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P2 Report MSc thesis

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GET YOUR FEET WET-

A STUDY OF ENTRY STRATEGY OF DUTCH ARCHITECT FIRMS IN CHINA

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“The advancement of communications and easiness of travel have allowed the globalization of architectural practice.” (Pollalis, 2004)

“Telecommunications systems have irrevocably linked the world, and political, social, and economic events have changed how engineers and constructors now interface with the rest of the world.” (Yates, 2007)

“Good design is based on active cultural exchange!” (Fingerhuth and Joos, 2002)

1. Introduction

1.1. Introduction

Subject of this study is architectural entry strategies. This phenomenon will be defined and explained throughout this first chapter. Also the relevance of this subject to study upon will become clear.

Globalization

The rapidly increasing globalization has given architects the chance to do long-distance work; while on the other hand, owners who are seeking international recognition for their projects therefore invite branded architects to design for them. With an optimistic view of construction market growth prospects in Asia, many foreign architects follow the trends to seek opportunities.

International projects

With China’s accession to the World Trade Organization, more foreign contractors have been venturing into the Chinese construction market. Under the pressure of worldly financial crisis, China seems to be able to keep a continuous economic growth. Even though the domestic market in China is jealously protected from outside intervention (Morledge et al., 2006), the high market potential still attracts many expatriates to put their efforts in this country. Service from programming, design, construction technology, and even the maintenance, foreign companies were actively involving in every area. With the special social condition and the regulatory restriction, collaboration with a local architect is necessary in most of the cases (Ministry of Construction, 2004); hence a cross-cultural collaboration becomes necessary and crucial to the performance of projects.

Entry strategies

On the other hand, when a foreign company decides to enter in an international market, an entry strategy needs to be adopted (Buckley and Casson, 1998, Chang and Rosenzweig, 2001, Werner, 2002, Ling et al., 2005a). The entry strategy may comprise motivation, entry mode, location choices and market targeting.

The definition of an international market entry mode is to create the possibility by arranging company’s products, technology, human skills, management or other resources to enter into a foreign country. The entry modes help companies to determine goals, resources and policy in order to channel their

international activities toward a sustainable international expansion. The entry mode needs to be carefully chosen because each entry mode offers specific benefits and risks; and it should be chosen with an adequate market targeting that will make the architecture firm more competitive.

1.2.Motivation

In this part, it will be motivated why the subject has been chosen as an interesting area to study, which in the end leads to the formulation of the central research question in this study.

Current situation

Under the background of globalization, seeking opportunities abroad has been a promising phenomenon in the architectural practice. As for those architect firms which intend to have a project abroad, although there are assistances provided for architecture firms through international trade missions, export firm support networks or information packages by government agencies, evidence suggests that there are still perceived barriers to market entry, cultural understanding and long term sustainability for firms to export design service.

Meanwhile, the cross-cultural management (definition sees literature review) is worthy to pay attention to while considering entry strategies, especially under the setting of cultural distance (definition seen in appendix) . Therefore in my opinion, a study towards the state-of-the-art of this development could be very interesting and even useful.

Demand

China has been a hot spot for international architectural, engineering and construction firms in the past decades. Although many have warned that the property bubble in the big cities may be popping, projects such as Canton Tower has drawn attention of people and many firms are still trying to find opportunities in China.

From 2010 the government has introduced some measurements to cool the pace of real-estate price growth. According to the National Bureau of Statistics of China (2011a), the growth rate in real estate investment in 2010 is 33.2%; and the price of real-estate has dropped from the peak of 2009. Even though the GDP growth slows to 9.6% in 2010, China's construction industry is predicted to rise for another few years (Davis, 2011) and has made China an eye-catching country for construction market.

Table 1.1 Operation of the National Real Estate Market in 2010

Investment item	Investment (billion EURO)	Growth compared with in 2009 (%)
Housing	3866.1	32.9
Total investment in Real Estate	5482.7	33.2

Source: National Bureau of Statistics of China

Supply

Numbers shows the reality of the international projects in China. Article indicates that among the world top 200 construction firms and design consultants, more than 140 firms have set up their affiliate offices in China. During the preparation of Beijing 2008 Olympic Games, among the 121 competitors for the 'Olympic Projects' (avenues and facilities for the game), 74 are wholly foreign invested firms, which is in a percentage of 61% (Zhang, 2006).

Netherlands

Minister of State for Economic Affairs of the Netherlands declares that architecture, in addition to clogs and tulips, is now a major export article (Buurman et al., 2005). The Dutch Royal Institute of Architects (BNA) also acknowledges the presence of this development abroad. Figures from the BNA show that about 3% of total foreign sales of architectural projects are achieved. For large firms it is almost 20%. However the support of exportation of the services outside Europe is still limited. Informative booklets on architectural practice are available in Germany, Belgium, France and the United Kingdom.

Main research question

There has been considerable research into the patterns and determinants of foreign entry strategies; nevertheless, the entry strategies for overall industries might not be applicable to architect firms. Furthermore, very few scientific researches of entry mode of architect firms would take into account the cultural factors.

In this paper, a study of entry strategies of Dutch architect firms (representative of the advanced market¹) with consideration of cross-cultural management to enter Chinese market is going to be investigated. The entry mode, collaboration form and market targeting are going to be examined with the Dutch architect firms within the Chinese context. Through the cross case studies, this research tries to figure out the embedded cultural factors affect the entry strategy.

From the problem described above and in order to see the relation between collaboration form and the entry strategy, the central research question was formulated as:

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

1.3. Scientific relevance

1.3.1. Areas of knowledge

The study is performed within the Department of Real Estate and Housing, section Design & Construction Management. The section D&CM focuses on two major themes, Architectural design management and Construction Process Innovation. The D&CM section develops management tools, methods and models

¹ The advanced markets consist of North America (United States and Canada), Western Europe, Japan, and Australia.

for contemporary and future generations in the architectural practice. This research would be under the track of Architectural design management laboratory.

Architectural design management

Architectural Design Management (ADM) involves the strategic design, organisation, and control of architectural and constructional design processes, with the objective of creating value through design (Real Estate & Housing 2011).

The ADM are divided into four main themes: 1. theory and modelling focused on the measurement and management of architectural and constructional values; 2. design strategies for design processes and their management; 3. the development and empirical validation of methods, techniques and instruments for the strategic design, organisation and control of design processes; and, 4. redesign architectural practice (Real Estate & Housing 2011). Based on an empirical study, this study tries to define whether cross-cultural management could contribute to a more effective and efficient future strategic organisation and implementation of entry strategies.

1.3.2. Relevant program

Two other organizations are currently conducting programs towards the topic. One is of Netherlands Architectuurinstituut (NAi) and the other is a quasi-official organisation Dutch Design, Fashion & Architecture (DutchDFA). The later has a more active intervene on Asian market. Corporate together with NAI, the purpose of the DutchDFA is to strengthen international projects and activities, to bring the Dutch designers to the international stage. By its programme DutchDFA provides connection and a platform for Dutch designers to Chinese, German, Indian and Turkish market. (<http://www.dutchdfa.nl>)

NAi- Matchmaking program

The matchmaking program was taken place on April 24, 2011. It has the ambition to instigate collaborations between Dutch and Chinese architects. It is the ambition of the NAI to see where Dutch architectural knowledge can be offered value all around the world.

The workshop was organized by the Netherlands Architecture Institute (NAi) and produced by MovingCities. It brought together 5 Chinese and 5 Dutch architecture offices with the objective to establish collaborations and develop innovative solutions for China's housing market.

Table 1.2 Participants of matchmaking program

Participating Chinese offices	Participating Dutch offices
Xiaodu Liu Urbanus [Beijing/Shenzhen]	Ruurd Gietema / Marcus Apenzeller KCAP
Zhang Ke standardarchitecture [Beijing]	Pieter Bannenberg NL Architecten
He Jianxiang O-office [Guangzhou]	Arons en Gelauff
Doreen Heng Liu NODE [Shenzhen]	NEXT Architects

Wang Shu | amateur architecture studio [Hangzhou]

BARCODE

Source: DutchDFA (2011)

Dutch Design Workspace

The DutchDFA has opened its “Dutch Design Workspace” in Shanghai in September 2010, and is launching its Workspace in Mumbai in the coming February 2012.

Its program extends from Beijing and Shanghai to Shenzhen, Guangzhou and Hong Kong. The incubator program such as workspace in Shanghai provides Dutch design firms a platform to its future development in China. This incubator programme in Shanghai opened on 17 September 2010 and supports Dutch design companies aiming to enter the Chinese market. Currently two architectural firms with their excellent proposals selected by the committee board are MVRDV and KCAP. Participants are invited to apply for the incubator program from various fields of design; the programme aims to stimulate exchange and collaboration between the various disciplines of the participants and at the same time makes sure to avoid direct competition within the incubator. Dutch Design Workspace program provide two supports to its participants: a plug and play shared office space and a special support program to make their start in the Chinese market more efficient. It also aims to create a higher business momentum by gathering designers from different fields work together for an exchange of knowledge/expertise. It also assists participants with issues such as local marketing and promotion, communication with Chinese government, relationship management and more practical issues like company registration in China. Meanwhile, it is open for Chinese designers who are interested in working closer to the Netherlands.

Travelling exhibition: Taking a stance

This exhibition organized together by NAI and DutchDFA presents eight leading designers from China and the Netherlands. It started before the Shanghai EXPO and ended with an exhibition in Rotterdam 2011. Such kind of event provides a platform to promote the designers. The only Dutch architectural firms being invited in this event was Rem Koolhaas/OMA, which is already a very well-known firm in the world.

2. Theoretical framework

In the past three decades, with its enormous economic growth, immense construction works, and astonishing speedy changed cities, China has been a very attractive country for global architects to expand their business. Such condition results in international projects. The international market for construction-related services can be described as complex, uncertain, and risky (Gunhan and Arditi, 2005b). There is a great potential for organizations to enter the global arena. The International Expansion Decision Model may give an overall view of this subject.

In the following part, studies discovered the factors embed in the above decision making, such as how globalization and IT development contribute to the international projects will be revealed; and the arguments of such progress will also be discovered. The previous studies on entry strategy and studies on Chinese context will be addressed in the following part. Finally, due to entry mode is explained by cultural and national factors, there will be a discussion of the relevant researches on cross-cultural management. The definition of cross-cultural collaboration and is given; factors influenced cross-cultural collaboration will be addressed with literature review.

2.1. The international expansion model

Chang and Rosenzweig (2001) sorted entry mode into two types: one is explained by transaction cost theory and the other is explained by cultural and national factors. In the transaction cost theory it assumes that the confidence and ability to correctly estimate the risks, returns and manage foreign operations will determine the firms to enter in full or partial ownership. The cultural difference is hypothesized to determine a firm to choose a less risky entry mode. Meanwhile, the firm of origin may be associated with preference of a particular entry mode, whether for cultural or institutional reasons.

