Why on earth would you start your business in China when you could just as well do it back home?

- The internationalisation of new entrepreneurial ventures

By: Marielle Boström
Supervisor: Desirée Holm
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ABSTRACT
Historically the research of International Business and the internationalisation of companies have been concentrated to large, mature companies with extensive resources to deploy in new markets. Since the 90’s a big field of research has though been on so called born globals, or international new ventures. In this thesis I will take up where this research is today and I will deal with the issue of new entrepreneurial ventures that internationalise from a very early stage of their existence. From the theory five factors are retracted; 1) The Entrepreneur; 2) Identified Opportunities; 3) Entry/ Establishing mode; 4) Deployed Resources and 5) Local Challenges and from this the theoretical model is created. The following empirical study is made on Swedish entrepreneurs that have established in China during the last decade and the model seeks to answer why and how the entrepreneur established in China. The model is constructed to be usable for research on entrepreneurs from any market entering any other market. This specific study on Swedish entrepreneur in China merely fills the function of illustrating the use of the model, as the sample is too small to generalize.

Keywords: Internationalisation; Born Globals; INV; Entrepreneurial ventures; China; Guanxi
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APPENDIX
INTRODUCTION
Historically the research of International Business and the internationalisation of companies have been concentrated to large, mature companies with extensive resources to deploy in new markets. Accepted theory has during a long period mainly been built upon the assumptions that companies that internationalise holds characteristics applicable to large and mature organizations, like supremacy over foreign companies in their own market (Hymer, 1976), a mature product (Vernon, 1966), a long-term gathering of international experience (Johansson and Vahlne 1977) etc. During the 1980’s and 90’s researchers identified the phenomenon of newly started companies which internationalisation path differed from the traditional ones above (e.g. Madsen and Servais, 1997). The traditional internationalisation theories has been criticized for not being applicable to these smaller companies, as these internationalise in a very early stage, before it is even possible to develop the behavioral characteristics presented in the earlier theories (e.g. McDougall et. al., 1994). More suitable frameworks for studying the phenomenon of these early internationalising companies have been presented more recently, amongst others by Mathews and Zander (2007), which IED framework\(^1\) will be used here.

In this thesis I will deal with the issue of new entrepreneurial ventures that internationalise from a very early stage of their existence and the study is made on Swedish entrepreneurs that has established in China. Recent figures in the Swedish report “Företagarpanelen, Quarter 2”, show that increasingly many Swedish SME:s and entrepreneurs are searching for opportunities in other markets. From December 2007 until April 2009, the number of companies that either trade with foreign markets or have their own production in foreign markets has increased from 22 percent to 28 percent. Many of these are going global from start and China was a repeatedly mentioned market among the 1’501 respondents. (Hemming, 2009) Since China is no longer a closed nation and no longer accessible only for MNC:s with extensive resources, small entrepreneurs increasingly more often makes the decision to establish on the Chinese market.

\(^1\) International Entrepreneurial Dynamics, Mathew’s and Zander’s suggestion for a new field of scholarship, created to complement existing frameworks on internationalisation.
In this paper I aim to provide an explorative model of why entrepreneurs chose to establish in an international market, how they do so regarding entry modes and resource deployment and also how they are affected by local circumstances, such as business culture. I wish to contribute with a more holistic approach for doing research in this field of international business than what the existing frameworks provides now.

The suggested theoretical model is built to be applicable on entrepreneurs from any nationality that establishes a new business in a foreign market. The five important factors are 1) The Background of the Entrepreneur, 2) Identified Opportunities, 3) Market Entry, 4) Deployed Resources and 5) Local Challenges, all circling around the new entrepreneurial venture (NEV). This specific study is made on Swedish entrepreneurs in China, the model is though applicable on a wide range of combinations.

Concluding, the research question could be expressed as:

*Why do Swedish entrepreneurs chose to establish their new ventures on the Chinese market and how do they manage to do so?*

This paper is of importance as these newly identified international actors make an increasingly large part of the global business environment. Previous research has not yet thoroughly developed common definitions and frameworks in order to create a holistic view on the phenomenon of small entrepreneurs going international from start. I have chosen to focus on private entrepreneurs and their enterprises in the initial stage of the venture, with the background of the entrepreneur as an important part much due to the recommendation from the future research suggestions by Madsen and Servais (1997). To study Swedish entrepreneurs in China is interesting first of all to let us know more about our own nationality’s behavior in the global market and secondly since China is one of the new emerging economic actors in the world, growing increasingly important each day on several different levels in the world economy.
THEORY

The research in this field has recently taken a path towards creating frameworks suitable for new and small organisations that internationalise from an early stage. From an extensive research on different aspects of the internationalisation of large and mature organisations (e.g. Knickerbocker, 1973; Johanson and Vahlne, 1977 and Buckley, 1988) the phenomenon of born globals was identified in the 80’s and in the 90’s given much attention (e.g. Rennie, 1993; McDougall et al, 1994 and Madsen and Servais, 1997). The later research criticised the applicability of previous internationalisation research models but was initially mostly empirical, which created a need for conceptualising the phenomenon and creating models and frameworks suitable for this field of the subject. A lot of effort has been put on defining expressions like born globals, International new Ventures (INV), international entrepreneurship and such, which makes it rather confusing as many of these are circling the same or closely related issues. In this section I will give examples of how the phenomenon has been defined in the literature and why these definitions are not satisfactory enough for this paper. I will then come to the definition of the expression used for this study.

