2%	100,0%

*Chi-square test/Likelihood ratio p-value = 0.061; with weak effect size Phi = 0.232*  
*Source: author's own construction, based on author's conducted survey*

Again, this cross tabulation clearly indicates the main characteristic of accomplishers with their inclination toward defining goals and trying to reach them.

The interim conclusion, after obtaining the results of clustering, is that two somewhat antagonistic groups of enterprises are detectable: *Controllers with few requirements* and *Strategical accomplishers*. Controllers exhibit a dedication to effectively control Chinese business; they also rate the influence of cultural differences as rather low. Accomplishers however exhibit definite requirements for market entry, reaching from Low risk to Fastest possible entry and High adaptability as the main reasons for the kind of entry selected. Accomplishers rate cultural influences as rather strong.

### 3.2.4 Summary

A short summary of the main results – which simultaneously corresponds to the answer of the research question two (RQ2: “What was the impact of the used methods and the decision-making process on business development in China?”) is as follows.

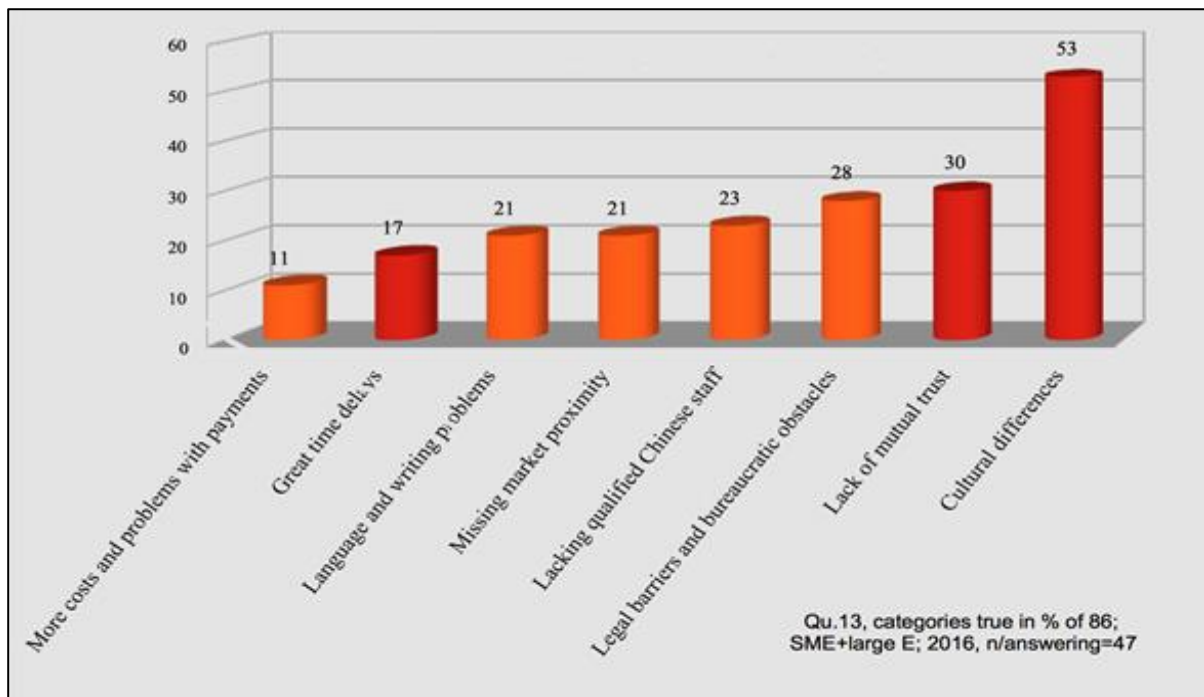
- 1) There is no dominant option that is the base of decision for the first (exporting) transaction. Each company seemed to choose the option which best suited a specific situation – one took no risks at all, another company took risks in one case, another company had already started to establish a joint venture with a Chinese partner, and other companies had already had business relations for decades and cannot tell specifically what was the base of decision for the very first business transaction.
- 2) Respondents rate the impact of cultural differences as *rather strong*. Especially first level management, enterprises offering rights and services, and the cluster of Accomplishers rate cultural differences as substantial.
- 3) The reasons for selecting the mode of first market entry are, comparatively, evenly spread between the different categories of low risks for SMEs: (legal) necessity to have a Chinese partner, fastest possible market entry and lowest resource requirements. Each SME seemed to have its own main reason depending on the specific situation and goals the company was aiming at.
- 4) A multivariate cluster analysis highlights the continuously found break between companies. Two somewhat antagonistic clusters were detected, the group of *Controllers with few requirements* and the group of *Strategical Accomplishers or Entrepreneurs*.

### **3.3 Impact of Chosen Market Entry on Business Performance**

As the results and the interpretation of RQ3 and RQ4 are intertwined, both research questions are treated in this subchapter. The third question of research (RQ3) reads, “What aspects of the chosen or adapted entry mode had an impact – or are still impacting – on business development in China?”. The data to be analysed was gathered especially from the answers to the questions 13, 14 and 15. The fourth question of research (RQ4) reads, “What is the repercussive impact of the market entry in China on business development in the headquarters”? Data come from question 16 (“What was the impact of the first market entry on your current business in China?”), question 17 (“What repercussions had the selected type of the first mark entry to the company in Austria?”) and to a certain degree from question 18 and interdependencies with other data.

#### **3.3.1 Encountered Difficulties**

This part of the survey starts with an open-ended question. Respondents should be free and not be influenced or biased by previously mentioned subjects. 47 persons gave answers. This is substantially more than there were answers to the open-ended question eight, where 38 persons gave answers for ‘most valuable source of information’. There is also a difference in quantities; 598 words for question 13 (“What were the difficulties with the realization of the first business, the first sales to China?”) versus 487 words for question eight. Hence, the encountered difficulties seem to be considerably more vivid and embedded in memory than important sources of information in the researching phase for the market entry. The coded categories of the answers to question 13 is shown in the following diagram.



**Figure 3.9: Difficulties in Realizing the Initial Business in China**  
 Source: author's own construction, based on author's conducted survey

This diagram presents two partly surprising results. First, the category *Language and writing problems* did not have the relevance which is usually given to this difficulty. Second, the category *Cultural differences* is by far the most important one. Furthermore, if one subsumes the category *Lack of mutual trust* and *Great time delays* together with *Cultural differences* under the new super category *Cultural differences and ramifications* (see dark red columns in the diagram above), this super category covers 100 percentage points. This sum is roughly the same as the sum of all other categories together (104 percentage points).

Answers by the respondents showed the importance of the super category, which especially exhibits challenges when executing the first business operation in China:

- 1) Cultural differences: “many cultural problems” (ID 6), “no sense for the necessity and no willingness of professional technical service” (ID 5), “no transparency” (ID 4), “high expectations of the Chinese partner together with an unreliability of this partner to stick to common commitments” (ID 15), “missing liability” (ID 16), “The particularly strong state control in education” (ID 28), “missing applicable [...] approach towards problem solution, risk management and proper quality controls” (ID 37), “necessity of indispensable patience in negotiations” (ID 40).
- 2) Lack of mutual trust: “Trustworthiness of Chinese business partners (customers or suppliers)” (ID 66, “Little honesty about the situation – as it is now – from the

Chinese side” ID 70), “Time-consuming negotiations with the customer (although an invitation to negotiate was issued)” (ID 44). This lack of mutual trust can also be seen in answers which recommend a solution for these difficulties, “to find the right local partner” (ID 69, ID 2, 3), “No [difficulties] – whimsical, but we have chosen a good partner” (ID 84).

- 3) Great time delays: “lengthy [procedures]” (ID 32), “Permanent time delays” (ID 47), “Things usually take longer than planned” (ID 51), “The duration of the decision-making process of the Chinese partner” (ID 63), “Chinese customer took a long time to decide” (ID 74).

From a business point of view, it is noteworthy to see who marks this super category: the first level of management, as the following table shows.

**Table 3.9: Austrian Firms in Super Category ‘Cultural Differences’ grouped by Level of Management**

Q13 Supercategory: cultural difficulties + no mutual trust + great time delays * F3_Function Categories Crosstabulation					
			F3_Function Categories		Total
			First Level of Management	Second Level of Management	
Q13 Supercategory: cultural difficulties + no mutual trust + great time delays	not true	Count	12	41	53
		% within F3_Function Categories	42,9%	77,4%	65,4%
	true	Count	16	12	28
		% within F3_Function Categories	57,1%	22,6%	34,6%
Total		Count	28	53	81
		% within F3_Function Categories	100,0%	100,0%	100,0%

*Chi-square test, p-value: 0.002, effect size phi = - 0.345*

*Source: author’s own construction, based on author’s conducted survey*

57 % of respondents at the first level of management (corporate management or executive board) marked this category, compared with 23 % of the second level of management. This difference is significant and shows a middle strength of association. Corporate management or the executive board notice this difficulty first hand. The conclusion that it is their duty to tackle this high-level problem can be drawn.

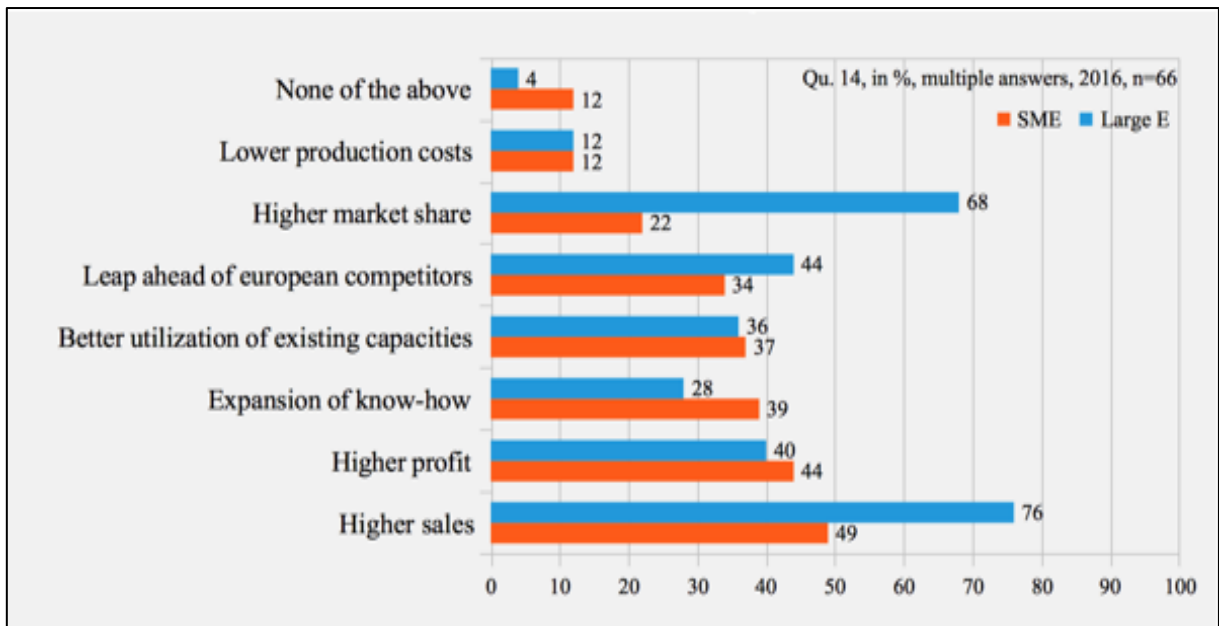
- From a theoretical point of view, these cultural-prone results are interpreted as follows. Two striking features of these cultural difficulties aggravate the importance – their vagueness combined with their frequency of occurrence. The process of solving

cultural difficulties should not be delegated to lower management levels, technicians, or even clerks.

- Language and writing problems are not at the very heart of cultural difficulties.
- The special category *Great time delays* can be assigned both to Hofstede’s uncertainty avoidance (in how far feel people threatened by unknown situations) and to Hall’s polychronic concept, which are both valid for Chinese culture.

### 3.3.2 Achievements by Market Entry

As for the results of the engagement in China, we asked what had been achieved in the last three to five years in the questioned enterprises. In an overall view for SMEs-only versus large enterprises, results are those presented in the following diagram.



**Figure 3.10: Companies: Achievements in the Last Three to Five Years in China**

*Source: author’s own construction, based on author’s conducted survey*

Achievements of SMEs (see red lines) are rather broad, from higher sales to leaping ahead of European competitors. For large enterprises, it looks similar with two exceptions, higher sales and higher market share:

- 76 % of respondents from large enterprises marked *Higher Sales*, whereas 49 % of SME respondents marked this option. This is significant; the chi-square test yields a p-value of .013 one-sided, with a measure for association of  $\phi = 0.269$ , which can be attributed as average strength.

- 68 % of respondents from large enterprises marked *Higher market share*, whereas 22 % SME respondents marked this option. This is significant; the chi-square test yields a p-value of 0.000 one-sided, with a measure for association of  $\phi = 0.457$ , which can be attributed as more than average strength.

If we remember QR3 – impact of the chosen entry mode - then it is necessary to link the achievements with various entry modes. As the realized sample is rather small than large, the variable entry mode (on the base of first business operation in China - question ten) should be used in the aggregate option, where the item export is fused, the item joint venture left as it is, and not specified ‘other’ not brought into calculation. Using this aggregate variable, three out of eight options for question 14 (“What have you achieved in the last three to five years through your engagement in China?”) show significant differences.

