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Abstracts

Promotion Practices in East and West: A Cultural Explanation

Kim Shyan Fam

This paper examines the linkage of cultural values with promotional tool preferences. In particular, are there any differences in promotional tool preferences and spending between retailers of two national markets that have distinct cultural values? To undertake this study, the author compared and contrasted the sales promotion and mass media tools preferences and spending of Hong Kong and New Zealand retailers. The findings indicate that the Hong Kong retailers are more inclined to use the sales promotion tools relative to New Zealand. The study concludes with reasons for the differences in promotional tool preferences and the managerial implications of this study.

International Joint Venture and Foreign Direct Investment (Fdi) in Thailand

Craig C. Julian and B. Ramaseshan

This article investigates the sectoral flows of foreign direct investment (FDI) in Thailand since 1960 by examining the trends of international joint venture (IJV) formation (the IJV being one of the principle forms of FDI) in Thailand between 1960 and 1995. In doing so the flow of FDI into Thailand is examined by analysing IJV formation in Thailand by industry, by country of origin of the principle foreign partner and by equity participation of the principle foreign partner. The general trend of IJV formation is also addressed.

Mass Customisation: A Study of Malaysian Consumers

M. Sadiq Sohail and Ashaari Shafi

Many companies are recognizing the need to provide excellent services to the consumers and mass customization has been seen as a saviour to provide a unique value to consumers. This study aims to gauge the satisfaction level of the Malaysian consumers on the present offering of mass-produced products and consumer's awareness of the concept of mass customization. This study also evaluates consumer's willingness to accept mass customized products.

A Proposed Model for Measuring the Performance of International Small and Medium-Sized Franchisers in Asia

Stephen Choo and Tim Mazzarol

Over the past 20 years, franchising has exploded internationally. One of the most critical decisions faced by a small and medium franchisor (SMF) seeking to pursue international opportunities is what mode of entry to use when entering a foreign market. While a substantial body of literature exists on domestic franchising, to date its international aspect has not received much academic or managerial attention. Despite its rise as a major form of international business, the process of international franchising is still poorly understood. This study proposes to develop a conceptual model of measuring the performance of market entry modes used by international franchisers operating in Asia by integrating the ownership, location and internalization (OLI) advantages framework of Dunning (1977, 1980, 1988) with the perspectives of resource scarcity, agency and risk management. It is hoped that this model can serve as a frame of reference for future studies in the area, and also be used in the development of reliable measures for empirical studies in the modal choice literature.

The International Market Selection Process: A Study of Successful Australian International Firms

Syed H. Rahman

Selecting an overseas market is one of the most difficult decisions to be undertaken by the international marketer. International marketing researchers have stressed the importance and the need for systematically evaluating and selecting potential foreign markets. A number of researchers have developed decision frameworks and methodologies for international market selection. However, only limited empirical testing of these frameworks has been undertaken, with no reported research having been carried out in Australia. This paper reports the findings of qualitative and quantitative studies conducted among successful Australian international business organizations regarding the factors they use in their international market selection process.

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Promotion Practices in the East and West: A Cultural Explanation

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ABSTRACT

This paper examines the linkage of cultural values with promotional tool preferences. In particular, are there any differences in promotional tool preferences and spending between retailers of two national markets that have distinct cultural values? To undertake this study, the author compared and contrasted the sales promotion and mass media tools preferences and spending of Hong Kong and New Zealand retailers. The findings indicate that the Hong Kong retailers are more inclined to use the sales promotion tools relative to New Zealand. The study concludes with reasons for the differences in promotional tool preferences and the managerial implications of this study.

INTRODUCTION

An advertiser has a number of promotional tools to employ in order to make potential customers aware of the many choices available regarding their products and services. These tools can range from traditional mass media to in-store promotional tools, and in addition, each tool has its own characteristics and communicative ability. The literature pertinent to this area has a vast array of explanations as to why some promotion tools were more favored than others. Several factors were identified as influencers of advertisers' promotion perceptions, including media attributes (Otnes & Faber, 1989), target audience capability (Nowak et al., 1993), the nature of business (Greenley & Shipley, 1992), demographic profile of marketers (Corfman & Lehmann, 1994; Van Auken et al., 1994), and the strategic approaches of the business organization (Fam & Merrilees, 1996). Differences in media preferences were also found among small retailers – for example, according to Brady et al. (1989), small British clothing and shoe retailers are more inclined to use window displays than are the US retailers.

Despite the plethora of literature on why some promotion tools are more favored than others, there is very little information on the relationship between a nation's cultural orientation and promotional tool preferences. The purpose of this paper then is to investigate whether there is a relationship between a Confucius dynamic nation and its preference for sales promotion tools as opposed to a nation with less obvious cultural values and attitudes. To test this proposition, we contrasted the promotion approaches of Hong Kong and the less culturally distinct New Zealand retailers.

Background

A recent focus of advertising literature by Karp (1993); Deng et al. (1994); Ha (1997) and Tai (1997) has been whether to regionalize or localize advertising strategies and media placement in order to reach Asian consumers more effectively. According to Ha (1997), one key strategic decision for international advertisers to make is whether they should advertise region by region or country by country. Such a decision is highlighted against the backdrop of Asia, which is not one homogenous market - instead, it is made up of a series of localized markets with their own distinct cultural, social and economic characteristics.

Promotion is one of the marketing programs frequently adapted by firms engaged in international marketing. Promotion perceptions refer to the advertisers' direct and indirect experience with a specific promotional tool in relation to communicating about the firms, the products and the services they offer. Ricks (1983) claims that "cultural differences are the most significant and troublesome variables for an international advertiser". This view is universally supported by a number of cross-national advertising studies.

According to some researchers (Douglas & Wind, 1987; Whitelock & Chung, 1989; Lantos, 1987; Stewart & Campbell, 1988), a universal approach to advertising is difficult because cultural and national differences exist between nations and these differences could influence advertising practices. For instance, Stewart and Campbell (1988) found the People's Republic of China showed fewer mood and image type of television advertisements relative to Hong Kong. Belk and Bryce (1985) found that US advertisements are twice as likely to emphasize the performance of the product than do Japanese advertisements.

Additional support for the above advertising studies was forwarded by Miracle et al. (1992) through their comparative study of advertising executions between Korea and US advertisements. Miracle et al. (1992) found there were differences in the creative executions between Korea and US television commercials. In Korea, most television commercials tend to identify the company name in every commercial, but not in the USA. Korean commercials also tend to devote more time to showing sales messages than the physical product or brand on the television screen. Miracle et al. (1992) attributed these dissimilarities to differences in national cultural variables, that is, Korea being a high context society, with the USA being a low context society.

Numerous studies have also established that there is a linkage between cultural values and advertisers' choice of promotion tools/messages (Cheng, 1994; Cheng & Schweitzer, 1996; Lowe & Corkindale, 1998). Cultural values are defined as "the governing principles for thought and action" in a given society (Srikandath, 1991). Cheng and Schweitzer (1996) undertook a study to examine what type of cultural values were reflected in Chinese and U.S. television commercials. It was found that the dominant values reflected in Chinese commercials were family, technology and tradition. The same authors also claimed that tradition was more frequently used in food, drink and medicine product category commercials. In a study on communication and cultural change in China, Chu and Ju (1993) found the '*warm and close family*' as the most popular creative execution in China. Thus far it seems the cultural values of family and tradition must be of most important to Chinese in that they are used in most advertising campaigns in Chinese-based societies.

This Study

In this study, we examine the relationship between Chinese cultural values and promotional tool preferences. Essentially this study examines whether the clothing and shoe retailers in Hong Kong are more inclined to use sales promotion tools than New Zealand retailers, given that the former has more distinct cultural values and attitudes when compared to the latter. To undertake this study, we compared and contrasted the promotional tool preferences of Hong Kong and New Zealand retailers.

The clothing and shoe retail categories were chosen for three reasons. First, the two categories are important contributors to both the Hong Kong and New Zealand economies. Second, the large number of retail outlets within these two retail categories facilitated data collection and permitted samples of sufficient size for statistical analysis. Finally, the clothing and shoe retail outlets tend to restrict their lines of merchandise in order to guarantee some assurances of uniformity of merchandise among the outlets.

Hong Kong and New Zealand where chosen as they both allow relatively the same promotional devices to be used, unlike countries such as Denmark or Germany, who have certain restrictions in place regarding promotion, including the limiting of gifts with purchase and premiums offered on products. This then allows the study to compare cultural differences that may influence retailer's choice of promotional device, rather than it being simply a function of what promotional methods are allowed.

Various media can be used as a vehicle to communicate a company's promotional message, including newspapers, magazines, televisions, radios, press releases, and direct mail and we identify these vehicles as mass media in this study. Sales promotion tools, as referred to in this study, include attractive pricing, money-off coupons, vouchers, contests and sweepstakes. Apart from this distinction, the study emphasises the fact that choosing the right medium can be very important for a successful marketing program.

Chinese in Hong Kong account for 98% of the total population of about 6.6 million and Hong Kong is one of the fastest growing economies in the Asian region. The people of Hong Kong are "generally more traditional and conservative", as well as strongly adhered to cultural values such as 'mien-tsu' (face) and 'yuarn' (fate) (Tai & Tam, 1996). Hong Kong consumers are materialistic, brand conscious and posses high purchasing power and these characteristics have made Hong Kong a profitable target market of many international companies. New Zealand Europeans account for nearly 80% of the 3.6 million people in New Zealand and the country in contrast to Hong Kong is

Anglo-Saxon, with much of its heritage derived from the United Kingdom. These differences make a worthwhile comparison of the promotional tool preferences of Hong Kong and New Zealand retailers, as they can be considered to be quite culturally diverse from each other.

CHINESE CULTURAL VALUES

Collectivism vs. Individualism

A concept that is widely adopted by the Chinese is collectivism. It emphasises the social unit - be it family, society, community or country - as the central functionary. In other words, the Chinese can expect their relatives, clan, or other in-group to take after them in exchange for unquestioning loyalty (Wheeler & Bond, 1989). In sharp contrast, Westerners in New Zealand practise individualism. It is the individual person, not the community to which the individual belongs that has significance and meaning - therefore, unlike collectivism, an individualistic person's reference point is not one's group, but one's own self. For example, Ahuvia and Wong (1998) claim that when people of Western cultures purchase luxury goods, they do so because *they want to* (i.e. the products reflect private preferences). The Chinese on the other hand feel *they have to* (i.e. the product conforms to expected social norms). Essentially then, the Chinese put his/her feelings aside, and act in the way that best achieves group goals when a conflict arises between an individual desires and group needs.

Face Concept

The Chinese cultural system is centred on the concept of face, which operates as a powerful social sanction. This concept is equivalent to 'honour' in Western societies and constitutes a powerful factor in enforcing existing rules of behaviour by securing conformity to social norms. Simultaneously, 'face' also refers to the principle of "one's own opinion of oneself in order to ensure a smoother ordering of society" (Van der Sprenkel, 1972). Face-saving, in the Chinese context, carries the dualistic aspects of self and other relatedness and according to Hu (1948), can be classified into two types - *'lien'* and *'mien tsu'*. Lien is a kind of moral force and represents the value of personal integrity and a person needs to remain 'intact' in order to have influence over others. For example, prostitutes and thieves in Hong Kong are all people who renounce their concern for '*lien'*. This disregard for '*lien'* can therefore lead to a total transformation of one's social identity (Yau, 1988). *'Mien tsu'* represents a more obvious kind of prestige associated with success (Redding & Wong, 1982). In short, the face concept of Chinese culture affects consumer behaviour greatly - questions such as which restaurant should one visit or which type of gifts should be presented are important as the answers must suit the status of the guest in order to show enough '*face*' from the host to the guest. For instance, when choosing a gift, the Chinese prefer to purchase a well-known, branded gift as it shows that they possesses *'mien tsu'* and the Chinese perceive this is one of the ways to build up or maintain interpersonal relationship.

Trust

Trust is a concept valued highly by the Chinese and its significance may be traceable to the Confucian dynamic nation's insistence on one's word being trustworthy when dealing with others (Chu, 1991). The Chinese consumer is trained from youth to subscribe to the notion of '*My word is my bond*'. It is regarded as a great dishonour for one not to live up to one's word, entailing the grave consequence of loss of face. For example, the Chinese believe in the handshake - they do not perceive that trust works better through the signing of a contract. In fact, if one party writes a lot of details in a contract, the Chinese tend to think that that implies a lack of trust by the other party (Cohen, 1988). In addition, the Chinese are extremely hesitant to trust or depend upon anyone outside his or her kin group and this emphasises how important a good relationship is in order to do business in Hong Kong.

Friendship/Ren Ching

Implicit in the concept of trust is friendship. The Chinese are particular about establishing friendships or relationships before they enter into any business dealings and as a result, gift giving has become very important in terms of business development. Gifts symbolise an earnestness to cultivate and maintain inter-personal goodwill in Hong Kong (Luk et al., (1999) and they are also the Chinese way of 'giving face' to the recipient, and thus initiating friendship and establishing rapport. By maintaining a good relationship and developing personal goodwill, *Ren Ching* can easily be established. This personal goodwill may entail an element of involuntariness, depending on the favour asked and the degree of the relationship that exists. For example, the closer the degree of friendship in Hong Kong, the more one is expected to comply and feel duty-bound to carry out the request.

Building Relationships

According to Confucius, natural harmony is reflected in humanity's moral goodness and from their youth, a Chinese person is taught the value of moral character, so as to act in accordance with cosmic harmony (Cotterell, 1988). Apart from this insistence on moral character, Confucianism also includes the concepts of filial piety (hsiao), benevolence (jen) and righteousness (yi). In "hsiao", one is bound to the duty of honoring the family by displaying scholastic brilliance or acquiring economic wealth that might enhance the parents' name. One must also practice ancestral worship. "Jen" emphasises the concept of not imposing on others what you yourself do not desire and "Yi" is part of the communal good, mutual interests and social goodwill (Hu, 1948).