Born globals is one of the most commonly used expressions. Madsen and Servais (1997) define these as: “Companies that export 75% of their total sales, starting after less than two years of operation.” (p. 564). But what if they do not export? What if they are providing services on the new market? Traditionally, literature on born globals has been focused on hi-tech companies with cutting-edge technology, since this category was early to adapt to this fast internationalisation path (Madsen and Servais, 1997).

International entrepreneurship is another term used in this field, which is defined as:

“International entrepreneurship is a combination of innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value in organizations” (McDougall and Oviatt, 2000, p. 903).

Oviatt and McDougall (2005) later define the concept of INV:s as: ”a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources from and the sale of outputs in multiple countries (p. 49).
An INV is not necessarily an entrepreneurial venture, merely a new organisation going international from a very early stage and here they also define what the INV seeks to derive from the internationalisation. This for me is limiting the research to preconceptions about the question why.

As the existing expressions in the terminology in some sense are providing the reader and the researcher using it, with built in preconceptions about the study object I argue that it is limiting to use any of the ones mentioned above. Therefore I will use the expression New Entrepreneurial Ventures (NEV) defined as newly started small companies, founded by private persons (as opposed to existing organisations). As the phenomenon I will study is the internationalisation of these, I do not see a need of incorporate internationalisation in the definition of the kind of company, as the reasons and means for this is the actual subject. A consequence from conducting studies based on my theoretical model could be the identification of different categories of companies definable with the reason for internationalisation incorporated.

**Existing Frameworks and Models for Research**

Above I have defined the characteristics of the type of company I aim to create a research model for. In this section I will describe some suggested frameworks for studies in the same field from recent literature about how to develop the research in the right direction. Following this section I will introduce theory backing suggestions for additional factors needed in my proposed model to create a more holistic approach to the internationalisation of NEV:s than what is offered now.

Mathews and Zander (2007) outlined a new field of scholarship, which they call International Entrepreneurial Dynamics (IED). They argue that the new opportunities, created by the increased globalisation and the accelerated internationalisation of entrepreneurial ventures in a stage where they have not yet established their definitive source of advantage, is a phenomenon best studied at the intersection between the perspectives of internationalisation and entrepreneurship. Mathews and Zander (2007) created an IED-framework made out by three conceptual organisational points, which are: 1) the discovery of opportunities; 2) the deployment of resources in the exploitation of these opportunities; and 3) the engagement with international competitors. They claim that this new field of scholarship and research according to
their proposed approach is of great value to complement the existing frameworks in international business research, which have been focused on the internationalisation of long-established MNE:s, comparative statics and transaction cost reasoning. Their approach would capture the cases of internationalisation of these newer and smaller enterprises in a new light and broaden the field of research. (Mathews and Zander, 2007)

The IED concept is a valuable backbone for this paper, as it conceptualises the combination of two fields of international business that are, by my believes, the core of this phenomenon. It is point 1) the discovery of opportunities and point 2) the deployment of resources, that are most relevant for my further discussion as point 3) the engagement with international competitors, extends in a wider time perspective than what I aim to depicture. The discovery of opportunities is a highly relevant factor that links the entrepreneur as a person to the entrepreneurial venture. The first prerequisite is the recognition of the opportunities, as what could be seen as given opportunities is not necessarily recognised by everyone. Recognition is strongly related to the entrepreneur’s background and experiences, which will be discussed below (Shane and Venkataraman, 2000; Oviatt and McDougall, 1995; Madsen and Servais, 1997) The other prerequisite is the actual opportunities. To define what is meant by the discovery of opportunities I quote: “The discovery of new business opportunities is concerned with the process by which the individual identifies unobserved or latent combinations of resources and customer demand, including the identification of new, innovative solutions to the supply of already existing products and services” (Mathews and Zander, 2007). In other words the opportunities could include everything from a potential new consumers market for an existing product to the possibility to produce a product in a more advantageous way. The second conceptual organisation point is the deployment of resources in the exploitation of the opportunities. When an opportunity is discovered the execution of the venture follows by creating a legal operation and by actively deploy company’s resources. Resources referrers to such assets as human- and financial capital, equipment, raw materials and credits (Katz and Gartner, 1988). These components are important when creating any organisation and thus important when internationalising in the start up period. The way, by which the internal- and external resources are deployed, activities and routines are coordinated and how these are continuously redeployed, is an important
strategy that creates the characteristics of the company. The paths the entrepreneur chose to take when deciding strategies makes it unique in the market and determines both its success and future development. (Mathews and Zander, 2007)

Another approach when studying the internationalisation of NEV:s and why they choose this path is presented by Madsen and Servais (1997). They propose three factors as driving forces for born globals: 1) new market conditions; 2) technological developments in the areas of production, transportation and communication; and 3) more elaborate capabilities of people, including the founder/entrepreneur. The changing markets in terms of geographical specialisation of production of certain products or components creates a need for going international as the local market is too small or the possibility to produce is limited. Also, the demand for products or services is getting more homogenous over the world as globalisation increases, which allows for reaching new markets. The second driving force, technological developments, has since their research was conducted, developed very quickly hence much difficulties in communication and logistics have decreased immensely, making it an even lesser problem than in 1997. Still, the fact that it is so well developed now, is an important factor for allowing the increasing pace of internationalisation. Thirdly, the more elaborate capabilities of people, including the founder/entrepreneur, is referring to the growing number of people with international experiences through exchange programs between universities, making them more suitable to employ for international work thanks to their language capabilities and cross-cultural skills (Madsen and Servais, 1997). As for the previous driving force, also this has developed in a rapid pace since 1997, giving it even more validity today.

