

## **FACTORS AFFECTING THE DECISION TO CHOOSE ENTRY MODE TO THAI MARKET BY CHINESE CONSULTING FIRMS BASED ON THE APPLICATION OF UPPSALA MODEL**

Huang Dongjiang<sup>1</sup>, Krit Jarinto<sup>1</sup>

<sup>1</sup>*Graduate School of Commerce, Burapha University, Chonburi, Thailand*

### **ABSTRACT**

The purpose of this study was to investigate the factors affecting the decision to choose entry mode to Thai market by Chinese consulting firms based on the application of Uppsala model. This research focused on the explanation of the conceptual framework based on the Uppsala model to investigate Chinese consulting services business internationalization process. Therefore, this study is a conceptual framework research. Moreover, this study is to assess the process of internationalization of Chinese consulting firms in expanding overseas business and to recommend the implementation of this research to choose entry mode for internationalization consulting service business in Thailand. Though the analysis was done by the researcher, the most appropriate entry mode is joint ventures, and the rest is strategic alliance and wholly owned subsidiaries. The economic situation, the foreign business laws and regulations and the needs of foreign clients are the top three important factors affecting the decision to choose entry mode to Thai market by Chinese consulting firms. Chinese management consulting industry is still in a development and growth stage, whereas expansion and merger is the trend, and the prospect of Chinese consulting firm business in Thailand is optimistic.

**Keywords:** Foreign market entry mode, Uppsala model, Chinese consulting service business, Thai consulting service business, Internationalization process

## **Introduction**

For more than 100 years, more Chinese businesses have been operating in Thailand. There are many trading firms between China and Thailand. Recently, the degree of trading between Thailand and China has become more and more intensive. Now Thailand is one of major target countries for China to enter into the ASEAN market. As a founding member of ASEAN, Thailand is located in the Asian hinterland, also of strategic significance with strong market radiation. (Gradziuk, 2010).

When there is business investment, trade facilitation, one important supporting service is consulting services. When Chinese businesses invest in Thailand, the company may need consultancy services to help them avoid litigation or other strategy decision in business development. It can be summarized that most consulting services provided in Asia have been managed by western consulting firms. The researcher has not found any active Chinese consulting companies in Thailand. It is believed that more Chinese businesses and industries will invest in Thailand due to the trade agreement of ASEAN-China, which will create potential demand for Chinese consulting firms in Thailand, opening the opportunity for Chinese consulting firms international operating.

The pioneering work by Johanson and Weidershiem (1975) and Johanson and Vahlne (1977) laid the foundation for understanding the internationalization process of firms. The Uppsala model has described the internationalization of a firm as a process of

experiential learning and incremental commitments which leads to an evolutionary development in a foreign market. (Tykesson & Alserud, 2011).

The Uppsala model explains the characteristics of the internationalization process of the firm. In the following researcher will name, summarize and discuss advantages as well as drawbacks of different entry modes. We are aware of the fact that the choice of entry mode depends on many variables such as: past experience, psychic distance, political/trade barriers, regulations, competition, size and growth of the target markets, control, distribution, committed resources, resources transferred and motivation as well as time limitations. Some of these variables can be influenced by the firm some of them are given by the environment of the firm. Root (1998) 27 divides those factors into external (target country market factors, target country environmental factors, target country production factors, home country factors) and internal factors (company product factors, company resource/ commitment factors). (Tykesson & Alserud, 2011). Therefore, this study apply Uppsala model to investigate the factors affecting the decision to choose entry mode to Thai market by Chinese consulting firms.

## **Contribution and Objective of Study**

The objective of this study is to investigate the factors affecting the decision to choose entry mode to Thai market by Chinese consulting firms based on the application of Uppsala model.

