

No study has yet examined whether the near-market effect can be captured with other distance measures and whether it applies to lower-risk entry modes such as exporting.

#### 4. Recording internationalisation patterns: methodology and data

The internationalisation process of the firm has been extensively researched in mature Western economies such as Scandinavia (Benito & Gripsrud, 1992; Engwall & Wallenstål, 1988; Johanson & Wiedersheim-Paul, 1975), Western Europe (Barkema et al., 1996; Sullivan & Bauerschmidt, 1990), North America (Czinkota & Ursic, 1987; O'Grady & Lane, 1996; Terpstra & Yu, 1988) and Australia (Dow, 2000; Ellis & Pecotich, 2001). This has resulted in a body of work that under-represents those fast-emerging nations which are leading the world in developing international trade. China is the most notable example of this group with export growth rates averaging above 25% annually from 2000–2005. Over the same period exports as a proportion of national GDP grew from 23% to 34% while China's share of world trade increased from 3.9% to 7.3% (China Statistical Yearbook, 2006; World Trade Organization, 2006). In the league of exporting nations China ranked third in 2005, behind Germany and the United States and ahead of Japan and France. Much of China's trade exited the country via Hong Kong on the south coast of Guangdong Province. Although Hong Kong enjoys a high level of political and economy autonomy, its trading position is inextricably entwined with its Chinese hinterland. Consequently, we define the boundaries of the study as mainland China plus Hong Kong.

##### 4.1. Sampling and data collection

The sampling aim of this study was to identify a diverse group of exporters evidencing high variation on a number of dimensions including trading experience, the number and variety of foreign markets entered and languages spoken. An additional aim was to rule out in advance extraneous sources of influence relating to specific research settings. These aims were met by collecting internationalisation data from firms in three Chinese cities; Hong Kong, Shanghai and Xi'an. Economically these cities have little in common. Hong Kong prospered under Britain's former colonial administration and has been labelled the world's freest economy (Heritage Foundation, 2006). With a nominal GDP per capita of US\$25,622 in 2005, equivalent to US\$36,800 in purchasing power terms, Hong Kong is Asia's wealthiest society after differences in the cost of living have been taken into account (China Statistical Yearbook, 2006; NationMaster.com, 2006). Situated in the rapidly industrialising Yangtze Delta region, Shanghai's economic ascendancy has seen the city cement its reputation as the pro-business capital of China's eastern seaboard. Shanghai's nominal GDP per capita of RMB51,474 (equivalent to US\$6283<sup>2</sup>) makes it one of the most prosperous cities in China (China Statistical Yearbook, 2006). In contrast, the city of Xi'an, which is located in central Shaanxi Province, ranks among the second tier of China's industrial cities with a per capita GDP of only RMB17,141 (or US\$2092) (China Statistical Yearbook, 2005). Lacking easy access to a river- or sea-port Xi'an's exporters face significant impediments to trade. In contrast with Shanghai and Hong Kong where exports

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<sup>2</sup>Currency conversions were based on the official exchange rates for 2005 listed in the China Statistical Yearbook (2006, p. 734): USD1 = RMB8.19.

per person were worth US\$6670 and US\$41,592 respectively in 2005, the comparable figure for Shaanxi Province was just US\$827 (*China Statistical Yearbook*, 2006).

At all three locations—Hong Kong, Shanghai, and Xi'an—data were collected via personal interviews with top managers of indigenous manufacturer-exporters. During the interviews managers were asked to list all their foreign markets and then provide detailed information about their firm's entry into each market (dates of entry, control modes used, key initiators, share of income from each market, etc.). A standard questionnaire was used at each location. Traditional Chinese and simplified Chinese versions of the questionnaire were back-translated and then pre-tested on three to five managers at each city. Owing to the descriptive emphasis on the collection of non-sensitive historical data, the only changes required after pre-testing were cosmetic.

In Hong Kong, interviews were conducted in Cantonese with the managers of 42 manufacturers randomly selected from the *Directory of Hong Kong Industries* and a *Hong Kong Toy and Games Fair Catalogue*. These firms employed on average 39 staff in Hong Kong and an additional 1327 workers in factories across the border in neighbouring Guangdong Province. In Shanghai and Xi'an, interviews were conducted in Mandarin with 215 and 101 manufacturers (in various light industries) respectively. The mainland firms employed on average 1215 workers, had been in business for an average of 14.4 years, and exported around a third of their total output. In contrast, their Hong Kong counterparts were older (25.0 years on average) and much more internationalised earning 98% of their income from exports.