The Entrepreneur and the connection to Opportunity Recognition

In the section above I presented a few theories and frameworks on how to approach the phenomenon suggested in previous literature in this field. Below I have separately focused the reasoning about the background of the entrepreneur and how it is closely linked to the recognition of opportunities, combining both literature from the field of international business and entrepreneurial theory.

As is mentioned previously, Madsen and Servais (1997) argue for the need of examining the background of the entrepreneur when doing research on Born Globals. They claim that the internationalisation path of a company by many aspects is related
to the experiences of the founder. Factors like education, internationally orientated work or living abroad decreases the psychic distance to specific markets hence national boarders is not regarded as obstacles, rather are international markets perceived as opportunities to exploit. As a positive consequence of the international experiences there is also the important factor of the founder having an extensive international network, which enables business operations over borders. (Madsen and Servais, 1997)

This reasoning implies for me to incorporate entrepreneurial theory in the theoretical model. When doing research on the entrepreneurial field, there are different paths suggested to follow. Stevenson and Jarillo (1990) gave three options to choose from; 1) What happens when the entrepreneur act, 2) Why they act and 3) how they act. Following the line of Madsen and Servais reasoning, the relevant path for this study would be why the entrepreneur act (this way). Stevenson and Jarillo refers to research in this area where not only the experiences of the entrepreneur is examined but also a psychological value is added, this is too far from the core of this study, but could as many other aspects be of value in a much more extensive study. I will in the empirical part keep the focus to the pure experiences of the founder rather than their psychological assets.

According to Shane et. al. (2003) it is together with the psychological assets the cognitive experience results in the recognition of opportunities that in turn leads to the development of an idea and the actual execution of the venture (Fig.1). The identification of opportunities is also something that is regarded as crucial for the internationalisation of entrepreneurial ventures by Mathews and Zander (2007) Here the opportunity recognition is though the starting point for their framework. In Shane’s model of entrepreneurial motivation he steps backwards in line with the reasoning of Madsen and Servais (1997) and takes off from the personal assets of the entrepreneur even though the actual entrepreneurial process sets off when the opportunity is identified (Fig. 1).
Above I have defined what sort of companies I wish to study and I have presented literature on suggested frameworks and approaches for doing research in this field. The entrepreneur's background, which leads to the recognition of opportunities, follows by the actual execution of the entrepreneurial venture. In this section I present theory on entry and establishing modes and I relate this to the entry of and establishing in the Chinese market.

More recent figures than used here could of course be of greater interest, but to illustrate the increase of foreign direct investments (FDI) in China, Zhang and Song (2001) showed that 45 % of the export from China in 1999 came out of foreign affiliates. This should be compared to the figures from 1980, when the open door policy was first initiated and China began to open up their business policy towards the surrounding world. The percentage was then merely 0.05% (Zhang and Song, 2001). Though this study does not focus specifically on exporting companies, the figures gives a picture of the increasing foreign interest in China. As in any other market there are different ways of entering, China can though differ more than most markets due to the often very strict bureaucratic regulations, which requires legal solutions

Fig. 1 Entrepreneurial Motivation (Shane et al., 2003)

**Entry- and Establishing Modes - Positive and Negative Aspects**

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more specific to China than to entry modes in foreign markets in general (Invest in China, 2009). Below I list the most common way of entering the Chinese market and I describe briefly their advantages and disadvantages. Each of the modes could be a single subject for further research so there will naturally be several aspects missing here. I have chosen to combine modes of entry and establishment under this section, as do Dikova1 and van Witteloostuijn (2007). They research these matters in their article where they primarily focus on the question “In a foreign direct investment decision, what set of factors determine the choice between acquisition and greenfield, as well as the establishment of a wholly owned outlet or a subsidiary with shared ownership?” In both entry- and establishment mode there is one particularly interesting factor of which mode is chosen when studying the entering of the Chinese market, namely institutionalism as in a country’s formal rules. Dikova1 and van Witteloostuijn (2007) gives the example of the collapse of the communistic Soviet Union, whereas I see the Chinese market turning towards a market economy as an equally interesting market for this impact. In countries that is not driven by the market economy philosophy, the opportunities for choosing entry­- and establishing mode is not necessarily related to business strategies, but restricted to laws and constitutions.

**Greenfield or Acquisition?**

When choosing between greenfield and acquisition, there are several advantages and disadvantages with both ways to weight against each other. The fast market entry of acquiring an already existing host country company, which is considered as an advantage, could though backslash with problems of implementing the new owners strategies into the acquired company due to cultural clashes or technological miss matches. Greenfield investments on the other hand will allow for intact business culture with less need for adjustments in corporate values, management etcetera. There will though take longer time to establish on the new market and building local business networks is a time consuming activity that an acquisition or local partner naturally solves (Dikoval and van Witteloostuijn, 2007).

**Joint venture or Fully owned?**

A joint venture could be defined as two or more firms collaborating through pooling a portion of their resources within a common legal organization (Kogut 1988). For this paper the interesting case is the international joint ventures used to reach new
markets, where one of the firms is a "host country" firm. In short, the positive aspects of such a way of entering a new market is the advantage of gaining access to the host country firm’s local knowledge. This to avoid problems such as culturally related mistakes, bureaucratic problems and legal issues such as trade barriers. Through joint ventures, the firm could also receive knowledge about local competitors, local politics and language skills. (Beamish, 1993) The reasons could though differ from the practical outcomes. Kogut (1988) discuss the implications for joint ventures due to the opportunity to diminish transaction costs in activities with other firms while Beamish (1985) focus on other more practical reasons such as the actual pressure from the government. The negative aspects of joint ventures is the shared control over the business, the need to share the return with the partner and the risk of the partner putting their interest before the common good (Kogut, 1988).

