

A Study of Korean Corporations' Strategies for Expanding into the Chinese Market: Focus on the Strategy for Distribution Channels

May, 2007

Bonwoong (Brian) Koo¹
bwkoo@stanford.edu

Department of Economics
Stanford University
Stanford, CA 94305- 6072 USA

Advisor: Geoffrey Rothwell

Abstract

Many industrialized countries including Korea are expanding into Chinese market. This study reflects logical ways for Korean companies to expand successfully into Chinese market. Examining mainly focuses on Korean companies around Chinese boarder and Pohai region.

The study first raises significance and purpose of the study. Then, it begins with theoretically examining channel selection process of distribution such as considering OEM export and DI. After that, hypotheses were made mainly regarding the relationship between transactional asset peculiarity and transaction costs. Finally I introduce variables, sampling, data collection, and analyzing methods which leads to careful analysis of samples and survey participants.

With data analysis and testing hypotheses, I found that Korean companies can approach Chinese market with increasing export or investment. Also the tendencies of switching from investing in labor intensive to capital intensive industries were found. On the other hand, the study also suggests that Chinese market needs to be categorized since it is such a huge market. Lastly in order to succeed in Chinese market, differentiated characteristics of Korean companies are needed from Japanese or American companies. Some limitations of the study were found due to small sample size, only testing certain industry and credibility of survey.

¹ I would like to thank Dr. Geoffrey Rothwell for his tremendous support and guidance as my thesis and economics advisor. This thesis would not be possible without him. Special thanks to the freelance agent team in Korea that helped me on conducting the survey. I dedicate this work to my family and especially to my wife for her devotion and support.

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1. Introduction

1.1 The background and the purpose of this study

In order to advance into an overseas' market, where the market characteristics are different from the domestic, it is absolutely imperative for a company to set detailed marketing plans and strategies by first deciding the target market for the target products and then by selecting the proper ways for such advancement.

Among the necessary decisions, the decision of the distribution channel is considered one of the most important issues to be dealt with, since the decision of dominant style of distribution channel is closely related, not only to the adaptation to an uncertain foreign environment, but also to the company's long-term management plan. In addition, it indicates the degree of integration of distribution channel and the determination of the degree of integration of marketing functions within the organization, which in turn determine the domain for control.

For a company, therefore, the determination of the type of distribution channel and the management of it are very important and this importance calls for a study that addresses related issues, problems, and possible suggestions.

So far there have been two quite different approaches in types of distribution channels that companies can choose. One is the method using middlemen or local agents, to whom products are handed over, and with whom the overseas markets deal exclusively. The other approach is where the company retains the direct control of all functions related to distribution, by establishing a local branch in an overseas

market. Between these extremely different approaches, companies also can choose a middle-ground approach, which involves joint-venture or contracts with other companies in implementing the distribution function. The decision of who is going to carry out the function of distribution channel is very important, especially considering the latest trend of internalizing transactions in order to obtain competitive advantages by identifying the customer's needs and satisfying them, while reducing the uncertainties that can occur during transactions. Again, therefore, this decision has to be made with great caution because, once the decision is made, it is very difficult to reverse and the opportunity cost is also very high.

There have been quite a number of attempts to explain the trend towards the integration of distribution channel with transaction cost theory and they seem to be accepted as being plausible among many scholars. It has been pointed out by some scholars, that transaction cost theory has shortcomings in explaining why a certain distribution channel is preferred, in that it over-simplifies the complex and strategic management factors, by putting too much emphasis on economic efficiency. Regardless of these shortcomings, transaction cost theory is widely used as a strong and accurate explanation in Korean corporations' decision-making processes, when determining a distribution channel for the Chinese market. Therefore, this study will also attempt to explain the latest Korean corporations' choices of distribution channel in expanding to the Chinese market, by using transaction cost as the theoretical basis.

Since adopting economic policy reform and opportunity at the third Plenary Session of the 11th Central Committee of the Communist Party of China in December 1978, China has gone through unprecedented dramatic economic changes for the past 27 years. Compared to the yearly GNP growth rate of 6.1% in 1978, China has achieved the average of nearly 10% of yearly GNP growth rate. With this rapid economic growth, the Chinese government has been encouraging the gradual adoption of foreign capital and technology, as well as the export of Chinese products, by expanding the area of overseas market opportunities into other regions and industries.

Meanwhile, Korean corporations started direct investment in Chinese markets, in order to utilize its abundant and inexpensive resources, such as low cost labor, and natural resources, plus the leverage of the historical and cultural contiguity as well as geographical proximity. With a minor enterprise's investment in a factory manufacturing stuffed toy animals in Kwangju province in 1985 (invested capital amount 144,000 US dollars) as a starting point, economic interchanges between the two countries have been drastically increased since, especially after the 1992 Sino-Korean treaty. Korea no longer views China only as the largest investment target for expansion for commodity trading, but is also beginning to transfer a considerable amount of capital and even labor force to the Chinese market. Its investment range has also started shifting away from labor-intensive, light industry goods to more technology-intensive heavy industries such as automobiles, electronics, and

petrochemicals. This clearly indicates stronger and ever more intensive economic inter-dependency between the two countries, and also reflects the fact that Korea and China have very high compatibility under the optimum conditions of the pertinent difference in natural resources and economic development, along with geographical and cultural proximity. Until 2000, however, the majority of the investment in China by Korean corporations was limited to the transfer of manufacturing facilities to China, where the labor costs were a lot lower. Consequently, the degree of bonding with the local Chinese market was very low, geographically limiting its investment in three provinces in northeastern areas and along the coastal areas. In terms of industry types, involvement was limited to the simple labor-intensive assembling and processing type of light industry.

Having been stalled by the late 90's economic crisis, Korean corporations' investment in China has since returned to the normal scale since 2002. Led by some companies, there have been more active attempts at larger scale investment in the Chinese domestic market. It is expected that the companies will increase their investment in development for advancement into the Chinese domestic market but decrease the export of processing or labor-intensive industries. However, as the Chinese government has been applying harsher regulations on foreign investment, a new approach to the Chinese market seems to be necessary.

The purpose of this study is to identify the difficulties that Korean corporations in China encounter when expanding into the Chinese domestic markets and to examine

in what forms these companies are operating, and finally to study the motivational factors for such advancement in China.

In detail, this study tries to answer the following inquiries. First, this study attempts to find the factors contributing to the Korean corporations' choice of distribution channel in China, through a review of the existing literature. Foreign corporations have competed strongly to invest in the Chinese market, due to the increased transparency since China opened up its market and reformed its economic system. This has result in increasing the merits for foreign investors. Korean corporations have faced a lot of difficulties, due to the lack of an accurate understanding of the Chinese market compared to the other Far Eastern countries, such as Japan and Hong Kong, which invested in China before Korea.

Therefore, by examining the distribution channels which are effective for the Chinese market, this study attempted to suggest the effectiveness of direct foreign investment to Korean corporations. Secondly, this study attempted to examine how the characteristics of transaction, country, and product may affect the distribution channel. Thirdly, by looking at the differences from other studies, as well as recognizing the significance of this study from various perspectives, this study closely examined the characteristics of Korean corporations' investment in China and to suggest a strategic point of view for successful investment in the Chinese domestic market.

1.2 The scope and the organization of the study

The corporations addressed in this study have been limited to Korean manufacturing companies, based around the Chinese border area and the Gulf of Pohai region. The industries included assembling, metalworking, textiles, garments, shoes, leather, lumber, and furniture. E-mail survey questionnaires were sent out to managers and CEOs of those companies.

The focus of this study is to suggest rational ways to move into the Chinese market by examining Korean companies based in the Chinese border area and the Gulf of Pohai region.

This study used the results of Chinese and Korean data and daily newspapers and research published in other countries. Especially, this study examined the reliability of each variable, to ensure reliable measurement of theoretical constructs. To examine the reliability, internal consistency was checked throughout each of the measured items, using Cronbach's alpha coefficients. Regression analyses were used to measure the effects of the independent variables on the dependent variables.

This study is composed of six chapters in total. In the first chapter, the significance, the purpose, and the range of this study are introduced. In the second chapter, a literature review of the existing studies and examination of the consumer market and its distribution channels in China are addressed.

The third chapter addresses hypotheses, based on an examination of the factors which are contributing to choosing the distribution channel, as well as the existing

theories by other scholars.

In the fourth chapter, variables, sampling, data collection, and analyzing methods are introduced. In the fifth chapter, the collected data are analyzed and the hypotheses are tested by examining the characteristics of the sample and the survey participants. In order to do that, the reliability and the validity of the survey questions were examined.

Lastly, the sixth chapter summarizes the result of the study, addresses its limitations as well as suggestions for future studies.

2. Theoretical examination of distribution channel selection.

2.1 The types and the determining factors of overseas distribution channel

Overseas investment can be divided into three categories: export, original equipment manufacturing (OEM), and direct investment. The determination of the type of investment is decided by the integrated management strategy of a company, depending on the types of merchandise, regions, and individual marketing strategies.

Sales through export

Sales through export starts from exporting the goods manufactured, either domestically or in other countries. A company can introduce a product by various export channels to a foreign market. Alternative export channels are dependent on whether there are independent exporting agencies in the foreign market. If a

manufacturing company depends on the local agencies for sales in foreign market, it does not need to be involved in export and only minimal marketing efforts are necessary. This type of export, via local agencies is called “indirect export.” With indirect export, it is difficult to establish close relationships with local markets in foreign countries.

Direct export is usually dependent on two paths: local agents/wholesalers and local salesperson/corporations. The advantages of direct exports:

1. Direct contacts with local business partners and the local market provide more accurate information about the foreign market.

2. Avoiding the payment of commissions to middlemen in the corporation’s home country means that higher profits are possible.

3. Information about local expectations, requests, and complaints on products can be obtained from local agencies, to help to make necessary adjustments to product planning and export strategies.

4. Manufacturers can increase the sales and strengthen the control of international marketing by implementing the international marketing functions through independent foreign marketing firms or foreign manufacturing subsidiaries.

5. Increase in the trust level and the sustainability of such trust can be achieved by being able to provide before- and after-care for the products.

6. The export and the international marketing expertise can be developed.

However, direct export also entails the following shortcomings:

1. Manufacturers have a higher probability of failure, due to the lack of trade expertise, language barrier, little experience, and lack of expertise in foreign markets.
2. There are higher risks involved in exporting, due to delays and product claims.
3. The high initial establishment costs of direct export, for an export division in the company, a local branch, and the local marketing subsidiary in the foreign market, plus low profit levels, can result in a loss at first. This risk is especially crucial for smaller enterprises, if the costs continue to build up.
4. The cost to break into new markets in foreign countries can be very high and making a profit can be difficult when there is lack of expertise in dealing with the foreign markets, without the help of agencies specializing in export.

Sales by direct investment

Once a company starts to set up a full-scale business in a foreign country, it is fully involved in business activities, ranging from the manufacturing to the sales. Sometimes, certain companies reduce their risk as sole investors by establishing a joint venture with a joint capital, and when appropriate, the company takes over the venture. Direct overseas investment provides an opportunity to maximize the competitive advantages in foreign local markets. In other words, unlike export, or a licensing contract, it enables the investing company to have direct control over the product manufacturing, technology transfer, and marketing activities.

It also enables the company to avoid having to deal with trade regulations, such as

quotas, and can reduce the manufacturing cost by using relatively inexpensive labor, raw materials, or energy, as well as by savings in transportation and custom expenses.

Local manufacturing has additional advantages from a marketing perspective. For instance, by directly manufacturing products in the local market, the company can increase its ability to make use of customer preference feedback and reduce the turnaround time to provide newly-adjusted products to local middlemen or to the customers. Additionally, not only can the company provide a better after-care service for its products, and perhaps obtain a chance for direct sales by local sales people, but the company can also, eventually, build a relationship with the local customers as one of the local manufacturers.

