



P5  
PRESENTATION

GET YOUR FEET WET- A STUDY  
OF ENTRY STRATEGY OF DUTCH  
ARCHITECTURE FIRMS IN CHINA

# INTRODUCTION





*“Architecture, in addition to clogs and tulips, is now a major export article” – Economic Affairs of the Netherlands*



country	CHINA	US	INDIA
Percentage of the total global construction market in 2011 (%)	15	14	3
Expected percentage of the total global construction market in 2020 (%)	20	-	9

# Why Entry Strategy?

- The international market is:  
complex, uncertain, risky  
(Gunhan and Arditi, 2005)
- Entry strategies specific to architectural practice are rarely seen...
- Assurances provided by official organizations, evidence show that there are still *barriers...*
- Especially when there is a huge *cultural distance*



# PROBLEM STATEMENT

Author/year	Ling et al. (2005a,b)	Xu and Greenwood (2006)	Den Hartog (2009)	Deng and Poon (2009)	Xiao and Boyd (2010)	Zou and Leslie- Carter (2010)
Factors determine Entry mode						
Trade link	-	-	-	-		-
Cultural distance	-	-	-		-	-
Colonial link						
Language proximity	-	-		-	-	-
Host market attractiveness	+	+	+	+		
Invest risk		-				-
Entry restriction		-				-
Competitive intensity	-	-		-		

- Indicates the factor which was identified as crucial and is **negative** to Chinese market

+ Indicates the factor which was identified as crucial and is **positive** to Chinese market



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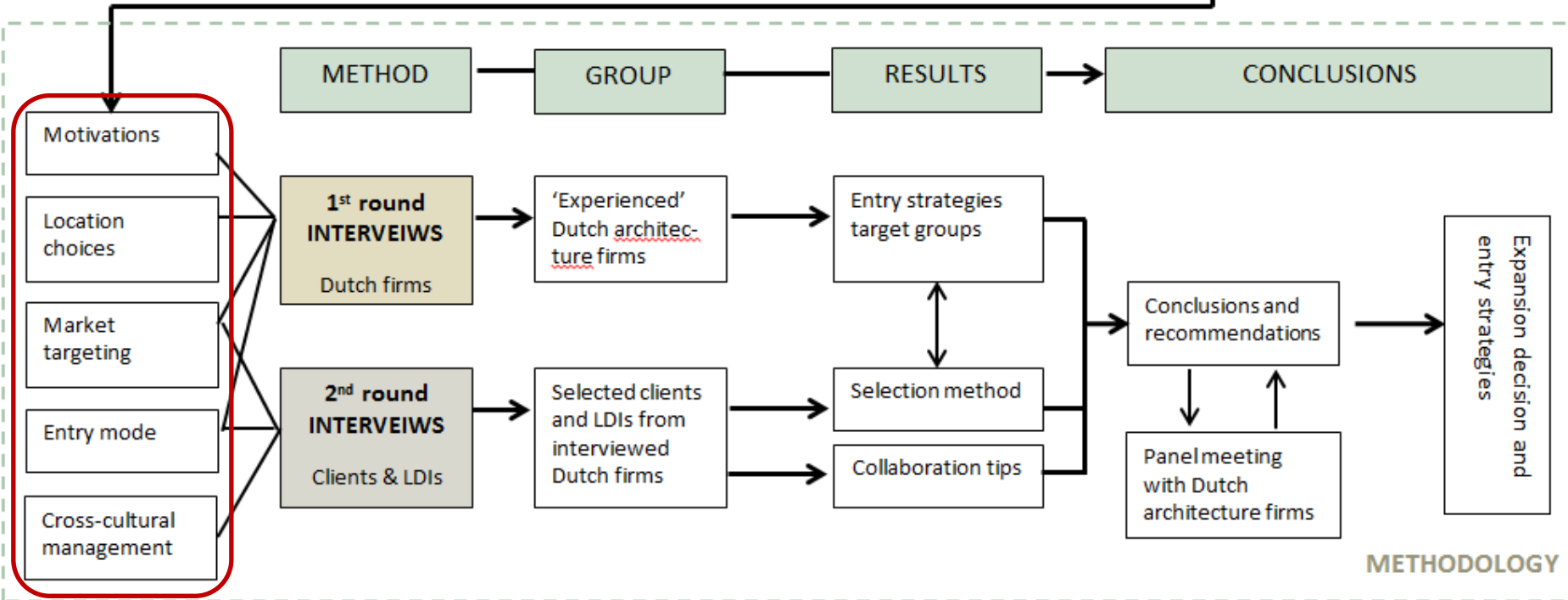
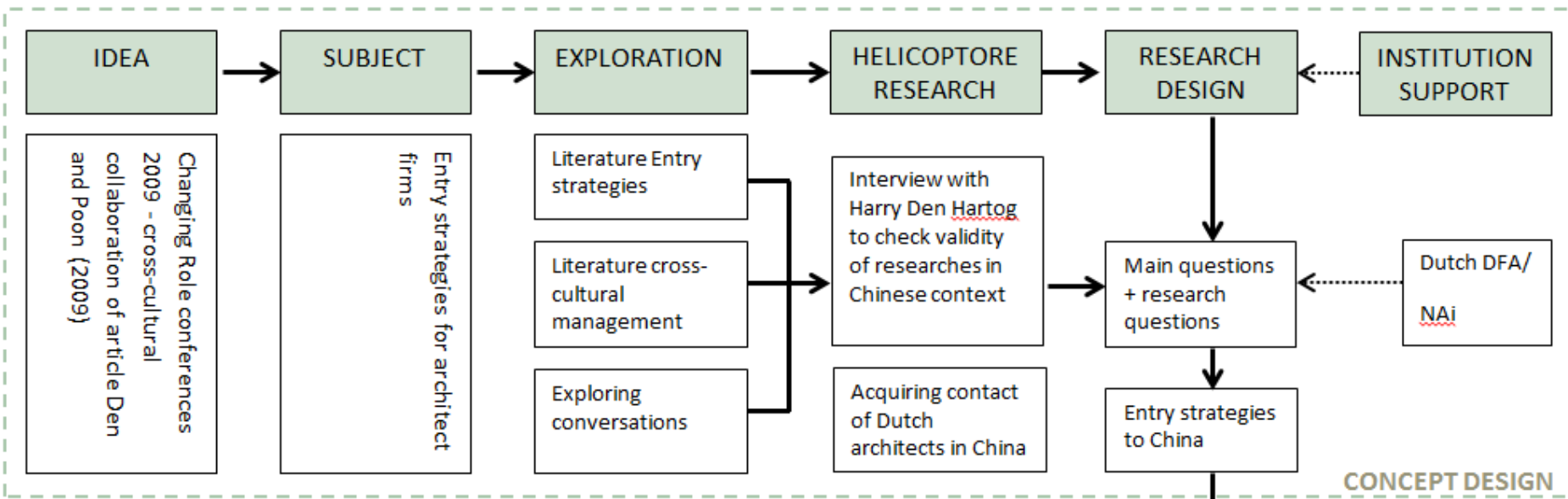
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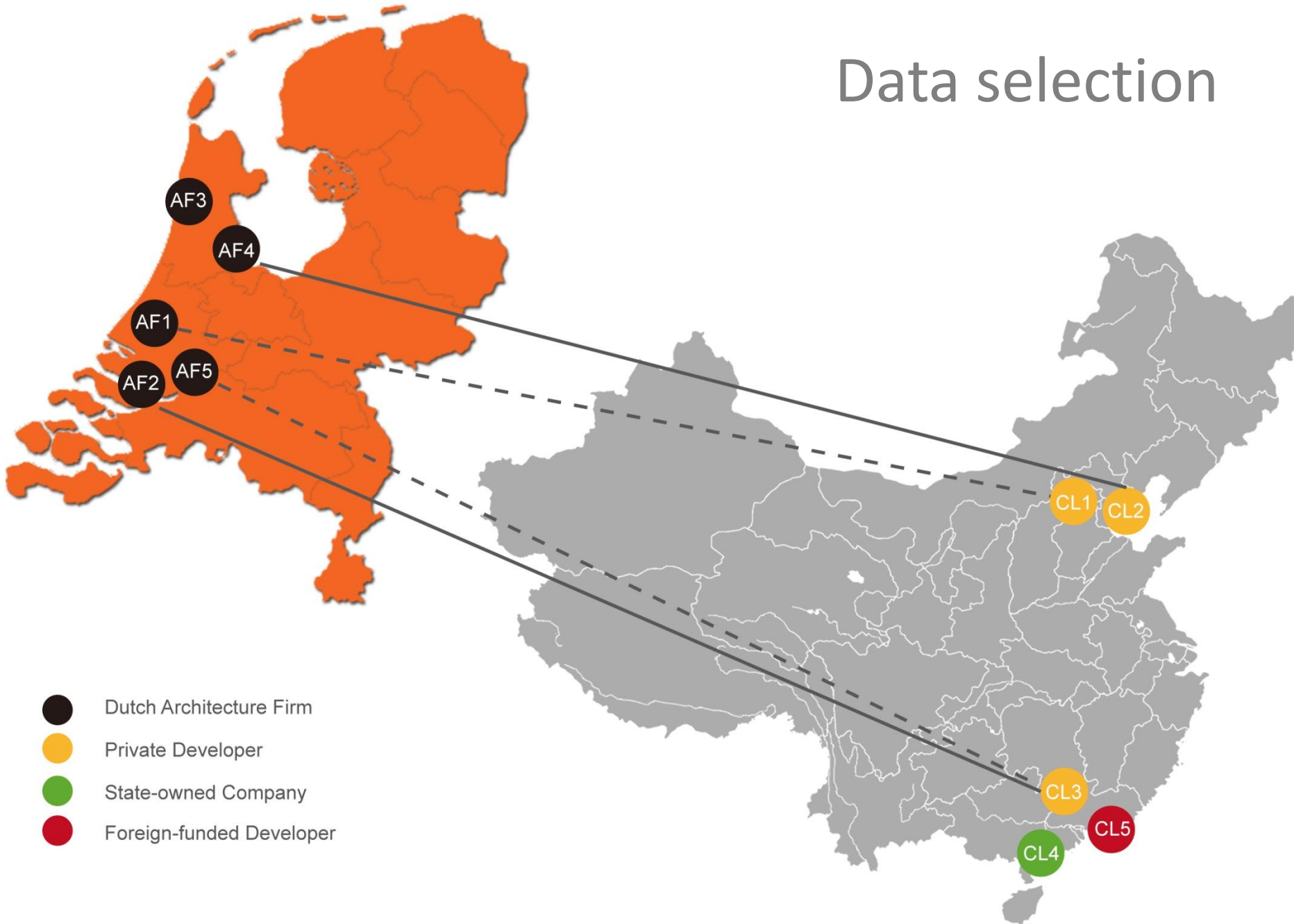
# RESEARCH QUESTION