What needs to be commented on in this section is that most literature on entry modes and ways of establishing deals with large companies, often companies that are already mature multinationals. Research on chosen entry and establishing modes specifically for NEV:s has, to my best knowledge, not been conducted in depth yet, why the reality for these companies could differ from the theory based on their larger counterparts. Hence to study the chosen entry mode is perhaps of even greater interest as the responses might differ from what the theory suggests.

**The Business Culture in China; Yin Yang and Guanxi**

From the more strategic nature of entry modes and its impact on the company another aspect of internationalisation is the local challenges. In which ever new market you entry, new circumstances will occur and affect the organisation in a more or less challenging way. As China is a market far from Sweden not only geographically but also in many other aspects such as culture, politics, legal system and language, the perceived risk of a big challenge would not be surprising. This is a wide area to study why I have chosen to focus on the fundamental factor of the *yin yan* philosophy and the commonly known concept of *guanxi*.

When discussing culture in the context of international business an often-used reference is Hofstede and his extensive work on the cultural differences between nations (e.g. Hofstede, 1983). In his work nations are compared on a scale with a
fixed scores of how individualistic they are versus how collectivistic, as one example of what is measured. Critique has though been given on the relevance of his studies when applied to a country like China, with its enormous geography and different cultures within the country. But foremost the critique I find the most interesting and specific to China is that from Faure and Fang (2008) where the paradoxes in Chinese philosophy are upheld. When doing research, ones own cultural heritage provides you with a certain perspective on the world as a point of reference. When doing research on Chinese business culture with a western perspective, there might be consequences, which is something that Faure and Fang acknowledged. What is the core problem in Hofstede’s research according to them is the western linear rationality and “non-contradiction” thinking, as they refer to it. They argue that we rather need to put the Chinese culture in the context of traditional Chinese philosophical thinking of balances, what is known as Yin Yang. In short this is a way of regarding the world without either/or’s but rather with both/and’s. To assume that China would be a collectivistic nation as opposed to individualistic is according to Faure and Fang (2008) not a relevant thing to claim since the Chinese worldview is not at all constructed like that, we need to think of the opposing characteristics more as of co-working energies without clear boarders where we can draw a line and claim it is either this way or that way. Mixing western scientific research with Chinese philosophy is difficult, but it would though be a greater risk of not understanding the Chinese business culture truly if one did not put it in its own context when trying to understand.

For all sections of the theoretical part, the subjects are possible and worth of lifting out for its own research. This is also the case for studies of the Chinese business culture, through many different perspectives. For this study I have chosen to only focus on the importance of guanxi, which is a well-known phenomenon for westerners doing business in China. Since the 80’s it has been frequently discussed in international business literature and the phenomenon has been given a high importance from researchers (e.g. Ambler, 1994, Simmons and Munch, 1996, Yeung and Tung, 1996). Guanxi is a phenomenon difficult to translate in to English words. One quite recent explanation is suggested by Fan (2002) “Guanxi is the process of social interactions that initially involve two individuals (A and B). A may or may not have special relationships with B. A asks B for assistance (favour) in finding a
solution to a problem. B may have the solution at hand, or more often, has to seek further assistance from other connections, i.e. starts another process.” This favour will then generate a favour in return, either to B or the person helping B to help A, or to both. Some researchers have described guanxi as a relationship (e.g. Gold, 1985) or as a resource, a kind of social investment. These views has been criticised by Fan as they could just as well describe something else, it does not separate the guanxi phenomenon from other aspects of the business culture. He withholds the view as guanxi as a lifelong process (Fan, 2002). Furthermore, another aspect of guanxi is the similarity of theory on relationship marketing. When western companies during the past decades have shifted from transaction orientation to relationship orientation one could draw parallels between relationship marketing and guanxi. What contradicts this though is that the relationship and exchanged favours in guanxi is strictly personal and not related to any professional network connected to the company. The manager takes all the connections and favours with him or her when leaving the company. As the Guanxi Wang – where wang could be translated to network – develops throughout the lifetime of a person it could supposable be difficult for a westerner to come to China and establish a successful business, as it might take a while to build the network (Simmons and Munch, 1996). Some researchers has argued that it is much more difficult to do business in China without a guanxi wang while Fan (2002) argues that the importance of guanxi is exaggerated in the literature, that it plays an important role but that it is possible to run a business successfully even without it. As an increasingly large part of the Chinese corporations are no longer governmental and also much more involved in international trade, professionalism is an increasingly important factor (Faure and Fang, 2008). Today strategy and a good product is more important as Guanxi is costly to maintain and the system is uncertain regarding the actual payback, nothing is guaranteed in return for a favour but it might have cost a lot to offer it (Fan, 2002).
I have constructed the theoretical model using parts from the IED-framework (Mathews and Zander, 2007) together with the aspect of the entrepreneur’s background (Madsen and Servais, 1997) and in addition taken into consideration the cultural context of the Chinese business culture in the part called “Local Challenges”, which could be applicable on studies in other markets as well. I have also added a part about market entry modes to the model. For this study market entry modes might not be of great interest but for further studies of a wider quantity of study objects, this could possibly show patterns of interest. Part one, about the background of the founder, is important in order to understand how and why the opportunities are even identified and also realized. According to the literature (e.g. Madsen and Servais, 1997 and Shane, 2003) the personal experiences of the entrepreneur plays an important, if not indispensable, role in the internationalisation of NEV:s. Through previous experiences new business opportunities are identified which is why the second part of the interview puts focus on what kind of opportunities that “pulled” (Mathews and Zander, 2007) the interviewees to the Chinese market. When entering the new market the extent of establishment is interesting, looking on how the entrepreneur chose to deploy its resources since this also decides the strategy for future directions of the company (Mathews and Zander, 2007). For example the company could invest in local personnel trying to gain a stronger local market
understanding if choosing to reach the local customer base and not only act as a producer using the cheap suppliers for exporting to other markets. Establishing in a new market often makes the entrepreneur encounter several different local challenges, in many cases cultural differences or for them new bureaucratic systems. Much has been written on the complexity of cultural differences, which is a very extensive area for research. Therefore I have chosen not to make any further analysis based on Hofstede or similar in this study, but to focus partly on the foundational philosophy of *Ying Yang* and on the single most discussed cultural characteristic of Chinese business, *guanxi*. Other researchers could though, given the structure of the model, chose to put more or less focus on this factor as long as the matter is given attention and is adapted to the specific market that is subject for research.