Gift Giving

Gift giving becomes relevant to the study in the context of the way it is seen to establish and develop relationships or friendships amongst the Chinese. Gifts symbolise an earnestness to cultivate and maintain inter-personal goodwill (Chu, 1991) and according to Bond and Hwang (1986), the notion of long term relationship calls into play other Chinese cultural traits such as face, personal relationship, favors and reciprocation. Through gift giving, the Chinese give face to the recipient, and thus initiate friendship and establish rapport. A discount or price reduction by the retailer in Hong Kong is seen essentially as a gift of money and is thus a generally acceptable way of building rapport with customers.

Monetary discounts and the like are also seen as a form of reciprocation, as if the retailer is saying '*if you buy an item from my store, in return you'll receive a discount*'. By exchanging these gifts (i.e., paying for an item and receiving a discount in return), the business relationship in Hong Kong is elevated to a higher level, necessitating further rounds of exchange in the future – e.g. in the form of a gift voucher or a money-off coupon. These act as a form of gift and usually the more established retail outlets in Hong Kong are the ones that issue them. These sales promotion tools fit well with the Chinese concept of gift-giving, face saving and relationship building.

The New Zealand consumer does not have gift giving ingrained as an essential part of their value system, and is thus less likely to perceive retailer discounts or price reductions as 'gifts'. They are also less likely to feel the need to reciprocate these 'gifts' by continuing to purchase at that particular store.

Hypothesis

Chinese cultural history is strongly based around a hierarchical system, which has often meant, in an effort to obtain favors, you have to 'sweeten up' so to speak, the higher levels of the hierarchy, or the consumers, if you are in business (i.e., through gift giving). This system is still a large part of Chinese culture and is widely practiced, unlike in New Zealand, where gift giving is left more to one's personal discretion, and New Zealanders are less likely to feel a moral obligation to give and reciprocate gifts. Gift giving plays a large role in the development and maintenance of a respectful relationship in the Chinese culture, be it between an employer and an employee, or between the seller and the buyer. Gift giving is also used frequently in the place of gratefulness, and it is very common for the Chinese to give gifts in appreciation. Considering the large body of evidence provided with regards to Chinese cultural values, there is a strong case then that:

Hong Kong retailers are more likely to favor sales promotion tools than their New Zealand counterparts, and that the particular sales promotion tools used are closely related to culture in Hong Kong as opposed to in New Zealand.

Research Design

Given the research goals, we set out to identify the promotion tools that the clothing and shoe retailers in each country used most frequently. To do this, we carried out lengthy discussions with a number of small retailers located in Dunedin, the fourth largest city in New Zealand. For Hong Kong retailers, identifying the promotion tools was based on the author's experience as a media planner. Altogether, we identified seven commonly used promotion tools - namely print advertising (newspapers and magazines), broadcast advertising (televisions and radios), press releases, direct mails, attractive prices, money-off coupons and vouchers and contests and sweepstakes (see Belch & Belch, 1998; Rossiter & Percy, 1997). We also asked the respondents to state the amount they spent on each of the seven promotion tools relative to per dollar spent on personal selling (see Burnett, 1993, p.592). This method of sizing the promotion mix budget was to ensure that any differences in promotional costs across the two national markets were taken into consideration. Also included in the questionnaire were variables relating to retail store characteristics.

Each statement was measured with a seven point scale (1= strongly disagree/very unimportant to 7 = strongly agree/very important). A check item was included in the questionnaire to gauge each respondent's job responsibility within the retail firm. The questionnaire was pre-tested before being mailed to the respondents. We used bilingual (English/Chinese) questionnaires in Hong Kong (Brislin, Lonner & Thorndike, 1973).

The study participants were the managers of retail stores because they usually have the final say among other things, in the choice of promotional tools. For large retailers (with six or more outlets in the chain), the questionnaire was directed to the general managers. Note that, chain stores include franchise retailers. Small independent stores are defined as retailers with between one and five outlets and the majority of the sample has just one outlet. Although we made this distinction based on size, even the larger retailers were usually independent and medium size at the most. The sampling frame was the respective cities' Yellow Pages list of clothing and shoe retail stores.

Two waves of mailing, three weeks apart, were undertaken. In each mailing, a cover letter with the University letterhead, a questionnaire and a reply paid envelope were directed to the manager of each retail store. For the larger retailers, the questionnaire was mailed to the head office. A response rate of 16 per cent for Hong Kong (169 responses) and 39 per cent for New Zealand (287 responses), was achieved through the two mailings. The Hong Kong response rate was typical as business people tend not to response because of secrecy of firm data (Keown, 1987).

To test for possible non-response bias, useable questionnaires were nominated as *early* or *late* depending on whether they were received before or after dispatch of the follow-up letter (i.e., second mailing). Responses for all the questions were tested for possible non-response bias using *chi-square* test to compare early and late responses. No significant differences between the two groups were uncovered. This suggests that non-response bias is unlikely to be a major problem in this study (Oppenheim, 1966).

Results

Characteristics of Respondents

The sample consisted of predominantly clothing retailers, but shoe retailers were well represented (Table 1). In terms of store affiliation, independent (5 or less outlets under common centralized ownership) retail stores were the major respondents. These were mostly owner operated retail outlets with a majority of them employing between 1 and 3 part-time staff.

Table 1: Characteristics of Respondents

Characteristics	Hong Kong n = 169		New Zealand n = 287	
	N	Per cent	N	Per cent
Clothing Stores	124	73.3	213	74.2
Shoe Stores	45	26.7	74	25.8
Independent Retailers	116	68.6	256	89.2
Chain Stores	53	31.4	31	10.8

Differences in Sales Promotion Tools Perceptions and Spending

Summarized in Tables 2 and 3 were the retailers perceptions and spending on the respective promotion tools. In Table 2, it seems the retailers in Hong Kong were more inclined to use the sales promotion tools (i.e., attractive prices, money-off coupons, vouchers, contests & sweepstakes) than their counterparts in New Zealand. For instance, the Hong Kong retailers ranked the 'attractive prices' promotion tool much higher than New Zealand retailers did ($p > 0.01$). Significant differences in promotion tool perceptions were also found between the two national markets' retailers in relation to money-off coupons and vouchers, and contests and sweepstakes. These observations were reinforced in Table 3 where collectively, the Hong Kong retailers spent almost half (47.31%) of their advertising and promotion budget on sales promotions. In contrast, the New Zealand retailers spent about a quarter (23.7%) of the advertising and promotion budget on sales promotions.

Table 2: Choice of Promotion Tools – A Comparison

	Hong Kong N = 169	New Zealand N = 287	F-Value * = 0.05, **0.01
Attractive prices	5.04 (1.75)	4.25 (1.87)	19.537**
Money-off coupons & vouchers	3.34 (1.99)	2.38 (1.87)	27.074**
Contests & sweepstakes	2.55 (1.69)	2.00 (1.56)	12.395**
Print Advertising (newspapers & magazines)	4.02 (2.03)	4.68 (1.91	12.108**
Direct mails	3.43 (1.81)	4.26 (2.35)	15.395**
Broadcast Advertising (televisions & radios)	3.38 (2.00)	3.67 (2.16)	2.027
Press releases	2.78 (1.88)	3.05 (2.08)	1.973

Note: Scale : 1 = very unimportant, 7 = very important to my business

Table 3: Promotion Tools Spending – A Comparison

	Hong Kong N = 169 %	New Zealand N = 287 %	F-Value * = 0.05, **0.01
Attractive prices @	N/a	N/a	
Money-off coupons & vouchers	14.04	5.18	54.811**
Contests & sweepstakes	33.27	18.52	62.596**
Print Advertising (newspapers & magazines)	20.81	25.98	3.436
Direct mails	13.03	15.53	0.677
Broadcast Advertising (televisions & radios)	10.89	16.45	7.598**
Press releases	7.96	18.34	26.678**

Note: @ = not available.

Differences in Mass Media Promotion Tools Perceptions and Spending

As shown in Table 2, there were significant differences between Hong Kong and New Zealand in terms of print advertising ($p < 0.01$) and direct mails ($p < 0.01$). However, there was no statistical difference for broadcast advertising and press releases between the two national markets. Nevertheless, the results showed New Zealand retailers were more inclined to use mass media promotion tools relative to those retailers in Hong Kong. In Table 3, the spending on mass media (i.e., print, broadcast, direct mails and press releases) by New Zealand retailers was higher relative to Hong Kong retailers. In total, the retailers in New Zealand spent approximately 74% of the advertising and promotion budget on mass media versus approximately 53% by Hong Kong retailers.

Discussion

The results of our study provide an interesting insight into how national culture can influence retailers' choice of not only using promotional tools, but also the type of promotional tools that they choose. Our claim is based on comparing *like with like* that is, clothing and shoe retailers, who, as explained earlier, tend to carry similar product items. The only difference between these retailers thus is national culture, in particular the cultural value differences between Hong Kong Chinese and New Zealand Europeans.

Basically there are four cultural values on which we can focus to explain the differences in the perception of sales promotion versus mass media tools between the retailers in Hong Kong and New Zealand. They include a desire to build relationships, risk aversion, attitudes towards bargaining and belief in luck and fate.

Building Relationships

As outlined earlier in the study, relationship building, both among friends and business acquaintances, as much as between buyer and seller, is of great importance in the Chinese-based Hong Kong. Sales promotion tools such as coupons and vouchers are a form of loyalty programme. The use of these tools could help the seller to build and maintain a relationship with its buyers and could also prevent the latter from going to the competitors. This concept is not so important in New Zealand, where consumers are more likely to act as individuals, and do not place such emphasis on building and maintaining successful relationships as their Chinese Hong Kong counterparts do.

Risk Aversion

It is a common practice amongst Hong Kong consumers to spend many hours window shopping in shopping complexes rather than relax in their often crowded homes and to them, time does not count as a factor. A typical Chinese shopper tends to engage in habitual comparison shopping rather than impulse buying and there is a Chinese saying which emphasises this - "*Never make a* *purchase until you have compared three shops*," (Cui, 1997). Hofstede (1980) claims that most Asian culture rates strongly on the uncertainty avoidance dimension. The upshot of this value is that Hong Kong consumers tend to exhibit a high brand-name consciousness, a greater insistence on quality, an active use of reference groups and opinion leaders and prefer group shopping.

In addition, Asians as a whole tend to be more sensitive to social risk than are Western consumers. This sensitivity leads Asian (including Hong Kong) consumers to a greater hesitancy in trying new products. Based on this cultural backdrop, it seems the retailers in Hong Kong are more inclined to use various sales promotion tools to entice the consumers to come into their retail outlets relative to New Zealand retailers. Sales promotion tools like price marked-down and discounts are attractive tools that could be used to *reduce* either monetary and/or social risk(s). For instance, Asian (including Hong Kong) consumers prefer group shopping. Therefore, any consumption of discounted items would save the purchaser some money and at the same time not make the purchaser 'lose face' as the items were purchased from an established retail outlet and not from the street hawkers.

Attitude towards Bargaining

In a Western context, the prices of most consumer goods are clearly displayed on shelves or in shop windows. Prices are therefore fixed - an outcome appreciated both by retailers interested in efficiency and control and manufacturers of brands interested in the stability of sales and positioning. The use of mass media therefore is particularly attractive amongst New Zealand retailers. In Asia, besides the modern retailing system, most prices are not openly displayed and are thus negotiable. Chinese consumers value bargaining. Bargaining involves the purchaser in a role-play that may be enjoyable. Time is not always pressing in Asia, or the notion that 'time is money' does not always apply. Succeeding in negotiations can boost the morale of the purchaser.

In the more modern retailing context, bargaining need not be in the form of spending hours trying to get a dollar deducted from the list price. A purchaser might feel equally satisfied when he/she was able to purchase a reduced item especially after visiting and comparing the prices of several retail outlets. Hong Kong consumers are often considered to be quite involved shoppers, displaying a combination of strong suspicion for cheap products and a desire for bargains. Given the inclination amongst Hong Kong consumers to shop for a bargain, most retail outlets in Hong Kong are located close to one another. This reduces the need to use mass media tools to communicate their offerings. In New Zealand, because it is sparsely populated, mass media tools such as print and broadcast advertising become an effective and cost efficient way to communicate the retailers' offerings.

A Belief in Fate and Luck

Chinese people believe in fate and luck. They also like to gamble. These behaviours are particularly common amongst the people of Hong Kong. For instance, whenever there is a special occasion such as opening a new shop, wedding, or moving to a new house, they tend to choose an "auspicious day". They believe that when the special occasion was performed on that auspicious day, it will not affect their future and prosperity. Also on this special occasion gift like vouchers and money-off coupons are usually given out by those celebrating the occasion. Perhaps this was the reason why vouchers and money-off coupons were popular tools amongst Hong Kong retailers.

Gambling in horse racing, government sanction lotteries or other form of contests/competitions have become a common form of entertainment amongst the people of Hong Kong. Hence the use of contests and sweepstakes by the retailers in Hong Kong are becoming relatively common and popular compared to New Zealand.

Managerial Implications

This study has attempted to investigate the underlying dimensions of Chinese cultural values and promotion strategies. We started off by comparing Hong Kong and New Zealand retailers' cultural values in relation to promotional tool preferences. The results indicated that there is a high correlation between the Chinese cultural values of building relationships, risk aversion, bargaining, and a belief in fate and luck and the retailers' preference for sales promotion tools like price marked-down, money-off coupons, vouchers, contests and sweepstakes. These things indicate two main managerial implications from this study.