In the two mainland Chinese cities data collection was conducted by local interviewers operating out of the Shanghai University of Finance and Economics and Xi'an Jiatong University. In both cities the interviewers were personally trained by the author and then supervised by local colleagues at each university. Incoming questionnaires were reviewed by the field supervisors and then mailed to the author every two weeks. The questionnaires were then checked again by two independent Chinese research assistants unaffiliated with either of the interviewing teams in China. These Mandarin-speaking assistants also made random phone-calls to more than 70% of the interviewees to verify the collection of data. This follow-up procedure revealed one instance of interviewer-opportunism in Shanghai and all questionnaires completed by this person were discarded.

For the purposes of analysing expansion patterns across markets, FMEs were counted as discrete events. Where firms had made multiple entries into the same foreign market, only the first entry was counted. Subsequent entries into existing markets will be made with less uncertainty than initial entries into new markets. Distance effects, which include the costs of overcoming uncertainty, will therefore be stronger for initial entries. The decision to restrict the sample to non-repetitive FMEs represents a significant departure from the past practice of treating new and repeated market entries indiscriminately (Barkema et al., 1996; Child et al., 2002; Engwall & Wallenstål, 1988).

At the close of data collection, full descriptive details had been recorded for 313, 828 and 333 FMEs made by exporters in Hong Kong, Shanghai and Xi'an respectively. However, 293 of the observed FMEs involved indirect exporting which describes the outsourcing of foreign marketing activities to a domestic trade intermediary. As few international business scholars consider indirect exporting to be anything more than "exporting by proxy", little different from other domestic sales, these FMEs were excluded from the final database. In addition, a small number of FMEs were based on entry modes other than exporting. As the aim of the study was to investigate low-risk entry modes involving production

within the home market, these were also removed from the database. A total of 1132 FMEs involving direct exports to around 70 markets were retained for analysis.

#### 4.2. Measurement

Distance to market was operationalised in geographic, cultural and psychic terms. Geographic distance was defined as the shipping distance in nautical miles between Shanghai and Hong Kong and the closest port in each foreign market. (Exporters from Xi'an were presumed to ship via Shanghai.) Previous studies measuring geographic distance have relied on great circle measurements (Terpstra & Yu, 1988). However, as shipping routes seldom follow the shortest line between two ports, actual shipping distance is a more accurate reflection of the costs of trade (Combes & Lafourcade, 2005). Distance data came from shipping tables maintained by [Maritimechain.com](http://Maritimechain.com) (2005).

Following conventional practice, cultural distance was calculated using Kogut and Singh's (1988) index with data drawn from Hofstede (2001). Specifically, distance scores for each foreign market were calculated by combining the deviation between the foreign and home markets over each of four cultural dimensions after factoring in the variance observed on each dimension. Although Hofstede's work is not without its critics (Drogendijk & Slangen, 2006; Shenkar, 2001), few other cultural theories have been subjected to similarly widespread levels of testing (Nakata & Sivakumar, 2001). The number of replication studies based on Hofstede's original work is sufficiently great that an Appendix A for the second edition of his book contains entries for 66 different nations.

Psychic distance was measured following Dow's (2000) method with informants in Hong Kong ( $n = 54$ ) and mainland China ( $n = 14$ ) being asked to rate the psychic distance to 42 and 55 foreign markets respectively. Following the approach originally devised by Nordström (1991), managers at both locations were asked to rate a list of foreign markets on a scale from one to 100 with their home market anchored on one. Prior to making these ratings informants were given two Chinese-language definitions of psychic distance taken from Johanson and Wiedersheim-Paul (1975) and O'Grady and Lane (1996). Individual country ratings were then aggregated and checked for consistency. In the mainland dataset, four data points (out of 770) were subsequently identified as being outliers (defined here as being more than 2.5 standard deviations from the mean score for each country) and these were dropped from the analysis. Three outliers were removed from the Hong Kong sample for similar reasons. Cultural and psychic distance scores for selected countries are presented for both Hong Kong and China in the Appendix A.<sup>3</sup>