## Conceptual Framework

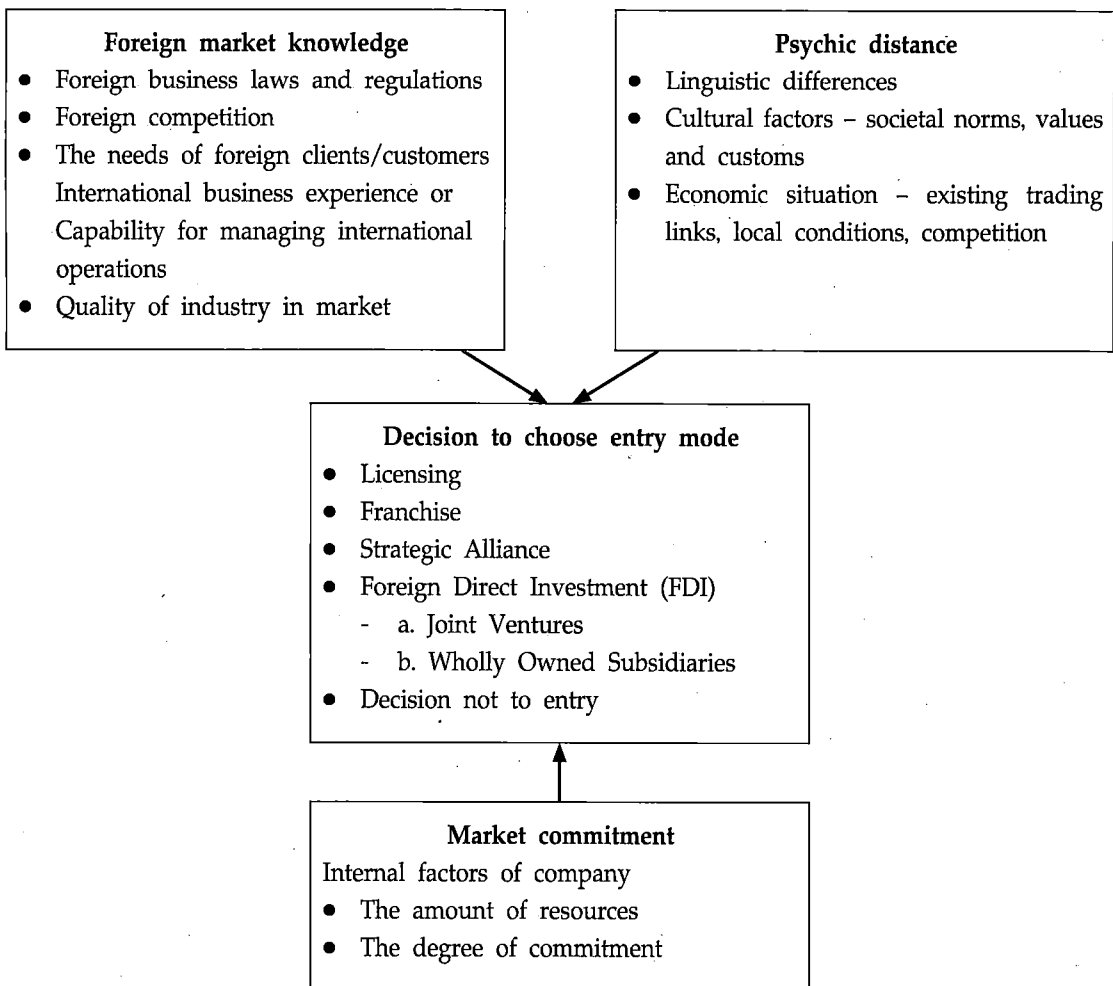


Figure 1: Conceptual framework

## Literature Review

### Foreign Market Entry Mode

An institutional arrangement is necessary for the entry of a company's products and services into a new foreign market. The decision of how to enter into a foreign market can have a significant impact on the result. Expansion into a foreign market can be achieved with the following four mechanisms: (Investopedia US, 2013)

1. Licensing
2. Franchise
3. Strategic Alliance
4. Foreign Direct Investment (FDI)
  - a. Joint Ventures
  - b. Wholly Owned Subsidiaries

### The Concept of Uppsala Model on Entry Mode

The Uppsala model is related to behavioral theory of a company. This theory explains how companies gradually increase their activities in foreign markets. The points of this theory are that first company gain experience from the domestic market before they enter and start to foreign markets and then companies start their relation foreign operations from culturally and geographically close countries and slowly move to culturally and geographically distant countries. Companies starts their foreign business with traditional exports and move to, with more intensive and demanding operation modes, both at the firm and target country level. (PersianWeblog, 2013)

The Uppsala model has described the internationalization of a firm as a process of experiential learning and incremental commitments which leads to an evolutionary development in a foreign market. Johanson and Vahlne formulated this approach in 1977, referring to empirical observations on Swedish manufacturing firms from their studies at the international business department of Uppsala University. One of the basic assumptions of the model is that "the lack of knowledge is an important obstacle to the development of international operations" (Johanson & Vahlne, 1977). Hence, the Uppsala model has dealt fundamentally with knowledge acquisition and learning. It has been observed that the absence of market-specific knowledge has forced the Swedish manufacturing firms to develop their international operations in small steps, undertaking incremental commitment decisions and moving at the beginning to psychically close countries in order to reduce the market uncertainty (Johanson & Vahlne, 1977).