First, although the two sets of retailers were from the same retail category, they nevertheless used a different set of promotional tools. This is in line with the call for localisation of promotion strategies. Obviously, the retailers in Hong Kong were using the promotional tools which best suit the *local consumers'* needs and wants. Likewise the New Zealand retailers were using the appropriate tools to reach *their* target market. Hence, for a foreign retailer thinking of transplanting their business into Hong Kong, our advice is to give more attention to sales promotion tools. This implication does not only apply to Hong Kong - it could also apply to other Chinese dominated societies such as Singapore, Taiwan, and even China itself.

The second managerial implication relates to the value and quality of the sales promotion tools used, in particular the type of gifts to give, related to the Chinese-based culture of Hong Kong. Gifts should always be given in even numbers and the gifts should be circular. For instance, one could offer an 8.88% discount, where '8' to the Chinese language sounds prosperity. Roundness is auspicious and signifies completeness. Giving a clock as a gift to Hong Kong Chinese is not recommended because this shows the giver is telling the receiver that his/her death is imminent. Gifts of knives and scissors represent the severing of a friendship, while herons and stocks represent a woman's death. All of these should not be used as a gift. In addition, when establishing the value of the gift, one should make sure that either the giver or the receiver will not 'lose' face. This means the retailers or marketers need to ensure that the value of the gifts does not embarrass either the receiver or the purchaser.

Our findings suggest that Chinese cultural values have an influence on the retailers' choice of sales promotion tools. These findings need to be tested in other countries, but until then, one can conjecture Chinese dominated countries like Singapore, Taiwan and China favor the sales promotion tools approach. Other countries like Australia, Canada, USA and European countries favor the mass media tools approach. However, these are just conjectures at this stage until the research is conducted.

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International Joint Venture and Foreign Direct Investment (Fdi) in Thailand

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ABSTRACT

This article investigates the sectoral flows of foreign direct investment (FDI) in Thailand since 1960 by examining the trends of international joint venture (IJV) formation (the IJV being one of the principle forms of FDI) in Thailand between 1960 and 1995. In doing so the flow of FDI into Thailand is examined by analysing IJV formation in Thailand by industry, by country of origin of the principle foreign partner and by equity participation of the principle foreign partner. The general trend of IJV formation is also addressed.

INTRODUCTION

The importance of Foreign Direct Investment (FDI) in Thailand has drawn increasing attention in the past few years. Due to the dramatic increase in FDI inflows in Thailand after 1988 and the coincidence of these increased flows with an unprecedented economic boom between 1987-1990 when gross domestic product growth reached highs of between 9.5 and 13.3 per cent (National Economic and Social Development Board 1988, 1992, 1993). FDI flows and GDP growth rates, however, have declined somewhat in the early 1990's. This article examines the nature of these FDI flows by analysing IJV formation in Thailand by industry classification, by country of origin of the principle foreign partner and by equity participation of the principle foreign partner. However, prior to outlining the major trends in FDI flows, it is helpful to examine the policy environment and previous studies of this issue.

THEORETICAL FRAMEWORK

As was the case with most of the ASEAN Countries, Thailand embraced an import-substitution policy approach to its international commercial policies until the 1980's when prices of its major export commodities plummeted. Liberalisation of trade and foreign direct investment regulations were seen as ways to expand exports and capital inflows.

The Investment Promotion Act, established in 1977 was behind the Thai Government's push to promote inward FDI. Under this act, the Board of

Investment (BOI) is authorised to grant promotional privileges and work with other relevant government agencies in the granting of permits for investments in promoted sectors. While the investment policy is continuously undergoing change, its direction and goals remain the same, i.e. to stimulate FDI in the country and maximise its contribution to the competitiveness and productivity of the Thai economy.

In Thailand, there are no special registration requirements to set up a branch office. However, a foreign corporation's branch office must comply with existing laws and regulations, including the Alien Business Law (1972), that may be applicable to it, according to the type of business activities in which it engages. For many foreign firms these restrictions are less important as bilateral agreements often allow for considerable flexibility. For example, the Treaty of Amity and Economic Relations between the United States of America and Thailand, states, among other things, that American investors who wish to set up operations in Thailand are generally not subject to the restrictions. Established in 1968, the treaty allows businesses incorporated in the U.S. or Thailand which are majority owned, controlled, and managed by U.S. citizens to be accorded *"national treatment"*. This means that, with special exceptions in certain areas, U.S. citizens can engage in business in Thailand on the same basis as Thais. The exceptions are in the following activities: communications, transport, fiduciary functions, banking involving depository functions, the exploitation of land or other natural resources, and domestic trade in indigenous agricultural products. The treaty is reciprocal, hence, Thai citizens are given special privileges in the U.S. regarding residency and business operations (Economic and Social Commission for Asia and the Pacific, 1995).

INVESTMENT

The BOI was established to promote investment incentives regardless of the nationality of the investor, and vigorously promoted FDI in Thailand. Foreign investors can also invest in Thailand without any involvement with the BOI if the Board's services and privileges are not needed (Thai Board of Investment, 1995). It is reasonable, however, to assume that most people investing substantial amounts would seek BOI-promotion status. This is especially the case for foreign investors who know little about Thai practices and processes, and who can benefit, not only from tax incentives, but also from the various services that the BOI provides including dispensing of information and permits that otherwise could be costly to obtain in terms of time and money.

Not all applications are approved for promotional benefits and not all approved investments follow through on their initiatives with the BOI. It is estimated that between January 1974 and May 1991, for example, the realisation rate was only 26 percent for all applications, 36 percent for approvals, and 49 percent for those receiving promotion certificates (Economic and Social Commission for Asia and the Pacific, 1995). These estimates probably exaggerate the number of project failures because the data includes newly approved projects that had not reached the operation stage. By tracing back the projects approved in 1987, it was revealed that 62 percent of the projects were already partially or fully in operation. It was also observed that the realisation rate was higher for FDI than for domestic projects. This suggests that foreign investors were more competent and serious about project implementation (Economic and Social Commission for Asia and the Pacific, 1995). Reasons for rejection of applications were not readily available but include inadequate information in project proposals and failure to meet the policy conditions (such as not falling within a promotable sector, meeting employment requirements, foreign exchange earnings and savings requirements) required for promotion (Economic and Social Commission for Asia and the Pacific, 1995).

In the past, employment generation was a major policy objective of investment promotion (Thai Board of Investment, 1995). Estimated employment was therefore an important consideration for project approval and a determinant of tax incentives. Criteria were set in terms of the absolute number employed and were not necessarily consistent with the philosophy of maximising employment for the given level of scarce capital. A more appropriate measure of employment generation is the investment-employment ratio (Economic and Social Commission for Asia and the Pacific, 1995).

The BOI has used a number of policy criteria in deciding whether projects by foreign firms should be granted promotional status. As identified, one of the most important criteria in the past was the creation of employment opportunities and the BOI tended to favour projects that generated large numbers of jobs. With the recent labour shortages in the Bangkok area and some other areas of the country, this criterion is no longer accorded the high priority it used to get, but it is still a major factor in the BOI's evaluation of a project.

A second criterion that continues to be important is the effect of the project on foreign exchange earnings. In this respect, projects are often required to have high export-sales ratios, 80 per cent or even more, before they are granted promotional status (Economic and Social Commission for Asia and the Pacific, 1995). High export-sales ratios are also sometimes a condition for the BOI allowing firms exemptions on import duties for inputs. In some industries, notably, automobiles, local content ratios are also regulated in a similar manner.

However, local content regulations often have more to do with a third criterion, that is the contribution of a project to the development of Thai technological capability. In this respect, the number of foreign personnel allowed and other aspects of technology transfer are sometimes the subject of the BOI's attention. Overt regulations are rare in this area, and the BOI's involvement more often takes the form of discussion with the firms involved (Economic and Social Commission for Asia and the Pacific, 1995).

A fourth criterion that has attracted growing attention in recent years has been the location of the investment. Thai economic growth has been heavily concentrated in the Bangkok area, contributing to the infrastructure overload experienced there, and incomes have grown relatively slowly in poorer outlying areas. As a result, the BOI has divided the country into three zones (greater Bangkok, the surrounding provinces, and the outlying provinces) and has granted much more favourable treatment to those investing in the outlying provinces (Thai Board of Investment, 1995). Indeed, in many cases it is now quite difficult for many investors locating in greater Bangkok to get any BOI privileges (Thai Board of Investment, 1995).

Wages

Wage rates in Thailand have been rising relatively rapidly (Far Eastern Economic Review, August 17 1995) but remain competitive in terms of per unit cost (i.e. productivity is high relative to the developing country average) (Pupphavesa, Anantanasuwong, and Chintakanada, 1992). Labour rights have also developed. There does exist a minimum wage rate that depends on the location of the work place, and regular employees are entitled to severance pay. These rights are given under a number of different laws, including the Labour Relations Act (1975), the Alien Employment Act (1978), and the Immigration Act. Conditions for termination of employment are also stipulated in the labour laws. Employee associations and labour unions can be organised as long as they are registered at the Labour Department and obtain a license to operate (Economic and Social Commission for Asia and the Pacific, 1995). Thailand has a number of laws that guard the rights of indigenous labour vis-à-vis domestic and foreign firms. These statutes stipulate the maximum number of work hours and holidays allowed depending upon the type of business in question and the nature of the work. Employees are also entitled to medical leave and maternity leave with the employment of women being restricted (Baker and McKenzie, 1993).

Foreign Exchange

Thailand's foreign exchange policies have become more liberal in recent years. The current foreign exchange control laws grant the Bank of Thailand the authority to administer foreign exchange controls for purposes of maintaining stable balances of trade and payments. Amendments made to the foreign exchange control laws in 1991 have relaxed the controls in the following manner: (1) foreign investment (either capital investment or loans) can now be brought into the country without having to register the funds; (2) control and restrictions on the amount of foreign currency that may be brought into the country have been lifted; (3) foreign currency from export proceeds exceeding U.S.$5,000 must be reported; (4) limits on remittances of business expenses such as payments for goods, services, interest, profits, and dividends have been lifted, though supporting documentation must be made available; and, (5) limits on the repatriation of principal sums, sales of securities, and investment funds upon liquidation of an enterprise have been lifted, though supporting documentation must be made available (Economic and Social Commission for Asia and the Pacific, 1995).

Taxes

Thailand has double-taxation treaties with 22 countries, which essentially provide that profits are only taxable if the taxpayer has a permanent establishment in Thailand. In addition, these treaties allow for reduced taxation on certain dividends, interest, royalty, and other payments, and include a tax credit system that operates where income is taxable in two countries (Economic and Social Commission for Asia and the Pacific, 1995).

Previous Studies of FDI Motives in Thailand

Most studies of FDI determinants have made use of survey methodology that makes it possible to examine the roles of a much wider range of variables. However, these studies have the disadvantage of being essentially opinion surveys rather than analyses of actual investment behaviour. The rest of the discussion in this section relies heavily on the work of Michener and Ramstetter (1990). Among the studies of FDI determinants, the work of Sibunruang (1986) represents perhaps the most comprehensive treatment of FDI determinants in Thailand to date. Sibunruang (1986) distinguishes between (1) the determinants of the initial decision to invest abroad and (2) the choice of host country after the decision to invest overseas has been made. Sibunruang (1986) first asked foreign transnationals located in Thailand to rank the motives for their move abroad. At first glance, the Sibunruang (1986) results showed that the motives differ between industries, but analysis of variance revealed no significant differences in the ranking of the factors across industries. Motives ranked most important were market expansion, low wages in the host country, and host-country investment incentives. The results of the Sibunruang (1986) study also showed no significant difference between the motives of import-oriented and export-oriented industries. Sibunruang (1986) then asked firms to rank their motives for investing in Thailand specifically. The results showed that across industries FDI was attracted to Thailand principally because of the availability of cheap labour and raw materials, Thai government incentives, and adequate local demand. An analysis of firm-specific advantages of FDI firms over local firms was also included in the Sibunruang (1986) study. Parent contributions to subsidiaries were observed and the characteristics and performances of the subsidiaries were compared with those of local firms. Using variables for finance, the different types of inputs, production technique, marketing know-how, and management know-how, the results of the Sibunruang (1986) study showed that important contributions were made in machinery, production techniques, and international marketing. Less important contributions but nevertheless considerable were equity and management know-how. Contributions were shown to be similar when firms were distinguished by marketing orientation or by industry. Further, when tested across nationality of FDI, there were significant differences in the provision of financial resources, foreign marketing, and management know-how between transnationals from developing countries and those from industrialised countries (Economic and Social Commission for Asia and the Pacific, 1995).

Michener and Ramstetter (1990) is another survey-based study of FDI motives of U.S. firms operating in Thailand. This study revealed the most important motives of U.S. firms operating in Thailand were (1) access to factors of production, (2) market access, and (3) Thailand's general economic characteristics. Within these sets of motives, concern with access to the Thai market, and the size and growth of this market were most frequently mentioned. This indicates that most of the surveyed firms were heavily oriented towards the local market. The isolation of non-exporters indicated that a number of additional financial and input access variables were shown to be of secondary importance. In marked contrast to the non-exporting firms, exporting firms, (whose numbers were few in the survey and which also were the larger firms studied), expressed exclusive concern with labour inputs, production for external markets, exchange rates, and tax incentives.

Another survey of 105 U.S. firms conducted in 1986 revealed that the major reasons for investing in Thailand were expansion of business activities, investment incentives, and economic and political stability (Industrial Market Research Services, 1986). Major deterrents identified were excessive import duties, high company and income taxes, arbitrary or cumbersome customs and taxation procedures, lack of patent protection, and restrictions on firm growth. The manufacturing firms in this survey continually cited *"labour quality"* as an investment incentive, with other positive factors including *"the stabilising effect of the monarchy, the generally positive attitude of the Thai government, and the flair of the private sector."* On the other hand, high import duties and taxes, along with inconsistent and slow government administrative procedures were the main deterrents to investment. In the trade sector, the respondents frequently identified market or business expansion as the primary investment motive. Other important factors were the investment climate and incentives, replacement or upgrading of existing facilities, starting operations or adding facilities, and cost rationalisation or efficiency improvement. On the negative side, complaints were registered about growth restrictions and government interference, the lack of patent protection, high import or excise duties, monetary constraints or price controls, and import taxes (Economic and Social Commission for Asia and the Pacific, 1995).