Gunhan and Arditi (2005b) developed a decision model for the construction firms which intend to enter the international markets. They combined use of the analytic hierarchy process (AHP) and Delphi for their study. In the process there are two steps in the model: in the first, the company decides whether it needs to expand into international markets and whether it has the resources and organization to realize such an expansion. This step involves an internal and an external readiness test. If the outcome in the first step is positive, it allows the company to go for the analysis of the benefit/cost of operating in a specific country. When the outcome is positive, the model recommends the most appropriate entry mode. In Gunhan and Arditi's another paper (Gunhan and Arditi, 2005a), they pointed out that within the external readiness loss of key personnel, shortage of financial resources, and inflation and currency fluctuations are the most important threats relative to international markets. While it seems that the transaction cost theory is superior to the cultural factors.

In this regards the research question was formulated: *Which factor is more crucial for Dutch architect firms which intend to enter the Chinese market?*

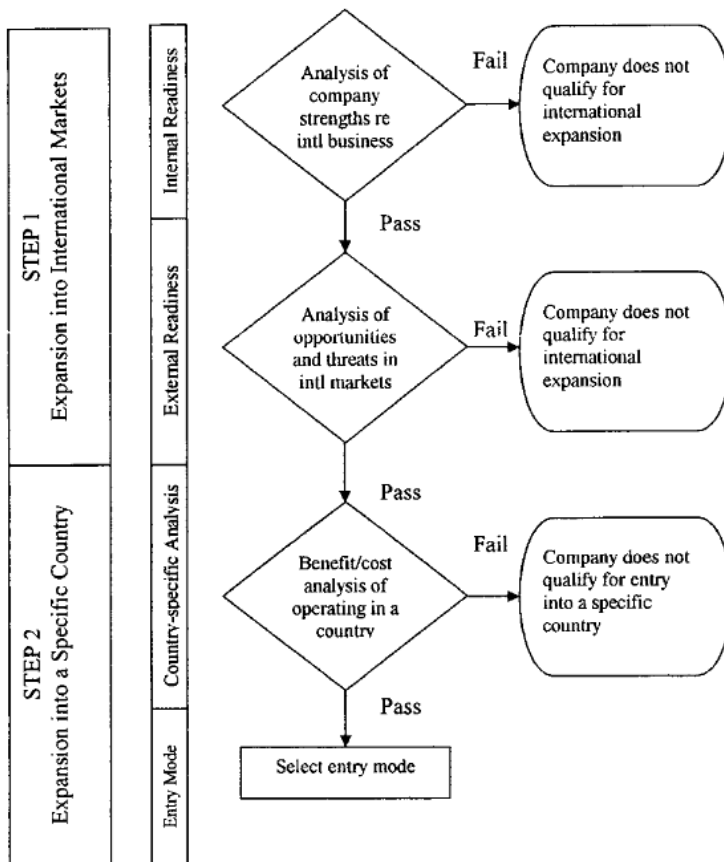


Chart 2.1 Flowchart of the International Expansion Decision Model. Source: (Gunhan and Arditi, 2005b)

2.1.1. Globalization & IT development

Globalization and construction sector development

Globalization has urged the international projects. During last decades, critical changes have occurred that reduced barriers to international trade and expanded world construction markets. Due to the GATT, all signatory countries are obligatory to open their domestic market, including the construction service. The development of regional Free Trade Blocs has had a profound impact on the construction industry by instituting free trade among member countries. These phenomena show the external readiness of the international expansion and encourage the formation of acquisitions and joint ventures, or opening new branch offices.

Recent developments in the construction sector in the Asian region demonstrate three trends: (1) larger private sector participation in infrastructure projects, (2) increasing vertical integration in the packaging of construction projects, and (3) increased foreign participation in domestic construction (Raftery et al., 1998). Recognizing the benefit of foreign private sector equity in domestic construction industry markets, measurements such as removing barriers in the repatriation of profits, adopting a transparent tax policy

or entering into bilateral agreements with foreign governments to guarantee safety of foreign investment have been conducted by many Asian governments in the past years.

IT development

The globalization and IT development have made exporting design service possible. Han and Diekmann (Han and Diekmann, 2001) pointed out that rapid developments in telecommunication, travel, and other related industries have open opportunity to the international construction markets. Moreover, the low cost of the new information technology brings the new organization structures.

The new organization structures may include offshore outsourcing. Mulder (2007) stated that outsourcing work to remote areas is enabled by the global development of digitalisation. IT and IT-enabled services can now be transferred around the world due to a comprehensive global ICT infrastructure. IT-enabled services include the services which are not software activities but activities which could also be separated from organizations and transferred abroad.

“It is no longer necessary to set up extensive local management office”, asserted by Han and Diekmann (2001). However, this could be not true in China.

According to den Hartog (2009)², the convenience of the new technology may subsequently result in insufficient communication therefore may cause delay of the projects and misunderstanding with their Chinese counterparts. Research shows that exporting service to China, “it is necessary to ‘get one’s feet wet by being in China physically” (Ling et al., 2006), which means to set an office in China or at least stay a longer period in China in order to develop a good understanding of local by-laws; to understand client requirements better; to be more responsive and physically closer to the client; to demonstrate long term commitment; and to establish the firm’s brand name. In this regards the research question was formulated: *To what extent does IT development affect the performance of a Dutch architecture firm in China? And further: How does it relate to their entry strategy choice?*

2.1.2. Entry strategies

When a foreign company decides to enter in an international market, an entry strategy needs to be adopted (Buckley and Casson, 1998, Chang and Rosenzweig, 2001, Werner, 2002, Ling et al., 2005a). Not surprisingly, there has been considerable research into the patterns and determinants of foreign entry strategies. The entry strategies may comprise motivation, entry mode, location choices and market targeting. In the following the previous studies of these aspects will first be discussed.

² Harry Den Hartog mentioned that most Dutch architects worked in a special way which they drafted on the plane way back home from the site visiting; subsequently sent the documents/drawing and communicated with their clients by email or fax.

2.1.2.1. Entry mode

Entry mode types

According to the literature studies of Ling et al. (2005a), four basic ways to expand internationally, from the lowest to the highest risk: (1) exporting; (2) licensing and franchising; (3) strategic alliances; and (4) wholly owned foreign subsidiaries. The last two modes are more appropriate for the architectural, engineering and constructional companies.

The strategic alliances include a project joint venture, equity joint venture and a marketing alliance; and the wholly owned foreign subsidiaries mainly consist of two ways- set up a new operation in that country; or acquires an established firm.

Chen (2008) asserted that the current international construction arena sees the popular mixed use of the two generic market entry modes: permanent entry (by localized subsidiaries and partnership) and mobile entry (project-based); and this categorization is similar to the result of Ling et al.

Pro and cons of different entry modes

The most common seen modes in construction industry are joint ventures and project-based collaboration (mobile entry), with a significant growth of foreign direct investment (permanent entry). The following table provides a comparison between these three modes may serve as a knowledge base for entry mode selection.

Table 2.1 Comparison of entry modes

Mode	Conditions favouring this mode	Advantages	Disadvantages/risks
Mobile entry	Joint Ventures	<ul style="list-style-type: none"> Overcomes ownership restrictions and cultural distance Combines resource of two companies Potentials for learning Viewed as insider Less investment required 	<ul style="list-style-type: none"> Difficult to manage Dilution of control Knowledge spillovers Partner may become a competitor Client's cash flow problems Financial problems in partner's parent company Inconsistency in government policies, laws, and regulations Economic fluctuation Poor relationship
		<ul style="list-style-type: none"> Large cultural distances Some political risks Government restrictions on foreign ownership Local company can provide skills, resources, distribution network, brand name, etc. 	

	Project-based collaboration	<ul style="list-style-type: none"> No firm registered Local company can provide resources to comply with local regulations Projects which Chinese construction enterprises cannot undertake independently due to technical difficulties Adopted of mega project 	<ul style="list-style-type: none"> Providing sophisticated conceptual design High flexibility 	<ul style="list-style-type: none"> Stability is very low Possible competition between partners is high Knowledge spillovers Uncertainty and speculation
Permanent entry	Foreign Direct Investment	<ul style="list-style-type: none"> Small cultural distance Assets cannot be fairly priced High market potential 	<ul style="list-style-type: none"> Greater knowledge of local market Can better apply specialized skills Minimize knowledge spillovers Can be viewed as a an insider 	<ul style="list-style-type: none"> Higher risk than other mode Requires more resources and commitment May be difficult to manage the local resources

Source: self-organized

Factors determined entry mode for construction market

Chen (2008) further identified factors determine the entry mode selection for international construction market. These include trade link, cultural distance, colonial link, language proximity, host market attractiveness, investment risk, entry restriction and competitive intensity (definition seen in appendix A).

The results show that contractors do not tend to determine entry mode based on trade link, investment risk and host market attractiveness; the international contractors appear to be adventurous risk-takers and aggressive competitors. In this regards the research question was formulated: *Which factors would be more crucial for a Dutch architect firm when selecting entry mode to China?*

The results of Chen's research also show that contractors are more likely to use permanent entry than mobile entry when cultural distance or competitive intensity is significant; or colonial link, language proximity or entry restriction is insignificant. They will use permanent entry mode to gain local knowledge, command new capabilities and establish local networks to surmount the challenges in overseas markets that are quite different from their home countries.

On the contrary to the phenomena stated in the table 3, Chen's results indicate that theories and previous findings primarily from the manufacturing sector do not apply to the construction sector. In this regards the research question was formulated: *Which entry form do Dutch architect firms in favour of to enter the Chinese market, a permanent entry or a mobile one?*

Ways acquiring a contract

Winch et al. (2002) specified the entry mode to foreign markets of architect firms by the ways acquiring a contract, and they are 1) to follow the foreign investment activities of a client for whom they have worked in the home country; 2) to win an architectural competition; 3) through selective tender; 4) to use an introduction from another member of a network. In this regards research question was formulated: *In which way would the Dutch architect firms choose to acquire the first contract in China?*

2.1.2.2. Market targeting

Market targeting includes three major steps and they are segmentation, targeting and positioning (Xu and Greenwood, 2006). Market segmentation is usually defined as the process of dividing potential customers into distinct groups for the purpose of targeting and designing segment-specific marketing strategies.

An architecture firm needs to consider from three dimensions in order to increase the value of their organization: differentiating the product to add value, lowering the costs of value creation or even to create new markets. In international construction, differentiation strategy involves providing speciality or superior quality products or services. The low-cost strategy may be achieved if firms establish price competitiveness. Winch et al. (Winch et al., 2002) studied architectural practice based on the analysis of the organization, and they adopted the previous research from Maister, Coxes et al., and Porter, identified four generic strategies under two market dimensions (the complexity of projects and the quality preference of the clients). Those four strategies are strong experience, strong delivery, strong idea and strong ambition.