*What is the appropriate entry strategy for Dutch architect firms to enter the current Chinese market?*

# RESEARCH DESIGN



# Data selection



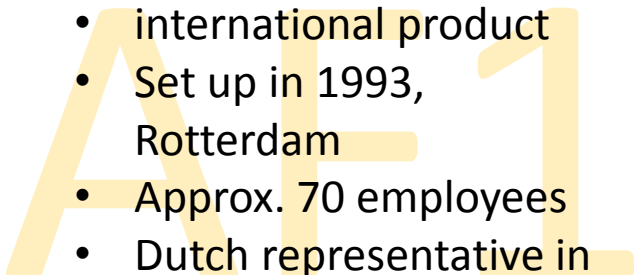
Categorization	Characters	Examples
Star-architects	Wining international prize and international competition in China	
Partly well-known in China	Well-known because of the architects has international reputation outside China	AF1/AF5
Well-known in Netherlands	The firms have delivered several important public buildings in Netherlands therefore received national reputation	AF3
Ordinary in Netherlands	The firms delivered several projects in the Netherlands with average standard	AF4
Novice	The firms just start the business without many portfolios	AF2



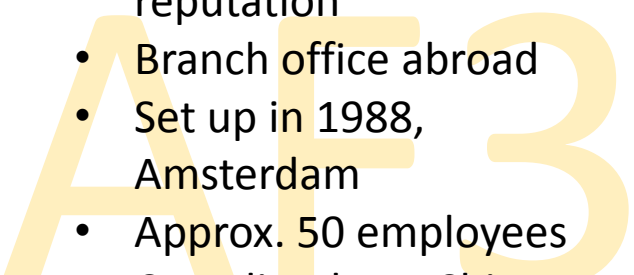
# **CASE STUDY ANALYSIS**

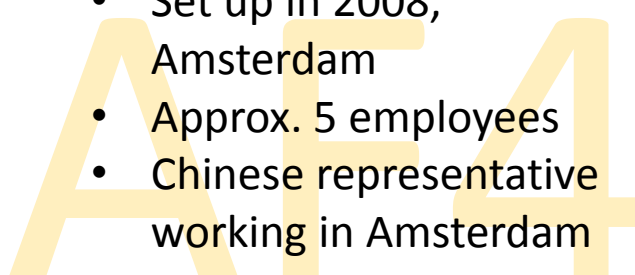


**DUTCH ARCHITECTURE FIRM**

- 
- Strong Idea
  - international product
  - Set up in 1993, Rotterdam
  - Approx. 70 employees
  - Dutch representative in China

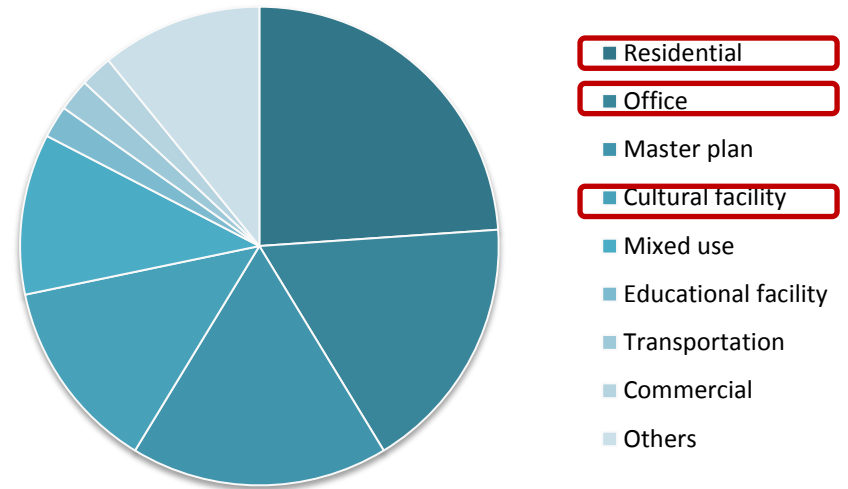
- 
- Strong ambition
  - Architecture, exhibition and food design
  - Set up in 2010, Rotterdam
  - Approx. 6 employees
  - Chinese partner