The contributing factors determining the distribution channel

According to Root (1994), the contributing factors determining the distribution channel can largely be categorized as internal and external factors.

External factors can be:

- 1) Local market factors, such as the size, competition, accessibility and quality of the local marketing sub-structure,
- 2) Local manufacturing factors, such as the quality, quantity, and cost of components, including raw materials, labor, and energy, as well as the quality of the economic infrastructure, like transportation, communication, and labor facilities, and the manufacturing cost,

- 3) Local environmental factors, including governmental trade policies, foreign investment restriction policies, as well as the geographical distance, economic system, size of competition, and level of economic development,
- 4) The size of company, competition structure, the level of manufacturing cost, the existence of restrictions and regulations in governmental policies in the native country of the investing company.

Internal factors can be divided into product factors and capital input factors. Product factors include the degree of distinguishing characteristics, the necessity for before- and after-care service, and product characteristics. Capital input factors include the size of the company as well as the amount of invested capital. Taking the above factors into consideration in starting a business, a company tends to change the entry strategies gradually, by enforcing tighter control over the marketing activities in the market as time goes by. As the company increases and reinforces the degree of market control, corporate capital's involvement in foreign market tends to become greater, resulting in increased market and corporate risks.

Generally speaking, a manufacturing company enters a foreign market via two paths. The first path is to start from indirect export, to move to export via local agencies or local distributors, to make a joint venture, and finally to come to the independent investment. The second path involves indirect investment in export, via local middlemen or distributors, via foreign local branch or local subsidiary, and

then, finally, to move to an independent investment. Depending upon the corporate size, a company may sometimes opt to enter into the foreign market, by establishing a local branch or local subsidiary, and then move to independent investment. In the case of a service industry, entry with license contracts is sometimes decided.

2.2 Previous studies of the selection of distribution channels

The existing theories on the selection of the distribution channel can be categorized into the following four theories: transaction cost theory, production economy theory, industrial structure theory, and the product characteristics theory.

2.2.1 Transaction cost theory

The concept of the theory

Transaction cost refers to the cost necessary in identifying business partners in the market, such as search cost, contract closing cost, and contract monitoring cost. In other words, the transaction cost is a concept that is separate from the manufacturing cost, but includes system operating costs such as those required to undertake information search, negotiation, supervision, and contract execution (John, 1984).

A pioneering researcher on transaction cost theory, Coase (1937) identified uncertainty as the main cause of such costs and included the search cost for proper price, negotiating cost during the dealing process, and risk cost for low flexibility, due to long-term contract into the transaction cost.

Coase additionally pointed out that the investment absence cost must be included as well, since as the transaction cost increases, the opportunity cost of the investment increases relatively. As a result, a downward spiral pattern of high risk of the supply cost will occur due to business expansion as well as managerial misconduct as the time and cost pressures, to optimize the production factors, increase.

The reason why the transaction cost is so attractive in explaining the selection of distribution channel is because it can simplify the complicated process of distribution channel decision into three condensed concepts. Also, the core of the application of transaction cost theory to the distribution channel selection lies in the minimization of the transaction cost. Therefore, by applying this theory in the decision making process, a company can determine what distribution functions should be internalized with minimal cost and what needs to be outsourced to others with more expertise and experience to optimize those functions.

The cause of occurrence of the transaction cost

According to transaction cost theory, companies internalize the transactional relations in order to reduce the transaction cost. Williamson, who established theoretical cause of such occurrence of cost, suggested the following model of how the initial failure in market leads to higher transactional cost.

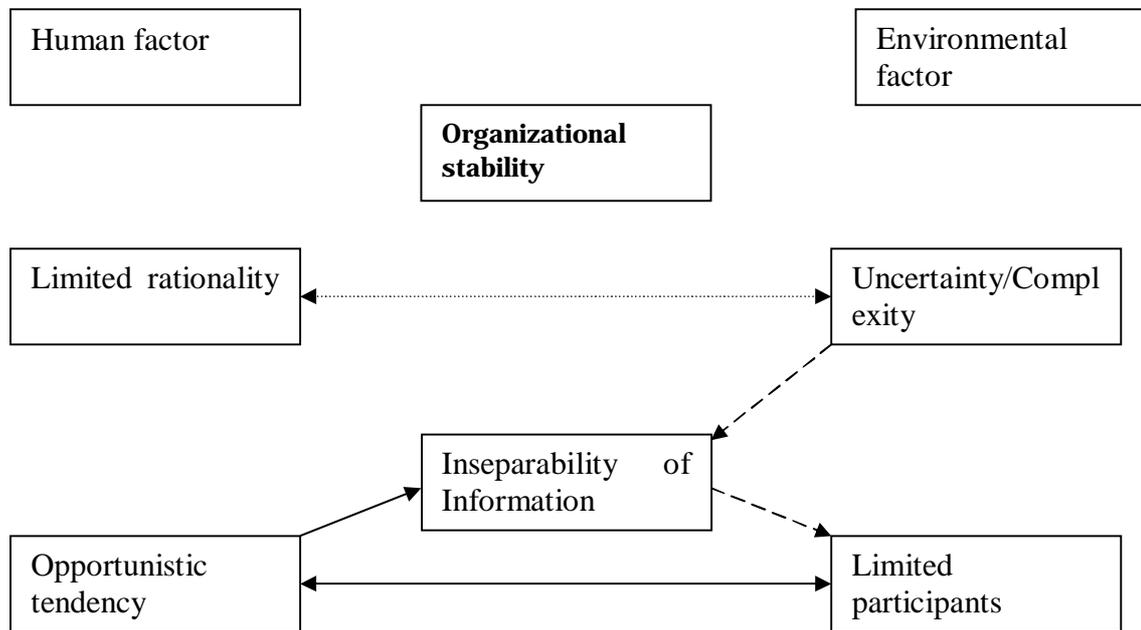


Figure 1 model of market failure (Prototype of Transaction cost theory)

Human factors can be explained by the limited rationality and the opportunistic tendencies of human beings.

Limited rationality refers to the fact that human beings cannot help sometimes behaving according to their emotions, rather than the rational judgmental criteria. Therefore, even if people are trying to act rationally, their actual behavior inevitably contains irrationality.

This can also be applied in selecting the transaction partners. If a rational judgmental system is established, it is possible to gain competitive advantages in the market, by providing products to consumers with lower price at a minimal cost. Therefore, in determining its transactional partners for a distribution channel, limited

rationality in judgments and behaviors tend to increase the transaction cost.

Opportunism, the other human factor of the market failure model, is defined as “self-interest seeking with guile.” More specifically, this refers to behaviors such as distorting or faking information on transaction for self-interest, or excessive price negotiation.

Griesinger (1990) defines opportunism in terms of dishonesty, breach, or responsibility avoidance. This human tendency of opportunism, therefore, can explain the internalizing trend of transaction costs among companies, by providing the reasons for avoiding the business partner’s possible opportunistic behaviors, which hinder corporations’ rational decision making.

Combined with the human factors, environmental factors can contribute to an increase in transaction cost. Among these environmental factors is the number of participants in a business transaction. When there is a higher tendency for opportunism by the business partners and there are alternatives or managing ability by the company, these types of opportunistic behavior by the business partners are less likely to occur. If not, however, the transaction cost occurs to maintain the business relationships between them. Also, a rise in transaction cost is more likely to occur when the limited number of transaction participants indulges in opportunistic behaviors in order to maximize their profits with the use of their authority. In this case, companies tend to internalize the transaction to save the transaction cost.

The clustering of information plays a determining role in the transaction cost and

its increase. The unavoidable information imbalance among the business transaction participants tends to be caused by the opportunism among them. This information imbalance leads to the increase in transaction costs, because the party that needs information for the best decision is more likely to invest more money in order to overcome such a disadvantage. Therefore, companies opt for integration of the transaction to reduce the cost of such activities.

Environmental uncertainty can be another factor affecting the integration of a business transaction. Environmental uncertainty means the fluctuation and variation in the environmental setting. It can be defined as the degree of recognition of the similarities and differences of the contributing factors in resources that are handled by people with authority in organizations, individuals, and societies. Environmental fluctuation refers to the degree of recognition of the change rate or the rotation frequency of marketing capacity in reckoning environments. Under these environmental uncertainties, companies seem to be unable to reduce transaction cost since accurate decision-making is almost impossible.

Characteristics of a transaction

As specified in the market failure model, since there are factors that contribute to the occurrence of transaction costs, companies prefer to integrate the functions that cost relatively little but outsource functions to others who can do better, even though it costs more. However, realistically, it is difficult to determine a transaction cost objectively, due to the relative nature of determination of transaction cost. Therefore,

it is necessary to imply three concepts of transaction characteristics to enable the estimation of transaction costs in market trade.

- I Asset peculiarity: also referred to as the degree of investment sustainability of transaction-specific assets, can be divided into four types. They are location peculiarity caused by geographical proximity, technology peculiarity caused by the need for specialized skills and equipment for a special transaction, human asset peculiarity, a result of special training or education, which is impossible for transfer and, finally, endowed peculiar assets.

More specifically, asset peculiarity illustrates the degree of necessity for specialized or unique assets to facilitate the transaction. Here, unique asset refers to an asset that is tailored only for a specific transaction and that once the transaction is terminated, is not worth abolishing it. For instance, company salespeople's specialized knowledge through experience is highly correlated to their work.

- I Uncertainty: According to Butler (1978), the concept of uncertainty has to take into consideration the impossibility of predicting issues and the problems that can occur during the transaction process, of time factors such as the time spent from the onset of a deal until the completion, of changes caused by rapid development in technology, of cost increases, and of unstable political factors.

In addition, Butler viewed uncertainty as identical to concepts of complexity, namely inter-dependency, and ambiguity, all of which are difficult to evaluate the result of the transaction.

Environmental characteristics that influence the organizational structure have been categorized in three concepts: environmental complexity indicating the degree of difference among organizational building elements, environmental variability, and environmental predictability (Weits & Anderson, 1983).

Similarly to Butler, Anderson and Gatignon (1986) categorized uncertainty into two: internal and external uncertainty. According to them, internal uncertainty can be defined as the unpredictability in external environments such as a shift in national security, political instability, economic fluctuation, and currency fluctuation. Internal uncertainty can be defined as the situations in which companies are unable to evaluate accurately either their corporate objectives or their employees' accomplishments.

Based on the above definitions and the categorizations of uncertainty, external uncertainty can be viewed as the same as unpredictability, complexity, and inter-dependency between issues and problems. Therefore, external uncertainty in business settings seems to make vertical integration of distribution channels necessary. This is important because, if not, every time unpredicted changes occur in environments with middlemen, companies will be forced to renegotiate, may face

frequent conflicts with middlemen with obviously different goals and circumstances, and fail to make timely adjustments to environmental changes as the middlemen's opportunistic behaviors prevail. Consequently, it is more advantageous to employ an integrated distribution channel under such uncertainties in the external environment, rather than to use outside independent middlemen.

Some scholars, however, have opposed these claims, arguing that it is more reasonable to utilize independent agencies, so that companies can be more flexible under such environmental uncertainties. In other words, when the uncertainty in external environments is high, the independent agencies' opportunistic behaviors can be reduced if there is a vertical integration of distribution channels with a sacrifice of the flexibility that can be achieved with the employment of independent agencies. However, this advantage of flexibility, due to using independent agencies, is limited to when the supply market or the distribution market is very competitive.