The two dimensions of the quality preference of the client are peer review and client review. The former is the case where the architectural profession will be the judge; the latter is the case where the building must meet specific operational client needs, and the client is less sensitive to purely aesthetic issues but more concerned with the functionality of the completed building (Winch et al., 2002).

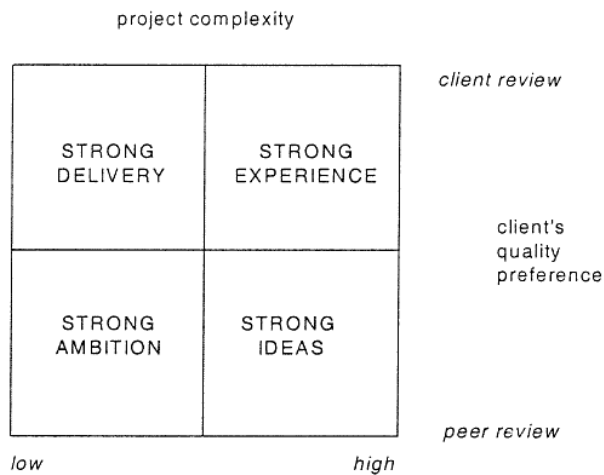


Chart 2.2 Generic strategies for architectural practice. Source: Winch and Schneider (1993).

Strong delivery practices are relatively simple building type and meeting client needs economically and effectively. Strong experience practices are rather complex building types, solving architectural problems to meet client's operational requirements. Previous experience in solving particular problems related to the client's brief is the crucial factor in winning the commission. The strong ambition practice is one which has been formed only recently, waiting for its first major commission. The principals may be making a living through teaching or entering competitions. The strong idea practice is to create a landmark building- the world star system. The crucial factor in winning a commission is a reputation for original and exciting solutions.

In this regards the research question is formulated: *What is the appropriate market targeting strategies in Chinese context?*

2.1.2.3. Entry's sequential position to the choice of entry mode

In Chang and Rosenzweig's study (Chang and Rosenzweig, 2001), they acknowledged the two types of entry mode (transaction cost v.s. cultural factors) are important for initial entries; further they asserted that entry mode reflects a desire to find the most efficient way to exploit and explore the knowledge base, therefore it will turn from external factors to the factors internal, such as experience or learning in which they further consider a sequence of foreign entry. In this regards the research question was formulated: *Do Dutch architect firms chose a different entry mode according to their experience?*

2.2. Studies in Chinese context

In this part current studies on the entry strategy in Chinese context will be reviewed. First the reasons why choose China as an entering destination and the trends will be given. Following a review of Chinese regulations related to international expansion will be described. Relevant studies of entry mode and market targeting, the barriers to the certain market will be discussed.

2.2.1. Location choices

China as a destination

Due to the economic reform pushed by a modernization-oriented policy, the past three decades China has changed from a developing country to one of the countries which owns an astonishing amount of foreign exchange reserves; its averaging annual economic growth is over 9% in gross domestic product since 1978.

In China, the construction industry -- with its long history -- is considered one of the most important industries for national development. This country has witnessed nationwide upsurges in construction volume. Early in 2011, according to published reports, China replaced the United States as the largest construction market in the world. China's share of the total global construction industry is 15 per cent, while the United States' share is 14 per cent (Garcia, 2011). Together with the market potential, due to China's accession to the World Trade Organization in 2001, more foreign contractors have been venturing into the Chinese construction market. With its continued anticipated rapid growth rate, China will still hold its position as a large and high-growth construction market in the world.

Table 2.2 Comparison of global construction market share

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

Source: Garcia (2011), author self-organized

Speed

Along with the market attractiveness, the construction speed in China is astonishing. Due to the low wage of labourers, three-shift working system is often applied on construction site. Not only on the realisation phase, but on the design phase it also requires architects to work in a very high efficiency. Deng and Poon (2009) gave an example in their article to illustrate the tight schedule, "in 2007, one high-profile competition for an 800,000-sqm large-scale public building projects in Shanghai gave participators only 20 work days." Such high speed of a building project would bring more chances for architects and on the other hand, challenge the foreign architects to scheme the design and details in a very short time (Den Hartog, 2009).

Market shift

From the statistics we find a noticeable phenomenon that the chance of real-estate market in China might shift from the big coastal cities to the second-tier cities and the interior provinces. Provinces such as Hebei, Fujian, Hainan, Heilongjiang, Guangxi, Guizhou, Qinghai, Ningxai and Xinjiang have a significant growth rate in its total investment in real estate higher than 40% in 2010 (National Bureau of Statistics, 2011b). This may indicate that the potential market is shifting from first-tier cities to different areas which may require new awareness of the local culture and connection building.

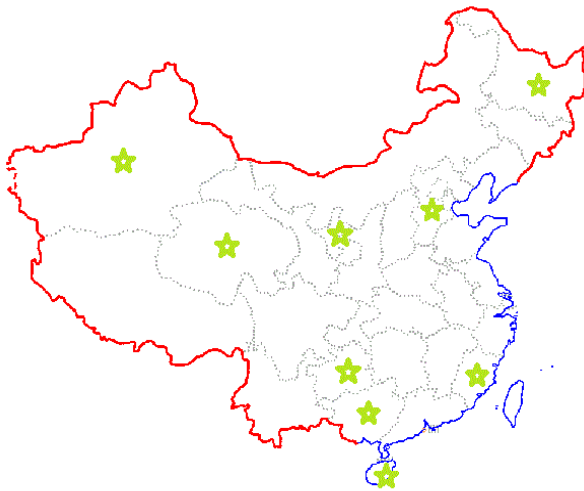


Figure 2.1 Distribution of the prominent provinces in National Real Estate Market

H. den Hartog (2009) pointed out that even though there are many design works done by Dutch architects in China, to most of the Dutch architects China is still a far alien country. People may be familiar with big cities such as Beijing, Shanghai and Guangzhou; but other than these cities, the architect firms may be very ignorant about the rest of this country. In this regards research question was formulated: *To what extent that the Dutch architect firms are aware of the location choice in Chinese market?*

2.2.2. Collaboration types in Chinese market

A review of current Chinese regulations helps to understand the feasibility of collaboration types taken by foreign design firms entering Chinese market. Regulations here especially refer to the latest documents related to foreign architectural firms issued by the Ministry of Construction. Xu et al. (2005) offers a good start of comparison of the relevant regulations before 2004 and identifies the possible types of collaboration for foreign contractors in China, namely mergers and acquisitions, joint ventures, project-based collaboration, and strategic alliances.

The competent authorities

The competent authorities to foreign architecture firms to practice are:

- relevant foreign trade and economic cooperation administration department -obtain the foreign-invested enterprise approval certificate;
- the State Administration of Industry and Commerce or its authorised administration of industry and commerce at local levels -register;

Different from a normal Joint Venture, after acquiring the license for a legal entity, a foreign architect firm which would carry out the full activities in China still needs to acquire the qualification certificate from:

- the State construction administration department or its authorised administration of construction departments at local levels; -obtain the qualification certificate of construction and engineering design enterprise.

Grading system

In China, all the construction and engineering design enterprises are managed by a grading and categorization system (Meeting of the Standing Committee of the Eighth National People's Congress, 1997, Ministry of Construction, 2007). Construction engineering enterprises, prospecting units, design units and project supervisory units are rated into different classes according to their registered capital, professionals and technicians, technical equipment and performance record of completed construction projects, etc. Only when they pass qualification examinations and obtain appropriate qualification certificates may they engage in construction activities commensurate to the scope of their qualification classes.

Foreign firms which would apply for Grade 'A' qualifications for construction and engineering design shall be examined and approved by the foreign trade and economic cooperation administration department of the State Council and its qualifications shall be examined and approved by the construction administration department of the State Council. And those who would apply for Grade B will be managed by a lower level of authority. Firms of Grade-A are allowed to undertake the principal part of project and its auxiliary parts; there is no limit for project scale. Firms of Grade B could simply undertake projects of small-medium scale.

Collaboration types

Those foreign companies based outside of China do the design work (including preliminary design and detailed design) in China; "cooperative design" is required. According to the regulations "Administration of Foreign Enterprises Engaging in Construction Work Design Activities in the People's Republic of China Tentative Provisions" (Ministry of Construction, 2004), foreign design firms shall select at least one Chinese design enterprise with construction work design qualification granted by the administrative

authority in charge of construction (Chinese Design Enterprise) to engage in Sino-foreign cooperative design (Cooperative Design), and shall undertake design business within the scope specified in the qualification permit of the selected Chinese Design Enterprise. These Provisions shall not apply to the provision of conceptual designs.

As for foreign-invested construction and engineering design enterprises in China, the Regulations on Administration of Foreign-Invested Construction and Engineering Design Enterprises (Ministry of Construction and Ministry of Foreign Trade and Economic Cooperation, 2002) indicates three types to practice more actively in Chinese market, namely 1) Sino-foreign equity Joint Ventures; 2) Sino-foreign cooperative Joint Ventures (project JVs); and 3) wholly foreign-owned enterprises.

Definition of each type of collaboration and their original regulations will be given in the appendix A.

2.2.3. Barrier/Challenges to Chinese market

The economy in China is now neither a planned nor a Western-style market economy, but is in transition towards a ‘socialist market economy’. Foreign contractors may encounter various entry barriers in their expansion into China.

“Many consider the Chinese market a difficult one with its governmental, market and technical barriers to entry.” (Xu and Greenwood, 2006)

Chinese context

Xu and Greenwood (2006) broke down the barriers to Chinese market into three dimensions which are (1) government restrictions, (2) market barriers, and (3) technical barriers. Even though the policy on foreign firms is more open nowadays, the Chinese construction market and construction enterprises are still under government protection. The market barriers include low prices from local competitors; network and relationships (Guanxi) with authorities, clients, subcontractors and suppliers; and linguistic proficiency. Deng and Poon (2009) asserted that new comers do not enjoy the same privilege as the well-established who can be more selective in which competition to participate and with whom to collaborate. Technical barriers include differences in technical standards, codes, and practice between China and the home countries of foreign contractors.

Zou and Leslie-Carter (2010) found that lack of regulatory transparency, regional differences and a relationship-based business culture are some of the factors that make China a challenging project environment. Meanwhile, forming an international partnership, managing cultural differences and risks, dealing with intellectual property and ownership of design are recognized as important issues to an international project such as ‘Water Cube’ in Beijing.

In Mainland China, language barrier is a key determinant for the cross-cultural collaboration (Deng and Poon, 2009). Not only does Mandarin predominate in business communications, but also Chinese is the sole official language in the documents. Ling et al. (2005b) also indicate that the projects may be impeded because ideas could not be accurately communicated due to the language issue. To overcome such problem, local agents and translators may improve the situation.

Focusing on cross-cultural problems in international project, Xiao and Boyd (2010) indicate that language is just only one of the obvious barriers in any cross-cultural project environment, and there are much deeper and more complicated cultural issues to be tackled. For instance, different faiths, assumptions and behaviour norms can and cause conflicts. They mentioned that it is worthy to pay attention to informal communications and recognize and deal with emotions explicitly.

