

International expansion of transnational advertising agencies in China: An assessment of the stages theory approach

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Abstract

This paper examines the expansion of multinational enterprises (MNEs) in a service industry to a country which is both developing and in transition—i.e. the advertising industry in China—to assess how useful the stages theory is in understanding internationalisation issues in today's globalised world. Three of our findings are consistent with the *expectations* and formal *denouement* of the stages approach: (a) the agencies increased their involvement in the China market over time; (b) the agencies went through organisational structure change through an incremental process; and (c) the internationalisation process was much faster for late entrants. On the other hand, some findings are not congruent with the theoretical *explanations* or *logic* of the theory. The main reason why agencies change their form of operations to a more involved mode, according to executives, was that their clients' investment in China had increased. They argued that change in operational form is client-driven, rather than being driven by an increase in market knowledge. In sum, *form* must not be taken for the *substance*, although some aspects of the Uppsala model can explain the stages and changes of modality in MNE operations in China.

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1. Introduction

With the rapid pace of globalisation in recent years, the internationalisation process has regained interest, especially as multinational enterprises (MNE) have obtained entry into developing and transition economies from which they were previously excluded, either entirely or in part. While the “ownership-location-internalisation” (OLI) paradigm (Dunning, 1977, 1988; Dunning & McQueen 1981) is generally accepted as a “static” model of MNEs and foreign direct investment (FDI), the most prominent “dynamic” internationalisation process theory remains the so-called “stages theory” or “Uppsala model”, named after the academic location of some of the scholars who proposed the earliest versions of the concept (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Evidence supporting the Uppsala internationalisation model is mixed. This paper conducts an in-depth investigation of MNEs in a service industry to a country which is both emerging and in transition—i.e. the advertising industry in China—to assess how useful the stages theory is in understanding internationalisation issues in today’s globalised world (i.e. one in which most MNEs are already heavily internationalised).

The choice of country and industry are significant for this paper. Until the 1980s FDI in China was rare, so the entry of MNEs into the country can be seen as one in which they go through a learning process and—if the Uppsala model¹ has some credence—this will result in a number of distinct evolutionary stages which can be mapped and understood in a causal way. China is thus a *tabula rasa* on which the learning-induced stages of MNE activity may be visible. However, the fact that China is a country in transition from a central planning to a market based system might affect how MNE evolution in the country is interpreted. The reason why advertising is chosen is two-fold. First, unlike most manufacturing FDI in China until recently, the advertising industry is market driven—in other words the expansion of MNEs into China’s market mirrors the usual Uppsala model analysis of the internationalisation of MNEs into the global market place. Secondly, by looking at the advertising industry, we can ask how well the model applies in industries or sectors apart from manufacturing.

2. The Uppsala model

The various internationalisation models suggest an incremental, evolutionary approach to foreign markets, with companies gradually deepening their involvement as they gain experience. One common characteristic of the various models of the internationalisation of firms is that the internationalisation process has different “stages”, hence “stages theories” or “stages models”; that is, a firm will expand its business toward foreign markets step by step. Andersen (1997) provides a comprehensive review of such theories or models.

According to the Uppsala internationalisation model (Johanson & Vahlne, 1977, 1990; Johanson & Wiedersheim-Paul, 1975), knowledge of the market mainly comes from experience, which is accumulated slowly. Thus, the internationalisation process is carried out in small steps, but with the following three exceptions: (1) when a firm has huge

¹We use the term Uppsala model to cover a range of related theories which are based on the idea that as MNEs internationalise and, as they do this, the learning and experience that ensues enables them to alter or intensify their internationalisation in various ways. These theories also go under the guise of “stages theories”, “learning theories” and similar (Blomstermo & Sharma, 2003).

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