Internal uncertainty occurs when it is difficult to evaluate each employee's contribution to the distribution function discriminatively due to the high ambiguity of evaluation and interdependency of distribution tasks. This leads to difficulties in evaluating the result of a transaction after a certain period of time has passed, unless the transaction happen simultaneously, so that the result of the deal gets is known immediately after. Namely, the longer the time interval between the final deal and the final deliberation of the deal, the more difficult it gets to evaluate the result of distributional transactions, and this eventually leads companies to internalize the

function of distribution channel. The concept of uncertainty in transaction cost model is illustrated in Table 1.

Table 1 Summary of the concept of uncertainty from the transaction cost model

Scholar	Year	Major concepts of uncertainty	Remark
Butler	1982	Unpredictability Time difference	Uncertainty is considered as the subordinate concept of complexity
Weits & Anderson	1983	Environmental complexity Environmental correlation Environmental changeability	
Anderson & Gatignon	1986	External uncertainty Internal uncertainty	Unpredictability complexity and interdependency Channel

- I Transactional Frequency: In case of specialized assets, it is important to consider how frequently the transaction function is used in deciding the transactional structure because while there are benefits from integration, the cost also increases due to the special nature of the assets. In other words, the benefits and the costs of both approaches have to be carefully examined upon deciding transactional structure since the internal

transactions reduce transaction costs but in the meantime sacrifice the scale and scope merits that can be achieved in market trading.

However, in the case of frequent usage of such functions, integration of distribution channels does have its merit, in that the benefits from the integration increase as the cost for such monopoly decreases, resulting in a balance of the benefits and costs from market trading. Figure 2 illustrates the process of how a certain type of distribution channel is selected, when the three concepts of transactional characteristics are applied to estimate the transaction cost occurring due to human and environmental factors.

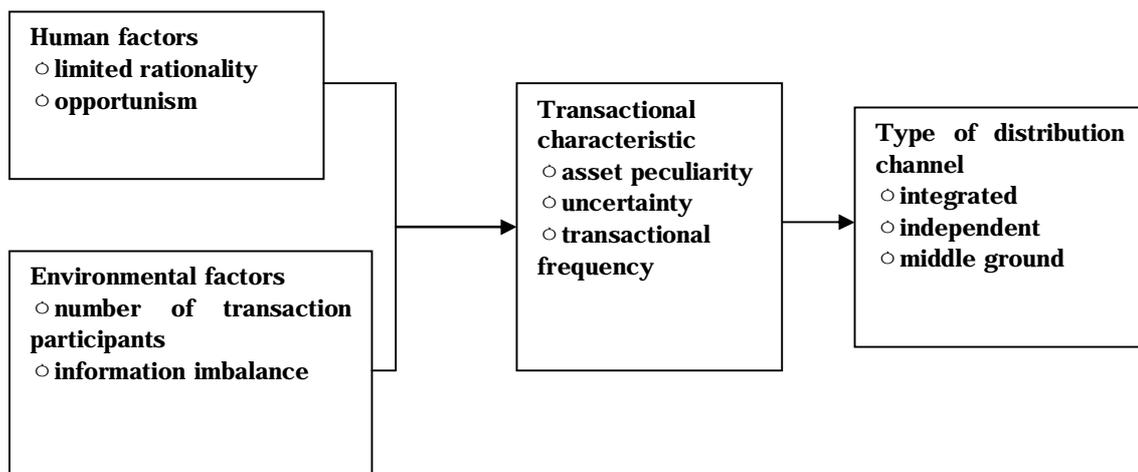


Figure 2 Relationships between transaction cost and the type of distribution channel

2.2.2 Economic theory of manufacturing

According to manufacturing theory, the distribution channel has to be decided

from the perspective of economies of scale and corporate experience, in order to maximize profits, the ultimate organizational goal, while engaging in marketing activities.

The main focus of the application of economies of scale to the decision of distribution channel lies in the relations with the corporation's size and manufacturing costs. Transaction volume is dependent on the size of a company. Therefore, relatively small companies tend to opt for a non-integrated path, because they cannot achieve economies of scale. In a case like this, independent agencies are able to obtain similar products from larger companies at a more competitive price by combining product lines. Independent agencies are more likely to raise their value by providing external economies to manufacturers. However, large corporations do not need the role of independent agencies, because large volumes of distributional transactions can help to minimize the production costs with highly integrated distribution channels.

As Williamson pointed out, when their necessary volume gets big, compared to the size of the market, corporations can achieve higher economies of scale. This reduction of production cost, via economies of scale, can be facilitated by the potential ability through internal specialization and departmentalization. Unlike the transaction cost approach, which ignores the effect of distribution channel integration on production costs, the manufacturing theory approach believes that integration of distribution channels can minimize the sum of transaction costs and

production costs.

Besides the size of corporations, economies of scale can be influenced by other factors, such as affordability or preferences of the corporations. Since big corporations can afford such high maintenance functions within the organization, they are more likely to prefer integrated distribution channels, whereas small companies might prefer to use independent agencies. Additionally, more experience and involvement of companies in distribution activities increases the likelihood of reduction in prime production costs, by lowering the distribution costs. Therefore, more experienced companies tend to prefer integration to market exchange of distribution channel.

2.2.3 Industrial structure theory

This approach, using industrial structure for the selection of distribution channels, is related to the concepts of market, middleman, substitute products, and the level of competition in a specific industry.

According to Bucklin's (1966) research on the characteristics of a market within a specific industry, companies tend to prefer independent distribution channels through middlemen when the market is decentralized, the volume of product order is small, customers call for product variation, and the turnaround time of production is short.

Also, it might yield great advantages by employing independent agencies to carry

out the distribution function, when the independent agencies are large in size, have good marketing strategies, are good at dealing with customers, possess nationwide distribution channels in retail as well as in wholesale, and have reliable financial strength.

In a broad sense, companies continuously compete with others in the industry, especially the substitute goods manufactures. Since substitute goods can potentially limit a products' profitability in a given industry, such substitute goods always create competing pressure in the market. Consequently, the trend is for the companies to choose independent agencies, rather than integration of distribution channels, in case their products are susceptible to changes in technology and the introduction of new substitute goods, which may be cheaper and better.

The level of competition within the industry also plays an important role in the selection of proper distribution channels. When there are many competitors with similar capabilities for standardized products, with a high substituting cost and little product differentiation, the high price and non-price competition among companies tend to lead towards independent agencies.

Harrigan (1984) claimed that fierce competition within an industry decreases the competitive advantages of companies in terms of the price and the product differentiation, which, in turn, causes reduction in profit in the market. In order to avoid such failures in the market, Harrigan noted, companies tend to prefer independent distribution channels.

2.2.4 Product characteristics theory

Aspinwall (1958) viewed the contributing factors for distribution channel integration as five characteristics of a product: high purchasing frequency, longevity in the consuming period, longer research time prior to the purchase, long adjustment period, and high profitability.

Since consumers are willing to pay extra attention and time to research before purchasing such products that have the above characteristics, companies can maintain distribution channels of small capacity, and, in return, can save the total expenses by integrating the distribution channel within the companies. Moreover, through the integration of distribution channels, companies can more easily adapt to the consumers' fast-changing needs and can build a distinguished product line.

Since integration of the distribution channel enables companies to exert more control, which is absolutely necessary, over the operations of the distribution channel function, it is the preferable choice for managing products that require high maintenance. Therefore, concluding Aspinwall's argument, an integrated distribution channel is appropriate for products with high profit margin because of their high costs for distribution channel. On the other hand, distribution via independent agencies is preferable for products with low profit margins.

Jackson (1982) found, in his research on determining the length of distribution channel, that a product's purchase priority was an important causal factor in deciding the form of distribution channel and that the complexity of a product did

not much affect the decision.

These findings were also shared by McGuire and Staelin (1983), from their similar research, which argued that, when the product differentiation between two products by different companies is quite visible to customers and there are no or few substitute goods available in the market, companies prefer an integrated distribution channel to maximize profit. Anderson (1985) also supported the idea that the more appealing the product is in terms of price and quality compared to other products, the more likely the company is to prefer an integrated distribution channel, and rejected a hypothesis that proposed a positive correlation between the length of selling period and the tendency for distribution channel integration.

3. Research model and hypotheses

3.1 Deduction of research model

In this research, integration of distribution channel was included as being a part of the internalization of the function, in explaining the level of distribution channel integration. Internalization of distribution channels can be a good idea because high uncertainty caused by limited human rationality makes it very difficult for companies to make necessary and timely decisions. Also, the advantages of economies of scale can facilitate the internalization process when the frequency of transactions is high.

The corporate environment in the local market plays an important role in the choice of type of distribution channel. Especially, the regulations and policies of the local government affect the activities of foreign investors and companies. Additionally, the cost and the quality of manufacturing factors of the local market, such as natural resources, labor, energy, local contractors, and social infra-structure can influence the decision as to the type of distribution channel companies are going to employ. For instance, a local market with copious resources and low labor costs will attract active foreign investment and business activities. On the other hand, unfavorable conditions such as low availability of manufacturing resources and high labor costs will prevent foreign investment from coming into the country.

Among the factors related to local market environment is the competition system among local companies. Competition systems can be divided into four types:

1. The 'perfect' competing system, where countless number of companies compete with each other in the same market,
2. The 'oligopolistic' system, where the market is dominated by only a small number of companies,
3. The 'monopolistic' structure, where the market is dominated by a single company, and
4. Finally, the 'monopolistic competing' system, where the market is controlled by a limited number of companies for selected products.

Therefore, upon entering the market, under an imperfect competition system,

companies must engage in aggressive business activities in order to compete with monopolistic or pre-established local companies. Considering the tendency to integrate transaction structures to save transaction costs due to certain transactional characteristics, the characteristics of the local market, such as the governmental regulations and policies, domestic manufacturing conditions, and the level of competition in the market, can influence the type of transactional structure.

The product characteristics can also have a significant impact on transaction integration. An integrated form of distribution tends to be used for highly complicated and distinguished products. Since such products require a close relation with the local market to be able to meet the preferences and the need of local consumers and, therefore, require high-level and frequent adjustments, it is preferable to manufacture them locally and adopt an integrated distribution channel.

The product complexity is a concept that is related to customer service, after care of the product, and the research period. For products that require frequent and excellent customer service, the use of an integrated distribution channel will help to guarantee the quality of the service. Similarly, for products that require constant and frequent check-ups and high maintenance, an integrated distribution channel is appropriate.

3.2 Building hypotheses

As important factors in explaining the characteristics of transaction, the asset peculiarity, uncertainty of environment, and the scale of transactions should be

mentioned. The asset peculiarity refers to creating added value to the asset by specializing the companies' assets. According to the logic of the transaction cost approach, the more unique the asset is, the more likely the companies are to lean toward the integration of distribution channel in order to reduce the transaction costs. This argument can be interpreted in the same light as the logic of the argument that companies tend to make a direct investment in a foreign market because it is beneficial to keep such specialized skill and knowledge within the organization.

The more the transactional asset peculiarity there is, the more difficult it gets to replace and prevent opportunistic behaviors by the business partners. The existence of transactional asset peculiarity has a close connection with transaction costs. In other words, transactional asset peculiarity increases transaction costs, including the risk of losing the value of the assets completely, and the costs necessary to search for a new business partner if there is to be a change of the business partners. Based on this, the following hypotheses can be drawn:

Hypothesis 1: the distribution channel will be affected by transactional characteristics.

Hypothesis 1-1: There is a positive correlation between the transactional asset peculiarity and the degree of integration of distribution channel. In other words, the higher the asset mobility is, the stronger the degree of integration of distribution channel and vice versa.