Internationalization can be described as "the process of increasing involvement in international operations" (Welch & Luostarinen, 1988). It suggests that foreign sales begin with exports orders that are followed by ordinary exports. It describes the internationalization of the company as a process in which the firms gradually increase its international business.

The Uppsala model is based on four core concepts: market commitment, market knowledge, current activities, and commitment decisions. These four concepts are divided into the state aspects and the change aspects. The two state aspects are market commitment, which is the resources committed to foreign markets, and market knowledge, which is the knowledge about foreign markets and operations possessed by the company at a specific time. Moreover, the two change aspects are current activities and commitment decisions. In addition, the last is the decisions to commit resources to foreign operations.

A relevant contribution of the model is the attempt to explain the important factors to take into account in choosing the target market. Building on the exigency to reduce market uncertainty and lower the risks,

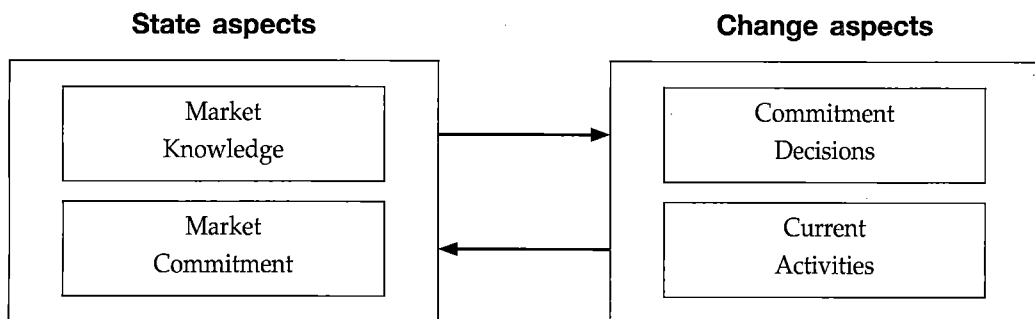
companies begin their internationalization process in countries that are psychically close before venturing to more distant ones (Johanson & Vahlne, 1992). Yet, according to Benito and Gripsrud (1992: 464), "Firms are predicted to start their internationalization by moving into those markets they can most easily understand, entering more distant market only at a later stage". The psychic distance has been initially described as a set of factors preventing and disturbing the flow of information between the firm and the market, including differences in language, culture, political system, level of education or level of industrial development (Johanson & Vahlne, 1990). Kogut and Singh (1998) showed that entry mode choice varied depending upon the perceived psychic distance between countries. The greater the cultural distance between the investing and host country, the more likely it was that the firm would choose a joint venture to reduce its uncertainty in those markets. On the other hand, O'Grady and Lane's (1995) empirical study on 32 Canadian retail companies that entered the US market, demonstrated that perceived similarities could cause decision-makers to fail because they did not prepare for the differences. "What appears on the surface to be psychically close may, in reality, be more distant than expected" (psychic distance paradox) (O'Grady & Lane, 1995: 310). The psychic distance concept has been considered to be more complex than is generally recognized in the literature. Business factors such as legal and competitive environments need to be included when defining distance in the internationalization process. Furthermore, it has been pointed out that psychic distance is not constant and it could change due to development of trade, communication system, etc. (Johanson & Wiedersheim, 1975). As a result, psychic distance is not the only important factor for international operations. The size and the potential value of the targeted market are also considered primary elements.

The four core concepts are linked and affecting each other, as well as dependent on each other's existence as stated below.

*"Market knowledge and market commitment are*

assumed to affect decisions regarding commitment of resources to foreign markets and the way current activities are performed. Market knowledge and market commitment are, in turn, affected by current activities and commitment decisions." (Johanson & Vahlne, 1990, in Johanson & Associates, 1994, p. 84) The Uppsala model is postulating a direct relation

between market knowledge and market commitment. Knowledge is considered a human resource and the better knowledge a firm has about a market, the more valuable the resource is and consequently the firm will have a stronger commitment to the specific market. (PersianWeblog, 2013)



**Figure 2:** The internationalization process of the firm (Johanson & Vahlne, 1990)

#### *Structure of Chinese Consulting Firms*

Despite the fact that China's management consulting industry started in the early 1980s, its development trajectory with the international management consulting industry is of an identical nature. The development of Chinese management consulting industry is based on Japan and the United States's and Europe's business management consulting theories, methods and experience. The mid-1990s, with the modern enterprise system in a comprehensive application of Chinese enterprises, Chinese demand for business management consulting began more comprehensive. Meanwhile, other multinational consulting firm such as McKinsey entered, thus Chinese management consulting industry began to integrate with the world.