Netherlands

Language is not the barrier (Den Hartog, 2009), but the working methods to finalize the projects between the Chinese and the Dutch organizations. For example, in China the construction process of a project is not able to be controlled by the architect; on the contrary, the Dutch architects have a say in a project. Dorée (1997) points out that it is very natural to have collaboration on procurement process between Dutch municipality and contractors. Such atmosphere of collaboration is far less antagonistic, opposing, hostile and conflicting than in other countries.

2.2.4. Entry mode to Chinese market

Specific researches of the entry strategies for building companies in Chinese context were mainly investigated by researchers from UK, US, Australia and Singapore (the Anglo-Saxon profession). Most of the researches adopted an integrated approach: a questionnaire survey, supplemented by in-depth interviews. The selected interviewed companies are mainly from Asian countries and United States; moreover, there were very few researches specifically investigate the architectural practice.

Market targeting- competitive advantages

According to Xu and Greenwood (2006) foreign contractors are unlikely to have cost advantages over their local competitors, but differentiation is feasible. Ling et al. (2005a) pointed out that it is very important to offer niche/specialty product or services in Chinese market. Researches show that the possible strategies may include following the policies of the host country- such as sustainable design initiatives or new towns for higher density (Den Hartog, 2009, Zou and Leslie-Carter, 2010); or differentiating themselves by completing projects in shorter times and providing packaged or integrated services (Ling et al., 2005a).

Contractual form

As for specific Chinese market condition, Xu and Greenwood (2006) sorted entry modes with different contractual condition. Except for the common seen two entry modes- strategic alliances (project joint venture, equity joint venture and a marketing alliance) and the wholly owned foreign subsidiaries (FDI)- which is regarded as the most effective way entering Chinese market by Ling et al. (2005a), Xu and Greenwood proposed a third module to Chinese market- using design-and-build strategy.

While the first one was chosen as the most promising way to deal with many of the entry barriers, effectively maintaining alliances with Chinese design institutes is recommended. The FDI projects are

probably the most practical approach in view of present Chinese regulations, however the differentiation should be taken into account. The design-and-build will allow foreign contractors enjoy advantages in securing FDI projects, and the design-and-build route offers them opportunities to be innovative.

Other researches show that taking a long-term vision for Chinese market (Ling et al., 2005a, Deng and Poon, 2009). A significant investment, both tangible and intangible, is typical of landing a first job in China, the attitude of a 'hunter' or 'quick-in-quick-out' will not enhance the success.

2.3. Cross-cultural management

The essence of entering an international market requires the organization's involvement outside their national boundaries and the entry strategies were explained by cultural and national factors, therefore studies of cross-cultural management will be investigated.

2.3.1. Cross-cultural collaboration and management

With the reality of the emerging phenomenon of international projects, nowadays architect firms no longer operate solely in their domestic markets. Projects involved multi-cultural professionals take great efforts from all the participants to work together to reach a common goal.

"it is generally considered that people from different cultures have different views on the world and hold different assumptions about life and work... there are differences in values, attitudes, perceptions and behaviour norms which affect people working in a cross-cultural environment." (Xiao and Boyd, 2010)

As a result, managers from these firms need to develop skills to interact with individuals from diversity of cultures (Pheng and Leong, 2000)- there are differences in values, attitudes, perceptions and behaviour norms which affect people working in a cross-cultural environment.

2.3.2. Definition

Culture

The definition of culture is hardly being defined. Hofstede's (Hofstede et al., 2010) definition is perhaps the best known to management scholars and is used here. Culture is

"the collective programming of the mind which distinguishes the members of one human group from another... Culture, in this sense, includes systems of values; and values are among the building blocks of culture."

Hofstede implies that culture (1) is particular to one group and not others; (2) it influences the behaviour of group members in uniform and predictable ways; (3) it is learned, and is not innate; (4) includes systems of values. In this paper, cultures are compared within the organizational cultures between the Dutch architecture firms and their Chinese counterparts. Therefore it focuses on differences between national cultures and the term "culture" is used to refer to the values of the architecture firms.

Cultural distance

The definition of cultural distance means a gap between the culture of two different groups, such as that between the culture of the Dutch and the Chinese. Hofstede developed a model to measure 'culture' and rated the countries by five dimensions. Although the result of Hofstede's research is disputable due to his data were gathered from one single group and may not represent the entire people of a certain country, his research is cited widely among the cultural researchers and is worthy to reference. The five dimensions are as followed:

Power-distance- Hofstede's Power distance Index measures the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally.

Collectivism vs. individualism- Individualism is the one side versus its opposite, collectivism, that is the degree to which individuals are integrated into groups.

Femininity vs. masculinity- Masculinity versus its opposite, femininity refers to the distribution of roles between the genders which is another fundamental issue for any society to which a range of solutions are found.

Uncertainty avoidance- Uncertainty avoidance deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to man's search for Truth. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations.

Long- vs. short-term orientation- Long-term orientation was added as the fifth dimension to distinguish the difference in thinking between the East and West. This dimension is with an understanding of the influence of the teaching of Confucius on the East.

Result

The result of Hofstede's research shows that the cultural distance between the Netherlands and China is comparatively large, especially in great in LTO, significant in IDV and MAS. The LOT and IDV may especially influence the organizational behaviour.

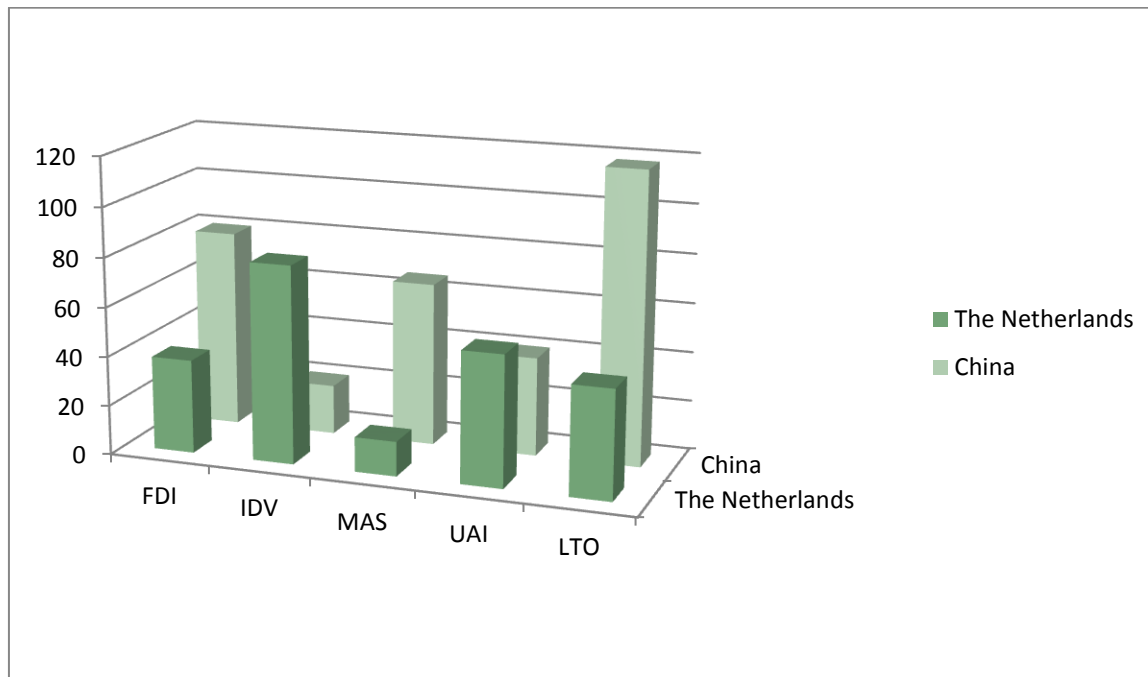


Chart 2.3 Comparison of the cultural distance between the Netherlands and China. Source: <http://www.clearlycultural.com/geert-hofstede-cultural-dimensions>

International/cross-cultural management

Mead (1998) defines international management as the process of practicing management techniques within cross-cultural situations. He especially sees how culture is one factor influencing decisions made by the international manager. According to Pheng and Leong (2000), cross-cultural management refers to the control and organisation of two or more cultures. However, due to the problems of cross-cultural working situations are very contextual, and a solution to one particular problem may not be readily applied to another situation, most cultural knowledge is not formally referenced, indexed and filed; rather, it is distributed as experiences of people within society (Xiao and Boyd, 2010).

2.3.3. Factors influenced cross-cultural collaboration

Even though many successful examples of international projects are known and many architecture firms have succeeded to export their design services, cross-cultural collaborations are recognized to be complex processes. "Integration can, however, be a daunting task as it involves maintain a balance between global efficiency and being responsive to local cultural difference in the host countries." (Pheng and Leong, 2000)

Zou and Leslie-Carter (2010) asserted that understanding organizational and national culture, cross-cultural communication, negotiation and dispute resolution are considered to be the most important issues for the project management process in China. Furthermore, network building, competition

between partners, trust and performance are also identified as factors influence cross-cultural collaboration.

Cultural differences

Burchell and Gilden (2008) stressed that it is not only important to try and understand the local culture, it is also important to identify the differences between that culture and the project manager's own.

Managing the cultural differences is a particularly important issue that foreign firms need to face—especially for companies with traditional Western culture backgrounds (Zou and Leslie-Carter, 2010). Cultures related to the architectural practice could be classified into three categories: (1) organizational/national structure; (2) managerial differences; and (3) differences in fundamental concept and philosophy which contracts and laws are based on. The cultural diversity brings opportunities and difficulties to cross-cultural management. The opportunities for synergy, higher creativity, innovative business practices, faster and better learning within the organization, and sustainable sources of competitive advantage (Mead, 1998, Zwikael et al., 2005) are regarded as the advantages of cross-cultural projects. On the contrary, mismanaging cultural differences may lead ineffective and frustrated working. Mahran (2008) states that recognizing and sensibly manipulating cultural differences, could allow improvements in the efficiency and profitability of international projects.

Language and communication

Language is seen as an important factor affects the performance of cross-cultural collaboration (Ling et al., 2005b, Deng and Poon, 2009, Xiao and Boyd, 2010). It was also explained in the part of Barriers to Chinese market. “Good communication is a key feature of successful construction projects”, as Xiao and Boyd (2010) quote Dainty et al. (2006) in their article. Xiao and Boyd also assert that good communication is required in various levels from clients to the users; from discussion of schematic design to day-to-day activities on the site involving many organizations and people. Zou and Leslie-Carter (2010) pointed out that cross-cultural communication, negotiation and dispute resolution are considered to be the most important issues for the project management in China.