- 1) Exporting is more associated with *Higher Sales* than joint venture with *higher sales* (chi-square test p-value = 0.039, effect size  $\phi = - 0.307$ ),
- 2) Exporting is more associated with *Leaping ahead of European competitors* than joint venture with *Leaping ahead of European competitors* (chi-square test p-value = 0.026, effect size  $\phi = - 0.259$ ),
- 3) Joint venture is more associated with *Expansion of know-how* than exporting with *Expansion of know-how* (chi-square test p-value = 0.019, effect size  $\phi = - 0.355$ ).

The last mentioned significant difference is shown in absolute and relative figures as a crosstab in the following table.

**Table 3.10: Know-How Expansion of Austrian Firms, grouped by Legal Base**

Crosstab					
			Qu10_Legal Base categorized		Total
			Export	Joint Venture	
Qu14 success: Expansion of know-how	not selected	Count	30	2	32
		% within Qu10_Legal Base categorized	75,0%	28,6%	68,1%
	selected	Count	10	5	15
		% within Qu10_Legal Base categorized	25,0%	71,4%	31,9%
Total		Count	40	7	47
		% within Qu10_Legal Base categorized	100,0%	100,0%	100,0%

*Chi-square test p-value: 0.019, effect size  $\phi = - 0.355$   
Source: author's own construction, based on author's conducted survey*

The interim conclusion is that the relatively easier way of exporting has the two additional advantages of achieving higher sales and leaping ahead of European competitors. Establishing a joint venture with a Chinese partner has the advantage of know-how expansion.

### **3.3.3 Impact of Chosen Market Entry on Business in China**

Regarding the outcomes of the engagement in China, we asked what influence the first market entry had had on the outcomes. This was done on the base of two questions; question 15 (“What was the influence of the first market entry on the market success in China?”) limited the impact of the first chosen market entry in the first three years, question 16 (“What was the impact of the first market entry on your current business in China?”) asked for the impact on current business. For each question, a six-part impact-scale was offered, ranging from very little to very strong.

When analysing the answers to both questions, it became evident that a considerable number of managers did not answer these questions. Further analysis reveals that especially managers of the second level did not respond (cross tabulating, for instance, question 16 with level of management: 14 of 16 non-response data correspond to managers of second level. This is a significant chi-square test difference with a p-value of 0.027 and effect size  $\phi = 0.230$ ). This is plausible because it can be assumed that managers of the second level often do not have the historical and general overview of a business. In addition, this result adds thus to a content reliability of the set of data.

#### *Impact in the First Three Years*

Below, the results for impact in the first three years can be found in form of a stem-and-leaf plot. It is a displaying tool of EDA (Exploratory Data Analysis). Each part of the scale is represented vertically by numbers ascending from one to six, each case (marked by the respondents) is represented horizontally as ‘0’.

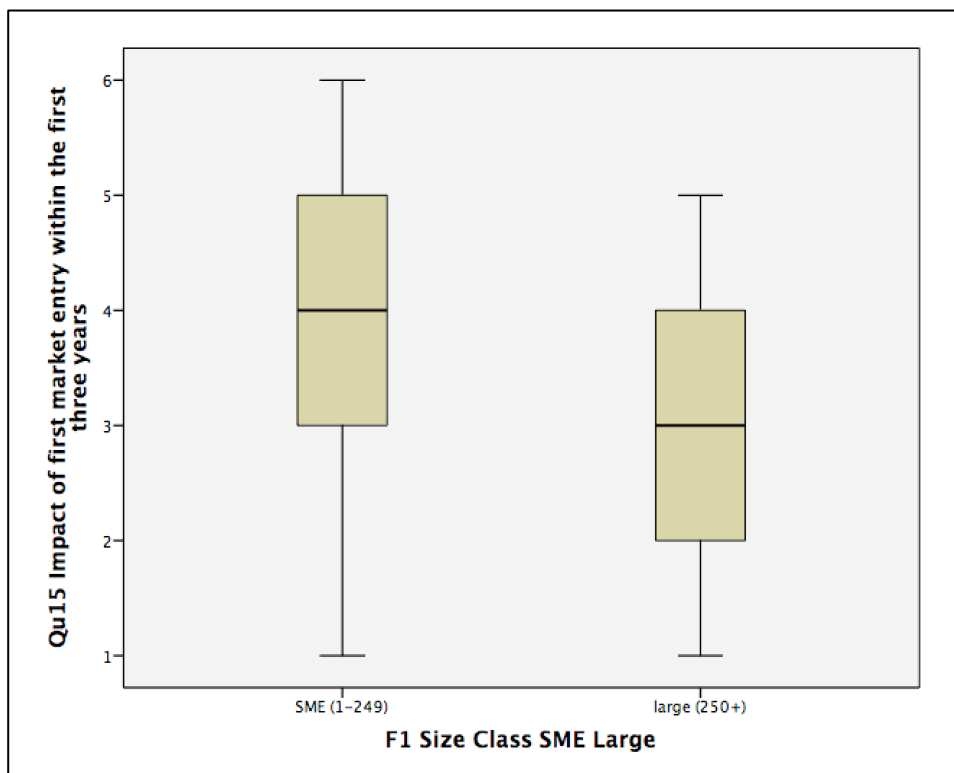
As one can see, the distribution of the answers tends towards higher stages (stems). Therefore, it is understandable that the median is 4.00 and the arithmetic mean is 3.72, with a standard error of mean = 0.162. The statistical measure skewness is  $-0.179$ , which means, that the lower (minor) stages are somewhat longer. Another measure of the degree of a distributional being tailed is kurtosis. In this case, it is  $-0.798$ , which indicates that the outliers are somewhat pronounced. In conclusion, the chosen market entry had had an impact in the first three years and it tends towards the verbalised item *rather strong*.



Frequency	Stem & Leaf
2,00	1 . 00
11,00	2 . 000000000000
13,00	3 . 000000000000
17,00	4 . 0000000000000000
16,00	5 . 0000000000000000
4,00	6 . 0000
Stem width: 1	
Each leaf: 1 case(s)	

**Figure 3.11: Impact of First Market Entry on Chinese Business within the First Three Years**  
*Source: author's own construction, Survey Austrian SMEs 2016, based on a value scale from very little (1) to very strong (6)*

If one distinguishes the two interesting subgroups of SMEs and large enterprises, a significant difference appears. SMEs show an arithmetic mean of 4.00, whereas large enterprises exhibit a mean of 3.23 (for detailed statistical measures, see appendix D on page 177). The following diagram presents two boxplots for the subgroups of SEMs and large enterprises.



**Figure 3.12: Valued Impact on Chinese Business of First Market Entry within the First Three Years grouped by SMEs and Large Enterprises**  
*Source: author's own construction; Survey Austrian SMEs 2016, based on a value scale from very little (1) to very strong (6)*

These boxplots show quartiles with the arithmetic mean at the border between quartile two and three. The answers by SME managers encompass the complete scale, meaning one can find every stage of the scale. The answers from managers of large enterprises are less distributed, they range from scale point one to scale point five. An independent samples test in the case of question 15-data (“What was the influence of the first market entry on the market success in China?”) shows equal variances and significantly different means for the subgroups of SMEs and large enterprises (see first lines of following table).

**Table 3.11: Group Statistics and Samples Test for Variables (Question 15 and 16)**

Group Statistics										
F1 Size Class		N	Mean	Std. Deviation	Std. Error Mean					
Qu15 Impact of first market entry within the first three years	SME (1-249)	41	4,00	1,285	,201					
	large (250+)	22	3,23	1,152	,246					
Qu16 Current impact of first market entry	SME (1-249)	40	3,93	1,385	,219					
	large (250+)	22	3,32	1,211	,258					
Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Interval of the Difference	
Qu15 Impact of first market entry within the first three years	Equal variances assumed	,071	,791	2,357	61	,022	,773	,328	,117	1,428
	Equal variances not assumed			2,437	47,315	,019	,773	,317	,135	1,411
Qu16 Current impact of first market entry	Equal variances assumed	,177	,675	1,724	60	,090	,607	,352	-,097	1,311
	Equal variances not assumed			1,793	48,559	,079	,607	,338	-,073	1,287

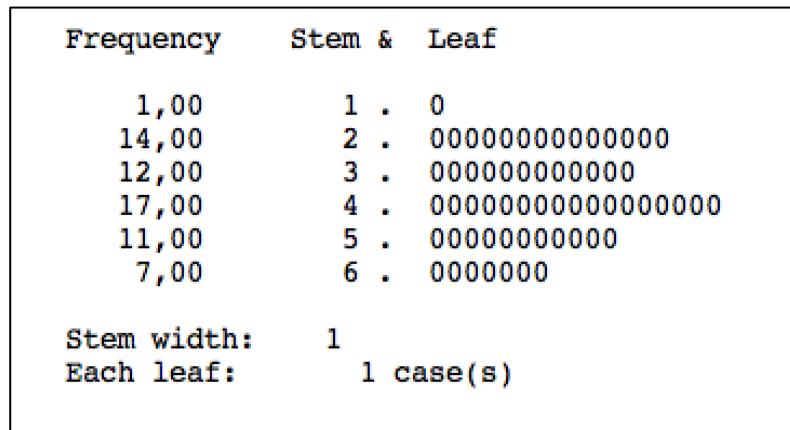
*Source: author's own construction; based on a value scale from very little (1) to very strong (6)*

The p-values are 0.022 and 0.019, the effect size d (as the absolute difference between the means) = 0.77, which is not far from the whole part of the scale. Thus, the strength of the association is quite large.

In conclusion, SMEs were impacted to a greater extent by the chosen kind of market entry in the first three years than large enterprises.

Current Impact

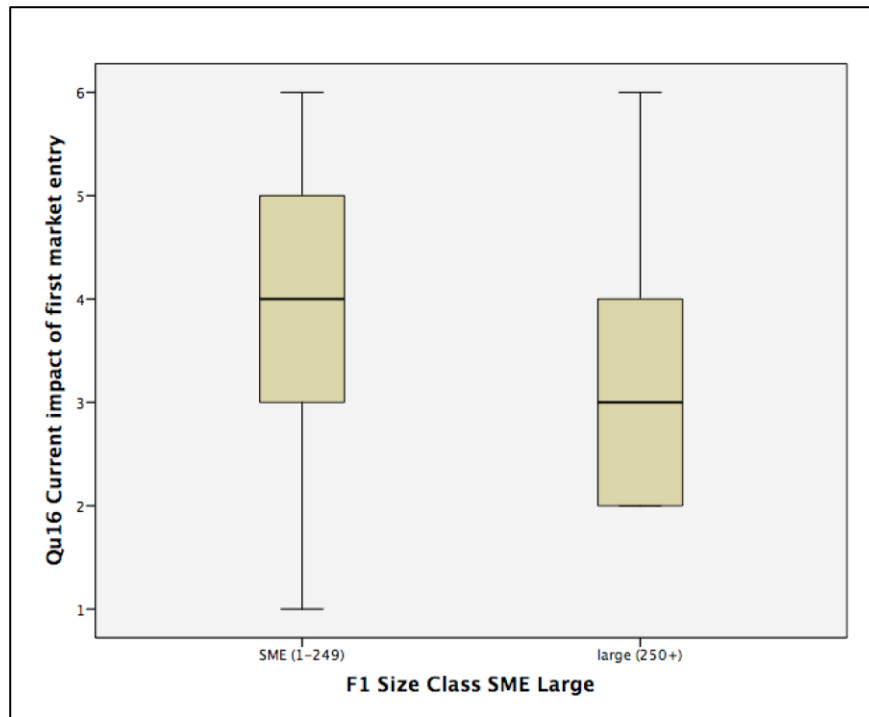
Question 16 (“What was the impact of the first market entry on your current business in China?”) asked for the impact on current business. Again, for each question a six-part impact-scale was offered, ranging from *very little* (1) to *very strong* (6). Below, the results are illustrated in the form of a stem-and-leaf plot. And as above, each part of the scale is represented vertically by numbers ascending from one to six, each case (marked by the respondents) is represented horizontally as ‘0’. Distribution of respondents’ answers look as follows.



**Figure 3.13: Valued Impact of First Market Entry on Current Chinese Business**  
*Source: author’s own construction, based on a value scale from very little (1) to very strong (6)*

One can see that none of the managers marked the weakest possible part of the scale. The median of the shown distribution is 4.00, the arithmetic mean is 3.71, with a standard error of mean = 0.171. Curtosis is -0.960, which indicates that data quite far from the central tendency are pronounced. In conclusion, the chosen market entry still has considerable impact on current Chinese business. The data clearly point to the strong side of the scale.

Once more, if one distinguishes the two subgroups of SMEs and large enterprises, a difference becomes apparent. SMEs show an arithmetic mean of 3.93, whereas large enterprises show one of 3.32 (see detailed statistical measures in appendix D on page 177 and following page). The diagram below presents two boxplots for the subgroups of SMEs and large enterprises.