Using the model should expectedly give an empiric result where the background of the entrepreneur is strictly individualistic and serves as an explanation for which kind of opportunities that are recognised on which markets. The opportunities would in turn imply for which strategy the entrepreneur chooses for entering and establishing on the new market and this should also be affected by the local challenges. In all, the model will provide a holistic explanation of the internationalisation of a NEV.

**METHOD**

This study has been conducted through a qualitative research strategy with a deductive approach creating an exploratory report over my findings. The qualitative strategy is more suitable for this study given the limited number of Swedish entrepreneurs in China and the nature of the questions that has been of interest to ask. Also I find it more worthwhile to create a model by which one in further studies can test these findings on a bigger sample. The empirical data has been collected through semi-structured interviews with three Swedish entrepreneurs in China.

**Data collection**

The interviews have been made through e-mail. The reason for this choice is the limited possibilities of personal interviews due to the physic distance to the interviewees and the economical cost of conducting them by phone. I tried to secure the responses through sending a first e-mail to the chosen entrepreneurs to confirm their will and full intention of participating. The full anonymity of the participants in
the published essay was ensured if they so wished, but while conducting the interviews, given the nature of semi-open questionnaires and the small amount of participants, I am fully aware of who is who. By its nature, written answers to a semi-open questionnaire is of some uncertainty since questions could be misunderstood, answered in haste without much reflection or just simply skipped. To deal with this I asked similar questions controlling each other and I asked several questions that demands only short answers rather than a few that needs longer elaborations, in the attached letter I did though ask of the interviewee to take their time and elaborate rather than sent them back quickly. This was successful and I received very good answers. Before sending them I conducted a pilot-example of the interview together with a person who is also an entrepreneur with experiences of China, this in order to ensure that the questions were understood in a correct way. In addition to the interviews I have used secondary sources to fill in facts and additional background. Two of the respondents, Björn and Johan, are previously interviewed in the book “Möjligheternas Rike – Svenska entreprenörer i Kina” by David Stockelberg, from which I have retrieved information to fill out some of their own answers. In these cases I will make clear reference in table 1 to single out what information that is secondary data from the book. Apart from using information to fill in a few answers the book has only served as inspiration for the choice of subject to study, I have not based any questions on the interviews in the book. The author, in person, and the book have though served as a bridge to get in touch with Johan and Björn.

Sample
The interviewees are chosen based on that they first of all fulfil the attributes of Swedish entrepreneurs running their business in China. There are many Swedish companies with offices or production facilities in China, but these are normally merely Chinese branches of larger Swedish companies. The persons interviewed are private entrepreneurs who started their own companies with the aim to run their business in China. Secondly, given the small number of Swedish entrepreneurs in China, there is also a matter of availability and connections involved in who is chosen. The risk of “picking out” only the good examples is not a negative factor for this study since I am not aiming for specific results, much rather a good way of getting to them. It is therefore of greater importance that the interviewees are suitable for the study rather than randomly chosen. Madsen and Servais (1997) suggested that
further research on born globals would focus on the entrepreneur and separate the smallest companies from the larger ones. I have kept this in mind when contacting possible interviewees. I sent the first e-mail to ten people, in which I asked for their will to participate. Those seven not answering were all people that I did not have any relation to in terms of common acquaintances. The will of spending time on participating might increase when you make a favour to someone in your network, maybe the Swedish entrepreneurs in China already adapted to the concept of *guanxi*? Having only three respondents is not worse than having the double, as a small sample would not generate any statistically valid general answers. These three cases will though illustrate the use of the model.

The three respondents; Johan, Björn and Alex, all come from different branches. Johan runs the PR company Eastwei, which has grown much since the start in 2001. With more that 100 consultants in four of the largest cities in China they are now one of the leading PR consultants in their niche (Eastwei, 2009). Björn founded the company Quest in 2002 and they operate in the trade/sourcing branch, but also provide services such a translating. Alex’s company, Black Portfolio, is the most recently started and registered in 2007. They design limited edition accessories for men. They are all working with international clients, the PR company has been doing so from start while the other two started out with focusing on Swedish clients, but later came to approach a wider market as well.

The ecological validity of a study like this is worth questioning, since the study to a large extent focus on the decisions and believes of a person, the entrepreneur, rather than a - maybe more predictable - organisational structure (Bryman and Bell, 2007). The individual nature might be harder to generalize in order to test on other groups. For the nature of this study, which aims to understand the individual entrepreneurs choices and behaviours, this is hard to come around. Given the small sample and the qualitative approach, I am not trying to give a general and statistically correct picture of this issue, rather a way of approaching the phenomenon and a study that illustrates it.
Operationalisation of the variables

I have constructed the interview in accordance with my theoretical model described above. The questions asked in the interview are all directly linked to one of the sections in the model and based on the theory described under each of the correspondent sections in the theoretical part of this paper. Below I briefly clarify what I have been searching for in each section of the interview, with the support of used theory. All questions are attached in the appendix so only a few examples will be given here.