- 
- Strong delivery
  - Receive nation-wide reputation
  - Branch office abroad
  - Set up in 1988, Amsterdam
  - Approx. 50 employees
  - Canadian-born Chinese representative in China (2006-2008)

- 
- Strong delivery
  - Mostly housing projects
  - Set up in 2008, Amsterdam
  - Approx. 5 employees
  - Chinese representative working in Amsterdam

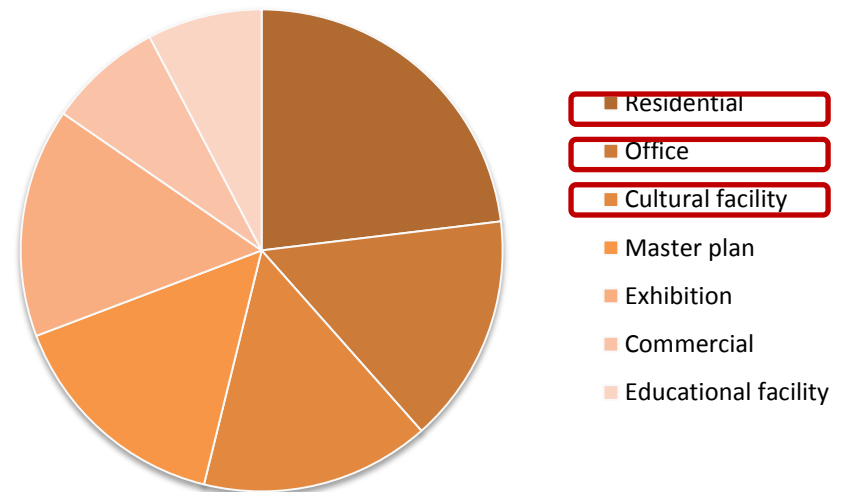
# AF1

## AF1's Profile in the Netherlands



- China as one of the international market target
- 30% of turnover from Chinese market

## AF1's Profile in China

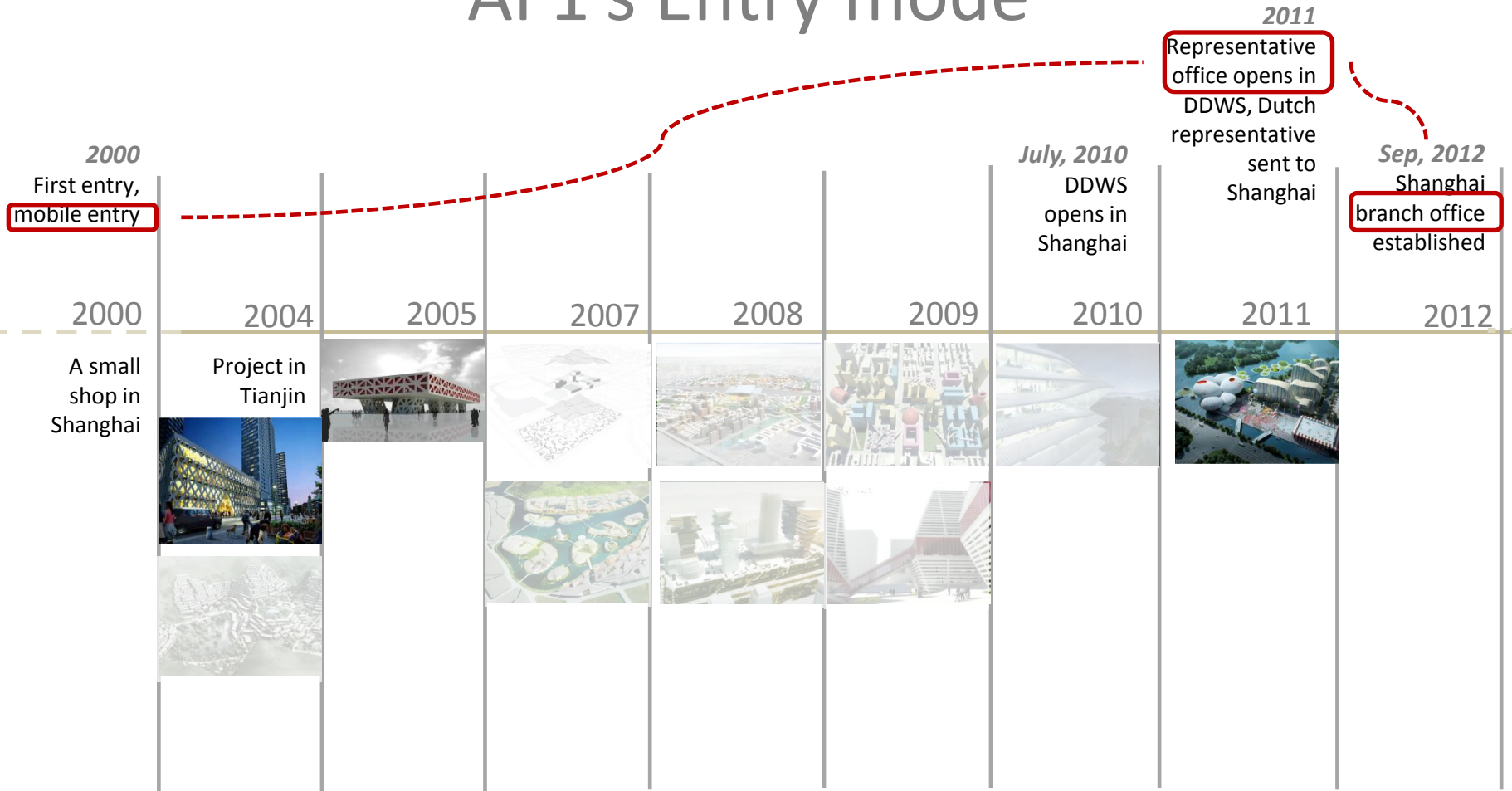


# Location choice & market targeting

Location/ Building types	Beijing & Bay area	Shanghai & around	Shenzhen, Guangzhou, Hong Kong	Other cities
Exhibition	◇		○	
Commercial		■		
Residential	■*			□*◇
Offices			○ ○	
Cultural facility		●		○
Educational			○	
Transportation				
Urban Planning		○	○	

- State-owned company- entry
- State-owned company- built
- Private developer- entry
- Private developer- built
- ◇ Joint-ventures company- entry