Environmental uncertainty refers to complexity or unpredictability of

changes in an environment. According to the transaction cost model, this uncertainty is often caused by limited human rationality and opportunism among those in the market and, eventually, leads to difficulties in proper decision making regarding tasks such as target goal selection and strategic implement plans. This uncertainty almost always exists, even in instantly implemented transactions, due to the unpredictability of occurrence of possible problems. This might be the result of the time difference between the onset and the conclusion of transactions or of the rapidly changing technology and costs as well as political instability.

This uncertainty in an environment requires more information, as transactions get more complicated. This is because the limited rationality could be overcome if the distribution function is carried out within the organizations, rather than in the market. Companies can reduce the degree of uncertainty in the distributing environments by asserting strong control over distributors. In this case, the integration of distribution channels takes place and this leads to the occurrence of a specific distribution channel system.

China has been enacting many laws and regulations since the opening of its market and still keeps drafting and declaring many more new economic policies. However, it seems that there are many problems in the implementation of such policies. Such laws and regulations are not respected, execution is not strictly done, no penalties are given according to laws in case of violations, and power, words, and personal relationships replace the rules of laws (Ma-hong, 1998). For example,

several cases of corruption within local government were reported while the Chinese government was declaring and enacting environmental regulations. In order to avoid such discrepancies in implementation, there was a move to decentralize authority, leading to some regional regulations. However, such decentralization seemed to cause a lack of transparency regarding these laws and regulations, and the loss of consistency among regions

Recently, as China faces socio-economic changes, it is revisiting its economic laws and regulations related to investment.² Many foreign companies investing in the Chinese market have pointed out that, since China is undergoing a series of changes, this policy reform seems unavoidable. However, they also complained these frequent reforms of policies, even very fundamental ones come into force right away, and it is therefore very difficult for them to adopt and apply such changes on time. For instance, if the regulations are revised after completing a deal in accordance with the existing regulations, then the company might lose money because once completed deal cannot be modified.

Chinese policies say that “it is imperative to manage foreign investors within the law and at the same time to protect the right of the middlemen and the employees.” In other words, they set down the regulations that protect the rights both of investors and their employees. However, in some regions, legal relations between these two

² Total number of 195 administrative policies was declared between the five-year of period of 1993, January and 1997 by Chinese State Department. Ma-hong Chinese market development information, 1998. Chinese development publishers (Beijing) 1998. 6. p.197

parties are not clearly laid out and foreign companies still feel anxieties coming from their business activities in China.

Additionally, the involvement of many bureaucratic agencies in the process of policy decision-making and implementation causes the unclear and frequent shift of responsibilities. Regardless of the effort of the Chinese government to gear up for the changes in the economic environment, there are still many systematic weaknesses in its policies to accommodate the needs and the rights of foreign investors. It is often the case that companies waste a lot of time, caught in conflicts between regional governments, due to different content and interpretation of each regional regulation.

Other realistic obstacles in entering the Chinese domestic market are regional protectionism and the distribution barriers this causes. Even though the Chinese government is trying to remove such distribution barriers among regions, the close relationship of regionalism with plan management, finance management, and pricing system makes it very difficult to do so.

Since the degree of administrative regulation and scope between local markets vary, it is necessary to identify the degree of the regional government's likely interference and the interference style. Therefore, overseas companies that have already established a bridgehead in the Chinese domestic market and are trying to expand their business into other regions, tend to face the most severe obstacles, namely, territory fights between regions and the consequent division of the domestic

market.

Meshed with the continuous progress of such divisions, imperfect competition in the regional market structure, different and outdated distribution, transportation, and distribution structures, the inconsistency between central vs. regional/municipal information, and the growth of competition among regions, the divided nature of Chinese domestic market begins to expedite the decentralization process of China by strengthening internal trade barriers. As a result, the price of the same product can vary by regions or sometimes by cities. As this differentiated pricing, even within the same region, has occurred, foreign companies, aiming their strategies at a 'unified single Chinese market,' have found themselves faced with a lot of problems, trapped in a market that is deeply divided by 'regional protectionism'. Especially when a foreign corporation has already established its manufacturing and sales footholds in a specific region and then tries to expand its sales into other regions, such trade barriers work as a contributing factor to increase prime production costs and, in return, of decrease in the attracting elements of such advancement to other regions.

Since China has vast differences in cultural convention and spending patterns between its regions, there are many difficulties, even to identify these regional variations in terms of spending culture, conventional differences in necessities of life, or different spending patterns of different income levels. Ignoring such regional variations in engaging in marketing activities is quite risky.

Typical thinking patterns of the Chinese follow the order of ‘emotion, rationality, and rules.’” In other words, ethics are much more respected than laws, and such tendency leads to the emphasis on mutual trustworthiness in transactions. Therefore, foreign investors, who are not familiar with such ways of thinking, sometimes complain that Chinese people ‘do not follow the laws’, ‘do not implement laws with rigor’ or ‘lack the respect for laws and regulations.’ In addition, often the language barrier between the regions seems to cause frequent difficulties.

However, even though the Chinese highly regard “guan xi (relationship)’ and “saving face”, they strictly obey the laws. Therefore, it is necessary to have an accurate understanding of the concept and the function of ‘guan xi’, because using ‘guan xi’ within the boundary of the laws could increase the chance for successful investment. Investing in China requires both the respect for human relationships as well as the careful examination of regulations and restrictions.

Since the Chinese government’s economic policies mainly focus on the expansion of exports and are premised on the primary use of foreign capital for manufacturing export goods, it is not easy to make an investment targeting at Chinese domestic market.

Foreign investing firms have been increasing the percentage of direct investment, aiming at the domestic market for consumer goods. Despite the reform and opening up of the Chinese market, the price and distribution systems for Chinese consumer goods are still quite complicated and ineffective due to red tape. The distribution

system and the pattern of consumption still greatly vary per product and region.

Moreover, as the decentralization of the nation accelerates, the regional governments with heightened authority tend to exert more control over foreign investors' advancement into a certain region's and a city's domestic market. In result, China has a characteristic nowadays of 'the congregation of thousands of separate regional markets' rather than of 'an enormous single market.' Moreover, since the Chinese distribution system is undergoing constant and ongoing development and changes, generalized customary practices are hard to understand and the transparency of regulations and rules related to distribution are significantly lacking. Foreign investors comment that the prices of products are not consistent because, in some regions, the regional business bureau prices a product higher than the standard price and there are widespread tendencies to view the foreign investors and foreign companies as "fat cats" that can be taken advantage of. Due to these confusing and inconsistent product pricing policies in many regions, small foreign enterprises, whose negotiating capacities are relatively weaker than that of the big companies, face severe obstacles in their business operations, and this is said to cause the loss of trust among investors.

The Chinese government took actions to lessen some of the restrictions on foreign exchange transactions so that foreign investors could raise more capital for investment and to maintain trade equilibrium between the outgoings and incomings. However, realistically, it is almost impossible to receive local financial assistance in

China. This is because the Chinese government regulates financial organizations, to limit credit only to the state prioritized development enterprises, and to limit the credit lease amount per debt ratio. Getting loans from foreign financial organizations is also quite difficult, because of the conditions for mortgages for foreign investment companies without a surety guarantee.

Even though the autonomy of foreign companies' to recruit their workers is beginning to be expanded, it is still the case that there is only a limited freedom for the termination or recruitment of their employees. To recruit an employee, a foreign company must obtain a permit from the Department of Labor and from his or her current employer. Not only that, the company could face difficulties in terms of housing accommodation and welfare of their employees. Terminating the contract of an employee also brings many difficulties.

The increasing labor costs and the lack of a professional-level labor force, the difficulties in recruiting professionals, and high job turnover are other problems that foreign companies could face in China (A. Sergeant & S. Frenkel, 1998). Even though labor costs are still quite inexpensive in China, other factors, such as low skill levels, a poor work ethic, and the lack of enthusiasm among the employees contribute to low labor productivity.

Foreign companies are allowed to get supplies of necessary raw materials for the product productions, either from China or overseas. However, under the same conditions, they are bound by the "local sales priority principle" to get the materials

from Chinese suppliers. Although, during the initial period, this principle was strictly applied, it has gradually been eased. Revisions were made, allowing non-tariff imports of those raw materials and parts which were difficult to obtain in China.

However, it is true that there are still many existing problems. Among them is the poor quality of some Chinese raw materials supplied by public companies. Sometimes, products that were initially considered possible to get supplied from domestic companies turned out to be impossible during actual operations. There were a number of cases where business operations were seriously hindered, due to production setbacks of local subsidiaries and delays in the delivery of the materials caused by transportation problems. Based on the above arguments, the following set of hypotheses can be established.

Hypothesis 1-2: The level of integration of distribution channel will have positive correlations with environmental uncertainties.

In other words, the more environmental uncertainties in a company's sales, the higher the level of integration of distribution channel and vice versa.

The transactional scale refers to the continuous relationships of manufacturers with the exporting agencies because of the large quantity of transaction goods or frequent transactions. Its theoretical logic can be found in economies of scale (Klein, Frazier, & Roth 1990, and Anderson, & Weitz 1992). When the minimization of production cost can be achieved internally, an integrated distribution channel is

preferred to the transactions via market. This reduction in production cost is made possible via economies of scale and this process can be facilitated by the internal organizational structure's specialization and a division of labor.

Economies of scale require the right conditions of factors, such as the size of the company, distribution quantity, average order size, the existence of a suitable distribution channel, the centralization of the product market, and allocation of sales quantity. In other words, if the size of a company is big, the company tends to choose an integrated distribution channel, because the production cost per unit can be reduced significantly by mass production. Also, the distribution form can be affected by the sales quantity via a certain distribution channel. If the sales quantity is small, it is more economic to let independent agencies deal with the distribution. Based on this theory, it can be argued that the greater the sales quantity, the more likely the companies are to prefer the integration of the distribution channel with the companies, because they can achieve economies of scale by reducing the fixed costs and minimizing the production costs (Klein, Frazier, & Roth, 1990).

The achievement of economies of scale also can be said to be determined by the sales network of the distribution channel, the size of the average order, and the degree of concentration of sales locations. Based on this, the following hypotheses can be suggested.

Hypothesis 1-3: There will be a positive correlation between the size of transaction and the integrating degree of distribution channel. In other words, the

bigger the size of transaction, the higher the integrating degree of distribution is and vice versa.

The local government's restrictions do not work effectively with those of foreign authorities, especially the company's own government's regulations. Here, the restrictions refer to the local government's industry policies as well as trade regulations, via tariff and non-tariff barriers. Therefore, the harsher the restriction of the government is, the greater the preference for an integrated distribution channel is.

In the case of internal transactions, it has an advantage to take proper actions by collecting necessary information before and after the actual transactions, when the native government applies restrictions on the imported goods (Root, 1994). In China's case, investment and entry into local markets, by foreign companies in certain industries, are strictly regulated by the government. For example, in the automobile industry, with the exception of a few foreign companies such as Volkswagen at Shanghai and Volkswagen in Changchun, Citroen at Hupei Characteristic, Peugeot in Guangzhou, Daihatsu at Tienchin and Chrysler at Peking, which were allowed to enter the market under "3 big and 3 small" principle, other foreign companies are not yet allowed to enter the "green field" in a form of new investment.

Also, in the telecommunications industry, only five mega companies that entered the Chinese market earlier, such as U.S.'s AT&T, Canada's Northern Telecom, Sweden's Ericsson, France's Alcatel, and Japan's NTT, have been given exclusive

rights in the nationwide telecom market. These types of restriction policies for market entry were intended to protect the Chinese domestic industries until they developed their own advanced industrial technology skills. These protective measures for domestic industries, however, are barriers for overseas companies to enter the market at an optimal time, through ‘de neuve’ entry. The following hypothesis is suggested based on the above argument.