**Figure 3.14: Valued Impact on Current Chinese Business of First Market Entry**  
 Source: author's own construction, based on a value scale from very little (1) to very strong (6)

Again, there are similar distributional characteristics with question 16-data (“What was the impact of the first market entry on your current business in China?”), as was the case with question 15-data (“What was the influence of the first market entry on the market success in China?”). Answers from SME managers are more spread than answers from managers of large enterprises managers. The boxplot on the right shows that large enterprise data are one-sided in comparison to the two-sided view of SME data. The associated stem-and-leaf plots show these various profiles clearly.

F1_Size_Class_Kat2_ = SME (1-249)			F1_Size_Class_Kat2_ = large (250+)		
Frequency	Stem	Leaf	Frequency	Stem	Leaf
1,00	1	. 0	7,00	2	. 0000000
,00	1	.	,00	2	.
7,00	2	. 0000000	6,00	3	. 000000
,00	2	.	,00	3	.
6,00	3	. 000000	5,00	4	. 00000
,00	3	.	,00	4	.
12,00	4	. 000000000000	3,00	5	. 000
,00	4	.	,00	5	.
8,00	5	. 00000000	1,00	6	. 0
,00	5	.			
6,00	6	. 000000			
	6	.			
Stem width:	1		Stem width:	1	
Each leaf:	1 case(s)		Each leaf:	1 case(s)	

**Figure 3.15: Valued Impact of First Market Entry on Current Chinese Business**  
 Source: author's own construction, based on a value scale from very little (1) to very strong (6)

When calculating the means for the subgroups of SMEs and large enterprises, managers of SMEs said that they are more influenced by the first market entry than managers of large enterprises (see following table).

**Table 3.12: Current Impact of First Market Entry (Question 16)**

Group Statistics					
F1 Size Classes SME and large E.		N	Mean	Std. Deviation	Std. Error Mean
Qu16 Current impact of first market entry	SME (1-249)	40	3,93	1,385	,219
	large (250+)	22	3,32	1,211	,258

Source: author's own construction, , based on a value scale from very little (1) to very strong (6)

The mean value of being influenced by the first market entry for SMEs is 3.93, which means *rather strong*, for large enterprises, it is 3.32, which is near the scaling point *rather less strong*. An independent samples test in the case of question 16-data shows – similar to question 15 data – equal variances, but the different means of the subgroups have the p-values of 0.090 and 0.079, which are not significant at the 5 % level. They missed this conventional limit (see the second lines in Table 3.11 on page 114). The effect size d (as the absolute difference between the means) = 0.61, which is slightly above half the items of the scale (the strength of the association can be interpreted as middle). Putting the result into context – together with the outcomes of question 15 – this can be taken as evidence that SMEs are influenced more heavily than large enterprises during the years after starting business in China by the very kind of their first market entry.

The interim conclusion is that, again, SMEs were influenced to a greater extent by the chosen kind of market entry with respect to current business in China, but the difference to large enterprises is not as great as the difference had been in the first three years. SMEs seem to have recovered lost ground to a certain degree.

#### Influence by process of decision

Above it has been shown what the impact of the chosen market entry is. Now it is possible to link these outcomes with the data of question nine (Who was involved in the decision-making process for the first business relationship?) and question ten (In which legal and economic framework was the first business carried out?) with the current impact of first market entry (question 16, “What was the impact of the first market entry on your current business in China?”).

To analyse this, t-tests on a 5 % significance level were performed as the data of question 16 are interval-scaled. No association of the data gained from question ten answers (on the base of exports or joint venture) with question 16 data (current impact) could be found. One significant association of question nine data (involvement in the decision-making process) could be found: if respondents had marked *Institutionalized decision-group*, then a significant higher current impact could be found (see table below).

**Table 3.13: Current Impact of First Market Entry (Question 16)**

Group Statistics					
F9_Decision: Institutionalized Group of Decision		N	Mean	Std. Deviation	Std. Error Mean
Qu16 Current impact of first market entry	selected	5	4,60	,548	,245
	not selected	57	3,63	1,371	,182

*Source: author's own construction, based on a value scale from very little (1) to very strong (6)*

Out of ten predefined options for the decision process, the highest detectable mean is 4.60. The statistical measurements are as follows. Variances are not equal (due to Levens test) with  $F=4.449$ , the p-value of the t-test for the equality of the means, shown in the table, is 0,011.

Now, what type of company establishes this which process of decision-making? The following table shows that large enterprises do this.

**Table 3.14: Institutionalized Group of Decision in Case of Decision-Making grouped by Size Class**

Crosstab					
		F9_Decision: Institutionalized Group of Decision		Total	
		selected	non selected		
F1 Size Classes SME Large	SME (1-249)	Count	1	42	43
		% within F9_Decision: Institutionalized Group of Decision	20,0%	66,7%	63,2%
	large (250+)	Count	4	21	25
		% within F9_Decision: Institutionalized Group of Decision	80,0%	33,3%	36,8%
Total		Count	5	63	68
		% within F9_Decision: Institutionalized Group of Decision	100,0%	100,0%	100,0%

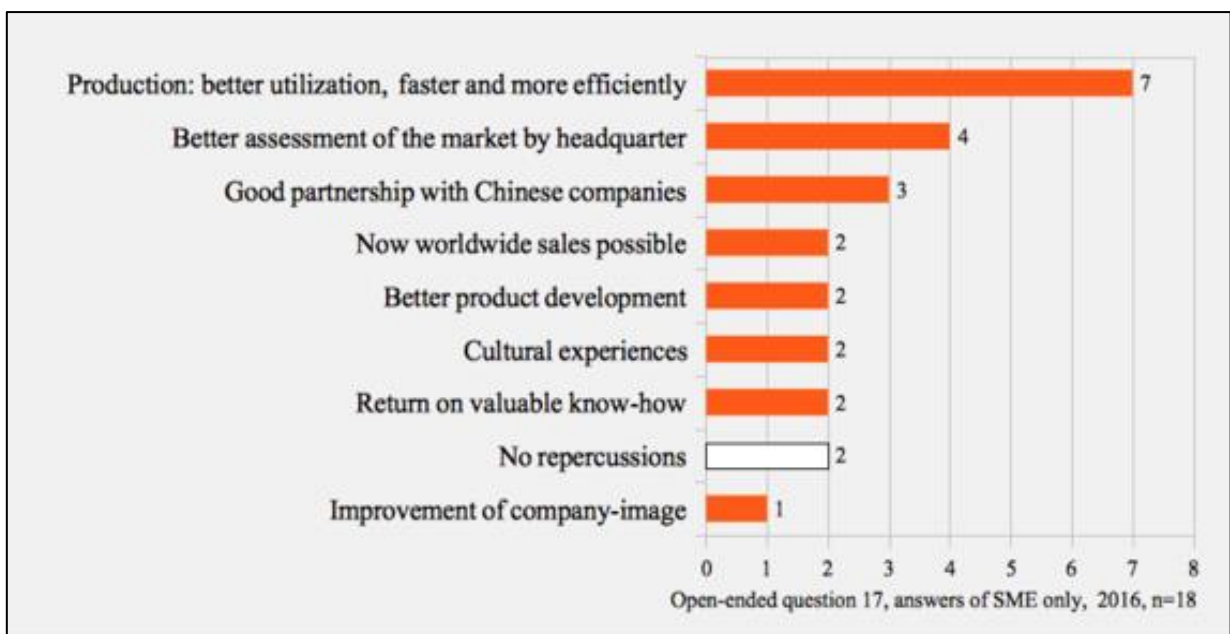
p-value = 0.039, effect size phi = -0,253

*Source: author's own construction, based on author's conducted survey*

The interim conclusion is that establishing a group for the decision-making process offers a good chance of gaining long-lasting effects. Especially large enterprises establish such groups, SMEs do so (very) infrequently. A word of caution is in order here. The base of these calculations is rather small. These results should be taken only as a hint to investigate in this relation on a broader base.

### 3.3.4 Repercussive Influences of Market Entry on Austrian Companies

The most important outcome of engagement in China could be possible repercussions on Austrian companies in the long run. Therefore, under question 17 (“What repercussions had the selected type of the first market entry to the company in Austria?”), respondents were asked, “What repercussions did the chosen form of entry into the Chinese market have for the company in Austria? Were there long-term repercussions?” 39 respondents answered this open-ended question. The answers are presented separately for SMEs and large enterprises. In the following diagram, the categories for SMEs are illustrated.



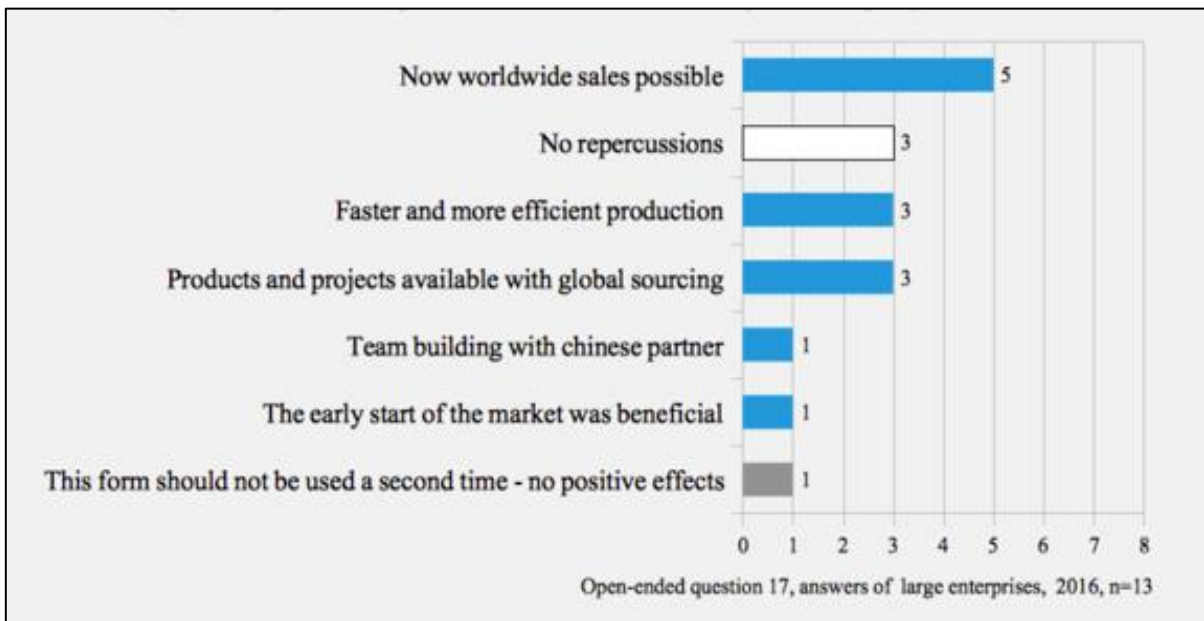
**Figure 3.16: Repercussions of Specific Kinds of Market Entry for SMEs**

*Source: author's own construction, based on author's conducted survey*

*No repercussions* at all were reported by two SME managers, for instance, “No coarser repercussions on the Austrian company” (ID 36). 16 SME managers reported positive repercussions, none reported negative repercussions. Positive effects cover especially two main business areas: *production* and *assessment of market*, for example, “fast, efficient to produce. The assembling and the sale takes place only in Europe.” (ID 64), “Capacity

expansion and capacity coverage, positive unit effects [...]” (ID 5) or “With the actual market entry in China, it was easier for the headquarters in Austria to assess the situation in the market and thus make strategically decisive decisions. In addition, the market feedback from the focus market in China could increasingly be incorporated into product development. [...]” (ID 3).

One example for the category of *cultural experiences* is, “experience in the cultural sector. The first entry is important, but not too important, as framework conditions change very quickly – unlike in Austria.” (ID 49). One example for the category of return of valuable know-how is, “Employees had to deal with export processing. This knowledge is also good for other countries” (ID 8). The diagram of the repercussions revealed by the respondents working for large enterprises looks somewhat different than that of SMEs.



**Figure 3.17: Repercussions of Specific Kinds of Market Entry for Larger Enterprises**  
*Source: author's own construction, based on author's conducted survey*

The dominant category with five classifications is *Now worldwide sales [are] possible*. Production is important for large enterprises. *Faster and more efficient production* like “Reverse engineering, you can also build easier and cheaper” (ID 6) and *Products and projects [are now] available with global sourcing* together amount for six classifications. Three managers of large enterprises report *No repercussion* or “Hardly any repercussions due to the chosen joint venture form and low risk” (ID 16). One clearly negative repercussion was mentioned, “That this form [of market entry] should not be used a second time as it did not achieve the desired positive effects” (ID 47).



The interim conclusion is that positive repercussions for SMEs could be found particularly in the field of production and market assessment, whereas positive repercussions for large enterprises refer to a global world view.

### 3.3.5 Validation of Hypotheses

#### Main hypothesis H

Hypothesis H reads: “The management of cultural value factors has a positive impact to the success of market entry”. To test H the statistical method of linear regression has been used. For operationalizing question 12 (“How was the influence of cultural differences on the chosen form of the market entry”) can be understood as independent variable, question 15 (“Which influence had the first kind of market entry on the success in China”) can be understood as dependent variable. The result of the regression analysis in form of linearity is shown in the following plot.