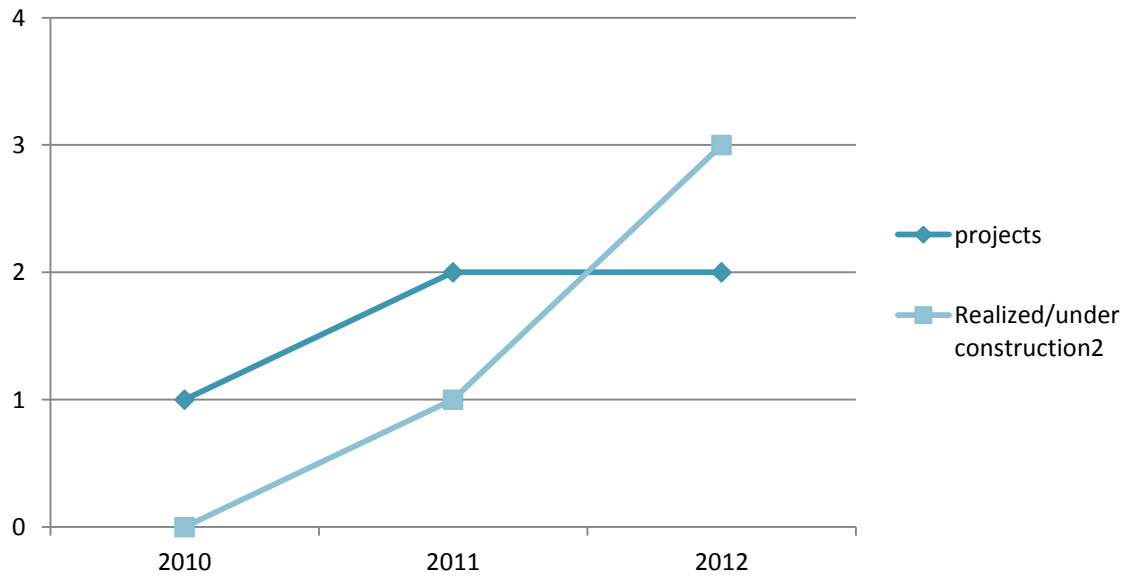
# AF1's Entry mode



# Learning from AF1

- “Communication is one of the most important things; it’s underestimated in our study...”
- “Half mirror is not concept” - tough and unyielding v.s. not being respected
- “Cultural differences” need to be investigated
- Taste and level of acceptance of the so-called “avant-garde architecture”

# AF2



- “It is natural to go back to China for some projects”



# Location choice & market targeting

	Beijing & Bay area	Shanghai & around	Shenzhen/ Guangzhou /Hong Kong	Other cities
Exhibition			▲	
Commercial				□
Interior		■ ■		
Residential				■
Offices				
Cultural facility				
Educational				
Transportation				
Urban Planning				

□ Private developer- entry

□ Private developer- built

▲ Foreign invest- built

# AF2's Entry mode

*2002*  
The founder studied in Shanghai, internship in Chinese firm

2002

*Sep, 2003*  
The founder came to Netherlands, internship in Dutch firm

2003

*Sep, 2003*  
The founder started to study in TUDelft

2004

*early 2010*  
AF2 established

2010

*2011*  
Shanghai desk established

Invited to a "foreign design firm" matchmaking in Shenzhen

2011

Interior project in Shanghai

Hotel project in Hainan/  
strategic alliance with a Dutch firm

Club-house in Hainan/  
strategic alliance with a Dutch firm

2012

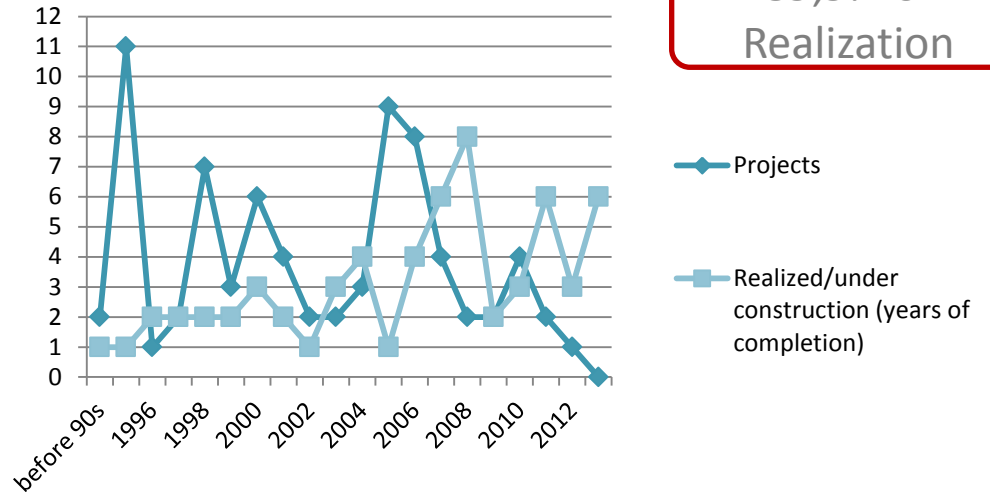
Interior project in Shanghai

Exhibition in Guangzhou

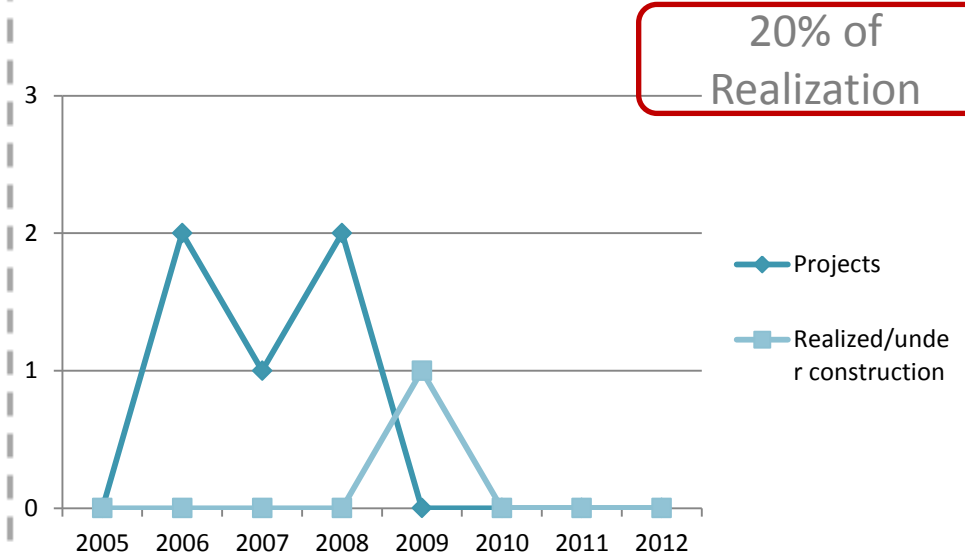
# Learning from AF2

- No competition, but network building
  - Dutch/Chinese architecture firms
  - Design communities
  - Potential clients
- “外国的月亮比较圆”
- Strategic alliances
  - With Dutch firms to increase its reputation
  - With Chinese professionals to help its business
- Making friends with Chinese at school