The Japanese publishing company, Toyo Keizai, has also surveyed the motives of Japanese investors for a number of years. The results of these surveys for Thailand in 1981, 1985, 1989, and 1993 indicate that the most common motive of FDI in Thailand was to increase sales of Japanese investors in local and third (i.e. non-local, non-Japanese) markets. The results for 1993 indicate that expansion in sales in local markets is the dominant objective in this respect. The desire to benefit from Thai policies and protectionism was the second most important motive for Japanese investors investing in Thailand in 1981 and 1985. However, due to the gradual liberalisation of the Thai economy this motive has gradually declined in importance and in 1993 was only the fourth most important motive for Japanese investors investing in Thailand. The importance of these two motives reflects the import-substitution orientation of Japanese investment in Thailand, and in Southeast Asia in general, which is also highlighted in other studies such as Tambunlertchai (1977) and Yosihara (1978). The import substitution orientation is also reflected by Japanese affiliates selling the majority of their output in Thailand (Japanese Chamber of Commerce, 1978; 1981; 1984; 1990; 1994) and that most of the replying affiliates in the Toyo Keizai surveys indicated the local (Thai) market as their major market. In the Toyo Keizai surveys, reduction of labour costs as a motive of FDI by Japanese investors, was the third most important motive in 1981 and 1985, the second most important in 1989, and the third most important in 1993. One of the reasons that all motives accounted for a lower share of all identified motives in 1993 than in previous years was that the 1993 survey included a much larger number of possible motives than previous surveys. Moreover, one of these motives, network forming, was apparently quite important, being the second most important motive in 1993 (Economic and Social Commission for Asia and the Pacific, 1995).

Having analysed the motives of FDI in Thailand, this article now examines the trends of IJV formation in Thailand as a means of evaluating the country's sectoral composition of FDI.

RESULTS

Trends of International Joint Venture (IJV) Formation in Thailand

From Table 1 it is possible to identify three periods during which IJV formation exhibited distinctly different trends: (1) Between 1960 and 1980, out of a sample of 1047 companies (provided by the Thai Board of Investment, 1995), IJV formation was relatively low with only 152 IJVs formed during this period. At around 15% (14.5%) of the total number of IJVs being formed in the period 1960-1995 this represents a very small percentage of the total. This is especially the case when you consider that this period (20 years) represents over half of the total period being examined; (2) Between 1981 and 1985, IJV formation was markedly higher, with a further 114 IJVs being formed during this period. This represents a twofold increase in IJV formation over previous five-year periods. However, IJV formation in the period 1960-1985 is still relatively small, representing only 25.4% of the total number of IJVs formed between 1960 and 1995; (3) Between 1986 and 1995 the growth rate of IJV formation showed outstanding growth growing threefold over the previous 25 year period. A total number of 781 IJVs were formed during this 10-year period representing nearly 75% (74.6%) of the total number of IJVs formed during the period 1960-1995. This is quite a remarkable achievement considering there was a slowing in economic growth during this period from 9.7% in 1986 to 8.6% in 1995 (Far Eastern Economic Review, August 17 1995); a slowing in total FDI (Economic and Social Commission for Asia and the Pacific, 1995); and three changes of government.

Table 1 – Year of International Joint Venture (IJV) Formation

Year	Frequency (Number)	Percent	Cumulative Percent
Before 1960	1	0.1	0.1
1961-1965	23	2.2	2.3
1966-1970	32	3.0	5.3
1971-1975	50	4.8	10.1
1976-1980	46	4.4	14.5
1981-1985	114	10.9	25.4
1986-1990	484	46.2	71.6
1991-1995	297	28.4	100.0
TOTAL	1047	100.0	

Industry Trends of IJV Formation

Agricultural and Light Industries (including gems, jewellery and textiles) have been the major industries involved in IJV formation, accounting for 38% of IJV formation prior to 1980 and over 40% (42%) of the total since 1981 (see Table 2). Therefore, the increase in FDI through the growth of IJV formation in Agricultural and Light Industries is likely to be a contributing factor to the FDI boom of 1988. Metal Working Industries that included machinery and transport equipment were the next largest sector to form IJV's, with a share of 21.7% between 1960 and 1980, and 14-15% between 1981 and 1995. Between 1960 and 1980, these industries were followed by Chemical, Mining, Electronics and Services. Between 1981 and 1985, Chemical Industries was the third-largest group to benefit from IJV formation followed by the Metal Working Industries, which saw a large drop in its share. These industries were then followed by the Services sector, which enjoyed a large increase in its share, Electronics, which experienced a drop of 2.7% in its share and Mining, which also experienced a large drop in its share. Between 1986 and 1995 the trend experienced between 1981-1985 continued, with Chemical Industries being the third largest recipient of IJV formation behind Agricultural and Light Industries. Chemical Industries was followed again by Metal Working Industries which saw a further drop of 0.4% in its share, Electronics which saw a large increase in its share, and more distantly by Mining and Services, which both saw large drops in their share of IJV formation.

It is difficult to evaluate changes in the relative importance of IJV formation in Thailand at the sectoral level because there are no corresponding figures for equity investments by local firms. Moreover, even data on fixed investments are not available by sectors. Additionally, the spread of IJV formation across a number of industries is quite evenly spread. Between 1960 and 1995, 218 IJVs were formed in Agricultural Industries, 226 IJVs in Light Industries, 174 IJVs in Chemical Industries, and 164 IJVs in Metal Working Industries. However, the interesting sectoral trend to note of IJV formation in Thailand is, firstly, the strong growth in IJV formation in Agricultural, Electronics, and Chemical Industries. Secondly, the stabilising of the share of IJV formation in Light

Industries (21.7 percent share between 1960 and 1980; 22 percent share between 1981 and 1985; and 21.4 percent share between 1986 and 1995). Thirdly, the fluctuation in the share of IJV formation in Services Industries (4 percent share between 1960 and 1980; 11 percent share between 1981 and 1985; and 5.2 percent share between 1986 and 1995). Finally, the decline in the share of IJV formation in Mining and Metal Working Industries (see Table 2 for details of sectoral trends of IJV formation in Thailand).

Table 2 – Industry Classification of International Joint Venture (IJV) Formation

Year	Agri-culture	Min-ing	Light	Metal	Elect-ronic	Chemi-cal	Ser-vice	Total
Before 1960	0	0	1	0	0	0	0	1
1961-1965	2	4	10	4	3	0	0	23
1966-1970	4	4	8	7	5	4	0	32
1971-1975	9	5	12	8	4	10	2	50
1976-1980	10	4	3	14	4	7	4	46
1981-1985	22	9	25	17	9	19	13	114
1986-1990	104	21	113	68	74	87	17	484
1991-1995	67	22	54	46	37	47	24	297
Totals	218	69	226	164	136	174	60	1047
% of Total	20.8%	6.6%	21.6%	15.7%	13.0 %	16.6%	5.7%	100%

COUNTRY OF ORIGIN OF THE PRINCIPLE FOREIGN PARTNER

Knowledge of where the foreign partners originate from helps to understand the nature and structure of IJVs in Thailand. In the sample of Thai IJVs provided by the Thai Board of Investment (BOI, 1995), by far the three largest contributors of IJVs in Thailand were Japan, the Newly Industrialised Economy (NIE) of Taiwan, and Western Europe. Japan, the Newly Industrialised Economy (NIE) of Taiwan, and Western Europe provided 66 percent of the sample of 1,047 IJVs in Thailand (a total of 692 IJVs were formed with the principle foreign partner coming from these countries). Japan was by far the largest contributor of IJVs in Thailand providing 33 percent of the total (or a total of 341 IJVs), double that of Taiwan and Western Europe (see Tables 3 and 4).

Table 3: Country of Origin of the International Joint Venture's (IJV's) Principle Foreign Partner

Country	Frequency (Number)	Percent	Cumulative Percent
U.S.	50	4.8	4.8
Western Europe	170	16.2	21.0
Australia	14	1.3	22.3
ASEAN	69	6.6	28.9
Taiwan	181	17.3	46.2
China	54	5.2	51.4
Korea	25	2.4	53.8
Japan	341	32.6	86.4
Indochina	1	0.1	86.5
Hong Kong	78	7.4	93.9
Canada	4	0.4	94.3
India	21	2.0	96.3
Others	39	3.7	100.0
Total	1,047	100.0	

Table 4 – A Summary of the International Joint Venture's (IJV's) Principle Foreign Partner by Country of Origin and by Year of Formation

Year	Japan	5-year Average	Taiwan	5-year Average	Europe	5-year Average	Total
1960-1980	70	17.5	10	2.5	32	8.0	112
1981-1985	18	18.0	22	22.0	21	21.0	61
1986-1995	253	126.5	149	74.5	117	53.5	519
Total	341		181		170		692

It is evident from Tables 3 and 4 that Japan is by far the single largest contributor of IJV activity in Thailand, nearly double that of Taiwan, the second highest contributor. Japan's share of IJV activity in Thailand at 33 percent in 1995 closely mirrors its share of overall FDI in Thailand in 1993 which was also 33 percent (Economic and Social Commission for Asia and the Pacific, 1995). From Table 4 it is evident that the growth of IJV formation in Thailand between Japanese and Thai companies remained relatively stable between 1960 and 1985. Between 1960 and 1985 around 17-18 IJVs were formed every 5 year period, with 70 IJVs being formed between 1960 and 1980, and 18 IJVs being formed between 1981 and 1985. However, the growth in Japanese-Thai IJVs since 1985 can only be described as phenomenal. A total of 253 Japanese-Thai IJVs were formed in Thailand during the 10 year period between 1986 and 1995 representing an average of 126 IJVs being formed per 5 year period since 1985. This is as compared to 18 per 5-year period prior to 1985. Therefore, the Japanese have contributed to the growth of IJVs in Thailand between 1986 and 1995.

The growth rate in IJV formation of Taiwanese and Western European companies with Thai companies demonstrates a similar pattern to that of Japanese-Thai IJVs, however, the growth rate is nowhere near as pronounced as with Japanese-Thai IJVs. In the case of Taiwanese-Thai IJVs, between 1960 and 1980 on average 2-3 IJVs were formed per 5 year period. Between 1981 and 1985 this number grew to 22 and between 1986 and 1995 this number grew a further three-fold to 74-75 IJVs being formed per 5-year period (see Table 4).

In the case of Western European-Thai IJVs, on average 8 IJVs were formed per 5-year period between 1960 and 1980. Between 1981 and 1985 the number of IJVs being formed grew to 21 and between 1986 and 1995 the number of IJVs being formed per 5 year period grew more than a further two-fold to 53-54 IJVs being formed per 5 year period. These figures indicate that the growth of IJV formation in Thailand between 1986 and 1995 is likely to come from the growth in IJV formation between Japanese, Taiwanese, and Western European companies with Thai companies.

The United States accounted for only 4.8 percent of the total number of IJVs formed in Thailand during the period 1960-1995 in the sample provided by the Thai Board of Investment (BOI, 1995). This is in marked contrast to the total FDI flows into Thailand where the U.S. was the largest investor in Thailand in 1978 accounting for 37 percent of all cumulative investment (based on data from the Bank of Thailand from 1970 onwards). As late as 1986, the U.S. was still the largest investor with a share of 31 percent. However, by 1993 the U.S. share of total FDI had dropped dramatically to only 17 percent (Economic and Social Commission for Asia and the Pacific, 1995). This is still much greater than the U.S. contribution to total IJVs in Thailand which, in 1995, stood at only 4.8 percent. Whilst these trends of U.S. IJV activity in Thailand are surprising, it is important to note that these estimates that indicate U.S. IJV activity in Thailand is rather low are based on Thai Board of Investment figures (BOI, 1995). However, since U.S. firms often do not go through the BOI and BOI-promoted status is not a requirement to invest in Thailand, these figures are underestimates of total U.S. IJV activity in Thailand.

Equity Percentage of the Principle Foreign Partner

Much has been written in the IJV literature on equity participation of foreign partners (Beamish, 1988; Beamish and Inkpen, 1995; Lee and Beamish, 1995; Sohn, 1994). Many authors claim that for an IJV to perform successfully, the foreign partner must maintain control over the relationship between the local partner and the IJV (Al-Aali, 1987; Killing, 1983; Phatak and Chowdhury, 1991). One of the best ways to achieve this is through majority equity participation in the IJV, which is difficult to achieve in many developing countries. Host governments, through government legislation, especially in developing countries like Thailand, are restricting foreign companies to minority equity participation in industries which are not considered essential to national security and in industries where they already have access to the latest technology.

Some research indicates that there are better ways for a foreign corporation to control local partners other than through majority equity participation e.g., through social knowledge (Sohn, 1994). Research has also shown where foreign companies have been prepared to take a minority share in the IJV and make a commitment to a developing country market, that minority equity participation has been a major factor of successful business performance (Beamish, 1988; Beamish and Inkpen, 1995; Cullen, Johnson, and Sakano, 1996; Lee and Beamish, 1995). Therefore, through changes in government legislation which restrict most foreign companies to minority equity participation in developing countries, and the successful performance of many of these IJVs, arguably indicates that minority equity participation will be the norm, not the exception.