**Table 3.15: Regression Analysis: Summary of Model**

<b>Model</b>	<b>R</b>	<b>R-Quadrat</b>	<b>Corrected R-Quadrat</b>	<b>Standard Error of Estimators</b>
<b>1</b>	<b>,281<sup>a</sup></b>	<b>0,079</b>	<b>0,064</b>	<b>1,243</b>
a. Independent Variable: (Konstannte), Q12_Cultural Influence b. Dependent Variable: Q15_Impact of first market entry within the first three years				

*Source: authors own output-selection, based on author's conducted survey*

The coefficient of determination (r-quadrat) as the proportion of the variance in the dependent variable (question 15) that is predictable from the independent variable (question 12) is rather low: 0.079 or in the adjusted form 0.064. But the calculation of variance (ANOVA) reveals nevertheless significance: The score for F is 5,235 and associated p-value (type I error is lower than 5%) is 0.026, see the upper part of the following table. This p-value is below the conventional level of significance of .05. The further calculations show that both coefficients show significant p-values: 0.000 for the constant and 0.026 for the increasement, see the lower part of the following table.

**Table 3.16: Regression Analysis, Analysis of Variance and Coefficients**

ANOVA <sup>a</sup>							
Modell		Sum of squares	df	Mean of squares	F	Sig.	
1	Regression	8,095	1	8,095	5,235	,026 <sup>b</sup>	
	Non standarized residua	94,318	61	1,546			
	total	102,413	62				

a. Dependent Variable: Qu15 Impact of first market entry within the first three years  
b. Independent Variable : (Konstante), Q12\_Cultural influence

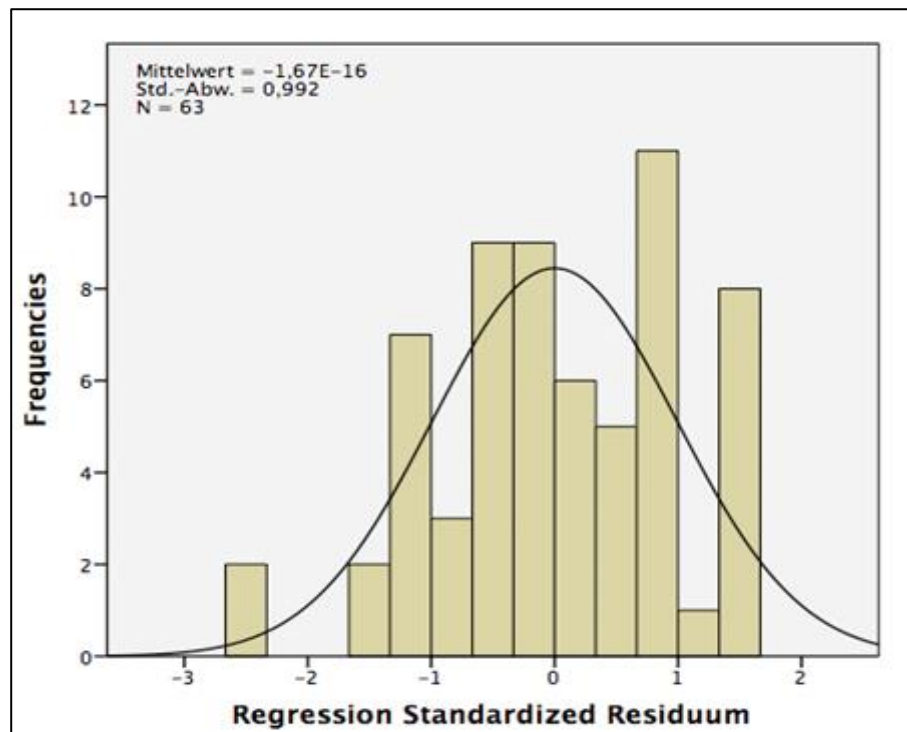
Koeffizienten <sup>a</sup>								
Modell		Non standardized Coeffizient		Standar dized Coeffizi enten	T	Sig.	95,0% conficence intervale for B	
		Regression coeffizient B	standard error				Beta	Lower limit
1	(Konstante)	2,820	,427	Beta	6,598	,000	1,966	3,675
	Q12_Cultural influence	,238	,104	,281	2,288	,026	,030	,446

a. Dependent Variable: Qu15 Impact of first market entry within the first three years

*Source: author's own construction, based on author's conducted survey*

Thus, the formula for the straight line  $y = a + bx$  is  $y = 2,820 + 0,238x$ . This is to be interpreted: One step higher on the x-scale (independent variable = question 15 = impact of first market entry within the first three years) results in a quarter step higher impact of cultural influence (question 12).

To indicate the goodness of fit of this regression analysis it is important to check the residuals and to see the deviation (variance) of the estimated values compared to the observed values. These differences should occur at random and normally distributed. The following figure shows standardized residuals.



**Figure 3.18: Regression Analysis; Distribution of Standardized Residuals**

*Source: author's own construction, based on author's conducted survey*

The figure can be interpreted in two ways: (a) there is a normal distribution with outliers, (b) there is no normal distribution. As the number of the sample ( $n=63$ ) is rather small in comparison to large studies (where distributions show themselves more expressed) the researcher tends to choose interpretation (a).

Résumé: Data show a significant dependency of the two variables with a rather low determination of coefficients. Data of question 12 (“How was the influence of cultural differences on the chosen form of the market entry”) have an effect on data of question 15 (“What was the influence of the first market entry on the market success in China?”). Therefore, the main hypothesis H should not be discarded and can be maintained.

Sub hypothesis H-a

Sub hypothesis H-a reads: “The more enterprises acquire cultural know-how the better are the key performance indicators like turnover, profit, market share and utilization of existing production capacities.”. To test H-a data of question 14 (“What have you achieved in the last three to five years through your engagement in China?”) has been used. Question 14 offered multiple nominations/answers. The answer “Expansion of know-how” is assumed to represent the additional business knowledge obtained with the business activities in China. This

business knowledge is closely connected with cultural experiences during this period. As the scales of the tested variables are dichotomous-nominal, chi-square-tests can be used in the mode of Fisher's Exact Test for 2-by-2-tables. The results (p-values and effect sizes) of the tests are shown below.

**Table 3.17: Hypothesis H-a: Independent Qui-Square-Tests**

	p-value (one-sided)	Significance yes/no	Phi (effect size)	Interpretation of effect size (Cohen, 1988)
Expansion of Know-how * Higher turnover	.053	(yes)	.232	low
Expansion of Know-how * Higher profit	.043	yes	.242	low
Expansion of Know-how * Higher market share	.386	no	.069	no
Expansion of Know-how * better use of existing capacities	.047	yes	.240	low
Expansion of Know-how * lower production costs	.577	no	.021	no

*Lines with grey texts and figures show non-significant results of the independent chi-square-test and/or no effect sizes. Source: author's own construction, based on author's conducted survey*

The business-related know-how in the context of the Chinese culture makes significant differences (type I error is lower than 5%) with higher profit and better use of existing capacities. As the p-value for higher turnover is with 0.053 extremely close to the significance level of 5%, this association should also be included. The effect sizes (showing how strong the association is) are rather low.

There is a correlation between (cultural and business related) expansion of know-how with the business indicators higher turnover / higher profit and a better use of existing capacities (see the black lines in the above table). No relations could be found between expansion of know-how and higher market share or between expansion of know-how and lower production costs (see the gray lines in the above table).

Résumé: Parts of sub hypothesis H-a can be confirmed, the connections to higher market share or lower production costs are to be discarded.

### Sub hypothesis H-b

Sub hypothesis H-b reads: “The more enterprises acquire cultural know-how the more Chinese-relevant business knowledge they have attained.”. To test H-b, again data of question 14 (“What have you achieved in the last three to five years through your engagement in China?”) has been used. The answer “Expansion of know-how” is assumed to represent the additional business knowledge obtained with the business activities in China. This business knowledge is closely connected with cultural experiences during this period. As the scales of the tested variables are dichotomous-nominal, chi-square-tests can be used in the mode of Fisher’s Exact Test for 2-by-2-tables.

The results of the test are: the p-value is 0.577 and the accompanying effect size Phi is 0.021. Both statistical measures show that there are no associations between the tested variables.

Résumé: Sub hypothesis H-b has to be discarded.

### **3.3.6 Summary**

When looking at all the results, from encountered difficulties to recommendations (see subchapter below) regarding market entry, there are striking features that appear quite frequently: (a) The importance of cultural differences (b) the need to understand the Chinese mentality and (c) the ability to communicate intercultural. This should not be confounded with Chinese language skills or the knowledge of Chinese writing. Astonishingly, these abilities have little first-hand relevance. In business, it is important to build mutual trust, to endure time delays within the Chinese decision-making processes.

Conducting business in China usually encompasses the advantages of achieving higher sales and leaping ahead of European competitors – this is true both for SMEs and large enterprises. But there is one difference between SMEs and large enterprises regarding the chosen kind of market entry. SMEs were affected more heavily by these circumstances than large enterprises. This difference can last for a long time – it can even be seen in the present.

Statistical analyses showed that there is an advantageous method in the process of decision-making regarding the form of market entry: establishing a dedicated group within the company. Large enterprises use this method with good results, whereas SMEs hardly apply this method.

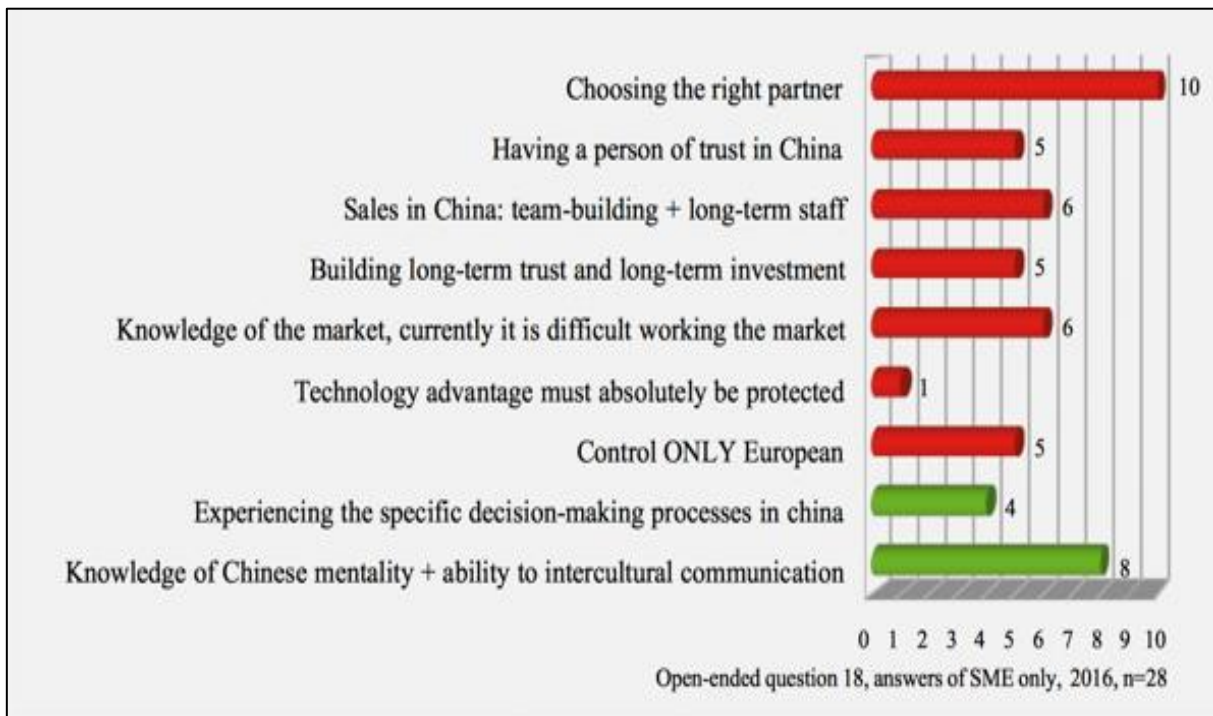
Lasting and positive repercussions for SMEs could be found particularly in the field of production and market assessment. Managers of large enterprises have a global view and see lasting positive repercussions in this area.

### 3.4 Recommendations by Responding Managers for the Market Entry into China

To summarise the subject of market entry, a psychological-projective question (question 18) was asked, “Your recommendations for a good colleague: what should s/he pay particular attention to for a successful market entry in China? What have you been recommending to your friends in recent years?”.

#### 3.4.1 Recommendations for Management of SMEs

The following diagram shows the response-developed categories:



**Figure 3.19: Recommendations Regarding a Successful Market Entry for SMEs**

*Source: author's own construction, based on author's conducted survey*

There are two main areas of recommendation: (a) how to approach and (b) how to get familiar with Chinese culture. The bars for area (a) are red, the bars for area (b) are green.

Ad (a): The first four bands show a recommended approach. The most important is patience and a long breath to find the right Chinese partner and a contact person of trust. Likewise, staff should be carefully selected and maintained in the long term. SME managers also say that despite all trust, protection of technology and European control is necessary.