Hypothesis 2: Depending on the characteristics of the local market, the type of distribution channel will be different.

Hypothesis 2-1: The stronger the restrictions placed by the local government, the more likely the companies are to prefer the integrated distribution channel choice.

The more advantageous the manufacturing conditions are, the more companies prefer the integration of the distribution channel, because the companies can obtain competitive advantages by acquiring the superior manufacturing elements. These manufacturing elements are the quantity and the quality of natural resources, labor, energy, social infrastructure of local country etc.

The local manufacturing factors can be divided into physical and human elements that can affect the production activities in local markets. An inexpensive labor force and low investment costs for facilities can help to reduce the risks and expenses and, in turn, make the move to that country a lot easier. It can be said that the reason why the companies are changing to overseas production is to achieve competitive advantages by switching production from their own countries to less developed

countries, where the labor and production costs are a lot lower. Based on this argument, the following hypothesis can be drawn.

Hypothesis 2-2: The more advantageous the local production conditions are, the more likely a company is to choose an integrated distribution channel.

The level of competition depends on the level of stability of market share, the number of current and potential competitors, and the level of accessibility for new players in the market. In other words, the decision for an integrated distribution channel is affected positively when the market share is unstable, the price and non-price competitions are fierce, the entry rate of new companies is high, and the competition among the existing companies is high. Therefore, the following hypothesis can be established.

Hypothesis 2-3: The higher the competition is in the local market, the more likely that the integrated distribution channel is preferred.

Goods are said to be provided in order to satisfy either primary or secondary needs. It is seen that the characteristics of products can be used as contributing factors to the decision of type of distribution channel, in terms of product differentiation (Lilien, 1979) and the purchase priority (Jacson et al 1982).

Product differentiation refers to the uniqueness of the products, compared to those of other companies, in terms of design, brand, condition of application, and suitability for customers' preferences and income levels. Product differentiation can work as an important variable in the selection of distribution channel, because a

company can get competitive advantages for its product when customers recognize the product's uniqueness that cannot be replaced by other products in the market. In this case, because of no or little competition, an integrated distribution channel can be beneficial. To put it differently, the company tends to prefer the integration of distribution channel because there is lower competition due to the lack of substitution.

Product complexity is the level of importance of the product purchase to the customers. The concepts of complicated purchase process, high-risk recognition, more assertive information seeking, the product's technical complexity, and the importance of the product are related to the concept of the necessary degree of customer service. In case of a product with high product complexity and for which the importance of aftercare service is emphasized, the companies are more likely to prefer an integrated distribution channel. Therefore, the following hypotheses can be suggested.

Hypothesis 3: the choice of distribution channel will depend on the product characteristics.

Hypothesis 3-1: The more a company produces unique products, the more likely it is to choose the integrated distribution channel.

Hypothesis 3-2: The more complicated the product is, the more likely the company will opt for the integrated distribution channel.

4. Research method

4.1 Operational Definition of Variables

Dependent Variables

The degree of integration of distribution channel can be defined as the extent to which a company possesses more than two areas of corporation activities that are either horizontally or vertically related. In this study, the distribution channel in the Chinese market was divided into two dependant variables. This was measured through the existing scale used in previous research. The level of integration of distribution channel was measured using a ratio level of measurement from 1 to 10. Sales via middlemen were viewed as the perfect type of independent distribution channel and were given the numerical value of 1. Sales via independent investment were categorized as the perfect type of integrated distribution channel. Sales via joint-investment were defied as the middle-ground approach.

Independent Variables

The asset peculiarity was defined as the degree of possibility to relocate the asset without sacrificing its value. In this study, to measure the asset peculiarity, the relations with the customers or the business partners, the degree of experience and education of the employees, the company's accumulated experience and know-how, the company's business management procedures, and the degree of cooperation among different divisions within the company were measured using the seven-point Likert scale.

The environmental uncertainty, defined as the unpredictability of environmental changes, was measured by the measurement of the product development rate, the demand and supply trend changes in the market, the level of difficulty in sales prediction, the conditions for raw materials supply, and the work and labor supply conditions.

The transactional scale can be understood in the same light as economies of scale. In this study, this was measured by the size of the target market, economies of scale, and the frequency of transaction.

The local government's restrictions, considered as the state where the price mechanism does not function properly due to an external force, such as the local government, were measured on the seven-point Likert scale, in terms of the market failure factors, such as the tariff and non-tariff barriers, and the local government's industrial policies and regulations.

The local production factors, which are the physical and human resources that affect the production activities in the country, were measured through the measure of accessibility to necessary labor and cost for facilities in the local market.

The level of competition in the local market, as a variable of the competition level among the existing export and import companies among the competing factors of industrial structure, was measured via the measurement of the intensity of price and non-price competition, the degree of stability of the local market share, the number of competitors, and the accessibility of new players in the market.

Product characteristics, defined as the unique features of the product when compared to other companies' products, was measured through the uniqueness of the design and the brand, the condition of applications, and the preferences and the income level of the customers.

Product complexity can be defined as the degree of importance of the product purchase to the customer, from the customer's prospective, and is a concept that is related to intricacy of the purchasing process, high risk recognition, more assertive information seeking, and the product's technical complexity, the importance of the product, and the necessary degree of customer service. This was measured via the measurement of the product's purchase-related service and the time spent by the customer for research and purchase.

4.2 Construction of Survey Questionnaire

Each question in the survey questionnaire was constructed using items of which reliability and validity were checked by the literature review. The variables needed for testing hypotheses were measured using the seven-point Likert scales that represent the extent of integration of the distribution channel. To reduce attention drift because of excessive survey questions, some items were eliminated that did not affect the overall reliability of the questions.

The questionnaire is consisted of nine sections. The first section was about the distinctiveness of a corporate asset and this involves the company's separate properties that are related to the customers, corporations, and the team. In the second

section, the environmental uncertainty was addressed, and the third section dealt with the scale and frequency of transaction. In the fourth section, the Chinese government's tariff and non-tariff barriers and the governmental policies were measured, and in the fifth section the production factors within China, both human and physical resources, were measured. The sixth section included the level of competition within China through the measurement of the market share and the number of competitors in the market. In the seventh section, the product differentiation and the product complexity were measured, as related characteristics of a product. In the eighth section, in order to measure the degree of integration of companies that are doing business in China, distribution channels were measured in ratio. And finally, in the ninth section, information about the participating companies and the participants was sought. Sections are grouped into fewer categories.

4.3 Research Participants and Data Collection Method

4.3.1 Sample

The sample of this study's survey was limited to companies that are currently operating in Chinese border areas, in industries such as assembly, metal working, textiles, garments, leather, shoes, lumber, and furniture. This sampling raises the problem of whether the results can be generalized to Korean corporations currently operating in China. However, considering the vast number of Korean companies that are based in the border areas and the various sizes of companies from small business to big companies, this sampling limitation does not seem to undermine the

significance of this study seriously. Later, more samples were added from areas near the Gulf of Pohai and other nearby regions.

4.3.2 Data Collection

The first set of data was collected through the examination of prior research at a library. The data gathered at the library included the major related reports, various statistical data and daily newspapers of both China and Korea, and related research in both countries since the 1990s. Through the examination of collected data and journal articles, a theoretical conceptualization was drawn and a survey questionnaire was drafted. From March 2006, survey questionnaires were distributed, and face-to-face interviews with the survey participants were conducted. Due to the difficulties in getting responses to the survey questionnaire, data collection in the Chinese border areas was done by emails. Since this research was aimed at organizations as the research unit, not individuals, the CEO or the manager of a company was selected to answer the survey for their representation and the knowledge of the company's operations in China.

4.3.3 Data Analysis

Several data analysis techniques were used to test the proposed hypotheses for this study. First, the reliability of the variables was examined to ensure the reliable measurement of theoretical constructs used in this study. To examine the reliability, internal consistency was checked throughout each measured items, using Cronbach's alpha coefficients. Also, the validity of measures was examined, to ensure the

accurate measure of the theoretical constructs. Validity can be examined in many ways. For this study, construct validity was examined to see if there was a close fit between the measured indicators and theoretical constructs, using factor analysis. Regression analysis was used to see the relationship between the independent variables and the dependent variable.

5. Empirical Analysis

This chapter deals with data analysis to test the proposed hypotheses. To do so, reliability and validity tests purified each of the latent variables. Next, multiple regression analysis was used to see the significant relationship between transaction characteristics and the level of integration. In addition, interaction effects were examined on the moderating variable.

5.1 Characteristics of the Sample

Characteristics of the studied corporations

In this study, among the 150 Korean companies that are operating currently in China, a number of total 57 companies from the Chinese border areas and 42 companies in other areas from the additional surveys, participated in the survey, giving a 66% response rate. Except four surveys that could not be analyzed due to a poor quality, a total of 95 surveys were used for the final analysis for this study. The

following Tables 2-4 illustrate the number and the percentage of the participating companies by industry and size.

Table 2 Survey participants' characteristics by industry

Category	Food	Textile	Shoes and leather	Lumber and furniture	Paper and printing	Petro chemicals	Non-metallic minerals	Metal	Electronics	Machinery	Masc.	Total
N	11	16	8	9	2	5	1	4	11	8	20	95
%	11.6	16.8	8.4	9.5	2.1	5.3	1.1	4.2	11.6	8.4	21.1	100

Table 3 Survey participants' characteristics by size

Size of investment	Below \$100k	Between \$100k ~ \$1 million	Between \$1 million to \$2 million	Between \$2million to \$5 million	Above \$5 million	Total
N	21	52	8	7	7	95
%	22.1	54.7	8.4	7.4	7.4	100

Table 4 Participating companies' characteristics by number of employees

No. of employees	Less than 100	More than 100~ and below 500	More than 500 and below 1000	Above 1000	Total
N	65	23	4	3	95
%	68.4	24.2	4.2	3.2	100

Since the purpose of this research is to find out the factors which contribute to a company's choice of distribution channel, the characteristics of the survey participants are one of the very important factors affecting the external validity of the result of this study to larger populations. Consequently, the survey participants were limited to those who are in dominant positions in the company. The characteristics of the survey participants are illustrated in the following Table 5.

Table 5 Characteristics of the participants' positions

Position	Assistant manager or lower	Manager	Deputy director	Head director or higher	Total N
N	12	33	15	35	95
%	12.6	34.7	15.8	36.8	100

As shown in Table 5, by the number of participants by his or her position in the company, there were 35 people who were head directors or higher, 48 deputy directors or managers, and 12 assistant managers or lower. The characteristics of the respondents in terms of the number of work years are shown in Table 6.

Table 6 Participants' characteristics by number of years employed

No. of year	2 or less	3-5	6-8	9 or above	Total
N	27	37	20	11	95
%	28.4	38.9	21.1	11.6	100

This indicates that 87.4% of the participants were managers or higher and 71.6% of the total participants had been working in the company longer than 3 years. This might have been affected by appealing to the people for participation prior to the survey. By looking at the characteristics of the survey participants' number of work years and the position, this can be interpreted as having satisfactory quality of participants.

5.2 Reliability and Validity Analysis

Before conducting a hypothesis test, reliability and validity were tested to ensure the appropriate measurement of the constructs used for hypothesis test from the survey. Reliability refers to the consistency of the measure. The ways to test reliability include test-retest reliability, split-half reliability, and internal consistency. This study used Cronbach's Alpha coefficient derived from internal consistency, and a method to improve reliability by eliminating items lack of internal consistency with other items.