Conflicts

“A better understanding of influential cultural factors will help to reduce and manage conflicts in international construction projects.” (Mahran, 2008)

Conflicts resulted by misunderstanding, misinterpretation almost occur in all the phases in a cross-cultural collaboration and such opposition may decrease the desire of a foreign company to enter host country. Yates (2007) indicates that the majority of engineers and constructors who are released early from overseas work assignment are released because of cultural infractions rather than a lack of technical ability. On the other hand, the conflicts also resulted by different culture background, such as the way of thinking, vision of the project, decision making and custom of practice from their own origin. Conflicts affect the performance of the project.

Network building

Interviews conducted by Ling et al. (2005b) indicate that having good connections are essential in China. Without “guanxi”, foreign firms may face many problems, especially executing projects for the first time. Furthermore, to find a good local partner, firms are suggested to engage an agent. On the other hand, Wilson and Brennan (2010) assert that “guanxi” (personal connections), which was considered as an essential part of doing business in China, its importance is declined. This was due to China’s market liberalisation, outward investment, “guanxi learning” on the part of foreign companies and online intermediaries.

Competitions between partners

The huge construction market also means higher competition. Exporting to Chinese market the architectural firm could be very challenging, due to the competitors are not only from the architectural firms all over the world but also the local firms. After decades of collaboration, the local firms are becoming competitive players.

Collaboration and competition co-exist in the construction industry. Xu et al. (2005) indicates that there are horizontal and vertical collaboration. The collaboration between architect firms and their local partners who has similar specialization/providing similar service is regarded as horizontal collaboration. Before the alliance or collaboration form being determined, the local firms could be a competitor for foreign contractors, especially when their specialisations are in the same field. Competition may exist in collaboration if the participating partners are in a horizontal collaboration setting. Even after the termination of the collaboration, local firms might be a stronger competitor due to the knowledge/expertise transferred by foreign contractors (Xu et al., 2005). In order to maintain the competitive edge, the foreign firms need to be a learning organization and to innovate persistently.

Trust and performance

Trust plays an important role in collaboration; nevertheless, in cross-cultural working among the participants will weaken mutual trust because of cultural distances (Xiao and Boyd, 2010). This may be it is more sensitive due to many of foreign contractors come to Chinese market with experiences of project-based collaboration which is very low stability and high possibility of competition with their local partners. Many others suffer the unpredictable result due to the sudden change of their Chinese clients. Trust between organizations has been regarded as one factor to influence performance of collaboration. Luo (2002) indicates that in a cross-cultural collaboration, trust is stronger that when an alliance is younger, risk is more commensurate between parties, market is less volatile, inter-partner dependency in resources is greater, and commitment to the on-going partnership from each party is higher. Even though there is much uncertainty in Chinese market, the respect of local culture and dedication to the project would receive many appreciations.

2.4. Conclusion

To summarize the previous work, the globalization and the IT development have increase the easiness for the international projects; however, there is still room for the discussion that whether the new technology is sufficient for a foreign architect firm to work efficiently in Chinese context.

Many researches discussed the entry strategies for exporting design service and the appropriate entry modes are strategic alliance and foreign direct investment; however, few scientific researches were focusing on architectural practice. Furthermore, the studies on entry strategies to Chinese market were mainly investigated by the Anglo-Saxon professions, where their cultural preference is embedded in the explanation.

Studies on the performance of the European architect firms in China are rarely seen. The relevant cultural issues and the cross-cultural management related to the entry strategies are also missing; therefore it will be studied in this project.

3. Methods

3.1. Problem

Main themes of the entry strategies are summarized in this paragraph in order to give insight in the problem. The current relevant studies of entry strategies to Chinese market are analysed and compared by the factors categorised by Chen (2008), and listed in the following table:

Trade link

- network and relationships with authorities, clients, subcontractors and suppliers were regarded as market barrier (Xu and Greenwood, 2006)
- networking the right person provides access to people and information of potential value (Ling et al., 2005a)
- almost being ignorant with the cities beyond Beijing, Shanghai and Hongkong (Den Hartog, 2009)
- a relationship-based business culture (Zou and Leslie-Carter, 2010)

Hypothesis- the trade history between the Netherlands and China is not long enough to lead to a great understanding between companies within the home and host countries, therefore it is assumed that the Dutch architect firms are more likely to take a mobile entry mode accordingly.

Cultural distance

- differences in technical standards, codes, and practice between China and the home countries of foreign contractors (Xu and Greenwood, 2006)
- ways on the management aspects in all sectors (Ling et al., 2005a)
- the working methods to finalize the projects between the Chinese and the Dutch organizations vary (Den Hartog, 2009)
- people from different cultures behave differently in values, attitudes, perceptions, and behaviour norms which affect people working in a cross-cultural environment (Xiao and Boyd, 2010)
- managing cultural understanding and regional differences is important (Zou and Leslie-Carter, 2010)

Hypothesis- when the cultural distance is significant, it may have difficulty in imposing subjective judgment to determine how people should behave and evaluating hard-to-quantify inputs and results, or more resource commitment is needed; therefore it is assumed that the Dutch architect firms are more likely to take a mobile entry mode accordingly.

Language proximity

- linguistic proficiency- especially with Chinese written documents is regarded as a market barrier (Xu and Greenwood, 2006)
- project ideas could not be accurately communicated due to the language issue (Ling et al., 2005b)

- the language barrier might be tackled by teaming up with a domestic firm (Deng and Poon, 2009)
- language is only one of the obvious barriers, there are deeper and more complicated ones (Xiao and Boyd, 2010)
- international firms should control language barrier risk to avoid misunderstanding (Zou and Leslie-Carter, 2010)

Hypothesis- Communication plays such an important role on construction sites where multiple organizations work together that it is a great location advantage for international contractors to know the local language. Chinese is the official language on the daily site communication and of the official documents. It is assumed that the Dutch architect firms are more likely to take a mobile entry mode in order to acquire the assistance from the collaboration with the local firms.

Host market attractiveness

- China's entering WTO in 2001, the trade liberalization (Xu and Greenwood, 2006)
- the world's second largest construction industry after the US in 2000 (Ling et al., 2005a)
- astonishing speed of construction (Den Hartog, 2009)
- up until 2004, the annual construction expenditure has reached US\$375 billion, an equivalent of 16% of China's GDP (Deng and Poon, 2009)

Hypothesis- in countries with a large and high-growth market, investment modes are expected to provide greater long-term profitability to a firm, compared to non-investment modes. In a blooming construction market as China, the Dutch architect firms are assumed to take a permanent entry mode.

Invest risk

- the non-convertibility of Chinese currency (RMB) (Xu and Greenwood, 2006)
- the reliability of local subcontractors and suppliers (Xu and Greenwood, 2006)
- social risk: how to team and with the external stakeholders (Zou and Leslie-Carter, 2010)

Hypothesis- when investment risk is high, companies would do well to limit their exposure to such risk by restricting their resource commitments; therefore the Dutch firms are assumed to be more likely to take a mobile entry mode.

Entry restriction

- government protection (Xu and Greenwood, 2006)
- lack of regulatory transparency (Zou and Leslie-Carter, 2010)

Hypothesis- with the protection by government, the foreign architect firms are limited to foreign direct invest projects. It is assumed that the Dutch firms are more likely to take a mobile entry mode in a high entry restriction market like China.

Competitive intensity

- low price from local competitors (Xu and Greenwood, 2006)
- being 'hungry enough', leading the top management to be committed by sending the best people for its Chinese ventures (Ling et al., 2005a)
- public projects through competitions- short length, tight budget and schedules (Deng and Poon, 2009)

Hypothesis- because resource commitments limit a MNE's ability to adapt to changing market circumstances without incurring substantial sunk costs,, it is assumed that the Dutch firms are more likely to take a mobile entry mode in a high competitive market in China.

Table 3.1 Factors determined entry mode for Chinese construction market (source: self-organized)

Author/year	Chen ³ (2008)	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)
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

The results of table 5 show most of the studies assure the promising construction market in China; invest risk and entry restriction are less mentioned probably due to the Chinese construction market has been opened for decades, the regulatory transparency is getting higher and overall standard of the suppliers and contractors in the host country is enhancing.

Competitive intensity is remarkable in Chinese market since there is a correlation between the host market attractiveness and competitive intensity. There is correlation between market targeting of an architect firm and its competitiveness in the market (Winch et al., 2002, Ling et al., 2005a, Den Hartog, 2009).

Trade link, cultural distance and language proximity are three major negative factors affect entry strategies to Chinese market. The former factor might be examined by the approaches proposed by

³ The paper of Chen (2008) is a study of entry mode selection for international construction market, which data was collected from international projects scattered around the world. It could not be specific to Chinese market, however those factors listed in the first column of table 5 and it may be as a contrast to other researches of Chinese context.

Winch et al. (Winch et al., 2002) and the link provided by DutchDFA; the latter two factors may be controlled by cross-cultural management.

3.2. Research design

This paragraph looks into the research design of this study which consists of an explanation of the objective of this study, theoretical approach, conceptual model, research question and data gathering method shows how the study is structured and conducted in order to find answers to the questions.

3.2.1. Research strategies

A qualitative research method will be adopted rather than quantitative one. Even though the majority of previous researches on entry strategies were conducted through questionnaire survey method which is good at identifying differences, a qualitative approach can capture the complexity when studying people and organization, which is what is needed in the cross-cultural interaction in this research.

3.2.2. Objectives

The main objective of this study is to investigate the appropriate expansion strategies for architect firms when the cultural distance is obvious; and to express whether cross-cultural management could be adopted to implement the entry strategies effectively. The study consists of interviews with experienced persons among Dutch architect firms which will be further explained below.

The objective of the interviews is to gain knowledge in the question how Dutch architect firms should consider their expansion decision strategy in future and with what instruments could be implemented to manage the cultural factors. The scientific relevance of this study is found in the improvement of the current status of research on architectural entry strategies in the Dutch practice.

The objective of the survey is to gain insight in the activity and attitude of the target group (Dutch Architects) towards the international expansion development and to evaluate prior expansion processes in order to be able to express chances for the development to become a future way of practice.

Target group

The result of the study could be regarded as an advice for Dutch architects who consider international expansion under the market pressure in the Netherlands and want to gain knowledge in the advantages and disadvantages going to the booming Chinese construction market and about the management of huge cultural distance. Recommendations of this study give insight for what entry mode could be an opportunity and what strategies are best aimed for. The study could also be of interest for Dutch architect firms who have not considered international expansion as a strategy to their own business or as new opportunity and want to gain insight about the opportunity for expansion to become a way of service delivery for Dutch architects. Otherwise the research could be regarded as a source of information that contributes to the current status of researches on this development for the Dutch

practice in general. In the latter perspective the result could be of interest to the entire Dutch profession, represented by the Dutch Institute of Architects (BNA), Nederlands Architectuurinstituut (NAi) and the quasi-official organization DutchDFA.

3.2.3. Research questions

To give an overview in this paragraph the central research question, research questions as derived from the theoretical framework and sub questions are listed and exemplified. Sub questions were formulated in order to further define the research questions and to link the variables with topics for data collection.