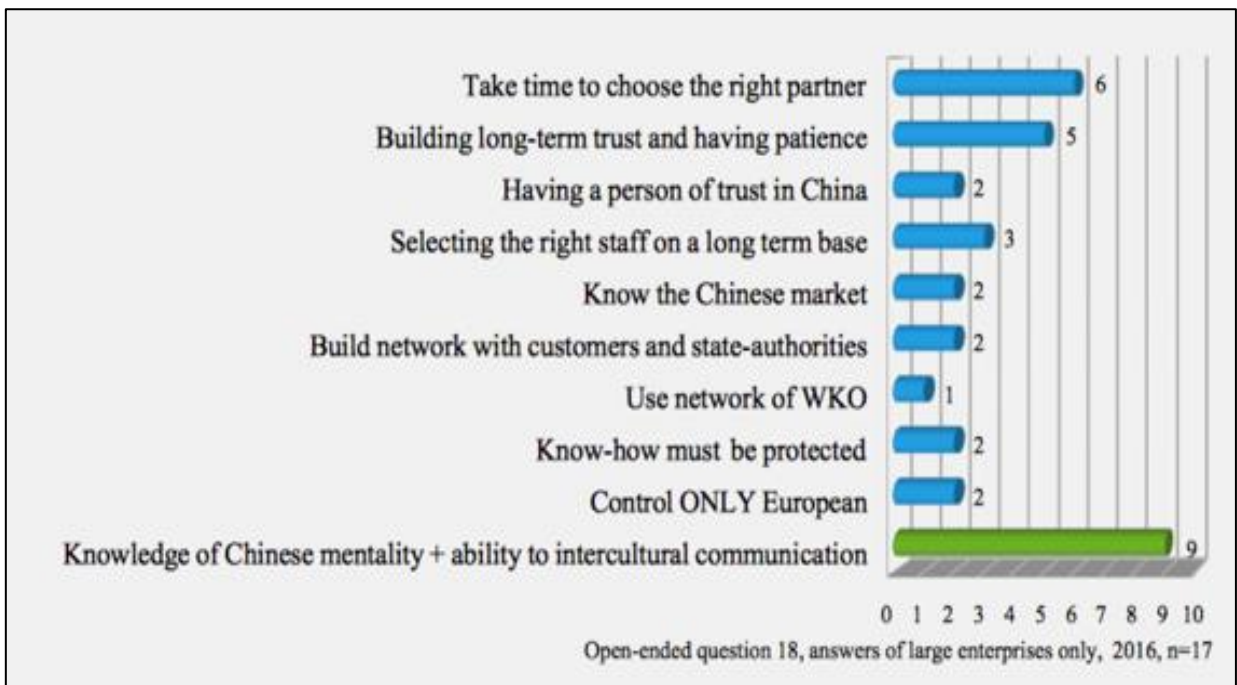
Ad (b): Get acquainted with Chinese mentality, managers have to learn how to communicate intercultural and be prepared to see and accept a specific Chinese decision-making process.

One interesting quote for (a) shall be quoted here, as it is meaningful, “The gold digger periods are definitely over, especially in the traditional industry sector. If companies would like to capture the Chinese market, it is advisable to offer products with outstanding advantages (USP) to persist against global competitors and in many cases against the local Chinese competitors. Additionally, it must be ensure that technological advantages are securely protected from the beginning of the market entry – very often, this is not the case. More and more often, especially in the SME sector, it will also be necessary to work with local market leaders to minimize the ‘time to market’. This ‘market’ will be increasingly found in the 2<sup>nd</sup> and 3<sup>rd</sup> tier cities of China, and less and less in metropolises such as Shanghai and Beijing. This makes the processing of the market more difficult for single medium-sized companies! So: 1) only if countable and protectable added value exists, 2) all or nothing, 3) courage for cooperation” (n 3).

Particular quotes regarding (b), “managers should acquire extensive knowledge of the Chinese mentality and culture and promote the skills of intercultural communication (competence, sensitivity).” (n 34); “Understand the Chinese mentality, [they] think differently. Signed contracts are just a snapshot” (n 44); “[Find and show] empathy in intercultural interactions. Dealings [should be] equitable and respectful.” (n 65).

### **3.4.2 Recommendations for Management of Large Enterprises**

Recommendations from large-enterprise managers are of a similar nature, they also show these two broad areas: (a) how to approach (see blue bars) and (b) get familiar with the Chinese culture, (see green bar).



**Figure 3.20: Recommendations Regarding a Successful Market Entry for Large Enterprises**

*Source: author's own construction, based on author's conducted survey*

Ad (a) (see blue bars in the figure above): In the case of large enterprise managers, the recommendations are similar to those made by SME managers. Take your time. Find the right part and person of trust. Build and maintain suitable personnel on a long-term base. For managers of large enterprises, it is also important to build and use networks – with Chinese customers, with Chinese state authorities, and the existing network of the Austrian Chamber of Commerce (WKO).

Ad (b) (see the green bar in the figure above): get to know the Chinese mentality and learn how to communicate intercultural.

Specific quotes regarding (a) are, “Companies have to invest a lot of time in the selection of your partner. Without a partner, it does not make sense to enter the Chinese market. Later, a branch office is useful in many cases” (n 13); “Choose your ‘partner’ well. Be patient, because relationship-building simply costs time and money. Prefer direct sales in the project business, even if it is somewhat heavier [and more expensive]” (n 47); “Be cautious, do not believe, set good compliance structures” (n 70); “Find a trustworthy partner. Develop a suitable HR [human relations] strategy to keep personnel in the long term. China is no longer cheap (staff, rent, ...). Gain a clear overview of sales markets and the competitive situation. [Acquire] local know-how” (n 81).



Quotes regarding (b) are "Get to know the Chinese mentality adequately" (n 2); "Do not underestimate politics and 'relations'. Expectations of the Chinese are higher than it seems" (n 16); "Protect your own know-how, ensure payments are made by Chinese customers" (n 21).

### **3.4.3 Recommendations to Management for the Chinese Market-Entry Decision on Base of the Selected Theories and Models**

In terms of the preselected decision-making theories, the following conclusions can be drawn:

- 1.) Companies use the model of best practice rather seldom. This situation is reinforced by an opportunistic way of reaching a decision: The processes of seeking information, analysing it and making a decision are often intermingled. Not infrequently, enterprises, especially SMEs, act in an opportunistic way in that they take advantage of coincidental situations – the marital partner of an employee is of Chinese origin, etc. Qualitative approaches (see chapter 1 on page 45), based on specific circumstances and sense making within loops seem to be prevalent and used frequently as an application of decision-making theories.
- 2.) Cultural aspects are of high importance, not only in phases like information-seeking, analysis and deciding, but also in the phases after the market entry. The empirical results of the present thesis seem to support Hall's classical models of context and time (see page 32) and associated models of values and behaviour like those of Trompenaars (see page 35). The category Great time delays as an emerging culture-associated category in many areas can be both assigned to Hofstede's uncertainty avoidance (how do people feel threatened by unknown situations) and to Hall's polychronic concept, both tendential valid for Chinese culture. But of course, the focus of the present study was not laid on constructing new models or examining existing ones. Hence, these results should be seen as tendencies which should be confirmed by empirical studies on a broader base.
- 3.) Putting these theory prone tendencies of the frequently contingent decision-making process and the cultural aspects of contingency and communication as two important dimensions of the third preselected theory – that of Luhmann's systems theory (see chapter 1.3 on page 38) – this theory/these dimensions increase(s) in their (its)

significance when applying this theory (is applied) to the present subject. A cultural sensible and emphatic way of communicating with potential Chinese partners on a long-term base to build mutual trust seems to be of the utmost importance.

#### **3.4.4 Summary**

Many managers recommend the following fundamental approaches when going to China: Be patient, look for a person of trust, find the right Chinese partner, and get familiar with the Chinese culture.

### **3.5 Comprehensive-View Model for Market Entry Decision as a Contribution to Management Science**

Bringing the results of research together the following described comprehensive-view-model has been composed. The derived and final developed model is shown as an Ishikawa-diagram, also known as cause-effect- or fishbone-diagram (Ishikawa 1982) which is being used here as influencing-factors-diagram.

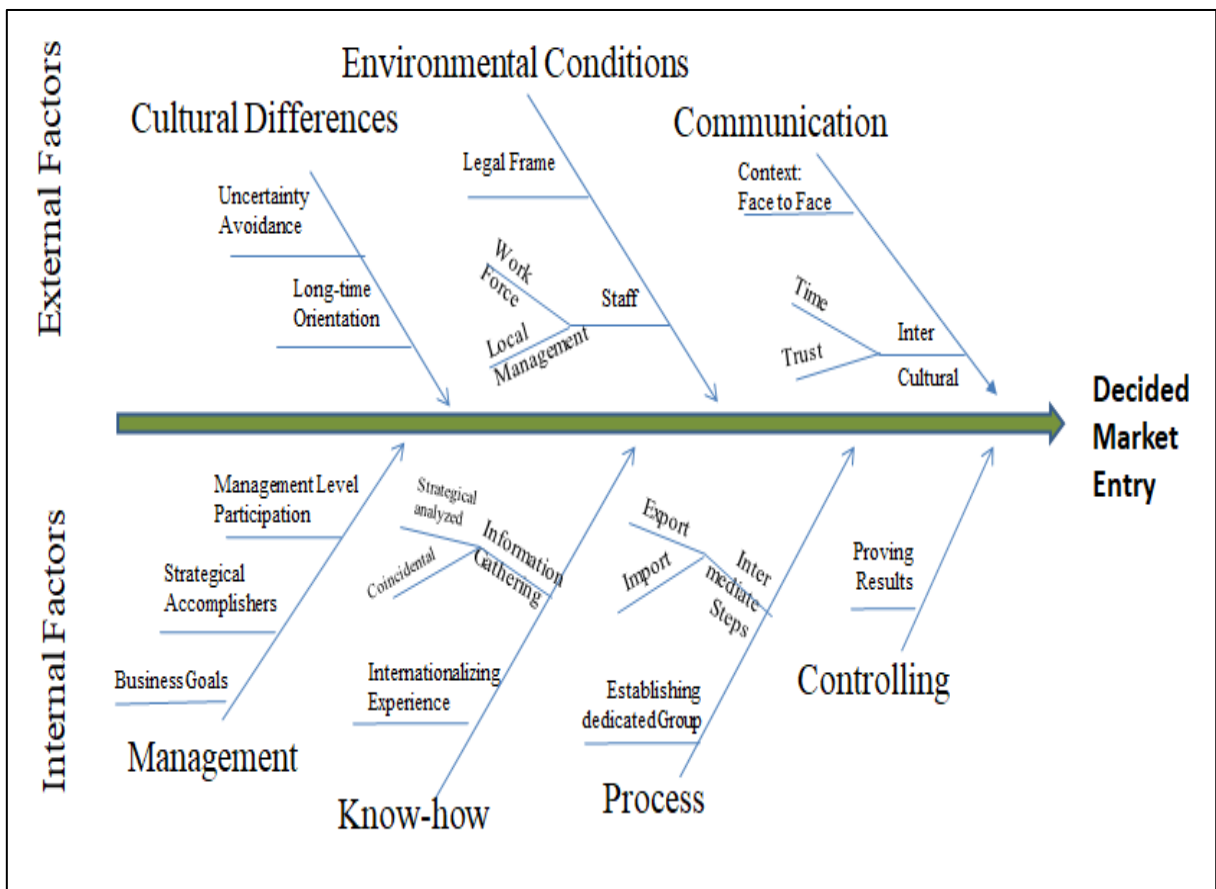
Analogue to the differentiation of factors in internal and external variables in the model of research two main areas are described: internal and external areas of influences. Within each area crucial attributes for planning the market entry into China are shown. Each described factor has been derived either directly from the empirical obtained result of the research or indirectly from those, by the executed research as essential detected dimensions of Hofstede's or Hall's concept of cultural differences. These factors are the following:

#### ***Internal Factors***

- 1) Management: This factor defines both business goals and starts the process of planning market entry. Questions are: Does first-level-management of SME still Remain in essential entry-subjects or does it delegate the (whole) responsibility to second-level-management? Does it define a certain business goal and look if it could be attained? Here there is a direct connection to the fourth internal attribute of the model – controlling.
- 2) Know-how: This internal factor refers to already acquired first-hand experiences of the SME in the process of internationalizing. Also, the way of gathering information is shown. This can be done analytically doing research on information offered by various

public sources. But this can also be done in seizing opportunities by coincidence, for instance if an employee of the company is married to a Chinese partner.

- 3) Process: The course of the overall process leading to a decision which entry mode the company should take varies considerably if a dedicated group is established or not. The process varies also if appropriate intermediate steps are chosen. Steps like importing first to gain experience and exporting for instance to third party (trader).
- 4) Controlling: For many SMEs, the management function controlling plays a decisive accompanying role.



**Figure 3.21: Comprehensive-View Model of Deciding Market Entry for SME**

*Source: author's own construction, based on research results*

### External Factors

- 5) Cultural differences: This external factor hints in context with China especially to two – theoretically proposed – dimension of cultural differences: (a) Uncertainty avoidance, the fourth proposed cultural dimension by Hofstede (1994) and (b) Long-term Orientation by Hall (2001). These two dimensions are intimately connected with the attribute communication, which will be outlined below.