The entrepreneur

In the theory a lot of emphasis has been put on the influence of the entrepreneurs background and experiences regarding what kind of opportunities that are identified and what markets that will be of interest. This derives from experiences such as studies, working abroad, language skills etcetera (Madsen and Servais, 1997). To get information about whether these are experienced shared by my respondents I asked questions about previous international experiences such as these above. I also asked about previous entrepreneurial experiences as I, even though this was not discussed in the literature, figured that this was in line with their reasoning as this also creates skills and abilities that could be of advantages in the next entrepreneurial venture.

Identified opportunities

The identified opportunities should be the actual reason for entering a new market. Therefore it is of big interest to ask the interviewees what they saw as possible opportunities in the Chinese market. Reasons mentioned in the theory has been advantages in production costs, large costumers market etcetera (Mathews and Zander, 2007) I added similar questions for open answers to eventually find out alternative opportunities that was not mentioned in the literature, to not miss out on any important information. The questions about whether the same opportunities did or did not exist in Sweden was not entirely usable in this paper but will be of interest if using the “push” approach mentioned in the discussion for further research which is a concept used by Mathews and Zander (2007).
Market entry

To see how the entrepreneurs chose to entry and establish in the new market I simply asked for in what form they did it and whether they had a local partner, this to be able to draw parallels to the theory if their reality does not correspond exactly to the literature. In the literature it is enhanced that partnership through for example joint ventures creates the advantage of local knowledge (Beamish, 1993) why I also asked questions about the success or failure of the eventual partnerships as it could be a disadvantage for instance if the interest of the partners differ (Kogut, 1988).

Deployed resources

As for the deployed resources, this is an important indicator for what strategies the company will take and for the success of the company. The resources could be such as human capital, finances and raw material. (Katz and Gartner, 1988) To analyse this I wanted to see both what resources they brought from start that they considered important and how they used this, this to see both what their strategies was and if they even were able to use the deployment of resources as strategies.

Local challenges

In the theory I chose to focus on the concept of guanxi and I wanted to find out if it affected these entrepreneurs as much as most of the literature claims it should or if it is overrated today (Fan, 2002). To put this in a wider context I also asked the interviewees about their experiences of cultural obstacles in general. What are the obstacles or maybe are there parts of the culture that are even helpful for foreign entrepreneurs? These questions are particularly interesting from the new market’s perspective, as it tells us the perceived situation on the market from the foreign entrepreneurs’ point of views.

None of the questions under any of the different factors are literally retrieved from previous research but all are formulated either directly from used literature and concepts in the theory, or indirectly to fill in what the literature leaves out to not limit the questions to only allow of the answers what the theory already says.
EMPIRIC RESULT AND ANALYSIS

Below I will both declare the empiric result and analyse the respondents’ answers. I will do this separately for each of the factors in the model and in the end conclude the analysis in a more general reflection on the result, though not generalising the answers. For a full view, all the answers are gathered in the table in the appendix.

The entrepreneur

In this section the respondents gave very similar answers to my questions. Björn, Johan and Alex all have in common that they, previous to starting their business in China, have experience from studying and/or working and travelling in China. They all speak Chinese, two of them more or less fluently and they all show a big interest in the Chinese history and culture. None of them considered Chinese language skills as a necessary mean for doing business in China, though it was definitely an advantage, as in any other country. Apart from China, all of them had been travelling, working or studying in other countries as well. All of them also have experience from running...
their own business previous to the present one, but none of them had experience from the same industry as their present. Björn stated though that even if it was not the same industry, experience from his previous companies had been useful also when running business in China, such as market research, writing a business plan etc. Furthermore, regarding their previous networks, their answers were a bit different from each other. Björn had contacts from school that helped out in different ways, but he claims that these never gave him anything substantial when it comes to business though. Johan’s answer was simply no, but given that he had two local partners when starting his company, the extended network was supposedly quite extensive. Alex answered that he did not have a network initially when starting up, but that it was very easy to establish contacts since the Chinese people are very open for doing business. Also for the social network he mentioned the easy access to likeminded people through expat communities and such. Even though the focus was not on personal psychological assets, but rather cognitive experiences, I asked them what the most important personal assets were in order to succeed with such a venture as their own, and the common response was persistence and a willingness to adapt and tolerate the local conditions and ways of thinking and living.

These answers are in some aspects in line with the theory and in some, contradicting it. The entrepreneurial theory and what Madsen and Servais (1997) says about the importance of the entrepreneur’s background in terms of experiences from studying, working and living abroad could easily be traced to these respondents, all with extensive experiences from abroad. This implies for what I in the theory referred to as when people have experiences like these, the national boarders are not regarded as hinders, rather are new markets seen as exploitable opportunities. Chinese language skills seem to be regarded by all respondents as a clear advantage, but by their experiences not necessary to be successful. What we below will come back to when discussing the respondents’ relations to guanxi, could already here been commented on, remembering that guanxi according to many researchers was highly important and that it seemed to be crucial to have an existing network if you wanted to do business in China. Since non of the respondents claimed they had any network of value for their business initially, their reflection on guanxi will give further understanding for whether networks and relations has been of importance for their businesses.
Identified opportunities