The dependent variable, entry sequence, was operationalised on the basis of entry dates (year of entry) provided by informants. One shortcoming of this approach became apparent only during the analysis stage when it was realised that multiple entries within a single year can make it difficult to untangle the sequence of entry-events. To remedy this situation, entries reported as occurring within the same year were separated on the basis of the proportion of sales going to each market. Markets generating more sales for the firm

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<sup>3</sup>I am indebted to my graduate student Wong Hui Kan who collected the Hong Kong psychic distance data. Not surprisingly, cultural distance was significantly correlated with psychic distance for both the Hong Kong ( $r = .31, p < .05$ ) and mainland China ( $r = .45, p < .01$ ) samples. Yet as can be seen from the Appendix, there are several examples of countries being ranked relatively high on one index but low on the other (e.g., USA, Pakistan, New Zealand). Distance scores were also comparable across the two groups of respondents with strong correlations observed for both cultural ( $r = .86, p < .01$ ) and psychic distance ( $r = .97, p < .01$ ).

were deemed to have been entered earlier.<sup>4</sup> However, no discrimination was applied to same-year FMEs resulting from attendance at trade fairs. Given that a firm might generate multiple leads at a single trade fair, it was assumed that FMEs arising immediately after a trade fair could legitimately be considered simultaneous entries. After making these adjustments, the mean (and maximum) number of entries for exporters from each study location are as follows: Xi'an, 2.95 entries (8); Shanghai, 3.15 entries (9); and Hong Kong, 4.10 entries (8).

## 5. Results

FMEs occur as a result of deliberate actions undertaken by exporters, importers, and mutually-related third parties (e.g., brokers, traders, commission agents, etc.). FMEs may also arise serendipitously and as a consequence of chance meetings between potential exchange partners, such as may happen at an international trade fair (Ellis, 2000; Meyer & Skak, 2002). During the interviews managers were asked to identify the initiation scenario underlying each FME with five response options offering: (1) we approached them (exporter-initiated), (2) they contacted us (outsider-initiated), (3) we were introduced by a mutual associate/acquaintance (outsider-initiated), (4) we met at a trade fair/exhibition (trade fair-initiated) and (5) don't remember. In Xi'an and Shanghai, trade-fair initiated FMEs dominated the entry choices accounting for 45% and 39% of each sample respectively. In Hong Kong, FMEs were more likely to arise as a result of approaches made by outside parties (60%). Consistent with previous research (Brewer, 2001; Ellis, 2000), exporter initiations were found to play a relatively minor role in explaining the expansion patterns of firms from Xi'an (19% of FMEs), Shanghai (19%), and Hong Kong (10%). Given that our hypotheses are predicated on assumptions pertaining to exporters' experience, and that no predictions are made regarding the experience of outsiders (e.g., buyers and third parties), the following hypothesis tests were done twice; once for the entire database of FMEs at each location, and then again for those FMEs arising solely from the exporters' own initiative.

Prior to testing the hypotheses, the mean distance scores for different FMEs were examined for each sample. Table 2 reveals two instances where the dispersion of FMEs conforms to the predicted pattern of increasing distance. (In the Table, the fourth and subsequent FMEs have been collapsed into a single category.) In Xi'an, successive entries returned higher psychic distance means; in Shanghai the same pattern was evident for geographic distance. In the majority of cases the distance means for later FMEs are further than those for first entries hinting at a possible relationship between distance and expansion sequence.

Across the combined database there were 504 instances of a first (or equal-first) FME and 628 instances of subsequent entries. To test the hypothesis that early markets tend to be closer to home, the mean distance scores for the first markets entered were compared with the scores for all subsequent FMEs using one-tailed *t*-tests. The results, shown in Table 3, reveal statistically significant differences in the hypothesised direction were observed for geographic distance in the Shanghai sample only. Shanghainese exporters

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<sup>4</sup>An examination of the uncorrected sequence data revealed that earlier FMEs account for a greater share of a firm's income (35 percent) compared to later FMEs (18 percent;  $t = 12.762, p < .000$ ). That is, entry sequence and export proportion are correlated ( $r = -.344, p < .001$ ) indicating that the longer a firm is in a market, the more time it has to develop sales. The raw (uncorrected) and corrected entry sequences were highly correlated ( $r = .83$ ).