- 6) Environmental conditions: In the context of deciding the entry mode to China two important sub-factors were drawn out of the empirical results: (a) The legal frame which is sometimes either vaguely know or can change overnight, (b) The staff of the company in China, whether it is a joint venture or a WFOE. There can be considerable challenges (differences which have to be bridged) between a Chinese dominated work force and an Austrian-Chinese mixed local management. The basic situation on a local or regional base can be heavily influenced by a new or revised legal regulations on a national scale.
- 7) Communication: Within this model communication is placed as an external influence. Of course, communication needs (company-intern) partners by definition to be real. Within the Chinese context emphasis should be placed on ongoing face-to-face communication. To communicate successfully intercultural, one has to allow sufficient time in order trust can develop.

# CONCLUSIONS AND SUGGESTIONS

## Conclusions

The results of research have been integrated in a final comprehensive-view-model of market entry decision. The outlined factors of the developed model are based on following areas:

1. The Internationalization of Austrian SMEs is frequently characterized by skipping importing as a first low-risk step and starting exporting all at once. Thus, they are accepting higher risks by this way compared to European SMEs. This is probably due to various export-supporting programs by Austrian institutions. These stately proposed programs seem not to lower risks - as is their purpose - but on the contrary, they heighten economic risks for Austrian SMEs by this structural and institutional based bias.
2. Additionally, this very first step of going to China by Austrian SMEs is often characterized by a contingent, coincidental and opportunity-seizing way. The performed processes of information-seeking, analysis and coming to a decision often utilize experiences of third persons which are accidentally nearby or may not be objective and neutral enough: The marital partner of an SME-employee or the potential future Chinese partner himself. This stands in outstanding contrast to the standard recommendations of management science.
3. The most important influential feature concerning the success of a market entry is the weight of cultural differences. One has to understand the Chinese mentality.
4. Confucianism thinking exerts an essential influence upon Chinese management practice by striving for social harmony, personal steadiness, respect for tradition, a sense of shame and reciprocity.
5. Two striking features of observed cultural difficulties aggravate the importance of the decision-making process:
  - a. their vagueness combined with
  - b. their frequency of occurrence.
6. As a way of market entry Austrian SMEs prefer to establish Joint Ventures. This implies disadvantages like cultural differences between management and workforce or heighten competition on the Chinese market.
7. Austrian SMEs prefer to establish Joint Ventures. This specific form of cooperation has three main disadvantages:

- a. Joint Ventures often lead to cultural differences between (Austrian dominated) management and (Chinese dominated) workforce.
  - b. Joint Ventures are also confronted with more Chinese competitors on the local market.
  - c. The basic business-goals of the preselected Chinese partner are many times concealed to the Austrian partner.
8. Wholly Owned-Foreign Company (WFOE) as another option of market entry has two complementary features as this study shows:
- a. WFOEs face challenges outside the company on a nationwide scale.
  - b. These problems and challenges are often the result of rapidly changing legal situations.
9. Each Austrian SME seemed to have had its own specific reason dependent on the situation and business-goals the company is aiming at. A performed multivariate cluster analysis reveals two somewhat antagonistic SME-groups:
- a. The group of controllers with few requirements. They tend to seize opportunities and control the results afterwards,
  - b. The group of Strategic accomplishes. They operate on rational considerations in advance and execute the resulting plans independent of possibly changing situations.
10. The influence of the chose entry mode has lasting impacts especially on SMEs. They were hit more by an impropriate form than large enterprises.

### Suggestions

Suggestions for Managers of Austrian small and medium-sized enterprises (SMEs) are:

1. In order to lower risks of the market entry in China it is advisable for SME-managers to start business with doing import first to collect experiences in the Chinese market. Managers should be critical of the institutionalized Austrian export-supporting programs because of the unidirectional (one-sided) intention of the manifold export-supporting programs.
2. Managers of small and medium-sized companies should establish a dedicated group within the company and delegate responsibility in a given frame. The central content of this responsibility is the monitoring of the internal and external influences and

deviations. For example, large enterprises use this method with good results whereas SMEs nearly don't apply this method.

3. It is recommendable to develop and implement corporate governance concepts which focus on building bridges between Chinese and Austrian staff. Austrian SME-managers especially should understand the Chinese mentality and be able to communicate intercultural. The competence of intercultural communication can be acquired by training and hiring special Western-Chinese coaches.
4. A central task of the top-management is to avoid cultural difficulties and troubles in the long run. This can be done for instance by visiting Chinese partners on a regular base by either top-managers themselves or by senior managers with different cultural experiences. To avoid the aggravation of upcoming and acute cultural difficulties, the process of solving these difficulties shouldn't be delegated to lower management levels, technicians or even clerks.
5. Especial accurate for the Chinese Confucian mentality are suggestions which seem too nice and easy-going for West-European people. Executive managers should be aware not to misinterpret when the targeted partner seems to have been redrawn. This often signifies a test for the sincerity of targeted treaty. The ability to cope with setbacks and crises is crucial for a resilient, sound and solid business in China.
6. Invest resources to support climates of confidence. It takes time and patience to evaluate the possible future business partner. For this reason, it is extremely important to get familiar with Chinese culture and identity in order to find trustworthy persons by using social networks and peers.
7. Management of Chinese subsidiary has to keep in mind that building strong and lasting relationships with officials of provincial governments is critical in China. One needs provincial and local partners because legal and administrative environment can change overnight. Managers always should be aware of the insufficient transparency of rule of law and their enforcement. The method of choice to tackle with this problem is knowing specific people or public officers for receiving information where the real interests lie. On this basis win-win-deals can be realized.
8. Workforce is a crucial element in becoming established in the Chinese market. Therefore, companies should pay attention how to attract and retain personnel. Nevertheless, management has to observe quickly rising labour costs. But it is also important to consider emerging cultural differences in the mixed (Austrian-Chinese) workforce.

9. It is advisable for management to use the final comprehensive-view-model as an optical base (in its most simple form as a check-list) when deciding the way of the market entry. This model contains important influences (factors) for the entry-decision.

Institutional Suggestions for Officials of Austrian Chamber of Commerce (WKO) and Austrian Federal Ministry of Digital and Economic Affairs (BMDW) are:

1. In order not to expose Austrian SMEs unnecessary risks when going to foreign market export-supporting programs should be revised. A requirement should be added: Only those companies should be supported which done already imports from to targeted market.
2. To improve cultural skills and knowledge of involved persons within export planning Austrian companies (especially SMEs) offer cultural training programs for not-EU-markets with pronounced cultural differences compared to the own culture. These training programs should be seen as a requirement for receiving financial support or protection against capital market or currency risks.



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# APPENDIX

## Appendix A: Re-Evaluation of Austrian Business Confidence Survey 2015 / Questionnaire

Relevant selected Questions (1, 3 and 10) of the used Internet based-Questionnaire look as shown below:

Austrian Business Confidence Survey 2015				
Business outlook on China				
<b>1. How important are the following strategic reasons for your company to be present with an office / subsidiary in China?</b>				
	very important	important	not important	N/A
strategic partnership with Chinese company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
favorable policies by the Chinese Government	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
size of market – number of customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
strategic partnership with non-Chinese company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
size of market – number of projects	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
costs for production	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other (please specify)				
<input type="text"/>				



Data of question 3 are seen as ten independent variables (factors). These ten independent variables are used by an exploratory factor analyses to develop a set of four (new) factors.

3. How significant are the following challenges for your business activity in China?				
	very significant	significant	not significant	N/A
competition	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
cultural differences – workforce	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
attracting & retaining staff	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
transport & infrastructure	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
market access barriers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
rule of law (transparency, enforcement of rules and regulations)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
rising costs of raw material	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
rising labor costs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
quality management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
cultural differences – marketing & sales	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other (please specify)	<input type="text"/>			

Data of question 10 are seen as dependent variable.

Austrian Business Confidence Survey 2015
Outlook on China's international involvement
<b>10. Does your company's presence on the Chinese market have positive effects on your business in other markets?</b>
<input type="radio"/> yes
<input type="radio"/> no

## Appendix B: Re-Evaluation of Austrian Business Confidence Survey 2015 / Statistical Tables

### Contingency table strategic partnership with Chinese company \* Legal entity

Below there is the table of contingency of the variables Question 1 (strategic partnership with a Chinese company) crossed with Question 14 (“Your company’s legal entity in China”). This is the base for the following Man-Whitney-U-Test.

Contingency table

			Q.14: Your company's legal entity in China			Total
			Joint Venture	Representative Office	WFO	
Q.1: Strategic partnership with Chinese company: Importance to be present in China	very important	Count	7	3	5	15
		% within Q.1: Strategic partnership with Chinese company: Importance to be present in China	46,7%	20,0%	33,3 %	100,0 %
Q.1: Strategic partnership with Chinese company: Importance to be present in China	important	Count	3	2	13	18
		% within Q.1: Strategic partnership with Chinese company: Importance to be present in China	16,7%	11,1%	72,2 %	100,0 %
Q.1: Strategic partnership with Chinese company: Importance to be present in China	not important	Count	1	1	15	17
		% within Q.1: Strategic partnership with Chinese company: Importance to be present in China	5,9%	5,9%	88,2 %	100,0 %
Total		Count	11	6	33	50
		% within Q.1: Strategic partnership with Chinese company: Importance to be present in China	22,0%	12,0%	66,0 %	100,0 %

**Man-Whitney-U-Test strategic partnership with Chinese company \* Legal entity as Joint Venture or WFOE**

Folwoing there is the (significant) outcome of the Man-Whitney-U-Test (Question 1 “How important are the following strategic reasons for your company to be present with an office / subsidiary in China?”, Question 10 (“In what legal and economic framework did the initial transaction take place?”).

Ranks				
	Q.10: Your company's legal entity in China	N	Middle rank	Sum of ranks
Q.1: Strategic partnership with Chinese company: Importance be present in China	Joint Venture	11	13,05	143,50
	WFOE	33	25,65	846,50
	Total	44		

Statistics for test <sup>a</sup>	
	Q.1: Strategic partnership with Chinese company: Importance to be present in China
Mann-Whitney-U	77,500
Wilcoxon-W	143,500
Z	-2,998
Asymptotic significance (2-sided)	<b>,003</b>
Exact significance [2*(1-sided Sig.)]	<b>,004<sup>b</sup></b>

a. Group variable: Q.14: Your company's legal entity in China

b. Not corrected for ties.

Contingency table Challenge 'Cultural differences – workforce' \* Legal entity

Below there is the table of contingency of the variables Question 3 (“How significant are the following challenges for your business activity in China?”)/second subquestion (“Cultural differences – workforce”) crossed with Question 14 (“Your company’s legal entity in China”). This is the base for the following Man-Whitney-U-Test.

Contingency table

		Q.14: Your company's legal entity in China			Total	
			Joint Venture	Representative Office	WFOE	
Q.3: Challenges: second subquestion: “Cultural differences – workforce”	very significant	Count	3	0	0	3
		% within Q.3: Challenges: Cultural differences - workforce	100,0%	0,0%	0,0%	100,0%
	significant	Count	6	4	19	29
		% within Q.3: Challenges: Cultural differences - workforce	20,7%	13,8%	65,5%	100,0%
	not significant	Count	2	2	17	21
		% within Q.3: Challenges: Cultural differences - workforce	9,5%	9,5%	81,0%	100,0%
Total		Count	11	6	36	53
		% within Q.3: Challenges: Cultural differences - workforce	20,8%	11,3%	67,9%	100,0%

**Man-Whitney-U-Test Challenge ‘Cultural differences – workforce’ \* Legal entity as Joint Venture or WFOE**

Below there is the (significant) outcome of the Man-Whitney-U-Test Question 3 (“How significant are the following challenges for your business activity in China?”) / second subquestion “Cultural differences – workforce”), Question 10 (“In what legal and economic framework did the initial transaction take place?”).

	Ranks			
	Q.10: Your company's legal entity in China	N	Middle rank	Sum of ranks
Q.3: Challenges: Cultural differences - workforce	Joint Venture	11	16,18	178,00
	WFOE	36	26,39	950,00
	Total	47		

Statistics for test <sup>a</sup>	
	Q.3: Challenges: Cultural differences - workforce
Mann-Whitney-U	112,000
Wilcoxon-W	178,000
Z	-2,441
Asymptotic significance (2-sided)	<b>,015</b>
Exact significance [2*(1-sided)]	<b>,030<sup>b</sup></b>

a. Group variable: Qu.14: Your company's legal entity in China

b. Not corrected for ties.

### Factor Analysis for Challenges

The following table shows first – out of 10 factors (original components) – the initial Eigenvalues in the left three columns and the explained total variance of factors with Eigenvalue greater than 1 in the following six columns.

Component	Total Variance Explained								
	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2,054	20,541	20,541	2,054	20,541	20,541	1,838	18,38	18,384
2	1,787	17,866	38,407	1,787	17,866	38,407	1,771	17,71	36,098
3	1,405	14,051	52,458	1,405	14,051	52,458	1,584	15,84	51,934
4	1,199	11,995	64,453	1,199	11,995	64,453	1,252	12,52	64,453
5	,990	9,900	74,353						
6	,902	9,016	83,369						
7	,537	5,366	88,735						
8	,461	4,614	93,349						
9	,390	3,895	97,244						
10	,276	2,756	100,000						

Extraction Method: Principal Component Analysis.