Structure of Chinese consulting industry in the vertical can be divided into three levels: information consulting, management consulting and strategic consulting. Information consulting is the base layer of consulting business industry. Information on the level of market information and consulting company primarily engages in the investigation, collection, collation and analysis of business, to provide accurate, complete auxiliary information for business decisions. Management consulting is the core layer of consulting

business industry. The management consulting company in accordance with all levels of business management mainly is divided into specialized business areas. These areas generally include: investment and financing consulting, financial and accounting consulting, tax consulting, marketing consulting, human resources consulting, production and management consulting, business consulting, engineering and technical consulting, business process reengineering and management of information technology consulting etc. Features of management consulting is a general requirement for the project team composed by professional consultant and the corresponding business enterprise personnel while consulting operation manages the transformation of enterprise management on some level or conducts a comprehensive transformation. Strategic consulting is the highest level of consulting business industry. In the management, consulting firm which focuses on strategic consulting service mainly for enterprises provide strategic design, competitive strategy, business analysis or planning and design services, and even there are some consulting firms mainly provide policy-making advice for government. Providing strategic consulting services and decision-making is difficult, and it is also difficult to see

significant results. (China Consulting Industry Research, 2011)

*Capability for managing international operations for Chinese consulting firms in Asia or international business experiences*

Researcher Sutton (2011) said that “*Consulting is an immature industry in Asia. Organizations use consultants because the right consultants, engaged for the appropriate reasons and managed effectively can assist the organization to achieve greater levels of performance.*” However, making sure that the expected value is actually delivered requires a lot more than good intentions. This is especially true in Asia where it is often difficult for organizations to source capable and qualified consultancies. While the consultancy industry is mature in developed markets of the UK, most of Europe and the US, it is still in its nascent stage in Asia. The breadth of capability and depth of experience of consulting firms, even the global ones, in Asia is fraction of that available in Western markets. (Sutton, 2011, pp.1)

As the Chinese economy grows in global status, an increasing number of Chinese companies are adopting technology solutions to improve the customer experience through the streamlining of key business process efficiencies.

Chinese consulting firm should be the provider of enterprise content management solutions for business that enables organizations to unify people, content and processes to minimize business risk and moreover, accelerate time-to-value and sustain lower total cost of ownership. Interwoven delivers deep industry-specific solutions which reduce business process cycle time from initial collaboration through design, production, sales, marketing, legal review, IT and service. (Adams & Sherer, 1998)

When the Chinese consulting firm go abroad, especially expand their business in Thailand market, the consulting firms should complete the following fields: (Asia consulting service, 2013)

- a. On the Ground Support
- b. Creating a company in Asia - Corporate Establishment Service

- c. Building and Operating a Successful Plant or Factory in Asia
- d. Site Selection, Logistics, Licenses and Permits
- e. Sourcing Products
- f. Visiting Facilitation and Corporate Security during a Visit
- g. Investment Services
- h. Due Diligence, Merger and Acquisition, Commercial Credit and Status Investigations

### Results Of The Study

The factors affecting the decision to choose entry mode to Thai market by Chinese consulting firms ranked as follows based on the importance:

- a. The factor of economic situation – existing trading links, local conditions, competition. Economic conditions have regressed. Investment environment is linked with political stability. Political unrest is bound to affect economic development, it's no doubt. Therefore, Thailand economic situation will currently have big impact on international investment certainly. It is known that recent political situation in Thailand is relatively unstable, so political instability will play a negative role on economic development of Thailand and then economic situation will affect the decision to choose entry mode. The reason of political instability will take a lot of risks in investment. Most foreign investors, especially private investors would remain hesitant. Most companies took a wait - and - see attitude toward the new investing environment.
- b. The factor of foreign business laws and regulations. In participants' opinion, the impact from ASEAN-China Free Trade Agreement on Trade in Services for Chinese consulting business expanding to Thailand is a basic objective condition. Since the Chinese investors are expanding their business internally, the free trade agreement will promote the investment from Chinese. It will benefit the Chinese consulting service. Policy supporting is in order to expand the further trade. Foreign business laws and regulations will ensure that the foreign companies be more official and formal.
- c. The factor of the needs of foreign clients/customers. The researcher thought that the future demand

for consulting services business will be higher and higher. Market openness in Thailand is very high. With the establishment of the ASEAN free trade, Thailand as pivotal role in ASEAN countries will become increasingly apparent. Rapid economic development, especially in expanding service sector of the market, will certainly promote the rapid development of advisory services. Therefore, the future demand will be high. This is a virtual certainty. Actually, in Southeast Asia, with the development of the service industry, the management consulting industry emerges as the time requires. Due to changes in the modern enterprise management level and enhance the concept, the demand for management consulting are further increased. The development of consulting services business will become an inevitable trend.