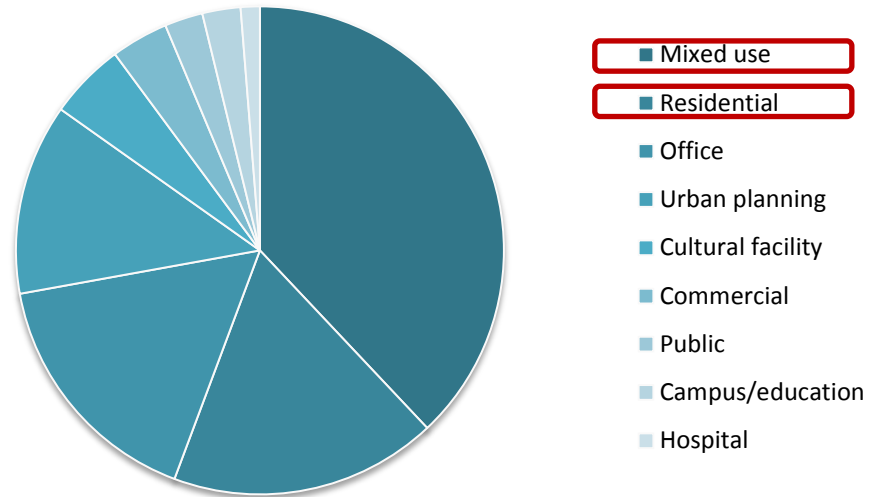
- Receiving nation-wide reputation
- To extend the rich of company into the international market



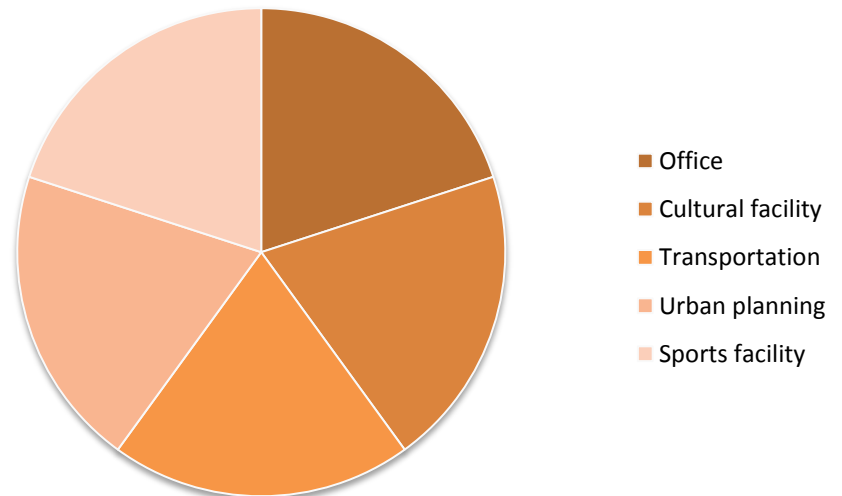
AF3



## AF3's Profile in the Netherlands



## AF3's Profile in China

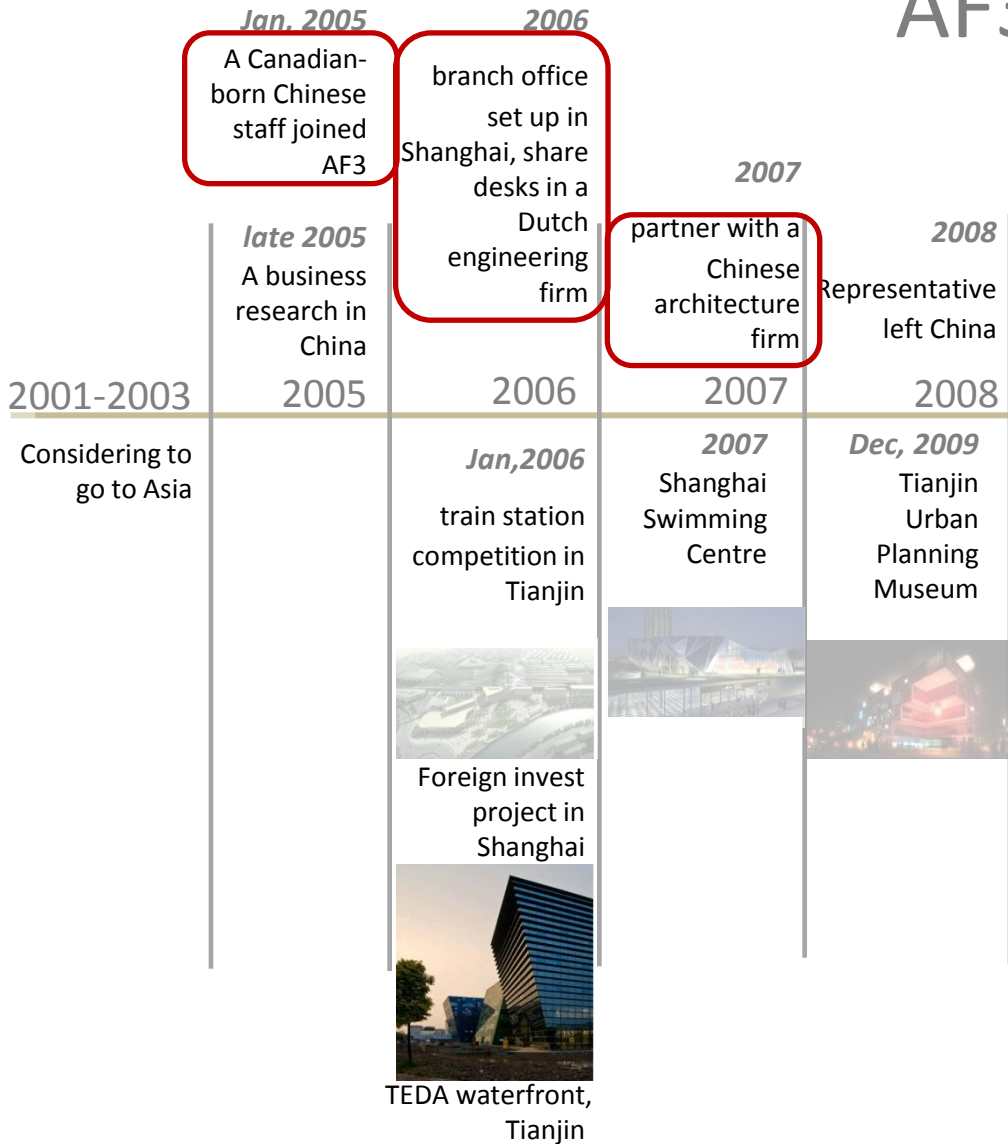


# Location choice & market targeting

Location/ Building types	Beijing & Bay area	Shanghai & around	Shenzhen, Guangzhou, Hong Kong	Other cities
<b>Exhibition</b>				
<b>Commercial</b>				
<b>Residential</b>				
<b>Offices</b>		▲		
<b>Cultural facility</b>		○		
<b>Educational</b>				
<b>Transportation</b>		○		
<b>Urban Planning</b>		□*		
<b>Sports facility</b>			○	

- State-owned company- winner
- State-owned company- entry
- Private developer- winner
- Foreign invest- built