The following component matrix shows the weight of the original ten components (factors) correlating with the new four calculated components (new factors)

	Component Matrix <sup>a</sup>			
	1	2	3	4
Qu.3: Challenges: Cultural differences – marketing & sales		,749		
Qu.3: Challenges: Cultural differences – workforce		,543	-,422	
Qu.3: Challenges: Market access barriers		,725		
Qu.3: Challenges: Quality management	,574		,345	,362
Qu.3: Challenges: Rising costs of raw material	,366		,570	
Qu.3: Challenges: Rising labor costs	,718	-,453		
Qu.3: Challenges: Transport & infrastructure	,462		,577	
Qu.3: Challenges: Attracting & retaining staff	,625		-,480	
Qu.3: Challenges: Rule of law (transparency, enforcement of rules and regulations)	,614	,355	-,366	
Qu.3: Challenges: Competition				,918

Extraction Method: Principal Component Analysis.

a. 4 components extracted.

As factor analysis reduces the amount of factors, which means, the count of independent variables just decreases, it is advisable to further look at the relations of the new factors (new independent variables) to dependent variables. For this reason the following transformation had been done: the different output-scores of the four new factors are transformed into categorical variables: FA 1, FA 2, FA 3, Fa 4, yes  $\geq .5$ , no = otherwise. Chi-square-test reveals that only the first new component (FA 1 “Challenge: Chinese working Specifiers”) shows significant differences between the company’s legal entities in China.

Contingency table

		Q.14: Your company's legal entity in China			Total	
			Joint Venture	Representative Office	WFOE	
FA- Component 1 Challenge „Chinese working Specifiers”	no	Count	8	3	18	29
		% within FA- Component 1	27,6%	10,3%	62,1%	100,0%
	yes	Count	1	0	14	15
		% within FA- Component 1	6,7%	0,0%	93,3%	100,0%
Total		Count	9	3	32	44
		% within FA- Component 1	20,5%	6,8%	72,7%	100,0%

Chi-square-tests

	Value	df	Asymptotic significance (2- sided)
Chi-Square Pearson	4,996	2	,082
Likelihood-Quotient	6,325	2	,042
Correlation linear-with-linear	3,995	1	,046
Count of valid cases	44		

## Appendix C: Survey Austrian SMEs 2016 / Questionnaire

### Cover-Mail to Manager of Austrian enterprises having relations with China

**Betreff:**Erfolgreicher Markteinstieg in China - und wie geht es weiter

**Datum:**03.03.2016 14:15

**Von:**franz.haas@imo-managementforschung.eu

**An:**xxxxxx.xxxx@xxxxx.xxx

**Sehr geehrter Hr. {Vorname} {Nachname}**

Im Rahmen einer wissenschaftlichen Studie werden entscheidende Faktoren für einen erfolgreichen Markteintritt nach China erhoben. Der Fokus dieser Studie liegt auf österreichischen Klein- und Mittelbetrieben (KMU), welche bereits Erfahrungen in China gesammelt haben. Als Wissensträger ihres Unternehmens, bitte ich Sie um die Teilnahme an der Onlinebefragung welche rund 6 - 8 Minuten in Anspruch nimmt.

Der Fragebogen und die Auswertung sind strikt anonym gehalten - Ihre Informationen sind im Einzelnen nicht einzusehen; sie werden nur summarisch ausgewertet!

**Erfolgreicher Markteinstieg in China - und wie geht es weiter in der neuen Realität, dem 'New Normal' ?**

Gerne biete ich Ihnen im Sinne eines, für **beide Seiten nützlichen Informationsaustausches** eine RASCHE ÜBERSICHT zu den Antworten "Wie geht es im New Normal weiter?" an. Später folgt eine kurze Zusammenfassung der wesentlichsten Analysen und Handlungsempfehlungen. Sie brauchen dafür nur eine Mail-Adresse am Ende des Fragebogens angeben.

Link zur Umfrage: <https://www.soscisurvey.de/china072951/>

Vielen Dank für Ihren Beitrag!

Mit freundlichen Grüßen

Franz Haas

University of Latvia, Faculty of Economics and Management



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**From:** Shanghai AC  
**Sent:** Thursday, May 26, 2016 12:19 PM  
**To:** Shanghai AC  
**Cc:** Shanghai AC  
**Subject:** News for the Austrian Business Circle 2016-05-26

Dear Austrians, dear friends of Austria,

The first five months of 2016 were a busy time for Austrian businesses in Eastern China.  
~~Leading Austrian companies presented their technologies and know-how at two major~~

---

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Christina Schösser  
Die österreichische Wirtschaftsdelegierte / Consul (Commercial Affairs)

**NEWS**

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**ACADEMIC SURVEY: SUCCESSFUL MARKET ENTRY IN CHINA**

The goal of this academic study, conducted by an Austrian science institution, is to evaluate important factors for a successful market entry into the Chinese market. The focus of this study is on small and medium sized Austrian companies, with experience in the Chinese market. Please take a few minutes to participate in this survey (questionnaire is in German). The outcome of this study will be available for all participants. Link to the survey:  
<https://www.soscisurvey.de/china072951/>

Questionnaire 2016 – Screenshots of Questions

  
oFb - der onlineFragebogen

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Erfolgreicher Markteintritt in China -  
- und wie geht es weiter in der neuen Realität, dem ‚NEW NORMAL‘ ?

Im Rahmen einer wissenschaftlichen Studie werden Faktoren für einen ERFOLGREICHEN MARKTEINTRITT nach China erhoben. Der Fokus dieser Studie liegt auf Klein- und Mittelbetrieben (KMU), welche bereits Erfahrungen in China gesammelt haben. Als Wissensträger ihres Unternehmens, bitte ich Sie um die Teilnahme an der Onlinebefragung, welche rund 8 – 10 Minuten in Anspruch nimmt.

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Gerne biete ich Ihnen im Sinne eines, für beide Seiten nützlichen Informationsaustausches eine RASCHE Übersicht zu den Antworten "Wie geht es im New Normal weiter?" an. Sie erhalten diese Sofort-Übersicht unmittelbar nach dem Ende des Zeitraumes für die Online-Befragung. Sie brauchen dafür nur eine Mail-Adresse am Ende des Fragebogens angeben.

Danke für Ihre Teilnahme am Projekt – Sie lesen von uns!

[Weiter](#)

---

Franz Haas, University of Latvia (Riga, Lettland) – 2016 0% ausgefüllt

**1. Wie viele Mitarbeiter hatte Ihr Unternehmen 2015?**  
Bitte Zutreffendes anklicken.

1 – 9

10 – 49

50 – 249

250+

[Weiter](#)

---

Franz Haas, University of Latvia (Riga, Lettland) – 2016 5% ausgefüllt

**2. In welcher Branche ist Ihr Unternehmen tätig?**

Investitionsgüter (für andere Unternehmen / Maschinen, etc.)

Konsumgüter (für den Endkonsumenten)

Rechte oder Dienstleistungen

[Weiter](#)

---

Franz Haas, University of Latvia (Riga, Lettland) – 2016 10% ausgefüllt

In case of important data (usually sociodemographic ones) there had been a hint within a red frame. See the following example for question 2.

Sie haben eine oder mehrere Fragen auf dieser Seite nicht vollständig beantwortet.

Ich möchte auf dieser Seite keine weiteren Angaben machen

**2. In welcher Branche ist Ihr Unternehmen tätig?**

Investitionsgüter (für andere Unternehmen / Maschinen, etc.)

Konsumgüter (für den Endkonsumenten)

Rechte oder Dienstleistungen

[Weiter](#)

---

Franz Haas, University of Latvia (Riga, Lettland) – 2016 10% ausgefüllt

**3. Welche Funktion haben Sie im Unternehmen?**

Unternehmensleitung

Geschäftsführung

Vertrieb / Marketing

Finanzen / Controlling

Koordination Auslandsgeschäft

Sonstiges

[Weiter](#)

---

Franz Haas, University of Latvia (Riga, Lettland) – 2016 14% ausgefüllt

**4. Wie werden in Ihrem Unternehmen strategische Entscheidungen aufbereitet und durchgeführt?**

Management wird eher stark eingebunden

Management wird eher gering eingebunden

[Weiter](#)

---

Franz Haas, University of Latvia (Riga, Lettland) – 2016 19% ausgefüllt

**5. In welchem Zeitraum wurden in Ihrem Unternehmen erstmals Geschäfte in China getätigt?**

- bis 1989
- 1990 – 1999
- 2000 – 2009
- 2010 – 2016

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

24% ausgefüllt

**6. Auf welche Informations-HAUPTQUELLEN stützte sich die Entscheidung in Ihrem Unternehmen für den Markteinstieg in China?**

Bitte anklicken. Mehrfachnennungen möglich.

- Österreichische Wirtschaftskammer (WKO)
- Österreichisches Bundesministerium für Europa, Integration und Äußeres
- Stellen der EU
- Österreichische Firmen
- Deutsche oder Schweizer Firmen
- Fachzeitschriften oder Zeitungen
- Studien, wissenschaftliche Arbeiten
- Rechtliche Berater
- Wirtschaftliche Berater
- Kulturelle Berater
- Person mit chinesischer Muttersprache
- Messekontakte / Information von Händlern

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

29% ausgefüllt

**7. Wer war wesentlich bei der INFORMATIONSGEWINNUNG und ANALYSE der möglichen Geschäftsbeziehungen zu China beteiligt?**

Bitte anklicken. Mehrfachnennungen möglich.

- Eigentümer
- Unternehmensleitung
- Geschäftsführung
- Vertrieb / Marketing
- Finanz / Controlling
- Projektteam
- Österr. Wirtschaftskammer (WKO)
- Externe Berater
- Best Practice bei anderen Unternehmen
- Person mit chinesischer Muttersprache
- Chinesisches Unternehmen

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

33% ausgefüllt

**8. Falls Sie sich erinnern, was war vor dem Markteintritt China für sie die besten Informationen?**

Nennen Sie bitte die zwei oder drei wichtigsten.

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

38% ausgefüllt

**9. Wer oder Was war wesentlich bei der ENTSCHEIDUNGSFINDUNG für die erste Geschäftsbeziehung in China eingebunden?**

Bitte anklicken. Mehrfachnennungen möglich

- Eigentümer
- Unternehmensleitung
- Vertrieb / Marketing
- Finanz / Controlling
- Entscheidungsgremium
- Österr. Wirtschaftskammer (WKO)
- Externe Berater
- Best Practice bei anderen Unternehmen
- Person mit chinesischer Muttersprache
- Chinesisches Unternehmen

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

43% ausgefüllt

**10. In welchem rechtlichen und wirtschaftlichen Rahmen wurde das Erstgeschäft abgewickelt?**

- Indirekter Export über Dritte nach China
- Direktexport zu einem Unternehmen oder chinesischen Endkonsumenten
- Joint Venture
- Sonstiges

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

48% ausgefüllt

**11. Welches waren Gründe für die erstmalig gewählte Markteintrittsform?**

Bitte anklicken, Mehrfachnennungen möglich.

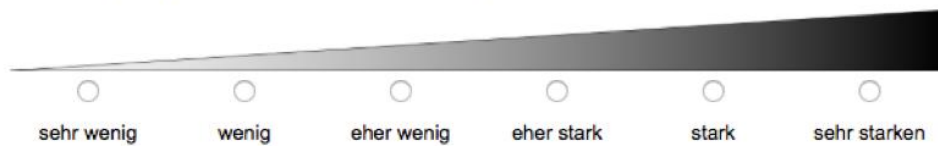
- Geringes Risiko dieser Markteintrittsform
- Notwendigkeit der Einbindung eines chin. Partners
- Schnellstmöglicher Markteinstieg
- Effektivste Steuerung und Kontrolle des China-Engagement
- Geringster Ressourcenbedarf
- Hohe Anpassungsfähigkeit
- Markteintrittsform orientiert sich an der eines anderen Unternehmens
- Gute Erfahrung mit Markteintrittsform in anderen Märkten

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

52% ausgefüllt

**12. Welchen Einfluss hatten kulturelle Unterschiede auf die gewählte Form des Markteintrieges?**  
Bewerten Sie mögliche Unterschiede zwischen China und Österreich



Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

57% ausgefüllt

**13. Welche Schwierigkeiten gab es bei der Realisierung des Erstgeschäftes / des erstmaligen Umsatzes nach China?**

Beschreiben Sie bitte Ihre Erfahrungen.

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

62% ausgefüllt

**14. Was haben Sie in den letzten drei bis fünf Jahren durch Ihr Engagement in China erreicht?**  
Bitte anklicken, Mehrfachnennungen möglich.

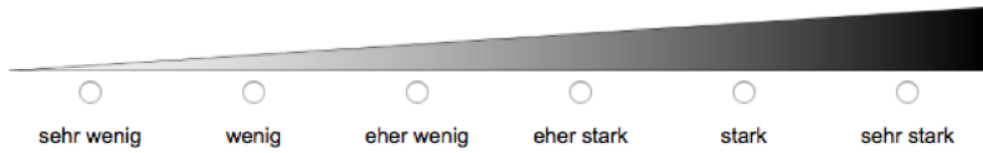
- Höheren Umsatz
- Höheren Gewinn
- Höhere Marktanteile
- Vorsprung vor europäische Konkurrenten
- Bessere Ausnutzung vorhandener Kapazitäten
- Niedrigere Produktionskosten
- Ausbau von Know-how
- Keines der genannten Erfolge erreicht

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

67% ausgefüllt

**15. Welchen Einfluss hatte die ART des ERSTEN Markteinstieges auf den Markterfolg in China?**  
Bitte auf die ersten 3 Jahre nach den Markteinstieg beschränken.