d. The factor of quality of industry in market. In the experts' opinion, the quality of services is more important. Good quality is the foundation of all of these. As for the competitiveness of industry, it is also an objective reason. Quality needs to be defined and measured accurately. Like the problem-solving skill and communication skill of consultant, they can be considered the quality of services. For how Chinese consulting firms perform on these quality attribute, experts thought the company should equip with reasonable and professional consultants. And another one, the storage of information and knowledge should be very extensive to adapt the market economy constantly changing. Of course, marketing deployment is accurate and efficient is another important factor. The market information is important, and the knowledge of consultant is important, too.

e. The factor of foreign competition. How to enhance the own management consulting firm competitiveness of Chinese company, calmly dealing with the challenges of economic globalization is a very important approach. The rapid development of economic globalization, global enterprises to enter the competition stage without borders, management consulting multinational companies setting up shop in China this vibrant, contains enormous opportunities in the market. But on the other hand, China is a

developing country, its general market development is not perfect, the main competitive strength is still relatively weak, the level of information to various reasons behind the management level is not high, as a result of China's management consulting firm is at a disadvantage in international competition.

f. The cultural factors – societal norms, values and customs. Chinese consulting firms should learn and understand Thai culture first when Chinese consulting firms want to enter into Thai market and learn how to do the business with Thai people. Of course, how to combine the Chinese business culture with Thai business culture together is a key point also. The business culture will be the important factor to affecting Chinese consulting firm to expanding into Thai market. Thai social culture is very different from Chinese culture. Do in Rome as Roman do may be their first obstacle. The culture diversity and understanding Thai business behaviors is a key point as well. And Chinese companies have to follow the local culture for get more convenience in expanding business. For another side the Chinese must give more trust to Thai; mutual trust is very important. It will influence the expanding of business.

g. The factor of international business experience or capability for managing international operations. Establishing brand advantage or brand effect maybe become important capability for managing international operations for Chinese consulting firms in Asia should be equipped. If Chinese consulting firms want to manage international operations, they should have own brand value. Unique brand value is a key point. Moreover, mutually beneficial cooperation with Thai local company is a key. A win-win strategy of development of consulting services business will take more benefit for Thai local clients and Chinese clients who had invested in Thailand. Mutually beneficial cooperation not only serves common prosperity and development of China and Thailand, but also contributes to trade of two countries. And, Chinese firms should relentlessly follow the open strategy of mutual benefit and win-win results and pursue a development of cooperation with Thai company.

h. The factor of the degree of commitment. It

is with no doubt that Chinese consulting firms cannot get high acceptability in Thai consulting market. Currently, the consulting service market in Thailand has no established Chinese consulting companies. Thai consulting service industry is most composed of Thai local company and global consulting business firms. Moreover, some experts thought that acceptability means satisfactoriness by virtue of conforming to approved standards. The acceptability and the company's brand effect are closely linked. Brand reputation value constitutes the main content of brand value. Then the Chinese company will take some time to build a good reputation and credibility. The Chinese consulting industry should take some time to develop overseas business. Because Chinese consulting firms started later than western countries, so Chinese consulting firms need to develop core competency first, and then can get high acceptability in Thai consulting market.

i. The factor of linguistic differences. The linguistic differences will affect the decision to choose entry mode of Chinese consulting services in Thailand. Only few experts thought that linguistic differences have an impact on small-scale, but not the decisive factor. The reasons they gave is also tend to be consistent. Language is the basic tool for transitional information and ideas, and it is a dominant part of the cultural differences. Like we known, languages should possess certain common properties in optimizing the communication efficiency. Thus, linguistic differences will make trouble in internationalization into target market. Linguistic differences can affect the accuracy of the communication to a certain extent.

j. The factor of the amount of resources. Stationing overseas markets at beginning should obtain enough market research information to determine the scale of investment. Taking a conservative investment is a safety way. Any company will meet a lot of troubles in the initial investment, so reducing investment risk is very important. Therefore, the scale of investment should not be too large. Chinese company should do the rational planning by relying on the strength of domestic companies. In general, to determine the scale of investment needs according to situation

of social demand and supply. This is to ensure the safe development of multinational companies. It is conducive to the achievement of global strategic objectives. Conservative investment is easy to spread the risks, and stable economic benefits of enterprises. Of course, before the company takes any form of investment, we must make full market investigation.