In the Higginbottom (1980) study of IJVs in the ASEAN group of countries, minority equity participation by the foreign partner was commonplace in Malaysia, Thailand, Singapore, Indonesia, and The Philippines. Higginbottom (1980) found that, on average, in more than 50 percent of the IJVs studied, the principle foreign partner had 49 percent or less equity in the IJV. In the case of Thailand, the number of IJVs where the principle foreign partner had 49 percent or less equity participation was above average (60 percent). Host country government legislation was the reason cited by the foreign corporations, in most cases, for minority equity participation.

Knowledge of equity participation by foreign corporations in IJV relationships in Thailand helps one to understand the climate and structure of IJVs in Thailand. As was the case with the Higginbottom (1980) study, this study of 1,047 BOI-promoted companies in IJV relationships in Thailand revealed that 74.8 per cent of foreign corporations had minority equity participation in the IJV in which they were involved (see Table 5). In real terms, this represents 783 IJVs where the principle foreign partner had 49 percent or less equity participation. This is a significant number and cannot be overlooked in any analysis on the sectoral composition of FDI in Thailand.

Table 5 – Equity Percentage of the Principle Foreign Partner

Equity	Frequency (Number)	Percent	Cumulative Percent
5% to 9%	51	4.9	4.9
10% to 19%	101	9.6	14.5
20% to 29%	114	10.9	25.4
30% to 39%	151	14.4	39.8
40% to 49%	366	35.0	74.8
50% to 59%	48	4.6	79.4
60% to 69%	45	4.3	83.7
70% to 79%	62	5.9	89.6
80% to 89%	63	6.0	95.6
90% to 95%	46	4.4	100.0
TOTAL	1,047	100.0	

Government legislation preventing majority equity participation in many industries by foreign corporations, came into effect in 1972 (The Alien Business Law), (Baker and McKenzie, 1993). If this is taken into consideration, together with the knowledge that 75 percent of the IJVs being studied were formed after 1980, the likely cause of this high minority equity participation is host country government legislation. Another factor likely to contribute to the high minority equity participation by foreign corporations in this sample is that they are all BOI-promoted companies. IJVs that are not BOI-promoted may have, on average, higher equity participation by the foreign partner but only specific industries qualify for promotion by the Thai BOI. Nevertheless, this sample has a very high percentage of minority equity participation by foreign corporations and this is a significant finding on the sectoral composition of FDI in Thailand.

Conclusions

In summary, it is evident from the aforementioned analysis that there were three periods during which IJV formation and FDI exhibited distinctly different trends: (1) 1960 - 1980, (2) 1981 - 1985, and (3) 1986 - 1995. Between 1986 and 1995, the growth rate of IJV formation expanded threefold over the previous 25 year period. The industries that attracted the most FDI in Thailand between 1960 and 1995 as far as IJV formation is concerned, were Agriculture, Light Industries, Chemical and Metal Working Industries. Between 1960 and 1995, 218 IJVs were formed in Agricultural Industries, 226 IJVs were formed in Light Industries, 174 IJVs were formed in Chemical Industries and 164 IJVs were formed in Metal Working Industries.

As far as the country of origin of the principle foreign partner was concerned, Japan, the Newly Industrialised Economy (NIE) of Taiwan, and Western Europe provided 66 percent of the principle foreign partners for this study. A total of 692 IJVs were formed with the principle foreign partner located in these countries. Japan was by far the largest contributor of IJVs in Thailand providing 33 percent of the total (or a total of 341 IJVs), double that of Taiwan and

Western Europe (See Table 3). Finally, with respect to equity participation, it was evident from this study that a large majority of the foreign corporations had minority equity participation in the IJV in which they were involved i.e. equity participation of 49 percent or less.

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Mass Customisation:
A Study of Malaysian Consumers

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ABSTRACT

Many companies are recognizing the need to provide excellent services to the consumers and mass customization has been seen as a saviour to provide a unique value to consumers. This study aims to gauge the satisfaction level of the Malaysian consumers on the present offering of mass-produced products and consumer's awareness of the concept of mass customization. This study also evaluates consumer's willingness to accept mass customized products.

INTRODUCTION

Virtually all executives today recognise the need to provide excellent services to the customers. In return, the services rendered would eventually enhance value creation and loyal relationship between the customer and the producer. In its effort to become customer driven or market oriented, especially in the turbulent marketplace, most companies are creating ways and programmes to provide exactly what the customer wants and be able to satisfy every customer's needs. Mass customisation has been seen as a saviour that can provide a unique value to the consumers in an efficient manner. (Pine II and Gilmore 1991)

Mass customisation supposedly is to enhance customer brand loyalty and create a long-term relationship between a customer and the producer. Reichheld and Sasser (1990) state that to a company, its most loyal customers are also its most profitable ones. Treacy and Wiersema(1993) concurred with the new mass customisation paradigm and said that customer intimacy, the second value discipline (first being operational excellence) means segmenting and targeting market precisely and then tailor the offering to match exactly to those demands. Companies that are able to respond to consumer needs by fulfilling their special request can generate tremendous customer loyalty.

Given these views, this study seeks to model mass customisation by meshing consumers' interests and concerns with industry's potential to deliver customised product to Malaysian consumers. It is intended that the outcome of this study could be of use to industry executives to evaluate the product offerings vis-a-vis overall customer's satisfactory level.

That is to say that if the customers' general perception indicate that they should be able to get a customised product, the industry executives must evaluate the suitability of company's processes, capabilities and resources within it's value chain to transform the present paradigm of mass production to mass customisation.

Few studies have been undertaken in the past to examine mass customisation perspectives to Malaysian consumers. While there are retail shops offering customised services, they are not on a mass basis. The traditional retailers such as tailors and cobblers are still providing made- to-order services and are often frequented by some loyal customers. Although such services rendered are able to satisfy their customers, the services charged are expensive, sometime twice or triple the price of the mass-produced off-the-shelf products. As at the time of this study, only two companies (Paris Miki and Dell Computers) offer customised services on a mass basis to the consumers. Only certain segment of the Malaysian consumers appears to know the concepts of mass customisation. Secondly, despite the use of virtual reality system and advanced computer graphic systems by the mass customisers, it is not known whether the customers have been satisfied with the offerings or not. Several other questions remain unanswered. Given a choice, are the consumers willing to adopt the concept of mass customisation in Malaysia? What is their comment during the preference elicitation process from a plethora of options in order to get a customised product?

Objective and Methodology

As the concept of mass customisation to Malaysian consumer industry is still at its infancy stage, this study attempts to explore the consumer's desire for customised products in Malaysia. The consumer perception on the customised goods is explored and the present level of understanding on the concept of made-to-order goods compared to mass-produced products is being investigated.

This exploratory study uses non-probability convenience sampling method for its survey. Data has been collected from four hundred consumers distributed in four main cities. Questions involve collection of attitudinal, awareness, purchase intention and behavioural data. The survey is mainly divided into three parts. The first part of the survey is intended to measure the current satisfactory level of the past mass produced product purchases. The second part of the survey is aimed to investigate the level of awareness of the Malaysian consumers on the concept of mass customisation. The questions posted in this part are intended to find out the consumer experience with mass customisation and to explore their satisfactory level after the service was provided. An attempt is made to establish a relationship between the consumer's level of education and their accessibility to Internet. The final part of the survey intends to evaluate the consumers' willingness to accept a mass customisation concept, had it been widely available.

Analysis

An analysis of the data has been made on the basis of the three objectives of the study. On the issue of consumer response to current mass product offerings, 67.44% of the respondents answered that they are satisfied with the current mass produced products, while 32.56% respondents replied that they are not satisfied with what the market offered. Further, when the respondents who are satisfied with mass production offering were asked to rate their satisfactory level on a scale from 1 to 10 (1 being not satisfied and 10 being very satisfied) on their past purchase decision of mass produce products, the results- which is clustered between from 5 to 10- showed a mean response of 6.38.

Regarding the awareness of mass customisation concept, the respondents were first asked of their awareness of the term mass production, 93.02% of the respondents acknowledged that they had heard the term 'mass production' before. The same respondents were then asked whether they had heard the term mass customisation and the survey indicated that 55.81% of the respondents had heard the term against 44.19% who had not. Of the 55.81% respondents that had heard the term mass customisation before, 79.17% of them had access to Internet. On the basis of educational level of the respondents, 91.67% of them had a diploma, an under-graduate degree or a Master's degree. It is also found that among the respondents, who had never heard the term mass customisation, 63.16% did not have access to internet. While on the basis of educational level 42.11% were observed to be high school leaver's.

The next part of the survey aims to explore the consumers' readiness to accept mass customisation. A series of questions were posed to the respondents based on certain presumptions. The respondents were first asked whether they preferred to buy a mass customised products over mass produced products, presuming mass customisation of products were widely available. While, 16.28% of the respondents acknowledged that they definitely would buy, 39.53% responded that they probably would buy and 44.19% stated that they are still considering to whether to buy or not to buy. None of the respondents surveyed answered that they would not buy.

Secondly, the respondents were asked about their purchase intention presuming that the price of mass customised products is slightly higher than off-the-shelf products but still cheaper than traditional customised products. It was observed that, 37.21% of the respondents acknowledged that they definitely would pay for the extra cost, 39.53% indicated that they probably would pay and 23.26% were undecided.

The third presumption related to a delay in product delivery for mass customised products. When the respondents were posed with the question whether they are willing to wait for a delayed product delivery, the feedback varied. 13.9% of the respondents stated that they would definitely wait for product delivery, 48.83% probably would accept, 30.23% were undecided, 4.65% probably would not accept and the remaining 2.39% acknowledged that they definitely would not accept longer lead time.

Fourthly, to test on the future purchase behaviour, the respondents were asked about their opinion whether post purchase satisfactory level would increase once they purchased a mass customised product. An overwhelming 88.37% acknowledged that their satisfactory level would increase while only 11.62% indicated mass customisation would not increase their satisfactory level. Further, when asked to rate their satisfactory level on a scale from 1 to 10, it was clustered towards 10 indicating a high level of satisfaction.

To test on consumer loyalty, respondents' were asked if they would prefer to buy the product from the same shop or company that provide the product or service. 65.12% responded said that they will become a repeat purchaser, while 30.23% were not sure and only 4.65% indicated they would not return.

The respondents were then asked whether they would still continue to buy a mass-produced products after mass customisation becomes widely available. 43% said that they probably would buy mass produced products, 19% would definitely continue to buy mass produced products, 12% would probably buy, 26% were undecided and none of the respondents stated that they definitely would not buy mass-produced products. When further asked whether mass customised products could satisfy their needs, 55.81% of the respondents acknowledged that it would, 32.56% not sure while 11.65% said mass customised products will not satisfy their needs.

The question then focussed on recent trends whereby some of the manufacturers provide an on-line computer terminal at the retailer so ensure that consumers without access to Internet have an opportunity to buy mass customised products. When asked about this, most of the respondents agreed that they would visit such retailers to get mass customised products. This indicates their inclination toward purchase of mass customised products.

Findings and Discussion

A number of studies have been undertaken on the concept and various aspects of mass customisation. It has attracted a number of industries to subscribe to its philosophy of producing individual needs on a mass basis without compromising a firm's competitive cost structure. Literature available indicates that mass customisation is becoming a new frontier in business competition. Businesses, which are able to cater to increasingly picky customers and whose products and services are tailored to the individual needs can gain competitive edge. A recent study correlates that depending on the industry; a 5% increase in customer loyalty can generate a 25-85% improvement in corporate profits. The customer loyalty activated not from niche process but from a value added service that is through mass customising in terms of packaging, production specifications and delivery (Moad 1995).

For decades, products have been standardised by virtue of mass production mainly to take advantage of economy of scales. Successful companies not only standardised their products, but also their messages, distribution systems, and the customers. Mass production products have become part and parcel of most consumers. The large production base is able to reduce the price and the products are made within reach of all levels of consumer segment. 67.44% of the survey respondents agreed that mass produced products are able to satisfy their needs. This can be attributed to the fact that mass producers are using the best available bell curve analysis, statistical data and prediction to produce what they thinks best fit the majority of consumer. The majority of the consumers fall into the average but for those outside the bell curve, the offering may not suit them. When the respondents were asked to rate their post-purchase satisfactory levels, the mean response was 6.38. This indicates that even though the majority of the respondents are satisfied with the mass production products, their satisfactory level is still low.

From a consumer's disposable income point of view, it can be that a consumer with strong disposable income visits specialty shops, which are able to cater their specific needs. Average and low-income consumers have little choice but to resort to mass-produced products. Targeting these consumers, companies have looked into the possibilities of introducing options and varieties to a standard product with the objective of increasing the consumers post purchase satisfactory levels and also to reduce post purchase dissonance. Car manufacturers have introduced 'mix and match' options. It is interesting to note that when the respondents were asked if they agreed with manufacturer's intention to satisfy consumer by offering variants, options and alternatives, 74.42% agreed with the intention and 95.35% prefer choosing from alternatives in order to get a final product that they truly want and further reduce their sacrifice gap. When the respondents were then asked to rate their satisfactory level based on the past purchase where they can choose and mix the standard product to get a final product. The mean response of the satisfactory level is 7.22, higher than mass production products satisfactory level of 6.38. This indicates that the manufacturers were correct. Alternatives, options and variants and the freedom to have a final say in the product are able to satisfy customer further.

We can conclude that for those manufacturers with no intention or facilities to mass customise their products, they can continue giving options to a standard product. The survey reveals that options to a standard product indeed increases the customer's satisfactory level as they have the final product their way.

Considering that 51.16% prefer a made-to-order products, 4.65% still prefer mass produced products and 44.19% of the respondents prefer both mass produced products and made-to-order products, it can be concluded that mass customisation is not totally out to do away with mass production, but the continue to grow in parallel path.

As for awareness of mass customisation concept, this has existed for decades. Majority of respondents, 93.02% have heard the term mass production, while only 55.81% of the same respondents have heard the term mass customisation. Further analysis reveals that the respondents who have heard the term mass customisation attended tertiary education. The majority of them, 79.17% have access to Internet. The respondents who have never heard the term are mostly high school leavers, 42.11% and 63.16% of them do not have access to Internet.