Validity refers to the extent of the accuracy in measuring theoretical constructs or their attributes, and is the extent to which a measure, developed to gauge a specific concept or an attribute, accurately reflects that concept or the attribute. Validity testing includes content validity, criterion-related validity and construct validity. Content validity evaluates the extent to which a measure gauges a concept or an attribute that it is intended to measure. To do this, the measured items should be randomly selected from all possible areas of construct's meanings. However, the population of the measured items does not exist in reality, so it is impossible to obtain the perfect construct validity. Therefore, researchers have to evaluate content validity based on subjective judgment and use as many items as possible for a given study. This study aimed to enhance content validity by including items whose validity and reliability were examined in previous researches.

Criterion validity, also called empirical validity, refers to the relationship between the measurement instrument and the measured results. This includes concurrent validity, which refers to the extent to which the predicted value of a given attribute or concept is concurrently related to other concepts or attributes. Predictive validity is about the extent to which the predicted value of a given attribute or concept can predict other concepts' variability in the future. This study examined concurrent validity by demonstrating the relationship between variables related to the proposed hypotheses.

Construct validity refers to the extent to which the measurement instrument

measures the construct that it is intended to measure, which includes nomological validity, convergent validity and discriminant validity. Nomological validity is about how a given concept is explicated and can be ensured by systemizing measurement of the related constructs. Convergent validity refers to the strong correlation between variables measuring similar concepts. Finally, the discriminant validity refers to the weak correlation between variables measuring the different concepts. This study conducted factor analysis to examine concurrent validity and discriminant validity. Hence, by means of factor analysis, a given factor can include the measured items that can be combined together so as to enhance concurrent validity. Also, because factors are orthogonal, it can be said that each factor is measuring different concepts.

5.3 Reliability Test

This study tested measurement reliability on the basis of Cronbach's alpha for internal consistency, although there are many different ways to measure reliability. Some items were eliminated, as they failed to be combined by appropriate factors. The reliability of variables used to test hypotheses was good: higher than .7 of Cronbach's alpha as shown in Table 7.

Table 7 Reliability Tests of Variables

Concepts	Number of measured items		Cronbach's α
	Number of excluded items	Number of the final items	
Transactional characteristics	9	21	.9212
Asset peculiarity	6	8	.9243
Uncertainty in environment	3	10	.8743
Scale of transaction	0	3	.6908
Local characteristics	4	13	.8390
Governmental restrictions	2	7	.8384
Production factors	0	3	.8550

The level of competition	2	3	.7051
Product characteristics	1	8	.8473
Product differentiation	0	6	.8595
Product complexity	1	2	.7036

5.4 Validity Test

Regarding validity test, this study aimed to see the extent to which the measured variables have validity, rather than to investigate whether the selected numbers of factors are statistically significant. Therefore, Principal Component (PC) analysis was used to extract components. The extraction method was to extract components for which Eigen value is greater than 1. The rotation method of the selected components was Varimax rotation.

To measure the transactional characteristics, the three questions were asked. To make sure of the mutual exclusiveness of these three questions, as proposed in the conceptualization, principal component analyses were conducted and the results are as follows as illustrated in Table 8.

Table 8 Factor Matrix Rotated by Varimax, relating to the three questions on transactional characteristics

	Asset peculiarity	Scale of transactions	Environmental uncertainty
A1	.218	.735	.228
A2	.299	.744	.114
A3	.258	.559	.213
A4	.596	.482	.219
A5	.542	.452	-0.24
A6	.525	.621	.120
A7	.507	.574	.083
A8	.376	.716	.081
A9	.765	.229	.204
A10	.821	.260	.151
A11	.829	.275	.210
A12	.825	.301	.134
A13	.668	.306	.190
A14	.583	.450	.243
B1	.506	-.040	.451
B2	.003	.328	.630
B3	.469	.495	.379
B4	.134	.108	.518
B5	.068	.432	-.011
B6	.228	.242	.664
B7	.133	.323	.678
B8	-.021	.127	.692
B9	.007	.156	.608
B10	.098	.420	.510

B11	.339	-.194	.736
B12	.427	-.071	.692
B13	.429	.006	.667
B14	.245	.534	.257
B15	.008	.683	.271
B16	.237	.718	.050
Eigen value	5.605	4.584	2.359

Except for questions A1, A2, A3, A6, A7, and A8 on the distinctiveness of asset and questions B1, B3, and B5 on environmental uncertainty, the remaining items were shown to be over 0.5.

To measure the characteristics of the local market, three questions on governmental restrictions, production condition, and the level of competition were asked. The results are as in Table 9.

Table 9 Factor Matrix Rotated by Varimax, relating to the questions on governmental restrictions, production condition, and the level of competition

	Governmental restrictions	Production condition.	Level of competition
C1	.734	-.003	.112
C2	.528	.159	.452
C3	.574	.274	.308
C4	.351	.023	.550
C5	.711	.113	-.006
C6	.786	.036	.221

C7	.680	.028	.255
C8	.751	.110	-.190
C9	.426	.188	.288
D1	.122	.755	.331
D2	.139	.694	.296
D3	-.004	.765	.228
D4	.140	.768	.190
D5	.029	.780	0.10
D6	-.008	.137	.626
D7	.332	-.240	.703
D8	.251	-.230	.708
Eigen value	3.835	3.264	2.424

Except for the two items, C4 and C9, relating to governmental restrictions, and the two items, D4 and D5, on the level of competition, the remaining items turned out to have strong factor loadings: greater than .05. To measure the product characteristics, two items of product differentiation and product complexity were added. The resulting factor analysis of these additional two was as in Table 10.

Table 10 Factor Matrix Rotated by Varimax, for additional Product Characteristic questions

	Product differentiation	Product complexity
F1	.695	.218
F2	.677	.275
F3	.787	-.003
F4	.854	.191
F5	.709	.171
F6	.686	.305
F7	.604	.003
F8	.360	.770
F9	.028	.919
Eigen value	3.759	1.721

As seen in Table 10, with the exception of one item (special facilities or tools are necessary to use our product), all items showed strong factor loadings, greater than 0.5.

5.5 Hypothesis Test

In this study, multiple regression analysis was conducted to test the proposed hypotheses, using OLS (i.e., least sum of squares) method.

This tested the affected degree of integration of distribution channel by factors such as transactional characteristics, the local government's restrictions, production cost, level of competition, the product differentiation, and product complexity.

5.6 Regression Analysis

The analysis method was to examine the significance of, and comparison with, the regression coefficients, using F statistics. To test the proposed hypotheses, asset peculiarity, environmental uncertainty, scale of transactions, governmental restrictions, production conditions, the level of competition, product differentiation, and product complexity were taken as the independent variables and the degree of integration were set as the dependent variable to conduct a regression analysis.

To test if transactional characteristics had significant relationships with the degree of integration of distribution channel, a regression analysis was conducted, setting the asset peculiarity, environmental uncertainty, and the scale of transactions as independent variables, and the degree of integration of distribution channel as the dependent variable. The result of the regression analysis is shown in Table 11.

Table 11 Results of regression analysis between the degree of integration and the asset peculiarity

Model	Unstandardized coefficient		Standardized coefficient	T	Significance
	B	S.E.	Beta		
Constant	5.464	.292		18.696	.000
Asset peculiarity	.683	.327	.181	2.088	.040

Environmental uncertainty	.822	.306	.218	2.686	.009
Scale of transaction	.592	.342	.157	1.732	.087

$R^2=.447$ $AdjR^2=.429$ $F=24.552$ $P=.000$

Asset peculiarity and environmental uncertainty had predicted directions which matched the measured directions and were statistically significant, supporting the hypotheses. However, the transactional scale was statistically insignificant, rejecting its hypothesis. This is because the Chinese government is encouraging export, rather than sales in its domestic market by granting preferential treatment on taxation to foreign currency enterprises whose exports exceed 70% of their total sales. Therefore, the advance investments by Korean companies' in China are mainly composed of production facility transfer, re-exporting the products that were manufactured using cheap Chinese labor back to Korea or other countries.

In order to test for a significant relationship between the characteristics of a local market and the degree of integration of distribution channel, government restrictions, production conditions, and the level of competition were viewed as independent variables and the degree of integration of distribution channel was viewed as the dependent variable to conduct regression analysis. The result of the analysis is as shown in Table 12.

Table 12 Results of regression analysis between characteristics of the local market and the degree of integration of the distribution channel

Model	Unstandardized coefficient		Standardized coefficient	T	Significance
	B	SE	Beta		
Constant	5.464	.351		15.560	.000
Governmental restrictions	1.178	.354	.312	3.331	.001
Production condition	.349	.368	.092	.947	.346
Level of competition	1.145	.369	.304	3.106	.003

$R^2=.202$ $AdjR^2=.176$ $F=7.684$ $P=.000$

Among the characteristics of the local market, governmental restrictions and the level of competition had matching measured direction with the expected direction and showed statistic significance. On the other hand, the measured direction of production condition did not match with the expected direction and was statistically

insignificant. This might indicate that Korean companies do not have competitive advantages over other competitors by the use of cheap labor and affluent resource in China.

To test if product characteristics and the degree of integration of distribution channel have significant relationships with each other, regression analysis was conducted, putting product differentiation and product complexity as the independent variables and the degree of integration of distribution channel as the dependent variable. The results of regression analysis are shown in Table 13.

Table 13 Result of regression analysis between product characteristics and the degree of integration of distribution channel.

Model	Unstandardized coefficient		Standardized coefficient	T	Significance
	B	SE	Beta		
Constant	5.464	.346		15.802	.000
Product differentiation	1.752	.440	.465	3.977	.025
Product complexity	2.193	.318	.004	.030	.097

$R^2=.218$ $AdjR^2=.201$ $F=12.814$ $P=.000$

As can be seen from Table 13, whereas product differentiation's measured direction was consistent with the expected direction and was statistically significant, product complexity's measured direction matched the expected direction but was statistically insignificant. This can be interpreted as being caused by Korean

enterprises' lack of internalization of transactions to provide better customer services by manufacturing labor-intensive products only.

5.7 Summary of Hypothesis Testing

Table 14 Summary of Hypothesis Tests

Hypotheses	Content	Hypothesis Supported/Rejected
H1	Characteristics of transaction	Partially supported
H1-1	Asset peculiarity	Supported
H1-2	Environmental uncertainty	Supported
H1-3	Scale of transaction	Rejected
H2	Characteristics of local market	Partially supported
H2-1	Governmental restrictions	Supported
H2-2	Production condition	Rejected
H2-3	Level of competition	Supported
H3	Product characteristics	Partially supported
H3-1	Product differentiation	Supported
H3-2	Product complexity	Rejected

6. Conclusions

This study has tried to test whether the integration degree of distribution channels can be generalized, based on transaction cost theory, by examining Korean companies' investment and business operations in China. A number of hypotheses that were suggested by previous studies were modified to the specific conditions of Chinese market. A total of 11 hypotheses were proposed and the results of surveys were statistically analyzed to test the proposed hypotheses. The findings of this study can be summarized as follows.

First, there are two ways to approach the Chinese domestic market. One approach is to increase exports to China, and the other is to increase investment in the Chinese local market after the initial direct investment. The first approach has its advantage in that it targets the Chinese domestic markets with no investment risk involved, but it also has disadvantages, in that it is difficult to deal with the local customers' demands or any change of preferences proactively, and to make fast expansion to other areas in China.

Due to the above reasons, there are limits to the extent to which new ground can be broken in Chinese market by simple increments in exports. Korean companies' direct investment in China has been quite active, both in quantity and quality. In terms of investment style, independent investment or joint-venture with multiple equity are preferred. These trends might be due to the fact that Korean companies started seeing the need for stronger control and influence over local enterprises, and

therefore, prefer an approach that actually exercises that control.

Among the strategic purposes of investment, the type of investment that transfers the production headquarters to break and acquire new export markets in third countries happens to be the majority, because this type of investment can give competitive pricing advantage, by reducing the cost of production through the use of an inexpensive labor force.