## **Conclusion**

Facing the strong international competitive pressure after joining the ASEAN Free Trade Organization, more and more Thailand companies increasingly felt importance and urgency to improve their management level. When more and more foreign companies landed in the Thai market, there is an urgent need to manage consulting firm providing specialized marketing and management consultancy services in the next few years. Thailand's consumer based management and consulting market will expand rapidly. After joining the WTO, the domestic and international environment that Chinese management consulting firms have faced has changed dramatically. Trade agreement between China-ASEAN and China-Thailand will be sure to support Chinese business consulting service. For ASEAN-China Free Trade Agreement, it is a good regulation to encourage and promote Chinese consulting business expanding to Thailand. In addition, there are more and more Chinese investors in Thailand, especially in the real estate industry and large-scale manufacturing industry. Therefore, the development of consulting service business will become an inevitable trend. However, expansion and mergers of management consulting business will be come a general trend, especially for many small domestic consulting firms, and joint ventures, and also becomes the inevitable choice for development and growth, only expanding its own strength, to enhance the consulting market influence to the international competition leading management consulting companies to survive. Thus, Chinese management consulting industry is still in the development and growth stage, so expansion and merger is the trend. In Thailand consulting service industry, Chinese consulting business will



have a difficult transition period. The findings of this research were supported by extant literature and relative academic researches. In this research, the researcher also focused on understanding the potential capacity of Chinese consulting firms in expanding the business to Thailand. Alexander, Sanne, Leena, and Jonas (2010) express that there are many problems faced by management consultants in Asia. Managements in Asia is via networks and relationships. 'Act global, think local' applies even to management consultants. Names such as McKinsey&Co. and Boston Consulting Group mean less in Asia than they do in the West. It will be their staff-the personalities-that count most when it comes to winning projects. As always, personal connections are everything. It is important that some measures of trust can be established. (McKinsey and Chinese client spar over quality of service, 2001).

## Implementation

### *Implementation for Chinese consulting company to choose entry mode for internationalization consulting service business in Thailand*

1. Choosing Joint ventures for internationalization consulting service business in Thailand. Joint ventures often enable growth without having to borrow funds or looking for outside investors. It is the first time for Chinese companies to expand global business into Thailand; it is inevitably to encounter various investment risks. Thus, spreading risks is a key point. The co-ventures agree to share the profits and losses in a particular ratio. It implies that the risks are also borne by them in that ratio. In joint venture the different ventures may have different skills and experience. The benefit of their common wisdom will be available to the ventures. Working together with Thai companies will bring greater guarantee in success. But the key point of success in a joint venture depends on thorough research and analysis of aims and objectives. This should be followed up with effective communication of the business plans that everyone gets involved. The ideal partner in a joint venture is one that has resources, skills and assets that complement your

own. The joint venture has to work contractually, but there should also be a good fit between the cultures of the two organizations. Setting up a joint venture can represent a major change to Chinese consulting business. However, it may be beneficial to Chinese potential for growth to fit with own company's overall business strategy.

Before starting a joint venture, the parties involved need to understand what they each want from the relationship. Smaller Chinese businesses often want to access a larger partner's resources, such as a strong distribution network, specialist employees and financial resources. The larger business might benefit from working with a more flexible, innovative partner or simply from access to new products or intellectual property. Similarly, Chinese consulting firms might decide to build a stronger relationship with a supplier or Thai firm. Then Chinese firm might benefit from their knowledge of new technologies and get a better quality of service. The supplier's aim might be to strengthen their business from a guaranteed volume of sales to Chinese consulting firms.

Whatever Chinese firm's aims, the arrangement needs to be fair to both parties. Any deal should recognize what you each contribute; ensure that you both understand what the agreement is expected to achieve; set realistic expectations, and allow success to be measured.

2. Choosing Strategic alliance for internationalization consulting service business in Thailand. A strategic alliance is a strategic cooperation between two or more organizations, with the aim to achieve a result one of the parties cannot achieve alone. Strategic alliances are not only trading partnerships that enhance the effectiveness of the participating firms' competitive strategies by providing for mutual resource exchanges (technologies, skills, or products). They are also new business forms that enable the partners to enhance and control their business relationships in various ways.