From the results, it can be said that the level of awareness of the Malaysian consumers on the new paradigm of mass customisation is still low. The level of education and access to internet is vital as most of the companies which offer mass customisation services operate their businesses via e-mail and they provide web pages that are accessible by a modem connected to PC. Prospective customers with Internet facilities can visit the web pages that offer the service before making a purchase decision. The level of education is also important as the new concept of mass customisation is taught at tertiary education.

Times have certainly changed since Henry Ford perfected the system of mass production as evident by the fact that most of the respondents acknowledged that they would buy mass customised products once they are widely available. The discussion shall now focus on consumers' willingness to accept mass customisation.

Although, the price of mass customised product is slightly higher than the off-the-shelf products, most of the respondents didn't mind the extra cost (37.21% definite, 39.53% probable) while 23.26% said they were undecided. The respondents also didn't mind the slight product delay delivery. The data obtained clearly shows that the consumer are willing to sacrifice by paying higher and slight product delay, as long as they get exactly what they want. As mass customisation can satisfy the precise needs of the consumers, their satisfactory level would increase. The mean response of their satisfactory level is 8.10, which is higher than the satisfactory level mean response of mass product purchase. The respondents were further asked the on the ideal level of customisation, the mean response was 7.53. This implies that some customers still prefer mass-produce products. Though mass customisation has the ability to satisfy their needs, they indicate that mass production and mass customisation must grow in parallel path.

Conclusions and Implications

The majority of the respondents are happy with the mass produced products but when asked to rate their satisfactory level, the mean response is still low compared to mass customised product satisfactory level. The level of awareness on the new frontier of business competition, mass customisation is still low. This mainly attributes to the level of education and access to Internet. There is a correlation between the two as those with tertiary education and access to Internet are more likely to know the new mass customisation concept. Finally, the analysis indicates that the post purchase satisfactory levels from mass customised product purchases would increase as the consumer can get exactly what they want. Eventually the satisfied consumer will become loyal to the product's brand and the company that provides the mass customisation of its product will increase its profit. It is a win-win situation.

With the rapid technological developments, products can be customised efficiently to meet customer demand and mass customised products can be produced at the speed and efficiency of mass production. The price of a customised product is equal to or less than "off-the-rack" products. Technological development allows customised products to be produced in lightning speed while retaining good profits margins.

Mass customisation allows the consumer to get the product they truly desire without having to go through thick catalogue, choose from plethora of options and going through hassle with salesman. The product can be designed conveniently via a computer connected by a modem in a living room.

The discussions and findings from this study provide a foundation for further exploration of mass customisation. Scholars and industry leaders interested to further explore mass customisation concept should also look into making the new concept work. It is suggested that a study on the impact or relationship between time based competition and mass customisation should be further researched especially on how to implement time based competition in the customisation process as time based competition can improve productivity, quality, market share, prices and profitability. In the production process, flexible manufacturing has the ability to drive product customisation. The proposed study could also cover developing a flexible and empowered workforce focused on responding to consumer. In flexible manufacturing, standard product and production process is the building blocks that support mass customisation. By choosing the right manufacturing approach, standard product that can be varied to specifications should be the core of the study. A detail in this area could provide a clear path for managers to implement mass customisation of products.

The other area of interest is the *company culture*. It has been said that the biggest hurdle to implement mass customisation is the company culture. Knocking down traditional barriers of mass production paradigm to encourage innovation by increasing empowerment require a massive cultural shift. The study should focus on employee empowerment in production process, as mass customisation requires more employee participation compared to the current process. Creating an empowered culture could maximise employee contribution for innovative thinking, but what is the employee perception on aligning the organisation culture to create customer driven manufacturing process. It is interesting to find the outcome of such a study.

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A Proposed Model for Measuring the Performance of International Small and Medium-Sized Franchisers in Asia

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ABSTRACT

Over the past 20 years, franchising has exploded internationally. One of the most critical decisions faced by a small and medium franchisor (SMF) seeking to pursue international opportunities is what mode of entry to use when entering a foreign market. While a substantial body of literature exists on domestic franchising, to date its international aspect has not received much academic or managerial attention. Despite its rise as a major form of international business, the process of international franchising is still poorly understood. This study proposes to develop a conceptual model of measuring the performance of market entry modes used by international franchisers operating in Asia by integrating the ownership, location and internalization (OLI) advantages framework of Dunning (1977, 1980, 1988) with the perspectives of resource scarcity, agency and risk management. It is hoped that this model can serve as a frame of reference for future studies in the area, and also be used in the development of reliable measures for empirical studies in the modal choice literature.

INTRODUCTION

Over the past 20 years, franchising has exploded internationally. In 1971, approximately 150 U.S. firms were involved in international franchising. By 1986, this number had doubled to well over 15,000 foreign franchise units (U.S. Department of Commerce, 1988). International franchising operations have also expanded from the U.S. to companies based in other developed economies such as the U.K., Australia and Canada and developing economies including The Philippines and Malaysia (Welch, 1990). Franchising presents tremendous opportunities for small and medium firms in expanding overseas without the high resources and risks associated with other forms of vertically integrated entry mode.

One of the most critical decisions faced by small and medium franchisors (SMF) seeking to pursue international opportunities is what mode of entry to use when entering a foreign market. Chan and Justis (1990) suggest five major starting strategies for franchising in Asia: (1) master franchisee, (2) joint venture with foreign companies or individuals, (3) licensing, (4) company-owned outlets, and (5) joint venture with the local government. A criticism of Chan and Justis (1990) is the failure to address the relative performance of these market entry modes. While a substantial body of literature exists on domestic franchising, to date its international aspect has not received much academic or managerial attention. Despite its rise as a major form of international business, the process of international franchising is still poorly understood.

The international strategies of Multinational Corporations (MNCs) (eg. McDonald's, Holiday Inn, Hertz, etc.) have received considerable research attention (Love, 1986; Erramilli and Rao, 1990). However research into the international strategies of SMF has hitherto not been studied in depth. Small franchisor characteristics such as limited financial and managerial resources, personalised objectives of owners/managers, and informal centralised planning and control systems (Cavusgil, 1984; Roth, 1992) indicate that their international strategies are considerably different from those of MNCs.

This study proposes to develop a conceptual model of measuring the performance of market entry modes used by international franchisors operating in Asia by integrating the OLI advantages framework of Dunning (1977, 1980, 1988) with the perspectives of resource scarcity, agency and risk management. The options available to a SMF include direct franchising, joint venture, master franchising and wholly-owned subsidiaries. It is hoped that this model can serve as a frame of reference for future studies in the area, and also be used in the development of reliable measures for empirical studies in the modal choice literature.

LITERATURE REVIEW

While the domestic franchising industry has attracted much research attention, studies on its international involvement are very scant. Among the pioneer efforts are the empirical studies by Etzel and Walker (1973) and Hackett (1976; 1977) which examined the international expansion of U.S. based franchisers and their future plans.

Research on the use of franchising in international operations has tended to concentrate on firms that have built franchising activities first within their domestic market before utilising that experience and the tried franchising system in the international arena (McCosker and Walker, 1992; McIntyre and Huszagh, 1995). This research suggests that franchisers are reluctant to alter their basic franchising package, once developed domestically, for foreign markets. For example, Walker (1989) found that the bulk of U.S. franchising companies he surveyed had engaged in minimal changes to the marketing mix components of their franchising packages in international operations. However anecdotal evidence suggests that international franchisers have sometimes needed to tailor 'product' offerings to appeal to differing local tastes (Preble, 1992). For example, KFC substituted french fries for their traditional mashed potatoes and put less sugar in its coleslaw because of Japanese taste differences. McDonald's in France and Germany often sells wine or beer in their outlets. In Brazil they offer a soft drink made from guarana and in Malaysia, Singapore and Thailand milk shakes are flavoured with a fruit named durian. Saimin (noodle soup) and rice have been added to the menu in Hawaii, mixed spaghetti in the Philippines, pasta salad in Rome and corn soup, vegetarian burgers in India and teriyaki burgers in Japan.

Research conducted into the market entry modes of international franchisors has previously focused on only two forms, namely franchised or company-owned units. These studies have drawn on three research perspectives: resource scarcity, agency and risk management. The *resource scarcity* perspective suggests that a firm with a limited supply of capital becomes a franchiser in order to use the franchisee's capital to expand (Carney and Gedajlovic, 1991). Then as it acquires sufficient capital, the franchisor will later take over the larger units from franchisees. Hunt (1973) who found an aggregate trend towards company-owned units in the fast-food industry provided initial support for this view. He also found that larger and older units are likely to become company owned units. Caves and Murphy (1976) also observed a similar trend towards company ownership in restaurants, hotels and motels. Anderson (1984) who found that the percentage of units owned by franchisers systematically increased over a period of ten years provided additional evidence.

The *agency theory* posits that managers of company-owned outlets are less motivated to perform efficiently than owners of franchised units because much of their compensation is a fixed salary (Castrogiovanni, Bennett, and Combs, 1995). Support for the agency theory view was provided by Brickley and Dark (1987) and Thomas, O'Hara and Musgrave (1990), who found that high employee monitoring costs, low initial investment cost per unit, and high frequency of repeat customers per unit favoured franchising over company-owned units.

Finally the *risk management* perspective focuses specifically on the nature of risk and the preference to use franchising to manage that risk (Martin 1988). This view suggests that franchisers will try to reduce their risk by using corporate ownership only in locations that are relatively more reliable and will tend to franchise in locations that may have higher risk due to factors such as geographical distance and cultural differences.

A problem in analysing the international entry process of franchisers is that there is often not a readily observable path through to franchising in foreign markets (Welch, 1989). This is frequently a deliberate strategy by franchisers, as the initial entry mode serves as a foundation for the ultimate move into franchising. Based on the experience of a small number of Australian companies' franchising activities, Welch (1990) notes a diverse range of forms and paths to franchising use in international operations.

The use of company-owned outlets initially as a basis for testing the franchising package and the market is a common approach. McDonald's typically employs this approach, and has in some cases extended the company-owned path for some time, as in the case of the U.K. (Love, 1986). However, in some cases the use of alternative modes of foreign operations by franchisers may occur without necessarily any clear objective about how they should be developed in the future.

Foreign Entry Mode

For the most part, researchers in international services have not examined explicitly the question of entry mode choice. Most of knowledge on entry mode selection comes from examining manufacturing firms. For example, Johanson and Vahlne (1977) have suggested that firms tend to follow a sequential or evolutionary approach to internationalization with a company advancing from export activity through agent and sales subsidiaries to setting up a manufacturing subsidiary. However, this type of sequential approach to internationalization has little direct application to most franchisers who are characterised as “soft-service firms” (Erramilli and Rao, 1990). These firms market services where it is difficult or impossible to separate production and consumption. More specifically, an examination of the literature on franchising indicates that major fast-food restaurants used wholly-owned subsidiaries, joint ventures or master franchising to enter foreign markets (Daniels and Radebaugh, 1989; Justis and Judd, 1989).

Performance

Given the lack of literature that focuses on the international expansion of SMF, it is necessary to refer to studies on small and medium sized enterprises’ (SMEs) export success for additional insight. A substantial body of research has been found on SMEs’ export success factors, and numerous variables have been identified as significant determinants of success (Aaby and Slater, 1989). Differences in the nature of the exporting environment considered, plus insufficient attention in some studies to anchoring research in a theoretical framework, complicates the task of evaluating the significance of the widely diverging results reported (Walters and Saimee, 1990).

Two common approaches are commonly employed to measure export performance. The first involves a categorization of exporters and non-exporters (Cavusgil and Nevin, 1981; Burton and Schlegelmilch, 1987; Christensen, da Rocha, and Gertner, 1987). The second measures export performance along some dimensions of success such as export proportion of sales (Bijmolt and Zwart, 1994; Czinkota and Ursic, 1991; Moini, 1995); growth in export sales (Cooper and Kleinschmidt, 1985; Kirpalani and MacIntosh, 1980); export profitability (Kaynak and Kuan, 1993; Beamish, Craig and McLellan, 1993); and absolute export sales volume (McGuiness and Little, 1981; Bello and Williamson, 1985). However there appears to be no general consensus regarding the importance of many variables that have been identified as determinants of export success.

The general framework for analyzing export performance consists of two broad components: (1) the external environment of which the firm has little control of and (2) the internal firm level. The external level includes macroeconomic, cultural, political, legal, financial and physical factors that influence export behaviour, strategy and performance (Evangelista, 1993). These variables provide the setting within which the firms operate. The individual exporter can only influence this environment to a limited extent, and in most situations must consider the macro-parameters as given constraints. The internal level is comprised of managerial controllable factors which are firm characteristics, firm competencies, and firm strategy (Aaby and Slater, 1989).

CONCEPTUAL MODEL AND HYPOTHESES

Several theories have been proposed to explain the choice of foreign market entry modes by firms. The four most common modes of foreign market entry studied are exporting, licensing, joint venture and sole venture (Agarwal and Ramaswmi, 1992). Because all of these modes involved resources commitments (albeit at varying levels), firm's initial choices of a particular mode are difficult to change without considerable loss of time and money. Entry mode selection is therefore a very important, if not critical strategic decision. By including firm-specific and market-specific factors that influence these criteria (control, return, risk and resources), Dunning (1977; 1980; 1988) has developed a framework for explaining choice among exporting, licensing, joint venture, and sole venture modes. A brief description of the main effects of these factors is presented below. The underlying assumption of the proposed model (Figure 1) is that the basic goal of any international franchisor is to generate maximum returns that will commensurate with the tolerated level of risk, control and resources.