The introduction motivated the first central research question in this study:

'What is the appropriate entry strategy for Dutch architect firm to enter current Chinese market?'

As explained in 2.1 and 2.2, four sub research questions were derived from the problems as were introduced in the theoretical framework. These research questions that are listed below were composed to further define the scope of the study. The research questions focus on the research variables 'motivation', 'location choice', 'market targeting', 'entry mode' and 'manage'. These variables served to structure the study. To give an overview, these questions are listed below. Subsequently each research question will be addressed and exemplified.

The sub research questions followed with the first central research question are:

1. *What are the **motivations** behind decision for Dutch architect firms to enter into Chinese market?*
2. *What are the barriers/strengths for Dutch architect firms on the **location choices, market targeting** and **entry mode** to Chinese market?*
3. *How to **manage** the problems of entry strategies of Dutch architect firms in China?*

Research question 1

*What are the **motivations** behind decision for Dutch architect firms to enter into Chinese market?*

The sub-questions look into the external readiness of the Dutch architect firms when considering the international expansion. Variables such as 'market attractiveness', 'invest risk', 'entry restriction' and 'IT development' served to structure the questions. A correlation between current IT development which includes telecommunication, information transferring and the offshore outsourcing and firms' entry strategy could be of interest in this regard. The questions give an insight of the advantages and limitations of IT development to international collaboration.

Research question 2

*What are the barriers/strengths for Dutch architect firms on the **location choices, market targeting and entry mode** to Chinese market?*

In order to evaluate the performance of the Dutch architect firms in expansion process, the questions exemplify the knowledge and competence behind the Dutch architect firms' entry decision. It will look into the preference of the Dutch architect firms to get its first contract, and the difference between its expectation and reality. Variables of 'entry restriction' and 'trade link' are going to be investigated. The four strategies of market targeting for architect firms proposed by Coxe (Coxe et al., 1987) will be examined to see the effectiveness to tackle 'competitive intensity' in the Chinese market.

The sub questions will also exemplify that which factor is more crucial for the Dutch architect firms to Chinese market due to the larger 'cultural distance' and 'language proximity' is insignificant. The correlation between variables of the cultural factors and the decision of taking a permanent or mobile entry mode is of interest in this regard. Their sequential position of choice to the entry mode is being examined.

Research question 3

*How to **manage** the problems of entry strategies of Dutch architect firms in China?*

After looking into the motivations and knowing the barriers and strengths of Dutch architect firms in Chinese market, in order to provide a recommendation to current Dutch architect firms' expansion decision, in this part the research question give an insight of the possible management to improve the entry strategies for Dutch architect firms. Since cultural and national factors were explained as the main factors for foreign firms entering Chinese construction market, cross-cultural management will be introduced to see how would it affect the expansion decision for Dutch architect firms to Chinese market.

The hypothesis derived from the previous studies assumed that the Dutch architect firms would take a mobile entry mode to Chinese market, due to its loose trade link, low language proximity, high cultural distance, high competitive intensity and rather high entry restriction/invest risk. Nevertheless, researches show that to Chinese market either establishing a wholly owned subsidiary or using design-and-build is the most effective entry mode.

The permanent organization must understand local culture very well to establish enduring cooperation with local parties, and internally manage relationships between local employees and expatriates. In this question it gives insight that to what extent the cultural variable- 'cultural distance' could be managed in this regard.

3.2.4. Conceptual model

According to Gunhan and Ardit (Gunhan and Ardit, 2005b) there is a certain process to examine the international expansion decision. The Dutch architect firms are no exception to such process. However the factors which affect the entry mode selection could vary while the home and the host country differ.

Cultural and national factors are assumed as the major influences while the Dutch architect firms determine to enter Chinese market. This model shows the factors of the entry mode selection, meanwhile, to examine to what extent would cross-cultural management being implemented to result entry mode a positive effect.

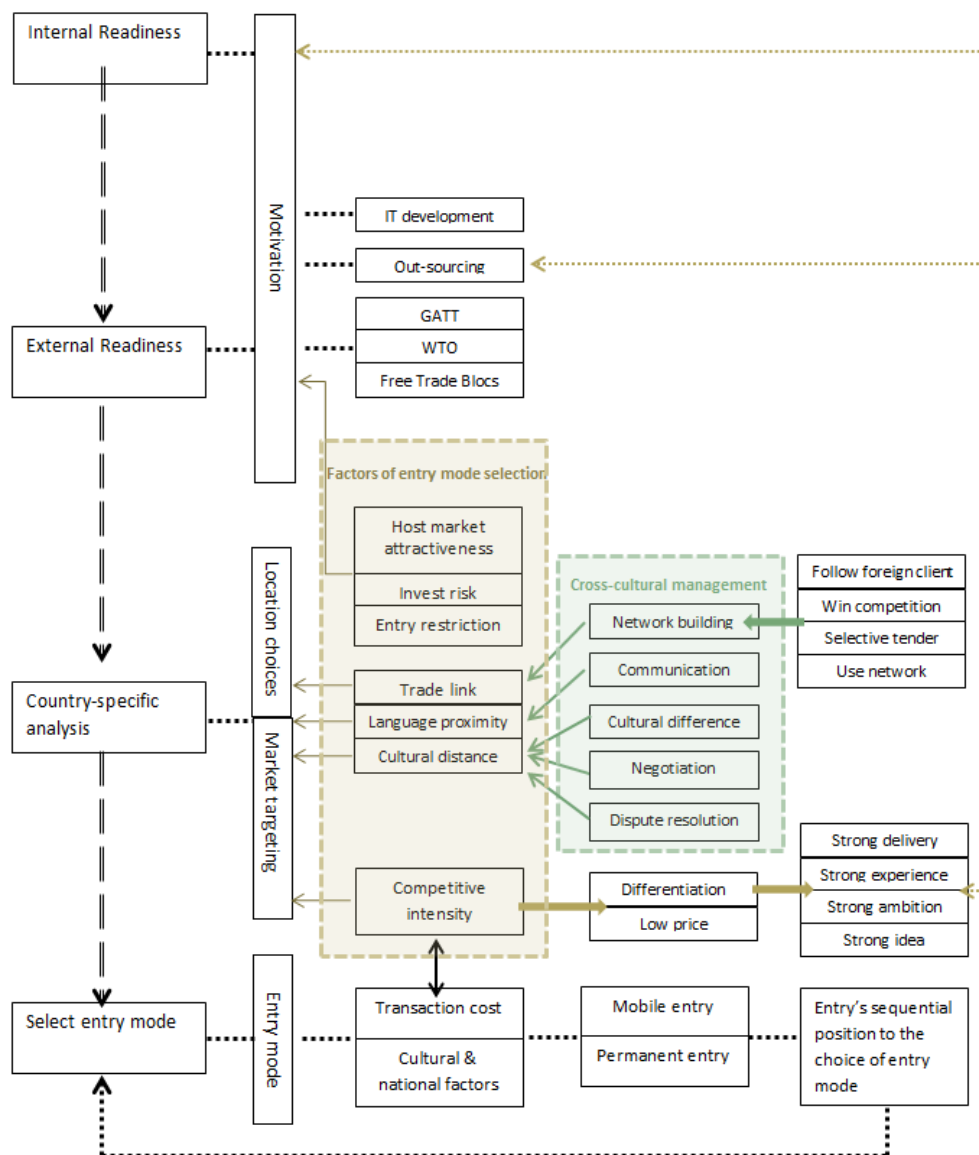


Chart 3.1 Conceptual model

3.2.5. Data gathering methods

The research design illustrates the design of the research framework qualitative method is linked in the study. In this research, the research targets will be the Dutch architecture firms which have experienced entering Chinese market.

The method sequence will incorporate the following steps:

1. Literature study and exploring conversations in the very beginning of this study led to the development of the central and research questions and key-variables. Summaries of current and previous researches show what researches have been conducted so far. Looking into these research projects expresses the relevance of the topic and will motivate the choices regarding the scope of the research to be carried out;
2. A helicopter research by interviewing Harry Den Hartog⁴, the author of article “Dutch architects building global architecture in China”, to test the first protocol and also to check the validity of the previous researches under the Chinese market context, especially targeting to the Dutch firms’ experiences; meanwhile, to acquire good connection with the possible interviewee;
3. The theoretical framework is shaped by literature review. The international expansion strategy will first be addressed in order to understand current knowledge; from the studies, the cross-cultural factors are identified as crucial to the entry strategies to China, therefore it is following introduced; the research themes ‘motivations’, ‘location choices’, ‘market targeting’, ‘entry mode’ and ‘manage’ are derived from the research questions.
4. The research variables structured the data that was obtained through the qualitative study. The survey targeted on Dutch architects to measure the experience of this group. The interviews targeted on experienced key-persons who were involved similar collaborations, processes or projects as was earlier explained in the conceptual model.
5. The interviews will be conducted for a multi-cases analysis by examining empirical cases of Dutch architects/architectural firms involved in Chinese market. As qualitative research method semi-structured interviews with key-persons will be held. Fixed topics corresponding to the key-variables were used as guidelines throughout the interviews to secure the relation with the data obtained with the survey.

⁴ Harry den Hartog is a self-independent Dutch architect in China. He is the author of the book “Shanghai New Town” and the article “Dutch architects building global architecture in China”; has been involved in Chinese market since 2001. The interview schedule and the interview analysis of Harry den Hartog is listed in appendix B.