A global strategic alliance is usually established when a company wishes to edge into a related business or new geographic market -- particularly one where the government prohibits imports in order

to protect domestic industry. The first advantage is to get instant market access, or at least to speed company entry into a new market and exploit new opportunities to strengthen company's position in a market where we already have a foothold. Anyway, this entry mode could gain greater knowledge of international customs and culture as well. Company should enhance Chinese consulting firm's image in the world marketplace. Moreover, partnerships and strategic alliances can help to make an international program more successful. Work with local or regional counterparts to drive a common agenda and jointly develop products and services for the local market. In this model, the association will find organizations that have products, services or skills complementary to theirs and join forces to develop products for the local market. Current debates over the globalization of business systems emphasize how both local and international environments foster international joint venture partnerships, but these environments may also inhibit the full realization of benefits obtainable through such relationships. The images of mixed advantages and drawbacks accruing from collaborative enterprises reflect the current ambiguous state of knowledge about strategic alliance networks and their multidimensional consequences.

The process of cooperate strategic alliance management should focus on the following: (1) Basing the alliance according to the needs of both sides, Chinese consulting firms and Thai consulting firms. (2) Establishing appropriate organizations (International Union) for the conservation of all technical assets. (3) Aiming for efficient coordination management on international strategic alliance. (4) Creating new enterprise culture. (5) Developing multi-directional cooperation relationships.

The seven features of successful strategic alliances for Chinese consulting services business are as follows:

a. Values: To be successful in an alliance the organizations need to hold a shared set of values about the cause we are championing and about ways of working together. These values will influence the way the parties approach the alliance and how we work together.

b. Leadership: Partnerships require champions in

each of the participating organizations, and these individuals need to take direct responsibility for achieving the partnership goals. Partnerships also require the unequivocal support of the leaders of the participating organizations.

c. Clarity of mission and strategy: Strategic alliances need a compelling mission, realistic objectives and clear strategy for achieving them. Each partner needs to have great clarity over its goals, achievable objectives with win-win opportunities for both organizations.

d. Board commitment: The boards of all participating organizations need to be strongly committed to the partnership and willing to support it through the good times and the difficult times.

e. Resources: Strategic alliances need to be properly resourced and there needs to be great honesty and realism about the time and financial commitments each organization will have to make to the partnership. When it comes to reporting on how the resources have been applied, the financial reports need to be tailored to the needs of the partnership and not to necessarily follow the standard reporting formats of the participating organizations.

f. Open and honest communications: Managers need to recognize that many different stakeholders such as funders, board and committee members, staff, chapters and volunteers, many be affected by a strategic alliance. Each requires regular and thorough communication. Formal communications should be supported by plenty of informal communication, ideally at board, senior management and staff levels.

g. Commitment to good faith negotiations: When the alliance is being established there should be three ground rules. Without prior agreement of all partners: there should be no material changes in the partnership proposition negotiators must be named and there should be no changes during negotiations there must be no negotiations with other external parties.

3. Choosing wholly owned subsidiaries for internationalization consulting service business in Thailand. A wholly-owned subsidiary can serve itself well by doing business in a separate location than the parent company because it is able to remain in its

locale. This is especially important in international situations. Maintaining a wholly-owned subsidiary also provides name recognition if the name brand is known and popular. The parent company has no reason to absorb the subsidiary entirely and wholly-owned status avoids hindering sales. The parent company may also maintain some diversity when holding a wholly-owned subsidiary. The parent company has the opportunity to diversify by branching out into different products. Moreover, the parent company usually maintains direct or indirect operational control over its wholly owned subsidiaries. The parent and the subsidiary can also use their combined size to negotiate better terms with suppliers. And some famous global enterprises usually use this strategy. Additionally, they can take advantage of one another's management and technical expertise, reduce administrative overlap, better integrate new product development and launch initiatives.

Competitive advantage is defined as the "capability of an organization to create a defensible position over its competitors" Competitive advantage traditionally involved the choice regarding the markets in which a firm would compete, defending market share in clearly defined segments using price and product performance attributes. As many researchers said, price/cost, quality, delivery dependability, and the time to market had been consistently identified as important competitive capabilities.

For Chinese consulting industry, now we can focus on the serving consulting advice with competitive advantage in low price/cost-the ability of an organization to compete against major competitors based on low cost / price. A competitive advantage can be gained by offering the consumer a greater value than the competitors, such as by offering lower prices or providing quality services or other benefits that justify a higher price. The strongest competitive advantage is a strategy that cannot be imitated by other companies. Competitive advantage can be also viewed as any activity that creates superior value above its rivals. A company wants the gap between perceived value and cost of the

product to be greater than the competition.