Secondly, whereas American companies' approach to China mainly focused on their investment efforts in its domestic market, based on the company's competitive advantages or monopolistic competitive advantages, Korean companies approached China mainly to utilize its cheap and affluent labor force to avoid increasing factor costs in Korea.

Consequently, in the beginning, Korean companies invested in labor-intensive industries. However, as the number of industries Chinese government opened to foreign investors increased and as the Chinese domestic market became active, Korean companies started switching their investment into more capital-intensive industries. If the Chinese investment policies and regulations are revised and become transparent, which could lead to largely improved investment conditions for the future, it is expected that the moves into Chinese domestic market will become easier than at present, but the competition with other large foreign corporations will become fiercer.

Thirdly, China is such a vast market geographically, culturally, and statistically in

terms of its populations. Therefore, Korean companies must carefully categorize the Chinese market, either by class or by geography, and develop product differentiation according to this categorization in order to gain differentiated competitive advantages. In addition, rather than focusing on simple sales with material odds or localizing assembly lines, it would be more desirable to focus on strategies that penetrate its culture. The following are the results of the hypotheses tests.

Transactional characteristics are the most important variable determining the transactional structure. In this study, two questions regarding the asset peculiarity and environmental uncertainty were selected. Despite being a vast market, Korean companies' understanding of the Chinese market was very limited, due to slow and unsystematic information gathering. Considering the fact that Korean companies in the Chinese market are daringly taking risks, despite the many laws that are being revised and the much improved lifestyle of China, it can be concluded that the Korean enterprises that are moving into China have a business style which takes risks and makes bold investments. On the other hand, the scale of transaction hypothesis was rejected and this might be because the Chinese government's preferential taxation treatment for foreign currency enterprises with export sales more than 70% discouraged foreign enterprises from entering the Chinese domestic market only to make profits. As a result, it indicates that most Korean companies' investment in the Chinese domestic market is in the form of production facility transfers to China, to take advantage of inexpensive Chinese labor and then to re-

export these products back to Korea or to third countries. Also, in the case of the move into the domestic market, the area chosen for the sales target would have affected such results.

This study selectively chose the factors, such as governmental restrictions, production conditions of the local market, the level of competition etc, which can contribute to the degree of integration of distribution channel as independent variables. Collecting data about China and applying such information indicated that the specific circumstantial factors in the Chinese market were well employed. Production factors, such as low labor costs and plentiful resources, were viewed as being ineffectively used in order for companies to gain competitive advantages from moving out of their native country to a foreign market for manufacturing. The level of competition was found rapidly increasing because of the dramatic increase in the number of foreign companies in the same industry investing in the Chinese market.

The result of the statistical analysis clearly indicates the influence of product complexity characteristics on the degree of integration of distribution channel but this hypothesis was rejected. This result might be related to whether the targeted sales area is city-based, characteristic-based, province-based, sovereign-based, or for the whole country. As shown in the findings, it is suggested that Korean companies in China need to put more detailed product instructions in the manual in Chinese to avoid disputes over after-care service. They also need to put more effort in building differentiated image of Korean companies that is distinguished from that of

American or Japanese companies.

6.1 Limitations

Due to the limited sample size of this research, future research could increase the use of advanced statistical techniques by increasing the sample size. Additionally, the results of this research cannot sufficiently represent the contributing factors in distribution channel selection, because the samples, including the samples added later, were only based in the Chinese border area and in coastal areas such as Kwangju.

Since the sample of this research is limited to the labor-intensive industries, such as metals, assembly, textiles, garments, lumber, furniture, and food and beverages, the result of this research cannot be generalized to other industries. Therefore, future research should embrace a wider range of types of industries for broader generalization or should focus its research sample scope to a specific industry.

This research did not include some of the factors that might contribute to the findings of this research. Besides the factors in the local market environment, other factors, such as the culture difference between Korea and China could be considered as one of the variables. For future research, it would be helpful to include a more inclusive and comprehensive analysis that includes more various factors.

Lastly, there was limited credibility of the survey answers to some of the questions, especially those that were related to investment and sales size. Also, since the

respondents of the survey were Chinese and Korean, their cognitive differences might have been potential biases influencing the results of this study.

7. Appendix

설문서

안녕하십니까?

본 설문서는 중국진출한국기업의 유통경로 결정요인에 관하여 연구하기 위한 목적으로 작성되었습니다.

본 설문서를 통해 수집된 자료는 연구의 참고자료로 활용될 것이며 연구목적 이외에 다른 목적으로 이용하지 않을 것을 약속드립니다. 본 연구는 기존 및 잠재적 중국 진출 기업들의 효율적인 투자활동에 도움이 될 수 있을 것으로 기대합니다.

아무쪼록 진실된 자료수집에 많은 협조를 바라오며 특히 설문서의 응답은 귀사의 담당자가 직접 해주실 것을 간곡히 부탁드립니다.

바쁘시더라도 본 설문에 응해 주신데 깊이 감사드리며 귀사의 무궁한 발전을 기원합니다

연락처를 적으시오

TEL

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()
연구자 및 지도교수

I. 아래 질문은 자산의 특유성에 관한 것입니다. 다음의 내용을 읽고 가장 적합하다고 여겨지는 번호에 V표를 해주십시오.

보기	우리 기업은 현재 거래처에 만족한다.					
1	2	3	4	5	6	7
-----	-----	-----	-----	-----		
그렇지 않다.			보통	√		확실히 그렇다.

우리 기업은 거래처들이 우리제품을 용이하게 구입할 수 있게 특유한 방법을 보유하고 있다	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업의 판매원은 거래처와 공식적 관계 외에도 자주 사화적(인적) 접촉을 가진다.	① ② ③ ④ ⑤ ⑥ ⑦
우리기업의 판매원과 거래처와의 개인적인 친분은 판매에 영향을 준다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업은 거래처와 좋은 유대관계를 가지고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업은 축적된 경험을 통해 새로운 상황이 발생해도 유연하게 대처할 수 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업은 여러 가지 축적된 지식을 바탕으로 새로운 기업이 진입해도 충분한 경쟁력을 갖고있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업은 생산기술이나 연구개발에 대한 투자로 인해 우리만의 독특한 지식을 보유하고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업의 각 부서들간에는 의사소통이 잘 이루어 지고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
각 부서는 제품 판매 후 문제해결을 위해 긴밀하게 협력하고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업은 성과를 향상시키기 위해 각 부서가 공동노력을 하고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업은 성과를 향상시키기 위해 각 부서가 공동노력을 하고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
효과적인 판매를 위해 기업내의 여러 부서들 간에 협조가 잘 이루어지고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업은 각 부서간 정보교환이 잘 이루어 지고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업은 전략적 대안의 설정에 있어 관련 부서들이 토론을 한다.	① ② ③ ④ ⑤ ⑥ ⑦

II. 아래 질문은 환경의 불확실성과 거래규모에 관한 것입니다. 다음의 내용을 읽고 가장 적합하다고 여겨지는 번호에 V표를 해주십시오.

중국시장에서는 시장의 변화를 정확히 예측하기 어렵다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업의 거래처 또는 고객은 변덕스러운 행동으로 우리를 당황하게 만든 적이 종종있다.	① ② ③ ④ ⑤ ⑥ ⑦
중국시장에서 생산하고 있는 제품과 관련된 기술변화속도가 빠르다.	① ② ③ ④ ⑤ ⑥ ⑦

중국시장에서는 거래처나 고객의 행동을 예측하기가 어렵다.	① ② ③ ④ ⑤ ⑥ ⑦
귀사의 제품에 대한 수요는 공급을 초과하는 경우가 종종 있다.	① ② ③ ④ ⑤ ⑥ ⑦
중국에서 원부자재 공급에 변화가 심하고 예측하기 어렵다.	① ② ③ ④ ⑤ ⑥ ⑦
중국에서 조달하고 있는 원부자재의 품질, 납기조건이 일정치 않는 편이다.	① ② ③ ④ ⑤ ⑥ ⑦
중국의 상거래관습을 이해하기가 어렵다	① ② ③ ④ ⑤ ⑥ ⑦
중국인 근로자의 근로태도를 이해하고 어렵다	① ② ③ ④ ⑤ ⑥ ⑦
중국에서 채용인력의 임금 상승속도가 빠르다	① ② ③ ④ ⑤ ⑥ ⑦
모든 일에 대강 넘어가려는 중국 관료주의로 인해 경비가 많이 소요된다.	① ② ③ ④ ⑤ ⑥ ⑦
모든 일에 대강 넘어가려는 중국 관료주의로 인해 시간이 많이 소요된다.	① ② ③ ④ ⑤ ⑥ ⑦
근거가 명확하지 않은 각종 세금 또는 부과금의 징수가 많다.	① ② ③ ④ ⑤ ⑥ ⑦
중국에서 귀사제품의 시장점유율은 높다.	① ② ③ ④ ⑤ ⑥ ⑦
향후 귀사 제품의 판매량은 점점 증가할 것이다.	① ② ③ ④ ⑤ ⑥ ⑦
귀사 제품의 판매회전율은 높은 편이다.	① ② ③ ④ ⑤ ⑥ ⑦

Ⅲ. 중국 정부규제에 관한 질문입니다. 다음의 내용을 읽고 가장 적합하다고 여겨지는 번호에 V표를 해주십시오.

우리 기업의 제품은 중국 정부에 의해 여러 규제를 받고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
중국 정부의 산업정책이나 지침은 우리 기업의 전략에 많은 영향을 미친다.	① ② ③ ④ ⑤ ⑥ ⑦
중국 정부는 현지기업과의 합자투자를 유도한다.	① ② ③ ④ ⑤ ⑥ ⑦
외국인 직접투자에 대한 중국 지방정부의 지원을 받고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
과실송금에 대한 제한을 받고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
유통부분 진입에 대한 제한을 받고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
중국 중앙정부와 지방정부의 정책에 일관성이 없다.	① ② ③ ④ ⑤ ⑥ ⑦
중국의 관세율은 높다	① ② ③ ④ ⑤ ⑥ ⑦
중국 중앙정부와 지방정부의 정책에 일관성이 없다.	① ② ③ ④ ⑤ ⑥ ⑦

IV. 생산여건과 경쟁강도에 관한 질문입니다. 다음의 내용을 읽고 가장 적합하다고 여겨지는 번호에 V표를 해주십시오.

제품생산에 소요되는 인건비가 저렴하다.	① ② ③ ④ ⑤ ⑥ ⑦
제품생산에 필요한 노동력확보는 쉽다.	① ② ③ ④ ⑤ ⑥ ⑦
제품은 한국보다 중국에서 생산하여 판매하는 것이 더 저렴하다.	① ② ③ ④ ⑤ ⑥ ⑦
중국에서 우리 기업 제품의 시장점유율은 안정적으로 증대하고 있다.	① ② ③ ④ ⑤ ⑥ ⑦
중국에서의 유통경로 개척은 비교적 용이한 편이다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업이 진출해 있는 제품시장에 새로운 동종기업이 진입하기가 쉽다.	① ② ③ ④ ⑤ ⑥ ⑦
중국에서는 동종 경쟁기업의 수는 많은 편이다.	① ② ③ ④ ⑤ ⑥ ⑦
중국시장에서는 가격 및 비가격경쟁이 치열한 편이다.	① ② ③ ④ ⑤ ⑥ ⑦