The respondents gave a bit different answers to the questions under this section, but in general they showed a likeminded approach to why they chose to establish in China. Regarding the business opportunities, Björn meant that China was the obvious market if you were seeking opportunities internationally in the late 90’s early 00’s due to the enormous economic development, undeveloped services and industries and low prices on both service and products. Alex mentioned the cheap labour, the easy access to production and cheap cost of living expenses, but also the fantastic dynamic environment. As for Johan he said that there was not any specific opportunities that made him start his business in China, he rather went there knowing that he wanted to live and work there but not really knowing with what. This is also true for both Björn and Alex but to a somewhat lesser extent. Both said that they are doing business in China because of their big interest and love for the Chinese culture, Alex though claimed that his company is there foremost because of strategic reasons. Björn and Alex said they actively search for business opportunities, due to the fact they already knew they wanted to do business there because of different reasons. According to Johan’s story in Stockelberg (2007, pp. 51) also he searched actively for opportunities when first doing business in China, his present company though came out of potential clients approaching him for a service the thought he could provide them. None of them said that the opportunities they are in China for exists in Sweden, Björn elaborated a bit on this and meant that the Swedish market is too small and static and also that costs and taxes are too high.

From studying the literature I expected the reasons for establishing in China would be more strategic, that the identified opportunities would be more pragmatic and strategic than emotional. Even though certain concrete factors have been identified as opportunities it seems like the main reason for establishing has been the emotional connection to China. This connection has been gained through the previous time spent in the country, though common for all of them is that they previous to living in China have been interested in the country’s history, culture and language. The literature refers to the background and experiences of the entrepreneur and the importance of studying this in order to understand how opportunities are identified. This might not be only in regards to the cognitive experiences and skills the entrepreneur develops but also the engagement to the country and the culture that the involvement creates.
At least for Björn, Johan and Alex this seems to be the case. The more tangible opportunities that was mentioned, such as low costs, accessible production and cheap labour are not surprising, partly because of the fact that companies most often strives to decrease costs and increase margins, also the low living expenses allows for the entrepreneurial venture in regards of the often low personal salaries in the beginning of the start-up. Examining the identified opportunities for a larger company establishing in China could show a somewhat different result where the emotional engagement would not be a part of the reason. This is of course only my assuming, but what I want to point at is that the entrepreneurial venture is much more connected to the person rather than a strategic organisation making perhaps more rational decisions. As the three respondents said, they all knew early on that they wanted to run a business in China, just not what in particular. As Björn said, “I guess I’m more of an entrepreneur type, and that’s why I did it”. The active search for specific business opportunities indicates previous knowledge about the market, they all knew there existed certain factors would make establishing a business in China possible hence the background of the entrepreneur is once again indicating to be crucial.

**Market entry**

Björn started his company “Quest” as a Swedish private shareholders company (AB). He did though have the intentions from start to run it in China. The core of the business idea was dealing with trade in China, even though the first business he operated was actually a publishing house, which later turned into a sourcing agency. He later went into an ad-hoc partnership with local Chinese partners, where he does not own anything of the company but is still in full charge over it. Johan partnered up with local Chinese contacts from start but was not at all happy with that. He eventually bought out his partners’ shares, creating a fully owned foreign enterprise. Also Björn said that the partnership was not working out initially but has later grown into working fine. As for Alex, his company has not changed form of ownership yet, being a Swedish HB is enough for their business he said, but he emphasised that their network plays an important role, but it would not be different in any other market. Alex said he would not do it any differently for now when asked if he would do it in any other way knowing what he knows now. Björn would though. He recommends small entrepreneurs to start new a company and register it in Hong Kong, as it is much easier to register there than in China and to operate in China as an HK-company.
is much easier than for a Swedish one. Björn said one should do this “because the bureaucratic hassles and the lack of transparency are just mind-bugging”. Johan emphasises the need to ensure that the people you partner up with share your ambitions and visions, which he did not hence the separation from his partners.

The theory implied that partnerships in form of joint ventures or acquisitions had many advantages in form of easy access to local knowledge. Given that much of the research on entry- and establishing modes are made on large companies, the defined forms of joint-ventures etc. might have to be extended in interpretation and related to the situations for an entrepreneur that might not have enough resources to even consider acquire another company in order to gain advantages. Björn chose to be acquired by local Chinese actors. In his case he already had the advantage of a local knowledge from school and work in China and with a master’s degree in Chinese he did not need to partner up with local Chinese to gain access to communication either. What he needed though was financial resources and a way around the “mind-bugging” bureaucracy, the other side of acquisition. This was not really mentioned in the literature as an option for a foreign market entry, the focus has been on gaining access to local knowledge and such. Johan’s buy-out of his local partners’ shares and regrets of not being ensuring enough of his partners’ visions and ambitions is a clear example of the disadvantages with partnerships. In the theory negative aspects of partnership is mentioned, like different interest in the business, which seems to have been the case for Johan. Björn’s suggestion to register as an HK-company is an example of what I in the theory refer in Dikova1 and van Witteloostuijn (2007) and the comparison with the institutionalism in the Soviet Union. Given the Chinese history of strict state control and the relatively few years of openness to foreign investments and control in the country, the access to the Chinese market is still limited by harsh bureaucracy. Alex’s answer differs from the others, but as I see it, a company whose main operation in China is producing and exporting without a further engagement in the market, might not be in need of legal partnerships or large finances, as no main investments are made. Legally his company is only trading with China, as many others, the difference is that they have chosen to do this in place and establish the production office and administration in China instead of back home. Now when they are already there they are building up sales on the market as well, exporting to China from their Swedish company but in place on the Chinese market.
Entering and establishing could be done in optional ways than the traditional ones. Being as new and small as they are might also mean that they have not yet come across the same bureaucratic problems as Björn and Johan who has been established in China for a longer period of time.