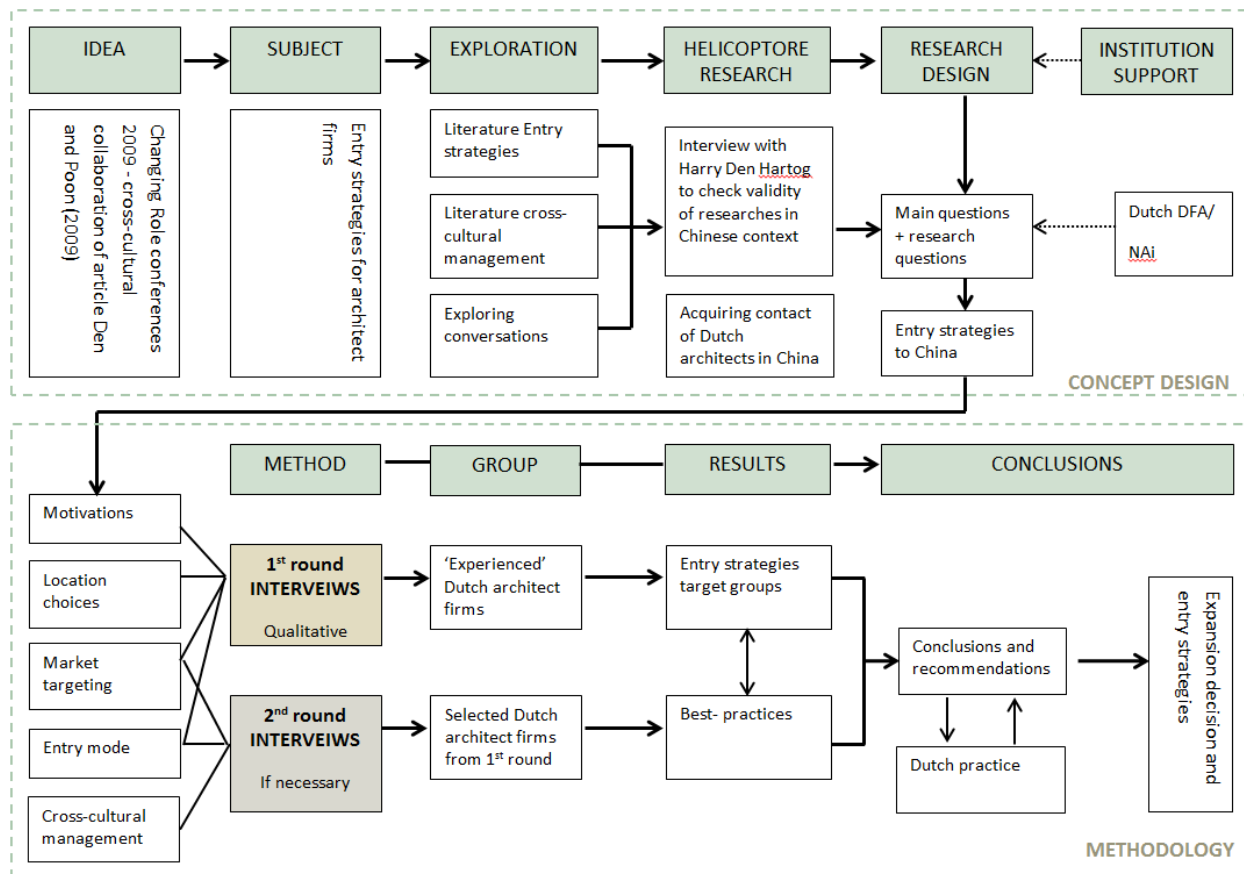


Chart 3.2 Research design

3.3. Qualitative research

3.3.1. Open interview

Because of the explorative character of the study, it was chosen to approach the key-persons with an open, semi-structured interview strategy. This type of interview is characterized by exploring the point of view of the key person queried. Because it was chosen to semi-structure the open interview specific topics were defined in advance. Some topics were spontaneously covered by the key-persons, while other topics needed to be introduced with a start question. The open character of the conversation left an opportunity for the key-persons to introduce 'new' topics spontaneously which contributed to the further understanding of the subject studied.

The qualitative part of the study addressed all the variables as expressed in the research framework: motivations, locations choices, market targeting, entry mode and manage. However, the focus of the

interviews held was mainly on the organization and evaluation of prior international expansion process. This will be emphasized in the interviews.

The topics were formulated in advance and served as guidelines throughout the interviews that were held. This way the topics list served as way to make the interviews more comparable.



Figure 3.1 List of topics

3.3.2. The process

In this project, the method of data-processing is as followed:

Outline -> data collection -> coding -> data display -> conclusions -> report

This study will follow a pre-structured data analysis strategy, and the data collection will be interviews with the selected key persons of Dutch architect firms who have involved in Chinese market.

Transcriptions of tape recording will be coded.

The contact summary sheet is used for marking up with reflections and giving the first impression for the interview. The most salient quotes, main issues, new findings or interviewees' nonverbal behavior will be

noted down in this summary. Responses will be evaluated by its relevancy, completeness, and validity. Self-evaluation of probing will also be applied to after each interview. It helps for the further interview.

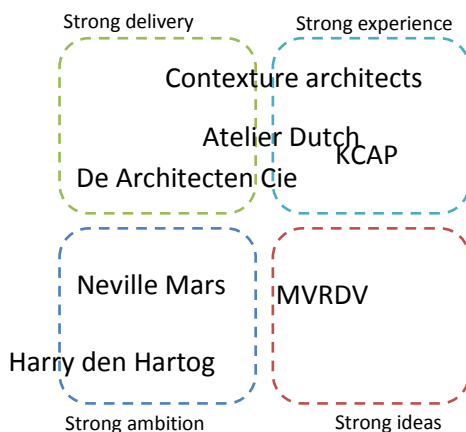
The next step will be coding. The topic and the variables list shown on figure 3.1 will be used as coding scheme. Codes are defined as tags or labels used for assigning units of meaning to the descriptive information that are compiled during a study (Mulder, 2007). Atlas.ti will be used to analyze and code the selected quotes.

3.3.3. Sample selection

In this step, the aim of the interviews is to survey the motivations, location choices, market targeting and entry mode of selected architect firms/individual architect in current Chinese market. The interview will be conducted with the firms with criteria as below:

1. Due to the rapid changes of the Chinese context, the architect firms/individual to be interviewed has to be involved (whether or not success to acquire contract) in Chinese market within the past five years; firms mentioned in the article of Den Hartog will be first invited to the interview, since they certainly have involved in Chinese market;
2. Winch's model (strong delivery, strong experience, strong ambition and strong idea) is introduced to define four different types of architect firms. These four types of strategies will contain different motivations, market targeting, and may influence their location choices and entry mode. Architect firms/individual architect therefore will be selected to fill in these four strategies to represent each different type; ideally, the interviews will be conducted with at least two architect firms of each kind;
3. Firms participated in the program of DutchDFA and NAI will be first considered and they are KCAP and MVRDV. The reason choosing these firms is to examine the trade link and network building service provided by the above organizations;
4. Whether or not successfully entering Chinese market, those firms tried to enter the Chinese market will be included, to learn their marketing target, initiative they took and the degree of success will be checked.

Figure 3.2 Selected architect firms to interview



List of architect firms in Den Hartog's article:

- VMX
- De Architecten Cie
- Atelier Dutch
- Kuiper Compagnons
- Royal Haskoning
- Arcadis
- Verburg Hoogendijk Architecten
- NITA Design Group
- KOW

3.4. Next step

3.4.1. Interview schedule

From the helicopter interview with Den Hartog, he suggested and gave contact persons of few firms mentioned in his article, and these contacts will be the first key persons to interview with in the coming weeks. Here are the list of the firms and the contact persons:

- De Architecten Cie / Jason
- Atelier Dutch/ R. van de Vetoen
- Contexture architects/ W. Bolsius
- Neville Mars

As mentioned in 3.3.3, companies selected should be able to represent the four different types, in order to examine the differences of motivations, entry mode and the management of their organization. Also the two firms which participate in the Dutch Design Workspace programme will be first considered in the nearly future. The contact of these two firms will be acquired through DutchDFA and the firms are:

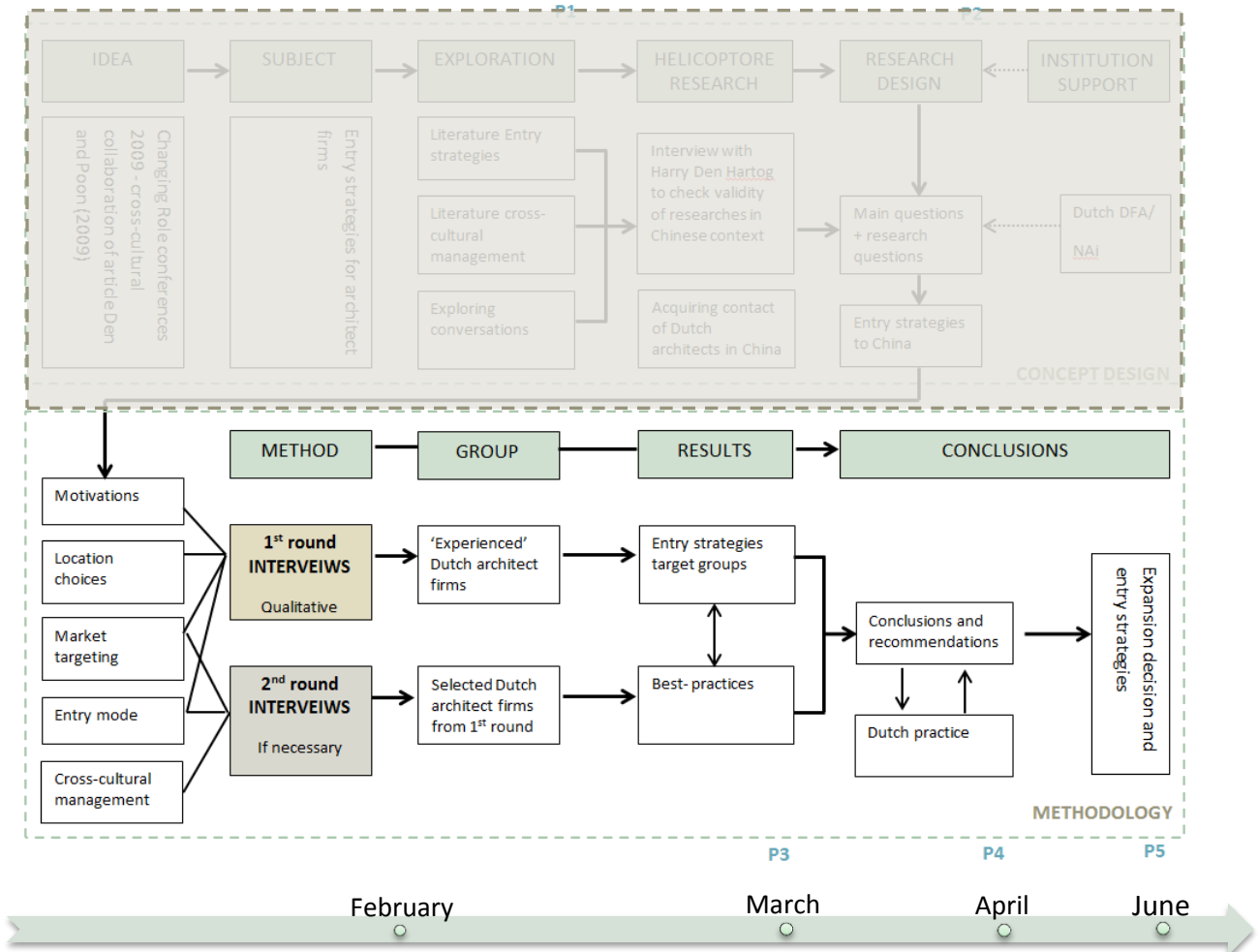
- MVRDV
- KCAP

From the list above, we found that the companies were mainly sorted to strong delivery, what we have still missed is the group of strong experience and strong idea. In this regard the firms such as OMA (famous by its project CCTV in Beijing) and IBA (Canton Tower in Guanzhou) are of interest to be considered to interview with but still do not have connection:

- OMA
- IBA (Information Based Architect)
- DHV

3.4.2. Supplement to the project

In the current theoretical framework provide a start for the research at this moment. Some issues relate to the project might be necessary to explore to supplement the study. The first is about the comparison of 'culture' of the architect firms between the Dutch and the Chinese, including its organization, the way to execute a project, and the role of the architect in the process; further, how does this part affect the entry mode decision. The second part is to enlarge the knowledge of the understanding of the current development of the local young architects in China, as well as more understanding of portfolio of foreign architects in China.