Efficiency is the ratio of inputs to outputs. Inputs can be any materials, overhead, or labor that is assigned to the product or service. The outputs can be measured as the number of products produced or services performed. The firm that can achieve the highest efficiency for the same service or product can widen the gap between cost and perceived value and may have greater profit margins. There are many ways a company can increase efficiency. Efficiency is enhanced if, holding outputs constant, inputs are reduced; or if holding inputs constant, outputs are increased. Inputs can be reduced in many ways. Labor inputs can be reduced if employees are better trained so that time spent on each individual output is decreased. Decreasing waste can decrease materials needed. If a method can be devised to decrease waste, it would increase efficiency. For instance, a bottling plant might determine that 10 gallons of liquid are spilled every day as a result of the bottling process. If the amount of lost liquid can be reduced, efficiency will increase. Outputs can be increased by increasing the number of units a machine can produce in given period of time. Decreasing downtime can also increase outputs. For example, if a machine regularly breaks down and is out of order for two hours a day, finding a way to eliminate this downtime would increase the number of outputs.

It is often argued that large companies, by definition, are able to be more efficient because they can achieve economies of scale that others are not able to reach. Large companies usually offer more products in each product line, and their products may help to satisfy many different needs. If a consumer is not sure of the exact product he needs, he can go to the larger producer and be confident that the larger producer has something to offer. The consumer might believe that the smaller producer may be too specialized. Therefore, the larger Chinese companies can cater to a larger population because of sheer size, while smaller companies have fewer resources and must specialize or fall victim to larger, more efficient companies.

## Reference

- Adams, C., & Sherer, P. M. (1998). *The wall street journal Asia*. Retrieved from <http://www.readabstracts.com/author/the-wall-street-journal-western-edition-1998/other/>
- Alexander, S., Sanne, O., Leena, W., & Jonas, R. (2010). Expert or speaking-partner? shifting roles and identities in consulting work. *Leadership & Organization Development Journal*, 31(2), 159-175.
- Asia consulting service: in Asia News Monitor*. (2013). Retrieved from [http://www.worldcat.org/title/wall-street-journal-asia/oclc/298956331&referer=brief\\_results](http://www.worldcat.org/title/wall-street-journal-asia/oclc/298956331&referer=brief_results)
- Benito, G. R. G., & Gripsrud, G. (1992). Expansion of foreign direct investments: discrete rational location choices or a cultural learning process?. *Journal of International Business Studies*, 23(3), 461-476.
- China consulting industry research*. (2011). Retrieved from <http://www.iresearchchina.com/reports/4196.html>
- Gradziuk, A. (2010). *Implications of ASEAN-China Free Trade Agreement (ACFTA)*. USA: The Polish Institute of International Affairs.
- Investopedia US. (2013). *Definition of 'strategic alliance'*. Retrieved from <http://www.investopedia.com/terms/s/strategicalliance.asp>
- Johanson, J., & Weidershiem, P. F. (1975). The internationalization of the firm-four Swedish cases. *Journal of Management Studies*, 12(3), 305-322.
- Johanson, J., & Vahlne, J. E. (1977, Spring/ Summer). The internationalization process of the firm-a model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8, 22-32.
- Johanson, J., & Vahlne, J. E. (1990). The mechanism of internationalization. *International Marketing Review*, 7(4), 11-24.
- Johanson, J., & Vahlne, J. E. (1992). Management of foreign market entry. *Scandinavian International Business Review*, 1(3), 9-27.
- Johanson, J., & Vahlne, J. E. (1994). The internationalization process research. *Scandinavian International Business Review*, 1(3), 84.
- Kogut, B., & Singh, H. (1998). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3), 411-432.
- Mckinsey and Chinese client spar over quality of service. (2008, June). *Wall Street Journal*, 13.
- O'Grady, S., & Lane, W. H. (1995). The psychic distance paradox. *Journal of International Business Studies*, 27(2), 309-333.
- Persian Weblog. (2013). *Briefly explain the Uppsala model of firm internationalization and the criticism by Mats-4 Forsgren of this mode*. Retrieved from <http://man-behtar-in-khaham-shod.persianblog.ir/post/10/>
- Root, F. R. (1998). *Entry strategies for international markets*. San Francisco: Jossey-Bass.
- Sutton, J. (2011). *Buying consulting services in Asia* (23<sup>rd</sup> ed.). USA: Greenleaf Book Group LLC.
- Tykesson, D., & Alserud, M. (2011). *The Uppsala model's applicability on internationalization processes of European SMEs, today-a case study of three small and medium sized enterprises*. LUNDS University.
- Welch, L. S., & Luostarinen, R. (1988). Internationalization: Evolution of a concept. *Journal of General Management*, 14(2), 34-55.