V. 제품특성에 관한 질문입니다. 다음의 내용을 읽고 가장 적합하다고 여겨지는 번호에 V표를 해주십시오.

우리 기업의 제품 설계와 색상은 현지와 되어 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업의 제품은 소득수준에 따라 차별화 되어 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업은 제품은 중국 지역별로 차별화 되어 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업의 제품은 상이한 제품기준에 적응되어 있다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업의 제품 품질은 다른 경쟁기업의 제품보다 더 우수하다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업의 제품은 모델이 다양하다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업의 제품을 사용하는 데에는 특별한 시설 또는 장비가 필요하다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업의 제품은 구매자에게 제품설명이나 용법에 대한 교육이 필요하다.	① ② ③ ④ ⑤ ⑥ ⑦
우리 기업의 제품은 판매후 서비스가 필요하다	① ② ③ ④ ⑤ ⑥ ⑦

VI. 귀사의 중국내 현지법인의 현지 경영성과에 관한 내용입니다. 당초 귀사의 기대와 비교하여 사업성과에 어느 정도 만족하는 지 해당되는 곳에 V표를 해주십시오.

중국투자의 전반적인 전략적 동기 달성	매우불만족							매우만족						
	①	②	③	④	⑤	⑥	⑦	①	②	③	④	⑤	⑥	⑦
현지에서 사업본격화를 위한 학습효과	①	②	③	④	⑤	⑥	⑦	①	②	③	④	⑤	⑥	⑦
투자수익율(세후 이익/투자총액)	①	②	③	④	⑤	⑥	⑦	①	②	③	④	⑤	⑥	⑦
판매수익율(세후 이익/투자총액)	①	②	③	④	⑤	⑥	⑦	①	②	③	④	⑤	⑥	⑦
판매액 증가율	①	②	③	④	⑤	⑥	⑦	①	②	③	④	⑤	⑥	⑦
본사 매출에의 기여	①	②	③	④	⑤	⑥	⑦	①	②	③	④	⑤	⑥	⑦

기업에 대한 전반적인 사항과 중국진출 현황에 대한 질문입니다. ()안에 해당내용을 기입하여 주십시오.

1. 귀사가 중국에 투자한 업종은?

- ① 음식료품 ②섬유, 의류 ③ 신발, 피혁 ④ 목재, 가구 ⑤ 종이, 인쇄 ⑥ 석유, 화학 ⑦ 비금속광물 ⑧ 금속제품 ⑨ 전기,전자 ⑩ 기계, 장비 ⑪ 기타

2. 귀사가 중국에 진출한 년도는?

()년도

3. 귀사의 대중국 투자규모는?

- ① 10만달러 미만 ② 10만 달러 이상 ~ 100만 달러 미만 ③ 100만 달러 이상 ~ 200만 달러 미만 ④ 200만 달러 이상 ~ 500만 달러 미만 ⑤ 500만 달러 이상

4. 귀사의 종업원수는?

- ① 100명 미만 ② 100명~500명 미만 ③ 500명~ 100명 미만 ④ 1000만

5. 귀사의 년 매출액은 대략 얼마나 됩니까?

- ① 10만 달러 미만 ② 10만 달러 이상 ~ 50만 달러 미만 ③ 50만 달러 이상 ~ 100만 달러 미만 ④ 100만 달러 이상 ~ 200만 달러 미만 ⑤ 200만 달러 이상

6. 귀사의 총 매출액 중에서 중국내수판매를 1로 보고 해외판매를 10으로 보는 경우, 그 비율은 어디에 해당합니까? (V표를 해주십시오)

English Version

Survey

Hi everyone,

The survey was produced to study important factors that decide circulation process of Korean companies that expand into China. Data collected from the survey will be used only as reference for the study and it will not be used for any other purpose than the study. We hope that this study will help current or potential efficient investment towards China.

Therefore, please cooperate with gathering truthful information and we ask you that a person in charge of your company will personally do the survey.

We appreciate your participation even with your busy time and wish best hope for your company. Thank you.

Please fill out contact information.

TEL
PCS
FAX
E-MAIL

(Instructor or professor)

I . Questions below regard peculiarity of asset. Please read followings and mark V where you think is most appropriate

Question	Our company is satisfied with current client company (business partner)						
	1	2	3	4	5	6	7
	-----	-----	-----	-----	-----	∨	
	Not True		Somewhat true			Very true	

Our company has special ways for clients to purchase our goods	① ② ③ ④ ⑤ ⑥ ⑦
Salesperson of our company contacts with our business partners unofficially	① ② ③ ④ ⑤ ⑥ ⑦
Relationship between Salesperson of our company and business partners affect sales products	① ② ③ ④ ⑤ ⑥ ⑦
Our company stays in good relationship with our business partners	① ② ③ ④ ⑤ ⑥ ⑦
Our company is flexible with much experience to deal with any incidents	① ② ③ ④ ⑤ ⑥ ⑦
We have compatibility against any new comers into the market	① ② ③ ④ ⑤ ⑥ ⑦
Our company has unique information we have gathered through investing in production or researches	① ② ③ ④ ⑤ ⑥ ⑦
Different departments of our company communicate well to each other	① ② ③ ④ ⑤ ⑥ ⑦
Different departments contact each other to solve problems after selling products	① ② ③ ④ ⑤ ⑥ ⑦
For better results, all the departments put effort together	① ② ③ ④ ⑤ ⑥ ⑦
Each department corporate well to each other for more efficient ways of selling	① ② ③ ④ ⑤ ⑥ ⑦
Swapping information between departments are done well	① ② ③ ④ ⑤ ⑥ ⑦
For strategies of our company each departments communicate well to each other	① ② ③ ④ ⑤ ⑥ ⑦

II. Questions below regard uncertainty of environment and size of transactions. Please read followings and put V where you think is most appropriate.

It is hard to predict changes in Chinese market	① ② ③ ④ ⑤ ⑥ ⑦
There were occasions when clients or business partners make sudden movements	① ② ③ ④ ⑤ ⑥ ⑦
In Chinese market, producing products and changes in technologies are fast	① ② ③ ④ ⑤ ⑥ ⑦
It is hard to predict what clients or business partners are going to do	① ② ③ ④ ⑤ ⑥ ⑦
Demand for our good sometimes exceed supply	① ② ③ ④ ⑤ ⑥ ⑦
It is hard to predict supply for raw materials	① ② ③ ④ ⑤ ⑥ ⑦
Quality and or due dates for supplied raw materials are inconsistent	① ② ③ ④ ⑤ ⑥ ⑦
It is hard to understand commercial practice in China	① ② ③ ④ ⑤ ⑥ ⑦
It is hard to understand Chinese employee's working attitude	① ② ③ ④ ⑤ ⑥ ⑦
Employee in China have rapid wage increase	① ② ③ ④ ⑤ ⑥ ⑦
It costs a lot due to Chinese bureaucracy	① ② ③ ④ ⑤ ⑥ ⑦
It takes much time due to Chinese bureaucracy	① ② ③ ④ ⑤ ⑥ ⑦
There are some taxes or charges without certain explanations	① ② ③ ④ ⑤ ⑥ ⑦
Our products have high market share in China	① ② ③ ④ ⑤ ⑥ ⑦
Our selling will increase in time	① ② ③ ④ ⑤ ⑥ ⑦
Our circulation for selling products is high	① ② ③ ④ ⑤ ⑥ ⑦

III. Questions below regard Chinese government restrictions. Please read followings and put V where you think is most appropriate

Our company is under many restrictions of Chinese government	① ② ③ ④ ⑤ ⑥ ⑦
Chinese government's policies or laws affect our company strategies	① ② ③ ④ ⑤ ⑥ ⑦
Chinese government prefers joint investment with Chinese companies	① ② ③ ④ ⑤ ⑥ ⑦
We are subsidized by Chinese government for direct investment	① ② ③ ④ ⑤ ⑥ ⑦
We are restricted by faulty remittance	① ② ③ ④ ⑤ ⑥ ⑦
We are restricted with entering distribution market	① ② ③ ④ ⑤ ⑥ ⑦
We find inconsistency between Chinese federal government and local government	① ② ③ ④ ⑤ ⑥ ⑦
Tax rate in China is high	① ② ③ ④ ⑤ ⑥ ⑦

IV. Questions below regard environment of production and competition. Please read followings and put V where you think is most appropriate.

Labor fee for production is cheap	① ② ③ ④ ⑤ ⑥ ⑦
It is easy to get labor in China	① ② ③ ④ ⑤ ⑥ ⑦
It is cheaper to produce in China than Korea	① ② ③ ④ ⑤ ⑥ ⑦
Market share of our company is securely increasing	① ② ③ ④ ⑤ ⑥ ⑦
It is easy to cultivate distribution circulation in China	① ② ③ ④ ⑤ ⑥ ⑦
It is easy to see a new competitor in the market	① ② ③ ④ ⑤ ⑥ ⑦
In China, there are many competitors in the market	① ② ③ ④ ⑤ ⑥ ⑦
There is severe competition regarding pricing or not pricing competition	① ② ③ ④ ⑤ ⑥ ⑦

V Questions below regard characteristics of products. Please read followings and put V where you think is most appropriate

Design and color of goods are localized	① ② ③ ④ ⑤ ⑥ ⑦
Our products vary regarding income level	① ② ③ ④ ⑤ ⑥ ⑦
Our products are differentiated regarding different regions	① ② ③ ④ ⑤ ⑥ ⑦
Our products follow standard specifications	① ② ③ ④ ⑤ ⑥ ⑦
Our quality is better than our competitors	① ② ③ ④ ⑤ ⑥ ⑦
We have variety of products	① ② ③ ④ ⑤ ⑥ ⑦
There is need to use special equipments to use our products	① ② ③ ④ ⑤ ⑥ ⑦
Products description or education is needed for our goods	① ② ③ ④ ⑤ ⑥ ⑦
Our goods need services after selling	① ② ③ ④ ⑤ ⑥ ⑦

VI. Questions below regard management success of your company. Please put V where it satisfies your initial expect and current result

Overall, meeting with expectations of investment in China	Not satisfied ① ② ③ ④ ⑤ ⑥ ⑦ satisfied Very
Efficiency of education for detailing business in China	① ② ③ ④ ⑤ ⑥ ⑦
Profitability (profit after tax/ investment)	① ② ③ ④ ⑤ ⑥ ⑦
Selling profit (profit after tax/ investment)	① ② ③ ④ ⑤ ⑥ ⑦

Increase in selling	① ② ③ ④ ⑤ ⑥ ⑦
Contribution to the company's profit	① ② ③ ④ ⑤ ⑥ ⑦

Questions below regard overall environment and expansion into China. Please put appropriate answer in ().

1. Which market did your company invest

̄ Food/ beverages α textiles β leather, shoes γ lumber, furniture δ paper, printing ε oil, chemical φ non metallic mineral γ metal η electricity ι equipments ⑩ etc.

2. What year did you expand into China

()

3. How big was the investment

̄ Below \$100,000 α \$100,000 ~ one million β one million ~ two million γ two million ~ 5 million δ Above 5 million

4. How many employee does your company have

̄ Less than 100 α 100~500 β 500~ 1000 γ above 1000

5. How much is annual sales of your company?

6. Within your overall sales, what is the proportionality? Consider 1 as selling in China and 10 as selling in other countries (Put V where you think is appropriate)

1 5 10
 |-----|-----|
 Selling in China Selling in other countries

7. Consider 1 as selling through middle man and 10 as individual investment, where does your company fall in? (Put V where you think is appropriate)

1 3 5 7 10
 |-----|-----|-----|-----|
 Middle man through individual investment

8. About survey participant

(1) How long have you been charge of this business?

Below 2 years α 3~5years β 6~8years χ Above 9 years

(2) What is your position in the company?

below head director α head director β Vice chief director χ head director of department

9. Company name : ()

Primary products : ()

Regions on the company : ()

-Thanks a lot for participating our survey-

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