Market Entry Mode

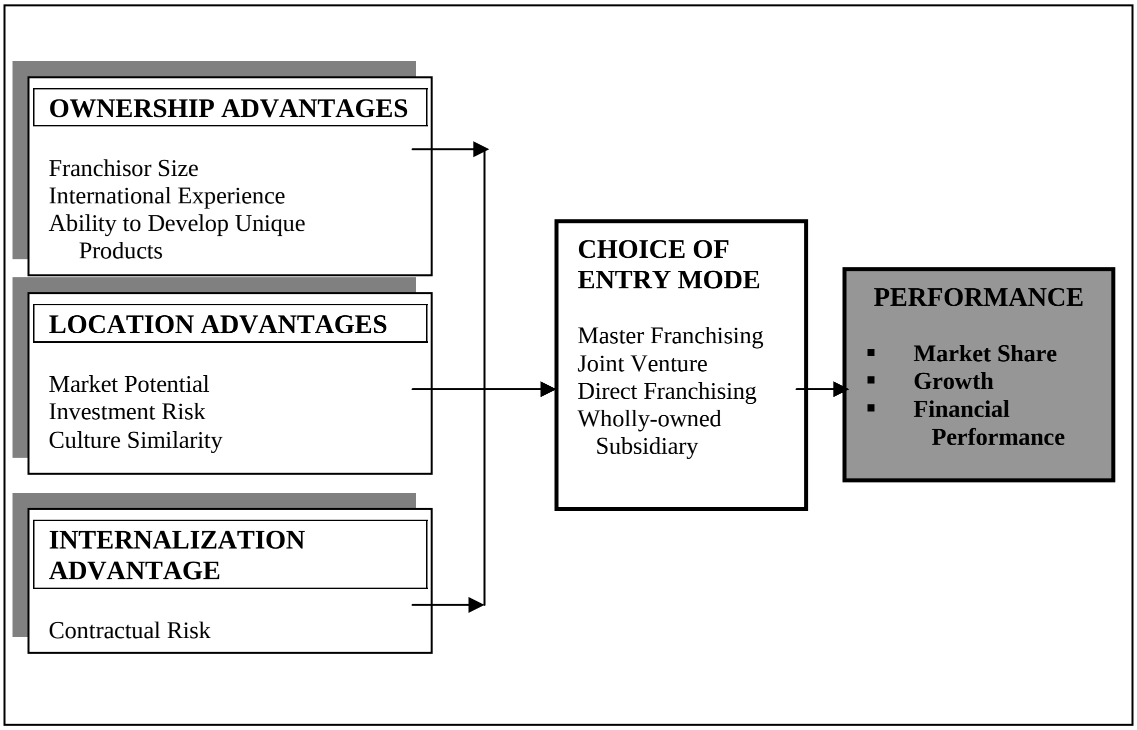
A franchisor opting to internationalize can select a mode of entry into international markets any alternatives ranging from very little risk and low capital expenditure (eg. master franchising or direct franchising) to relatively high risk and high capital investment (eg. wholly-owned subsidiary). Also, two franchisers may perceive the same risk in a country but choose different market entry modes depending on the firm's tolerance of risk (Sharma, 1995). The market entry modes included in this conceptual model are those that are found to be widely used (Chan and Justis, 1990; Chan and Justis 1992). They are master franchising, joint venture, direct franchising and wholly-owned subsidiary. These entry modes range on a continuum in terms of risk and capital investment.

Master Franchising. The master franchisee may be an individual, business, or conglomerate corporation that assumes the rights and obligations of the franchisor to establish franchisees throughout a country or region.

Joint Venture. The franchisor seeks a form of partnership with a foreign franchisee in establishing franchise units.

Figure 1

Conceptual Model of Measuring Performance of Small and Medium International Franchisers



Direct Franchising. The franchisor establishes each individual franchise and manages the resulting network in the foreign market directly – ie. without the use of any intervening organisation.

Wholly-owned Subsidiary. The franchisor invests in company-owned stories or subsidiaries in foreign markets. This means that the franchisor provides all the capital and resources necessary for starting up the foreign outlet.

Ownership Advantages

To compete with host country firms in their own markets, foreign firms must possess superior assets and skills that can earn economic rents that are high enough to counter the higher costs of servicing these markets. A firm's asset power is reflected by its size and international experience, and skills by its ability to develop differentiated products and services.

Firms need asset power to engage in international expansion and to successfully compete with host country firms. Resources are needed for absorbing the high costs of marketing, for enforcing intellectual property and contracts, and for achieving economies of scale (Hood and Young, 1979). The size of the franchisor reflects its capability for absorption of these costs (Buckley and Casson, 1976; Kumar, 1984). Empirical evidence indicates that size of the firm is positively correlated with its propensity to enter foreign markets in general, and to choose sole and joint venture modes in particular (Yu and Ito, 1988; Terpstra and Yu, 1988, Kimura, 1989). In the case of international franchising, it can be postulated that a larger franchisor will be likely to select wholly-owned subsidiaries and joint ventures. While the preference for a sole venture is not surprising, the choice of joint ventures may be explained by the fact that a larger franchisor may be less concerned than a smaller organisation with the potential possibility of exploitation by the host country partner (Doz, 1988). Firm size can be operationalized in various ways including number of employees, number of franchised outlets and annual volume.

H1: A SMF that is larger will select wholly-owned subsidiary or joint venture as a foreign market strategy in Asia.

When a firm possesses the ability to develop differentiated products, it may run the risk of long-term revenues if it shares this knowledge with host country firms. This is because the latter may acquire this knowledge and decide to operate as a separate entity at a future date. When a firm possesses these skills, higher control modes may be more efficient. There is substantial empirical support for the use of higher control modes with higher levels of product differentiation (Anderson and Coughlan, 1987; Coughlan, 1985). As in the case of international franchising, it is posited that franchisors may prefer the use of higher control modes with low levels of product differentiation. This is explained by the fact that most franchises, especially those with a large service component, lend themselves to be easily duplicated. Therefore it will be in the international franchisor's interest to exercise maximum control if its concept or product could not be easily differentiated.

H2: A SMF that has a lower ability to differentiate itself will select wholly-owned subsidiary as a foreign market entry strategy.

Another form of asset power, a firm's level of multinational experience, has also been shown to influence entry choices. Firms without foreign market experience are likely to have greater problems in managing foreign operations. They have been observed to overstate the potential risks, while understating the potential returns of operating in a foreign market. This makes choice of non-investment modes more probable for these firms (Caves and Mehra, 1986, Gatignon and Anderson, 1988; Terpstra and Yu, 1988). Therefore a franchisor which is entering into a foreign market for the first time is perceived to choose master franchising and joint venture. The franchisor is able to take advantage of the foreign franchisee or partner's local knowledge in the operation of the business.

H3: A SMF that has no international experience will select master franchising or joint venture for entry into foreign markets.

Location Advantages

Firms interested in servicing foreign markets are expected to use a selective strategy and favour entry into more attractive markets. This is because their chances of obtaining higher returns are better in such markets. The attractiveness of a market has been characterized in terms of its market potential and investment risk.

Market potential (size and growth) has been found to be an important determinant of overseas investment (Khoury, 1979; Choi, Tschoegl and Yu, 1986; Terpstra and Yu, 1988). In high market potential countries, investment modes are expected to provide greater long term profitability to a firm, compared to non-investment modes, through the opportunity to achieve economies of scale and consequently lower marginal cost of production (Sabi, 1988). Franchisors in high market potential countries are expected to own wholly or partly their overseas operations as they stand to gain considerably more than just awarding master franchisees. However, given the limited financial strength of most SMFs, it is likely that they will choose direct franchising or joint venture.

H4: A SMF that enters a high market potential country will select direct franchising or joint venture as a foreign market entry mode.

The investment risk in a host country reflects the uncertainty over the continuation of present economic and political conditions and government policies which are critical to the survival and profitability of a firm's operations in that country. Changes in government policies may cause problems related to repatriation of earnings, and in extreme cases, expropriation of assets (Root, 1987). It has been suggested that in these countries, a firm would be better off not entering, but if it does, it may favour use of non-investment options (Rugman, 1979; Stopford and Well, 1972). Exchange risk can be handled by denominating the payments in the franchisor's home currency or agreeing to some fixed exchange rate for a period of time (Hoffman and Preble, 1991). Thus:

H5: A SMF that enters a country with high investment risk will select direct franchising or master franchsing.

A considerable body of literature suggests that the greater the cultural distance, the less willing the firm is to make large investments in greenfield ventures, and the more willing it is to enter into non-equity alliances (Kogut and Singh, 1988; Gatignon and Anderson, 1988). Gomes-Casseres (1989) stresses the virtue of partnerships in culturally unfamiliar environments as providing the global company with local knowledge. Therefore franchisers will be likely to use direct franchising, master franchising or joint venture in countries which are considered culturally different.

H6: A SMF that enters a country where psychic distance is high will select direct franchising, master franchsing or joint venture

Internalization Advantages

High external uncertainty makes the writing and enforcement of contracts that specify every eventuality and consequent response more expensive (Anderson and Weitz, 1986). Similarly, the multitude of minute problems makes the enforcement of contracts meaningless and possibility inefficient since the firm may not find other partners. This contractual risk is highly relevant to international franchising as it is often a challenge to enforce foreign franchisees to observe all the procedures in the contract. Legally the franchisor has the right to protect its tradename and guard against the sale of inferior products or services and maintain distinctiveness and standardization throughout the international franchise network (Hoffman and Preble, 1991). This becomes even more difficult especially when it is operating in countries that have unsophisticated legal systems. It is likely that a SMF will partner with a local firm to diversify its risk.

H7: A SMF that enters a country that has high contractual risk will select joint venture.

Performance

This conceptual model is designed to identify the main variables that affect performing success of internationalised SMFs. However success is not an objective term, because what one franchisor considers to be an excellent success, another may condemn as rather poor. For this reason, it is important to measure performance by means of more than one indicator. The dependent variable 'performance' will be measured by the adoption of PIMS (Buzzell and Gale, 1987). They include market share (ie. the number of franchised outlets and sales), growth (ie. number of outlets over the last three years), and financial (sales and profitability).

Small franchisor characteristics such as limited financial and managerial resources, personalised objectives of owners/managers, and informal centralised planning and control systems (Cavusgil, 1984; Roth, 1992) indicate that their preferences for market entry modes will be those that produce minimum risk and resources (ie. master franchising or joint venture). The greatest advantage of master franchising and joint venture is the ability of the foreign franchise to make use of the partner's local knowledge. This is highly relevant for western franchisers entering Asia. The local partner understands the political and bureaucratic problems of the host country far better and is therefore in a better position to negotiate with government agencies and private businesses. Furthermore, the local partner can assist with language problems, cultural differences, and help develop local markets through appropriate means of advertising and promotion. The international SMF will not run the risk of having a lack of familiarity with local conditions, which exposes the franchising organisation to many business and political risks. This will inevitably cause the failure or demise of the franchise operations in the foreign markets.

H8: A SMF enjoys higher overseas success with using master franchising or joint venture in Asia where psychic distance is high.

CONCLUSION

This paper presents a conceptual model that seeks to describe the performance influenced by underlying determinants of market entry choice of a SMF. The model reported here suggests several research propositions. Some are supported by previous research evidence, while others require additional research.

The model is intended for two purposes. The first is to use it as a frame of reference for future studies in the area. As conceptual efforts to understand the modal choice faced by franchisors have escaped academic attention, this model intends to generate interest and direction in the area. Furthermore, given the scarcity of empirical studies on this topic, the model is useful for developing measures and operationalizing relevant constructs.

Another implication underlines the critical role modal choice played in determining the success of the franchise systems in the overseas markets. Because all the market entry modes involve resource commitments, the franchisor's initial choice of a particular mode is important in preventing the unwarranted loss of time and money. Entry mode selection is therefore, a critical strategic decision faced by all international franchisers.

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The International Market Selection Process: A Study of Successful Australian International Firms

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ABSTRACT

Selecting an overseas market is one of the most difficult decisions to be undertaken by the international marketer. International marketing researchers have stressed the importance and the need for systematically evaluating and selecting potential foreign markets. A number of researchers have developed decision frameworks and methodologies for international market selection. However, only limited empirical testing of these frameworks has been undertaken, with no reported research having been carried out in Australia. This paper reports the findings of qualitative and quantitative studies conducted among successful Australian international business organizations regarding the factors they use in their international market selection process.

INTRODUCTION

There exists a well-developed literature of market failures committed abroad by international marketers. One of the most common types of international market failures identified by Dalgic and Heijblom (1996) relates to poor market selection. International marketing researchers (Kumar et al, 1993; Douglas and Craig, 1989 and 1992) have stressed the importance and the need for systematically evaluating and selecting potential foreign markets. A number of researchers have either developed decision frameworks (frequently referred as models in the literature) and methodologies for international market selection or applied existing ones (Moyer, 1968; Walvoord, 1980; Cavusgil, 1985; Vargas-Carcamo, 1986; Root, 1987; Walsh, 1993; Kumar et al 1993).

The decision frameworks found in the literature are rigid and practitioners indicate they are limited in the factors they embrace and in the sequencing of those factors. Limited empirical testing of these factors has been undertaken (Aulakh and Kotabe, 1992), with no reported research having been carried out in Australia. Accordingly, this research examined the factors that successful Australian international business organizations consider in their international market selection process (IMSP)

CURRENT LITERATURE

Although existing international market selection decision frameworks used in the literature were mostly developed in the 80s, there has been no attempt to test them empirically. One such framework put forward by Cavusgil (1985) recommend a three-stage selection process. Root (1994) and Walvoord (1980) have recommended similar multistage frameworks. Walvoord's recommended framework contains four stages (referred to as filters) compared to the three stages proposed by Cavusgil and Root.