# AF3's Entry mode

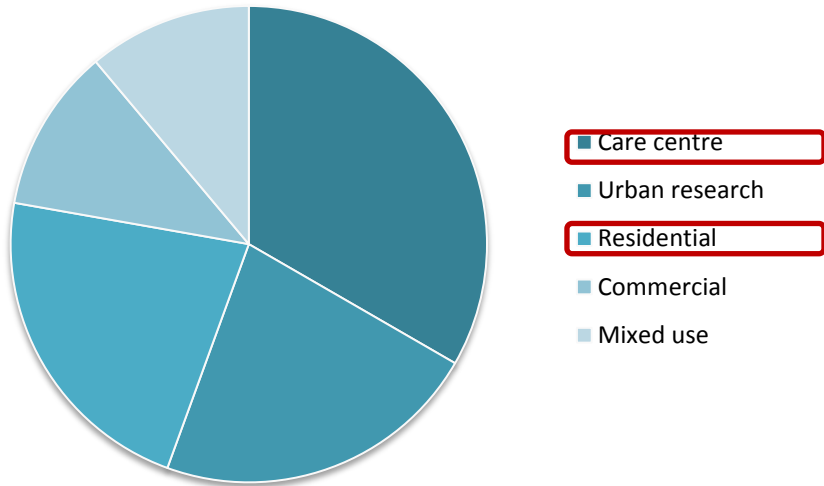


# Learning from AF3

- Director's proficiency
  - Not competence, but mentality
- Trust and competitiveness between partners

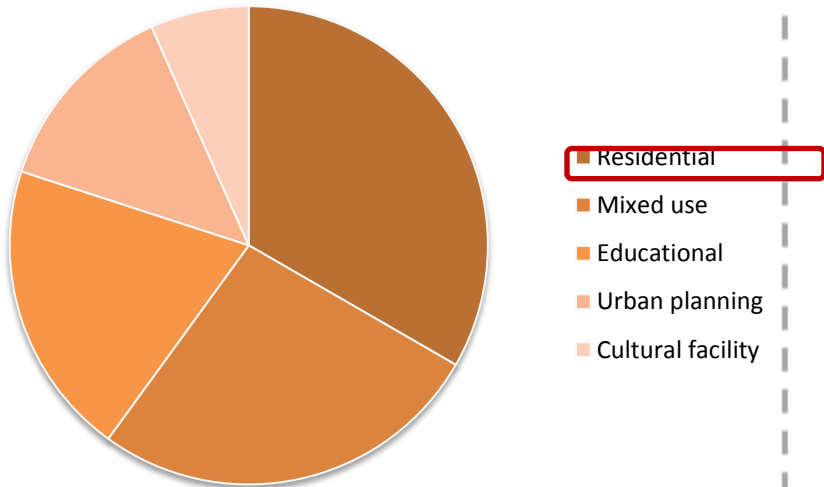


## AF4's Profile in the Netherlands



- Everything is exotic!!
- 90% of projects in Chinese market

## AF4's Profile in China



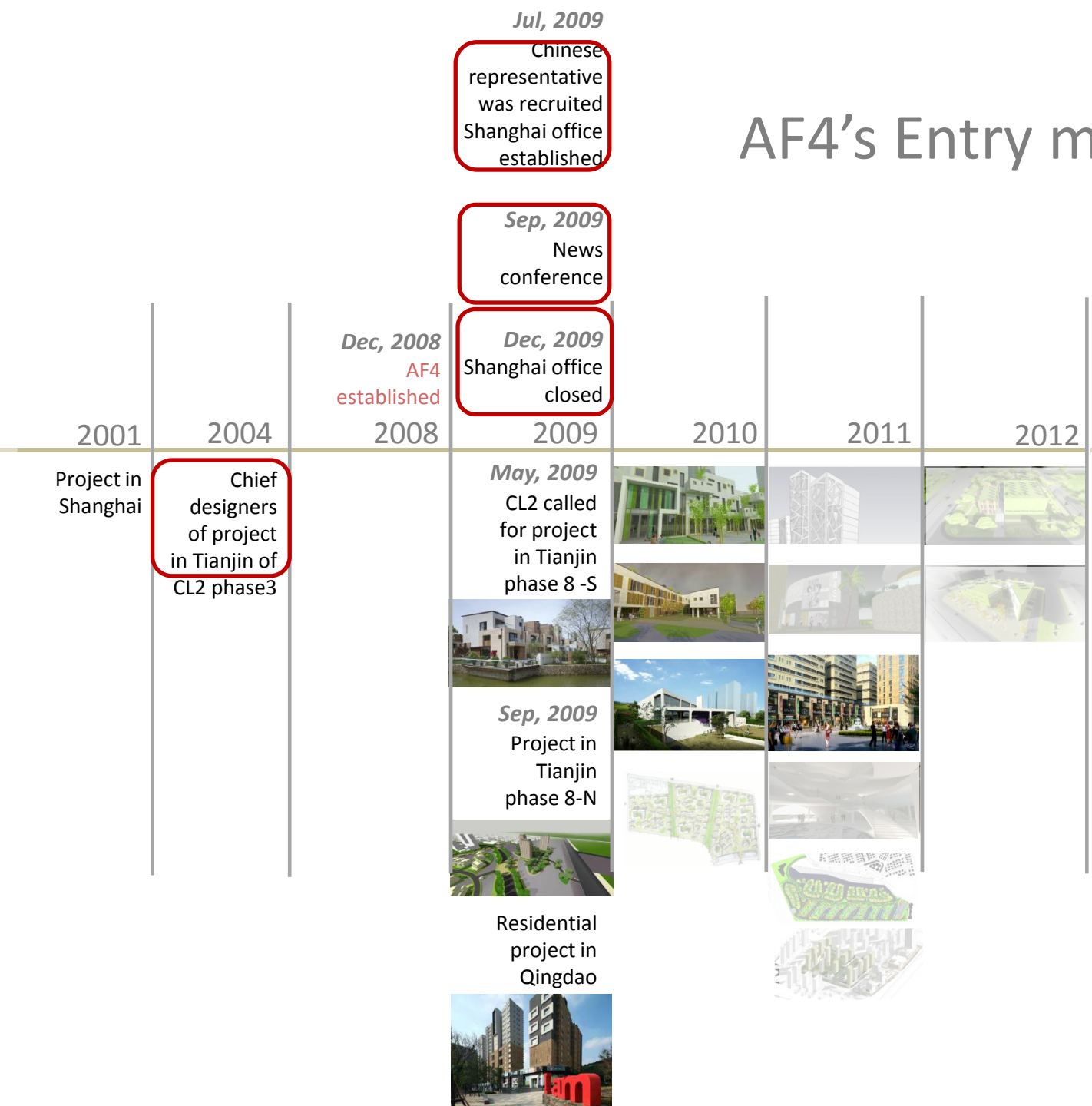
AF4

# Location choice & market targeting

Location/ Building types	Beijing & Bay area	Shanghai & around	Shenzhen, Guangzhou Hong Kong	Other cities
<b>Exhibition</b>				
<b>Commercial</b>				
<b>Residential</b>	■ ■			■ ■ □
<b>Offices</b>				
<b>Cultural facility</b>				○ *
<b>Educational</b>		■		■ ■
<b>Transportation</b>				
<b>Urban Planning</b>	□ * □ *			
<b>Sports facility</b>				
<b>Mixed use</b>	◇ ◇ □			○ *