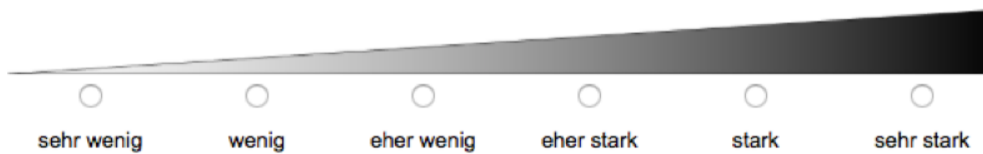


Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

71% ausgefüllt

**16. Welchen Einfluss hatte die Art des ersten Markteinstieges auf ihr DERZEITIGES Chinageschäft?**



Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

76% ausgefüllt

**17. Welche Rückwirkungen hatte die gewählte Form des Eintrittes in den chinesischen Markt auf das Unternehmen in Österreich?**

Gab es langfristige Aspekte?

A large, empty rectangular text input area with a thin border and a small cursor icon in the bottom right corner.

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

81% ausgefüllt



**18. Ihre Empfehlungen für einen sehr guten Freund: Worauf sollte er für einen erfolgreichen Markteintritt in China besonders achten?**

Was empfehlen Sie aufgrund Ihrer Erfahrungen in den letzten Jahren ihrem Freund?

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

86% ausgefüllt

**19. Hat die gedämpfte Wirtschaftserwartung in China („the new normal“) Einfluss auf ihr derzeitiges Engagement in China?**

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

90% ausgefüllt

**20. Wenn sie ihre Emailadresse bekannt geben, erhalten sie eine ausführliche Zusammenstellung der Ergebnisse!**

Diese Frage kann selbstverständlich übersprungen werden.

Weiter

Franz Haas, University of Latvia (Riga, Lettland) – 2016

95% ausgefüllt

## **Vielen Dank für Ihre Teilnahme!**

Wir möchten uns ganz herzlich für Ihre Mithilfe bedanken.

Ihre Antworten wurden gespeichert, Sie können das Browser-Fenster nun schließen.

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Franz Haas, University of Latvia (Riga, Lettland) – 2016

## Appendix D: Survey Austrian SMEs 2016 / Statistical Tables and Diagram

### Contingency table management tied in decision by size class

There is no significant difference (chi-square-test) in the management-tied-in-decisions between large enterprises (250+) and SME.

F1_Anzahl_Mitarbeiter * F4_strategische Entscheidung Kreuztabelle					
		F4_strategische Entscheidung			Gesamt
		Management wird eher stark eingebunden		Management wird eher gering eingebunden	
F1_Anzahl_Mitarbeiter	1 - 9	Anzahl	23	2	25
		% innerhalb von F1_Anzahl_Mitarbeiter	92,0%	8,0%	100,0%
	10 - 49	Anzahl	9	1	10
		% innerhalb von F1_Anzahl_Mitarbeiter	90,0%	10,0%	100,0%
	50 - 249	Anzahl	12	2	14
		% innerhalb von F1_Anzahl_Mitarbeiter	85,7%	14,3%	100,0%
	250+	Anzahl	27	5	32
		% innerhalb von F1_Anzahl_Mitarbeiter	84,4%	15,6%	100,0%
Gesamt		Anzahl	71	10	81
		% innerhalb von F1_Anzahl_Mitarbeiter	87,7%	12,3%	100,0%

Chi-Quadrat-Tests			
	Wert	df	Asymptotische Significant (2-seitig)
Chi-Quadrat nach Pearson	,854 <sup>a</sup>	3	,837
Likelihood-Quotient	,888	3	,828
Zusammenhang linear-mit-linear	,824	1	,364
Anzahl der gültigen Fälle	81		

Subgroups: Influence of cultural differences on market entry

Scale for question 12 (“How was the influence of cultural differences on the chosen form of the market entry”) goes from 1 to 6, where 1 is very little difference and 6 is very strong difference. Analyses of variance (ANOVA) shows the following significant results. Companies working in the rights- and services-business rate the influence of culture with a mean of 4,46 quite strong, where companies dealing with consumer goods rate the influence with 2,78 as rather less. The association of these relations is with an Eta-value of ,384 in middle range.

Report				
F12_Influence_cultur				
F2_Branche	Mean	N	Std. Deviation	Std. Error of Mean
Business-to-business goods (mashinery,...)	3,61	31	1,334	,240
Consumer goods	2,78	9	1,641	,547
Rights or services	4,46	24	1,414	,289
Total	3,81	64	1,500	,188

ANOVA: Between Groups df = 2, F = 5,269, p-value = ,010; Measure of association: Eta = ,384.

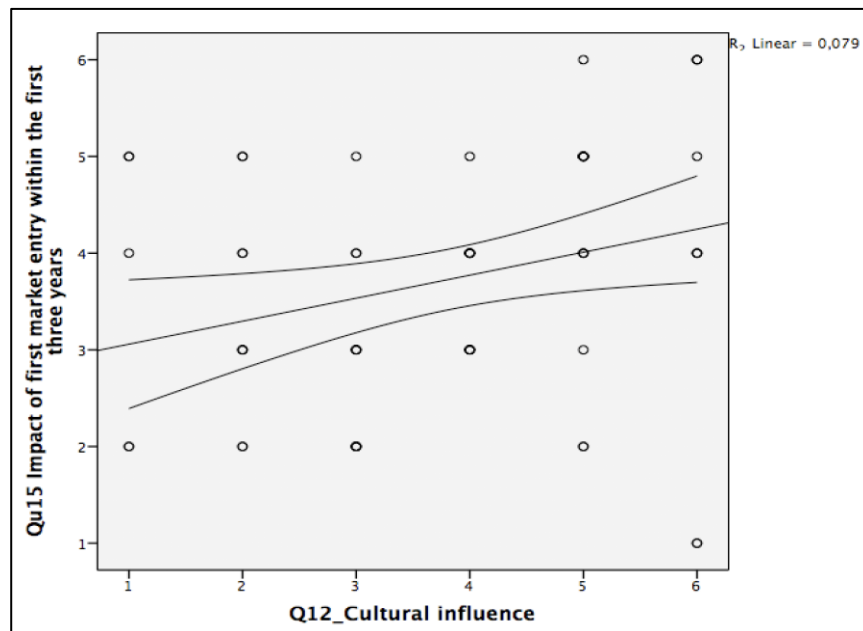
First level management rate the influence of culture with a mean of 4,38 quite strong, whereas second level management rate the influence with 3,36 in a middle range. The difference ist significant.

Report				
F12_Einfluss_Kultur				
F3_Function Categories	Mean	N	Std. Deviation	Std. Error of Mean
First Level of Management	4,38	26	1,388	,272
Second Level of Management	3,46	39	1,466	,235
Total	3,83	65	1,496	,185

ANOVA: Between Groups df = 1, F = 6,449, p-value = ,014; Measure of association: Eta = ,305

Scatterplot Regression-Analysis

The following diagram show the linear regression line together with the confidence intervals of 95%



Source: author's own construction 2016

Cluster analysis: Distribution of important predictors

There are the three most important predictors crossed with type of cluster (Controllers or Accomplishers). All of them show a p-value of .000 with strong measures of associations. The classification of measure is according to Cohen (1988, p. 224).

Cross table					
		Qu11_Reason: Low risk of this market entry form		Gesamt	
		not selected	selected		
Cluster Controllers and Accomplishers	Controllers	Anzahl	28	5	33
		% innerhalb von Cluster Controllers and Accomplishers	84,8%	15,2%	100,0 %
	Accomplishers	Anzahl	4	28	32
		% innerhalb von Cluster Controllers and Accomplishers	12,5%	87,5%	100,0 %
Gesamt		Anzahl	32	33	65
		% innerhalb von Cluster Controllers and Accomplishers	49,2%	50,8%	100,0 %

Effect size			
		Value	Asymptotic significance
Nominal *. Nominal	Phi for 2x2-tables	,723	,000
	Cramer-V	,723	,000
Valid cases		65	

Following there is the second important predictor crossed with type of cluster (Controllers or Accomplishers). Chi-square-test show a p-value of .000 with strong measure of associations Phi of ,664. The classification of measure is according to Cohen (1988, p. 224).

Cross table					
			Qu11_Reason: Fastest possible market entry		Gesamt
			not selected	selected	
Cluster Controllers and Accomplishers	Controllers	Anzahl	29	4	33
		% innerhalb von Cluster Controllers and Accomplishers	87,9%	12,1%	100,0%
	Accomplishers	Anzahl	7	25	32
		% innerhalb von Cluster Controllers and Accomplishers	21,9%	78,1%	100,0%
Gesamt		Anzahl	36	29	65
		% innerhalb von Cluster Controllers and Accomplishers	55,4%	44,6%	100,0%

Symmetrische Maße			
		Wert	Näherungsweise Signifikanz
Nominal- bzgl. Nominalmaß	Phi	,664	,000
	Cramer-V	,664	,000
Anzahl der gültigen Fälle		65	



Below there is the third important predictor crossed with type of cluster (Controllers or Accomplishers). Chi-square-test show a p-value of .000 with strong measure of associations Phi of ,576. The classification of measure is according to Cohen (1988, p. 224).

Cross table					
			Qu10_framework: Legal and economic conditions		
			Indirekter Export über Dritte nach China	Direktexport zu einem Unternehmen oder chinesischen Endkonsumenten	Joint Venture
Cluster Controllers and Accomplishers	Controllers	Anzahl	5	8	2
		% innerhalb von Cluster Controllers and Accomplishers	15,2%	24,2%	6,1%
	Accomplishers	Anzahl	14	12	5
		% innerhalb von Cluster Controllers and Accomplishers	43,8%	37,5%	15,6%
Gesamt		Anzahl	19	20	7
		% innerhalb von Cluster Controllers and Accomplishers	29,2%	30,8%	10,8%

Symmetrische Maße			
		Wert	Näherungsweise Signifikanz
Nominal- bzgl. Nominalmaß	Phi	,576	,000
	Cramer-V	,576	,000
Anzahl der gültigen Fälle		65	



**Impact of market entry within the first three years (qu. 15) and current (qu. 16) for SME and large enterprises**

Below there are measures of exploratory data analysis (EDA) for the answers to question 15 (“What was the influence of the first market entry on the market success in China?”) showing main characteristics of data for SME compared to large enterprises.

Case Processing Summary									
	F1 Size Class	SME Large	Cases						
			Valid		Missing		Total		
			N	Percent	N	Percent	N	Percent	
Qu15 Impact of first market entry within the first three years	SME (1-249)		41	82,0%	9	18,0%	50	100,0%	
	large (250+)		22	66,7%	11	33,3%	33	100,0%	

Descriptives				
	F1 Size Class	SME Large	Statistic	Std. Error
		95% Confidence Interval for Mean	Lower Bound	3,59
			Upper Bound	4,41
		5% Trimmed Mean	4,03	
		Median	4,00	
		Variance	1,650	
		Std. Deviation	1,285	
		Minimum	1	
		Maximum	6	
		Range	5	
		Interquartile Range	2	
		Skewness	-,372	,369
		Kurtosis	-,614	,724
	large (250+)	Mean	3,23	,246
		95% Confidence Interval for Mean	Lower Bound	2,72
			Upper Bound	3,74
		5% Trimmed Mean	3,25	
		Median	3,00	
		Variance	1,327	
		Std. Deviation	1,152	
		Minimum	1	
		Maximum	5	
		Range	4	
		Interquartile Range	2	
		Skewness	-,077	,491
		Kurtosis	-,948	,953

Following there are measures of exploratory data analysis for the answers to question 16 (“What was the impact of the first market entry on your current business in China?”) showing main characteristics of data for SME compared to large enterprises.

Case Processing Summary								
		Cases						
		Valid		Missing		Total		
Qu16 Current impact of first market entry	F1 Size Class SME Large	N	Percent	N	Percent	N	Percent	
	SME (1-249)	40	80,0%	10	20,0%	50	100,0%	
	large (250+)	22	66,7%	11	33,3%	33	100,0%	

Descriptives					
Qu16 Current impact of first market entry	F1 Size Class SME Large			Statistic	Std. Error
	SME (1-249)	Mean		3,93	,219
		95% Confidence Interval for Mean	Lower Bound	3,48	
			Upper Bound	4,37	
		5% Trimmed Mean		3,94	
		Median		4,00	
		Variance		1,917	
		Std. Deviation		1,385	
		Minimum		1	
		Maximum		6	
		Range		5	
		Interquartile Range		2	
		Skewness		-,164	,374
		Kurtosis		-,840	,733
	large (250+)	Mean		3,32	,258
		95% Confidence Interval for Mean	Lower Bound	2,78	
			Upper Bound	3,85	
		5% Trimmed Mean		3,25	
		Median		3,00	
		Variance		1,465	
		Std. Deviation		1,211	
		Minimum		2	
		Maximum		6	
		Range		4	
		Interquartile Range		2	
		Skewness		,559	,491
		Kurtosis		-,588	,953