As Russow and Okoroafo (1996) states, " While descriptions of screening techniques exist, there is a good deal of disagreement about which criteria to use. The models proposed are largely normative in the sense that the lists of suggested criteria are based on each author's perceptions of what criteria might be most useful for screening countries" (pp.47-64).

Each of the above frameworks recommended stepwise screening process. The primary elements of the macro-environment recommended for screening international markets are economic, political, legal, and cultural in nature. Most of the other evaluation criteria recommended are related to the market's operating environment, ie. existing infrastructure, accessibility, taxes and duties, and costs of entry.

All three aforementioned frameworks include the assessment of product specific market size as an important culling criterion and recommend the inclusion of secondary data such as domestic production and product import/export data to assess the market size. Walvoord (1980) recommends "feel" as a culling criterion at the level of product-specific evaluation.

Overall, Table 1 shows the similarities and differences between the three frameworks.

Table 1: Similarities and Differences between three Current Models

Factors for Screening	Cavusgil (1985)	Walvoord (1980)	Root (1987 & 1994)
Macro-economic environment	Yes	Yes	Yes
Political/legal environment	Yes	Yes	No
Cultural environment	Yes	Yes	No
Product-specific market size	Yes	Yes	Yes
Operating environment	Yes	Yes	No
Corporate factors for assessment	No	No	No
Corporate factors for implementation	No	Yes	No

International marketing research has been criticised as lacking in methodological rigour relative to the domestic marketing research. The formulation of theoretical constructs has not been followed by systematic empirical testing of these constructs in order for these theories to be integrated into the general body of international marketing theory (Aulakh and Kotabe, 1992). In one of the rare attempts to empirically test the screening constructs, Russow and Okoroafo (1996) investigated the 21 variables contributing to the definition of the three constructs recommended by Root (1994) in 192 countries. Principal component analysis revealed that in order of importance seven factors (indirect market size; level of economic development; (direct) market size growth; trade; capital spending; population density; and infrastructure maintenance and development) accounted for 75% of the total variance.

This research by Russow and Okoroafo (1996) provides theoretical and empirical rationale for using specific criteria and also shows how these criteria can be applied in an international market selection process. However, while the findings do establish the importance of market size, trade and level of economic development factors, in the evaluation of market potential, they fail to consider the firm specific factors in the evaluation process.

Overall, there is a general agreement in the literature that: a screening process is desirable; but there is lack of consensus as to what factors to be used in the screening process, their sequencing and how those factors will interact with each other.

METHODOLOGY

Qualitative and quantitative research are complementary, rather than competing research approaches. In this research both has been used. Lack of empirical investigation of the international market selection process eliminates the direct application of existing constructs for the purpose of this research. Further, the use of multiple methods, or triangulation, reflects an attempt to secure an in-depth understanding of the phenomenon in question.

Research Procedure
Qualitative

A variety of qualitative methods can be used for exploratory purposes. For this research, a grounded theory methodology has been used. Grounded theory is a general methodology for developing theory that is grounded in data systematically gathered and analysed. Theory evolves during actual research and it does this through continuous interplay between analysis and data collection.

A maximum variety sampling method has been used with the view to finding out shared patterns of commonalities on which a generalised framework may be developed. To maximise variety, cross-industry respondents were selected. In total twelve (12) samples were selected (two from each industry mentioned - one small and one large, where small is firms with an annual turnover of A$3.0 million or less). Two of the respondents were from a government organisation that provides among other services, market selection and targeting advice to firms aspiring to go international.

Individual depth interviews have been conducted with key decision makers (managing director, marketing manager, export manager or anyone selected by them as suitable to represent them) of the previously mentioned selected sample firms. This involved a series of lengthy, unstructured interviews. The technique of laddering has been used while conducting the unstructured interviews. Each of the respondents was interviewed more than once. The first interviews were mostly broad, letting the participants "tell their stories". Subsequent interviews were arranged to obtain more targeted information. As a further test of reliability and validity, the emerging constructs were verified by external raters, who are academic experts in the field. Much of these storage, retrieval and analysis functions have been carried out using the rather hybrid software system, NUD.IST version 3.0.

Quantitative Research

The limitations of the qualitative methods are: (1) the results are not necessarily representative of what would be found in the population, and hence are not projectable, and (2) there is typically ambiguity in the results. In view of these shortcomings, findings through the qualitative research has been followed-up by quantitative research. The constructs and their measurement variables generated through the literature review and qualitative research was put through exploratory factor analysis to arrive at generalisable international market selection decision constructs.

Data for the quantitative study was collected through a structured questionnaire. The draft questionnaire was tested on a small sample of forty respondents to identify and eliminate potential problems. To refine the questionnaire, draft copies were also circulated among half-a-dozen academic experts in the field. A seven point Likert scale was used.

To assess the internal consistency reliability, a popular approach, coefficient alpha was used. A convergent validity method has been used to assess validity. Traditionally, reliability methods can be viewed as single-facet generalisibility studies. Even if the test-retest correlation is high, nothing can be said about the generalisability of the scale to other universes.

The target population was defined as Australian product/service marketing firms that are active and successful in international markets. International business success has been measured in various ways by researchers, including international sales level (Madsen, 1989), international sales growth (Cooper and Kleinschmidt, 1985), international sales to total sales ratio (Axinn, 1988), and the increase in importance of international business to the total business (Cavusgil and Kirpalani, 1993). These varieties of measures identify that there is no accepted, uniform definition of success in international marketing research (Cavusgil and Zou, 1994). In this case, the critical issue of success was ascertained through two measures: (1) evaluation of successful performance by an independent body and (2) international sales volume. Accordingly, two sample frames were selected. The first sample frame represented the 145 Australian firms who were finalists and winners of the annual Australian Export Award during the period between 1991 and 1996. The second frame comprised the 500 Australian firms that were listed in the BRW (Business Review Weekly) Top 500 Australian Exporters 1996 list. Some firms were included in both the lists; thus the total number of firms selected for inclusion in the study was 546. Considering the relative small size of the sample frames and target sample size of 200, questionnaires were sent to all the 546 firms mentioned above.

In a study of empirical research reports in international marketing, Aulakh and Kotabe (1992) found the mean sample size as 197.6 and response rate as 40.5 per cent. In this survey, out of the 546 companies 195 responded, giving a response rate 35.7 per cent, which is close to the standard and expectations. After thorough editing of the 195 questionnaires returned, all of them were found satisfactory.

RESULTS: QUALITATIVE

Most of the firm's internationalisation processes evolve. Their first step into the overseas markets is often unplanned. However, with time they become more experienced international players, and plans and systems start to evolve. International market selection process (IMSP) is no exception in this regard. A variety of reasons have stimulated international market entry for firms involved in this qualitative study. Most of these firms did not have a system in place to select international markets when they first went overseas. However, currently firms interviewed are experienced international players and international market selection processes and systems have evolved, as they have for other international business aspects. This finding reinforces similar outcomes from earlier investigation of strategic marketing and management (Benito & Welch 1993; Mintzberg 1987) where it has been concluded that strategies could be formed as well as formulated.

Although a system for IMSP has evolved for all these experienced international marketers, not all of them have a written system in place. Rather, in most cases a pattern, in the sense of consistency of behaviour, has evolved.

An analysis of the interviews, show that, there is a definite pattern that these experienced marketers follow in their IMSP. They generally follow a screening process in evaluating the foreign markets of their interest, and using different indicators at each stage. This finding is similar to the observations of some of the existing decision frameworks for IMSP (Kumar et al 1993; Root, 1994; Cavusgil, 1985; Walvoord, 1980).

At the first stage, firms try to establish the size and growth attractiveness of the foreign market to them. If a market is found attractive at the first stage, it will be further evaluated on the basis of what may be termed as "structural attractiveness" of the market before selection.

The constructs that are considered in the first decision stage include: broad economic and social indicators (macro-economic indicators) integrated with product/market indicators (micro-economic indicators) and the firms own international business capabilities.

The constructs that are considered at the second stage include: costs; infrastructure and business practice compatibility with business performance needs; government policy indicators; and firm's own business operation policies.

These constructs (see table 2) reflect the factors considered for international market selection by the firms that were part of the qualitative research. These constructs were subsequently subjected to a quantitative investigation to assess whether they can be generalised to the population of our interest, ie. Successful Australian international businesses.

Table 2: Variables Explaining A Priori Constructs

Construct	**Macro-economic Indicators**	**Other Macro-level Indicators**
Variables	Gross national product (GNP) GNP growth rate Rate of inflation Currency reserve Stability of exchange rate Population size Size of middle class Literacy rate Product significant demographics	Cultural practices Religious practices Traditional links Attitude towards foreign products
Construct	**Micro-level Indicators**	**Own International Business Capabilities**
Variables	Local production statistics Import statistics Projected demand Competitive offerings Intensity of competition	Synergy with existing markets Synergy with existing marketing skills International marketing capabilities Firm's international orientation Firm's competitive advantages Firm's competitive position in Australia Managements overall feel Ability to achieve market share objectives
Construct	**Cost Indicators**	**Structural Compatibility Indicators**
Variables	Tariff barriers Nontariff barriers Marketing costs	Availability of local business partners Potential to develop strategic alliances Business structure compatibility Distribution system compatibility Legal system compatibility Business culture compatibility Level of corruption Level of own government support
Construct	**Policy Indicators**	**Own Policy Guidelines**
Variables	International property right law Level of government control on business Pricing restrictions Profit repatriation restrictions Political stability in the country	Fit with firm's return on investment objectives Fit with firm's payback period targets Fit with firm's growth strategies Fit with firm's risk strategies Fit with parent firm's guidelines Fit with product/service sourcing strategies Special product specific rules/regulations More rigorous assessment for direct investment

RESULTS: EXPLORATORY FACTOR ANALYSIS

Factor analysis was applied using principal-axis factoring method, with eigenvalues set to 2. In this case, the cut off point of eigenvalues of 2.0 gave factor solution that explained more than 60% of the variance. Another consideration in determining the cut off point was interpretability of factors. Factors are interpreted by examining their correlations, called loading, to the *p* original variables. Table 3 shows the factors extracted with the variables that explain each of the factors.

(for Table 3 please see end of article)

Some variables from the original list of variables (see Table 2) whose factor loading fell below 0.3 were dropped from further analysis at this stage, as this level of loading has been considered insignificant and also because of their significant cross loadings. These variables include: literacy rate, intensity of competition, firm's competitive position in Australia, ability to achieve market share objectives, availability of local business partners, potential to develop strategic alliances, political stability in the country, fit with firm's payback period targets, fit with product/service sourcing strategies, more rigorous assessment for direct investment, and special production specific rules/regulations

CONCLUSION

The factors and their respective measurement variables shown in Table 3 represents the factors that successful Australian international businesses consider in their international market selection process. Specifically, it confirms the factors they consider and the variables that measure each of those factors.

International markets must be screened based on certain criteria for comparing opportunities. Findings of this research show such criteria should include some macro-environmental indicators along with some micro-economic (product specific) indicators and firm's own international business capabilities as well as some cost indicators, policy indicators, and structural compatibility indicators, and the firm's own policy guidelines.

The major difference between the current, mostly untested, constructs (Walvoord, 1980; Cavusgil, 1985; Root 1994) and the constructs confirmed through this research is the importance given to the firm related factors.

IMPLICATIONS FOR FURTHER RESEARCH

This research has the potential to open up a new area of empirical research. This research has been conducted among the successful Australian international businesses. Similar research may be conducted among firms unsuccessful in international markets to identify the process and factors they considered when selecting markets.

Findings from this research are relevant only for Australian firms. Australia being relatively a small player in the international business arena, such findings may or may not be representative of successful international business of other countries. For the sake of generalisation, similar research needs to be conducted among international marketers of other countries of the world.

This research has developed factors or constructs that contribute to the international market selection process and their measurement scales. Further research is required to re-test such scales for possible refinement and future usage for other studies. Also, future research may be conducted to establish whether individual firms will need to assign a firm-specific numerical weight to each factor and variable to indicate their relative importance in the selection process.

Finally, further research needs to be carried out to establish how the decision factors identified through this research are integrated in the overall international market selection process of firms with the aim of modelling the overall decision process.

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Table 3: Factors, Variables and Factor Loadings

Variables	Factor 1	Factor 2	Factor 3	Factor 4	Coefficient Alpha
GNP	.8992				
GNP Growth Rate	.4626				
Currency Reserve	.8795				.91
Stability of Exchange Rate	.8487				
Rate of Inflation	.8444				
Population Size	.8566				
Size of the Middle Class	.3062				
Product Significant Demographics	.8329				
Cultural Practices		.8453			
Religious Practices		.8564			.97
Traditional Links		.8599			
Attitude towards Foreign Products		.8468			
Projected Demand			.8056		
Import Statistics			.8009		.98
Competitive Offerings			.8001		
Local Production Statistics			.7915		
Synergy with Existing Markets				.9247	
Synergy with Existing Marketing Skills				.9258	.99
International Marketing Capabilities				.9214	
Firm's International Orientation				.9258	
Management's Overall Feel				.9167	
Firm's Competitive Advantages				.9140	
Variables	Factor 5	Factor 6	Factor 7	Factor 8	
Tariff Barriers	.8591				
Non-tariff Barriers	.8582				.99
Marketing Costs	.8524				
Business Structure Compatibility		.8496			
Distribution System Compatibility		.8548			
Legal System Compatibility		.8582			.88
Business Culture Compatibility		.8601			
Level of Corruption		.3979			
Level of Own Govt. Support		.3088			
International Property Right Laws			.8478		
Level of Govt. Control on Business			.8436		.99
Pricing Restrictions			.8501		
Profit Repatriation Restrictions			.8608		
Fit with Firm's Ret. on Investment				.4155	
Objectives				.7524	.86
Fit with Firm's Growth Strategy				.7546	
Fit with Firm's Risk Strategy				.7474	
Fit with Parent Firm Guidelines					