- State-owned company- entry
- Private developer- built
- Private developer- entry
- ◇ Joint-venture company- entry

# AF4's Entry mode



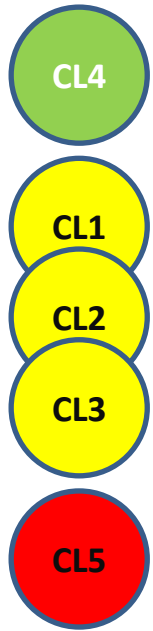
## Learning from AF4

- Building up good reputations among its clients
- Recruiting experienced but not ambitious Chinese representative
- Following its profile therefore refuses some chances accordingly
- Knowing what they can do and cannot do
- Adopting mobile entry in order to keep its exotic position in the eyes of Chinese clients
- Keeping a very open mind

**CHINESE CLIENTS**

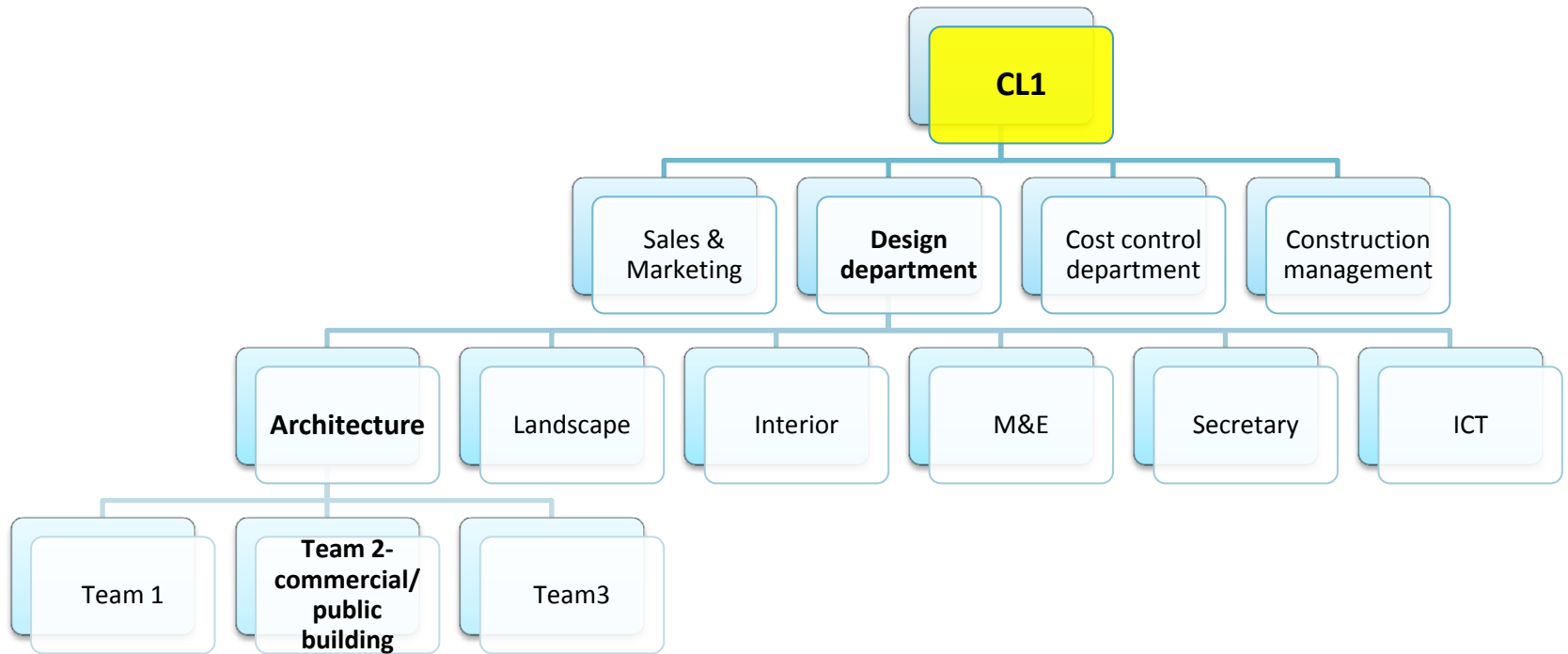


# Types of Chinese Clients

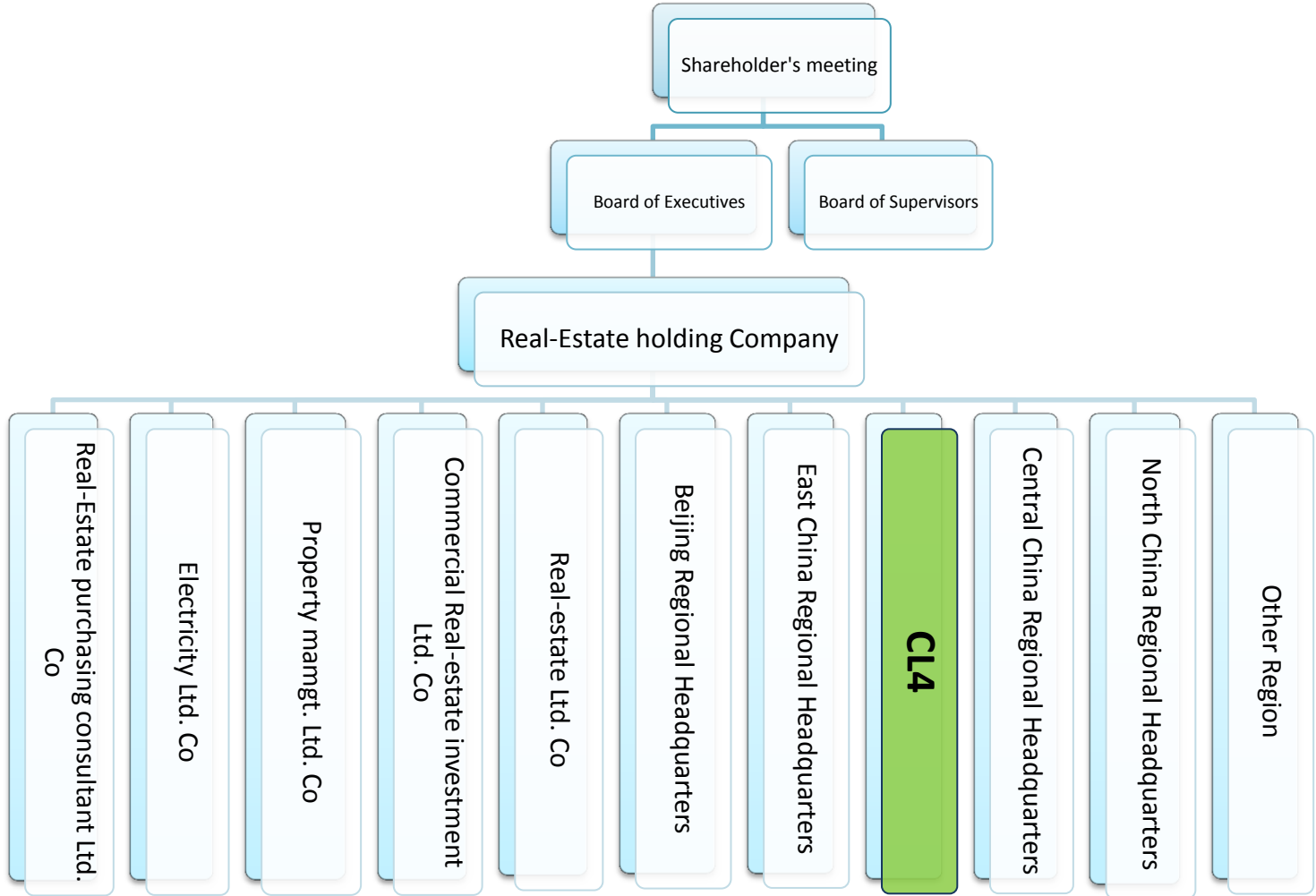


Type of clients	Nature of the clients	Their work
State-owned companies	Government or government controlled companies	Important public buildings, government office buildings, urban planning, infrastructure projects
Non-governmental local businesses		Purchase land from the government in order to develop it, usually for residential, also for commercial use
Foreign-funded business	Firms from Singapore, Indonesia, Taiwan and Hong Kong/overseas funds	Commercial, residential/ top quality office buildings, superior hotels
Joint ventures	A real estate company partners with government-controlled commercial interest or a non-governmental business	

# Organization Chart- CL1



# Organization Chart- CL4





# Comparison of Chinese Clients

	CL1	CL2	CL3	CL4	CL5
Types of clients	Private	Private	Private	State-owned	Foreign invest
Motivation	<ul style="list-style-type: none"> <li>Publicize itself</li> <li>Expertise and creativity of foreign firm</li> <li>Brainstorming</li> </ul>	<ul style="list-style-type: none"> <li>Competence of foreign firm</li> </ul>	<ul style="list-style-type: none"> <li>High design quality</li> <li>Advanced building technology</li> <li>Exotic concepts</li> <li>Experienced project management</li> <li>Interest of sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Market affirmation</li> </ul>	<ul style="list-style-type: none"> <li>As a foreign invest firm, the foreign architects share a common language on design standard, contract, business management and quality of result</li> </ul>
Types of building issued to foreign firm	<ul style="list-style-type: none"> <li>Commercial</li> <li>Iconic building</li> <li>Special issue</li> <li>High-end projects</li> <li>Not many residential</li> </ul>	-	<ul style="list-style-type: none"> <li>Iconic building</li> </ul>	<ul style="list-style-type: none"> <li>All different types, but not many residential</li> </ul>	<ul style="list-style-type: none"> <li>All different types</li> </ul>

	CL1	CL2	CL3	CL4	CL5
<b>Criteria</b>					
• Branch office in China	✓	✓	✓		✓
• Cost	✓ *			✓	✓ *
• Performance in China	✓		✓		
• Personal connection to the foreign firm				✓	✓
• Provide good design		✓			
• Reputation in China	✓				
• Specialization	✓		✓		✓
• Time	✓			✓	✓

	CL1	CL2	CL3	CL4	CL5
<b>Ways of selection</b>					
• Competitions	✓		✓	✓	✓
• Direct commission		✓			
• Invited tender	✓		✓		✓
• Pre-selection			✓		
<b>How to know the architects?</b>					
• Architectural magazines	✓				
• Intuition		✓			
• Networking provided by the foreign organization				✓	✓
• Personal connection	✓			✓	✓
• Recommend oneself				✓	
• Website	✓				

# **CROSS-CASE ANALYSIS**

# Location choice

## Theoretical framework

- Distribution of projects
  - Dutch firms' knowledge may be very limited to well-known cities only (Den Hartog, 2009)