<p>Firms with contact for interview: (firm/key persons)</p> <p>De Architecten Cie /Jason Atelier Dutch/ R. van de Vetoen Contexture architects/ W. Bolsius Neville Mars</p>	<p>Firms expected to interview but still have no contact:</p> <p>IBA /Mark Hemel, Barbara Kuit MVRDV/ R. van de Vetoen DHV Another firm of strong delivery Dutch DFA</p>	<p>Second round interview if necessary</p>
<p>Theoretical part + extra knowledge to subject</p>		
<p>Data collection + Data analysis</p>	<p>Draw conclusion</p>	<p>Recommendations</p>

Chart 3.3 next steps for research

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Appendix A: Definition

i. Definition of factors determine the entry mode selection for international construction market (Chen, 2008)

Trade link

A longer trade history between countries can lead to a greater understanding between companies within the home and host countries. This would enable the entrant to set up its investment in the host market more easily. Such understanding would also foster efficient working relationships between the entrant and local government. Accordingly, these firms would be more likely to adopt permanent entry modes. The higher the volume of bilateral business between the two countries, the more knowledge firms have accumulated about the host country market, and the more confident they are in adopting investment entry modes.

Cultural distance

Information acquisition activity will be proportional to the cultural distance between home and host countries. When management moves to a country that is culturally similar to the home country, it may have already known many of the rules to operate in the market; however, when entering a market with an unfamiliar foreign culture, it may have difficulty in imposing subjective judgment to determine how people should behave and evaluating hard-to-quantify inputs and results. Or say, more resources commitment (for information collection) is needed where there is a significant cultural distance between the home and host countries. On a permanent basis, cultural distance becomes an important issue. The permanent organization must understand local culture very well to establish enduring cooperation with local parties, and internally manage relationships between local employees and expatriates.

Colonial link

In international construction, colonial link also indicates a traditional cross-border trade. The internationalization process of the construction sector shows that in the early period of the global construction market, colonial countries were usually the overseas markets, especially for European contractors. Therefore, this link where two countries have political and legal proximity and a long-term trade relationship is a location advantage, and entrants may have more confidence and be willing to commit more resources.

Language proximity

Language is a very common barrier for companies marketing their products and services in international markets. Communication plays such an important role on construction sites where multiple organizations work together that it is a great location advantage for international contractors to know the local language. This brings a comfort factor into operation in a new territory.

Host market attractiveness

Market attractiveness has been an important determinant of overseas investment. In countries with a large and high-growth market, investment modes are expected to provide greater long-term profitability to a firm, compared to non-investment modes. Market growth in a host market affects expected net returns and firm growth during international expansion. This in turn affects resource commitments, strategic orientations and entry mode decisions. In markets with high growth, firms prefer a long-term presence. In contrast, multinational enterprises (MNEs) may favor a mode of entry entailing less resource commitment when the sales growth of a target industry is declining. Other things being equal, MNEs may favor low resource commitment modes of entry when a host market is in its embryonic or declining state.

Investment risk

The investment risk in a host country reflects the uncertainty over the continuation of present economic and political conditions and overall policies which are critical to the survival and profitability of a firm's operations in that country. In countries that have a high investment risk, a firm may be better off not entering; but if it does, it may favor the use of non-investment options. When investment risk is high, MNEs would do well to limit their exposure to such risk by restricting their resource commitments.

Entry restriction

To protect the domestic construction market, barriers about ownership requirements, permit systems, rating systems and licensing systems that prevent permanent residence of foreign contractors are very common in a number of significant markets. These constraints make entrants only have access to projects that are normally funded by international organizations (e.g. the World Bank and regional development banks) and foreign governments; projects under special governmental treaty (USA–Japan public project program); and projects that domestic contractors are not qualified to complete.

Competitive intensity

Industrial organization economics assumes that the increase of number of firms in an industry will boost competition, thus lessening the level of profitability and slowing down the average growth rate of individual firm's sales. Any reduction in strategic flexibility may be unwise when competition is volatile, which requires quick responses from the firm. In such markets, firms tend to be less profitable and therefore do not justify a permanent organization which involves heavy resource commitments. Because resource commitments limit a MNE's ability to adapt to changing market circumstances without incurring substantial sunk costs, a MNE can be theorized to favor entry modes involving low resource commitments when competitive pressures in the host market are intense.

ii. Definitions of different collaboration types

Acquisition

Acquisition is often used when an international contractor would like to expend their external growth. In China, as some parts of the administrative reformation of State-Owned-Enterprises (SOEs) appeared to be ineffective, mergers and acquisitions within domestic companies were introduced by the government as an economic leverage to enhance competitiveness. The Provisional Regulations of Foreign Companies Acquiring State Owned Enterprises enacted by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) in 1999 confirms that foreign companies are allowed to acquire SOEs. However, foreign direct fund involved acquisitions of the AEC firms in China is rare to see; not clear enough relevant regulations make the acquisition more difficult.

Joint ventures

Types of Joint Ventures according to the Regulations (Ministry of Construction and Ministry of Foreign Trade and Economic Cooperation, 2002) are equity Joint Ventures and cooperative Joint Ventures. The difference between equity joint ventures and cooperative joint ventures is that the former has to be a juridical (legal) person, and it shall take the form of a limited liability company. The later could be formed by agreement/contract, and is not necessary to be legal entity. It may be more flexible in form but also more risky.

When applying for qualification in Joint Ventures collaboration, its foreign service providers who have been qualified as certified architects or certified engineers in China shall not be less than 1/8 of the total registered professionals required under the qualification grading criteria; and they should acquire relevant design experience required under the qualification grading criteria. Moreover, foreign service providers should reside in China a cumulative period of 6 months each year.

Dominant management control over JVs by Chinese partners is the major form of management (Luo, 2001). JV partners should be aware that less participation in daily operational management of JVs could reduce the level of control over JVs exercised by their parent companies, even if they hold a majority equity share. Xu et al. (2005) indicates five top risky factors in international Joint Ventures in Asian countries have been identified as the client's cash flow problems, financial problems in partner's parent company, inconsistency in government policies, laws, and regulations, economic fluctuation, and poor relationship (incompetence of subcontractors/suppliers).

Project-based collaboration

Xu et al. (2005) find in their research that all their interviewed foreign contractors have experienced project-based collaboration. This is due to the regulations limit foreign firms which would undertake projects in China; meanwhile, local partners help to comply with the local design codes.

Strategic alliance

Strategic alliance is defined by Xu et al. (2005) as “voluntary long-term one-firm leading cooperative arrangement with flexibility for participating parties”. As Davis and Walker (2009) define, strategic alliance in a construction project is that the creation of social capital and consequent intellectual capital between parties to collaborative project procurement. In a strategic alliance setting, the foreign contactors normally take the leading role in the collaboration. Under the framework of strategic alliance agreement, separate contracts between the foreign contractor and the local partner can be incorporated for different stages of an individual project, taking into account the unique legal conditions in China.

Appendix B: Helicopter research with Harry Den Hartog

i. Interview schedule

Contact summary sheet

Name of interviewer	Wei Shan Chen	Name of interviewee	Harry den Hartog
Firm Name		Place of interview	Central library TUDelft
Date of interview	22-06-2011	Time of interview	11.30- 13.00
Remarks/comments			

Part A- about your own experience to Chinese market

1. What is the appropriate entry strategy for an architect firm to current Chinese market?

In this part, questions such as your marketing target, the entry mode you take, and the consideration of the collaboration form you take will be asked.

Firm & Goal:

A. Firm characteristics:

- Size – one-man
- Type- urban planner, writer
- Work (portfolio)- Shanghai New Town, articles for magazines, forum for Expo
- Age- visit China for 10 years, 2008-2011 active

B. Marketing target? What did you want to get in the Chinese market? Personal interest

C. Chosen strategies & Why? Not really, for it is completely different...

2. To what extent does cross-cultural management affect the entry strategy of an architect firm?

In this part, cross-cultural issues will be discussed. Factors such as the key barriers to Chinese market, network building, competitions between partners, trust, language and communication, cultural differences and dispute resolution will be checked from your own experience. And what are the means you take to manage these factors? How do you assess the effectiveness of the program of NAI or DutchDFA?

Experience:

A. Did you take collaboration? If so, what collaboration form did you take?

Tong-Ji Uni., help to get information, interview, translation...

B. Are there changes in your strategies?

Part B- about the article

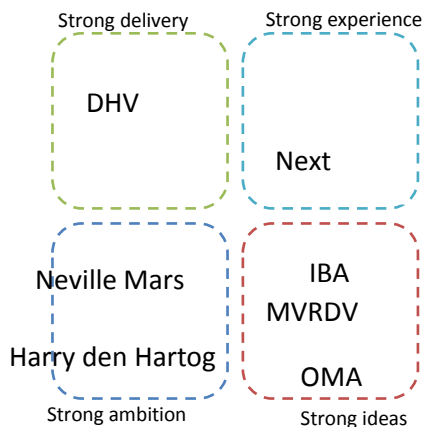
1. You've mentioned that the Dutch architects seeking chance to develop in China and to set up an office in China is a more "dangerous" way. Could you explain a bit more why it is more dangerous?

2. About the cooperation with the clients and collaboration with the local partners, you have mentioned that in your article that it is more difficult. The working methods to finalize the projects may be a difficult part. Would you explain more about it?
3. The success of the Dutch architects in China is getting more and more. How do they achieve the success? And how did you assess the success? From the architects' view or of the clients (or the public)?

Part C- final suggestion

1. Any suggestions regarding to this topic?
Can check Shanghai New Town, some cases inside (foreigner firms' experience)
2. firms/ persons to talk to within your network
3. Should this interview be confidential? Email him before publishing

Suggest contact person



List of architect firms to sort in:

- VMX
- De Architecten Cie / Jason (Chinese)
- Atelier Dutch/ Rob van de Vetoen
- Kuiper Compagnons
- Royal Haskoning
- Arcadis
- Verburg Hoogendijk Architecten
- NITA Design Group
- KOW
- Contexture architects/ Wouter Bolsius
- Sun Ji Wei (上海某區區長)

Self-assessment

- Time management-
 - Must be earlier than the interviewee, I was not late, but Harry was even earlier.
 - Time control- estimated to be a 40 min interview, but turn out to be 1hr 5min.
- Collecting relevant data of the interviewee- should be more comprehensive to their work or projects
- Unclear of the research questions
 - Preciseness of the questions
 - Use of English- simple and clear
- Prepare to be able to 'give'
 - More understanding of the Chinese architects
 - Understanding of the projects of foreign architects in China