- Market is shifting to the inner province (China Statistics, 2010)

## Findings in empirical cases

- 1<sup>st</sup> projects passively followed the chance
- Distribution of projects
  - AF1: random choice
  - Others: start with connection with potential clients

- Projects in Hainan, Shenyang shows potential market is shifting

# Location choice

## Theoretical framework

- Location of branch office
  - Well-planned decision

## Findings in empirical cases

- Location of branch office
  - Not any decide according to its investigation
  - Opportunistic
  - Following its resources
- Dutch firms may have different thoughts about location choice after entering
- Doubt of “whether best location exists”?
- City’s culture benefits

# Market targeting

## Theoretical framework (Xu and Greenwood, 2006)

- Segmentation
  - Process of dividing potential customers
- Targeting
  - Follow the most complete resources or with familiar types
  - Exploit firm's competitive advantages

## Findings in empirical cases

- Segmentation
  - AF2 and AF4 aware of
  - AF1 and AF3 not acute due to cultural distances
- Targeting
  - Except for AF3, others do
  - Confirmed by Chinese clients the specialization is crucial

# Market targeting

## Theoretical framework

(Xu and Greenwood, 2006)

- Positioning-Ways acquiring contracts
  - Competition is most popular for Dutch firms (Buurman et al., 2005)
  - Relationship-based business culture( Zou and Leslie-Carter, 2010)

## Findings in empirical cases

- Positioning
  - Firms with international reputation take competition
  - Small firms based on good relationship with clients



# Entry mode

## Theoretical framework

- Set up branch office is necessary (Ling et al. 2005)

- Competitions between horizontal partners

## Findings in empirical cases

- It is not necessarily have a branch office
  - AF4 takes mobile entry and earns 90% of business in China
    - Previous collaborative experiences
    - Performances in China
    - Experienced Chinese representative/staff
  - AF2 takes strategic alliances under mutual trust
  - AF3 takes strategic alliance but with competitiveness

# Entry mode

## Theoretical framework

- Strategic alliance with the local LDIs (Xu and Greenwood 2006)

- Entry's sequential position to the choice of entry mode (Chang and Rosenzweig, 2001)

## Findings in empirical cases

- Not found in interview

- AF1's changes of entry mode
  - Mobile entry 2001-2010
  - Representative office 2011
  - Branch office 2012

# Cross-cultural issues

## Theoretical framework

- Cultural distances (Hofstede, 2010)

## Findings in empirical cases

- Many Dutch firms encounter cultural barriers
  - AF4, “You shouldn’t change everything!”
  - Being there- responsible!
  - Cumulated experiences help!
  - Experienced Chinese representative matter!

# CONCLUSIONS

<b>Categorization</b>	<b>Location choice</b>	<b>Market targeting</b>	<b>Entry mode</b>
<b>Star-architects</b>	Random	International competitions	Permanent entry
<b>Partly well-known in China</b>	Random	Competitions/dividing potential customers/exploiting firms' competitive advantages	Permanent entry
<b>Well-known in Netherlands</b>	Passively decided/following Dutch investment	Exploit the most familiar types/competitive advantages	Permanent entry/ mobile entry
<b>Ordinary in Netherlands</b>	Passively decided by projects	Experienced Chinese representative/follow the resources	Mobile entry
<b>Novice</b>	Passively decided by projects	Strategic alliance/start with connection	Mobile entry