*Deployed resources*

Unfortunately Johan did not want to share this information so this part will only be based on the answers from Björn and Alex. They both stated their own personal assets as the main resources when first starting up. Björn said he had 100’000 SEK but a lot of knowledge, motivation and ability to go through with his venture. Also Alex said that their own knowledge and abilities were the main assets. He would have wished for more external resources in a wider network while Björn said that more financial capital was what he would have needed when starting up, and then he could have pursue with many more opportunities.

Given that they started out in China they had no time before the establishment to build up resources like financial capital, properties, credits etc. Large companies that establishes on new markets often brings with them a more secure background in terms of resources, while these entrepreneurs identified an opportunity based on his knowledge and went for it. Given that not many resources existed initially it is difficult to say how the resources was deployed. Björn said he initially held an extreme low-cost profile but then eventually adjusted that as money started coming in. Growing organically is a very normal growth-strategy, maybe it does not have to be different just because you chose to establish internationally initially. Alex’s company has not made any investments other than paying for their living expenses and travels between their supplier’s factories in China. That could though be regarded as an investment, or at least as a way of prioritising their expenses to make sure they are on location where their business is. Investing money in control is a way of deploying your financial resources and choosing a strategy of being close to production. Regarding the entrepreneurs themselves as human capital resources also implies for that they chose to deploy their human resources on location in China instead of keeping them at home, which in practice means that the company establish in China when the entrepreneurs do.
Local challenges

Common for all three of the respondents are that they all had much to say to the questions in this section, they had all strong opinions in this matter. To the question on guanxi Johan and Björn, who has been players on the markets for a longer time, had different answers than Alex, who is also in another type of industry than the others. Starting with Björn’s comment his opinion was that guanxi is not specific to China but an international concept as business relations are in play all over the world. He said that there is much more to playing the game in China than just guanxi and that he had not been affected in a specifically Chinese way. By saying that larger companies might be affected when trying to get this done, he did though confirm that also he saw it as an existing phenomenon. Johan answered that guanxi was the single most overrated concept in Chinese business and that China is increasingly a market economy, and that guanxi is the same as in all other markets. He also added that relations are important in many aspects like marketing, getting opportunities and such, but that it is not a key to success in China in particular. Contrary to this Alex said that he found guanxi as a very important and also a very nice aspect of doing business in China. In west, he said, it could be regarded as corruption but with a weak jurisdiction in the area it is essential for a smooth business operation. For the next question about the difficulties in the Chinese business culture, Björn and Johan stated that the bureaucracy and lack of clarity in the systems was the most difficult characteristic. Alex answer was the need for being sensitive to cultures different from your own. The opposite then, what was the most positive aspect both Björn and Johan again had the same opinion. Björn said the best thing was “the everything is possible attitude” while Johan said the Chinese show a big willingness to learn and try new things. The openness and the entrepreneurial spirit was something he regarded as highly positive. Björn also said that he was positively surprised by how trustworthy some Chinese businessmen are. To sum it up Björn said: “The problem is the state administration’s bureaucracy. Human interaction and cultural differences can be overcome.”

I find the respondents reaction to their relation to guanxi as interesting. Björn and Johan who has extensive experiences of China both says that it is not really a big deal, that this has not affected them and that guanxi is rather Chinese for what we call business relationship all over the world. This inclines that the later theory on guanxi
and Chinese business culture is supported, claiming that since China has increasingly more turned towards a market economy, the need for professionalism and good strategies out-maneuver the importance of guanxi. The fact that Alex experience guanxi as an important phenomenon could be explained by that it exists – as in any other market – but is perceived as highly influencing the business procedures as it takes a different shape due to other cultural differences, such as it is not considered bribing to give gifts. It also seemed like the cultural differences, which I though did not focus on in the theory, stood aside for the more practical difficulties. The governmental bureaucracy seemed to be a much bigger problem than any cultural differences according to Björn and Johan. Alex claimed that the cultural differences to him was something he valued highly but could be a problem for someone not as open to the Chinese way of living. If we go back and look at the three entrepreneurs’ backgrounds we now know that they all had an interest for China from an early stage, that they gained experience from the country through studies, travels and work combined with learning the language and that these experiences and the woken engagement made them identify opportunities and establish business there. In my opinion the local cultural differences that could be conflicting, had already been overcome. When discussing cultural conflicts in international business literature, the large companies moving to new countries do probably not have the same intense knowledge and engagement in the country which increases the risk for cultural clashes hence the need for constellations like joint ventures or the like. Being an entrepreneur puts you in other locally related conflicts than cultural, and the biggest one according to these answers is bureaucracy.

**DISCUSSION AND SUGGESTIONS FOR FURTHER RESEARCH**

The purpose of this thesis was to create a model based on previous literature in the field, or rather surrounding fields. I studied the factors in these also from other researcher’s perspectives, identifying other factors relating closely to the factors in existing models. From the theory I retracted five factors; 1) The Entrepreneur; 2) Identified Opportunities; 3) Entry/ Establishing mode; 4) Deployed Resources and 5) Local Challenges. From these factors I created questions for the empirical study, which was supposed to illustrate the use of the model and simply try it. The study on Swedish entrepreneurs in Shanghai was not aimed to provide any general answers due
to the limited amount of respondents, merely to provide a base for analysis of the theory, suggesting the direction for further research.

I believe the model is useful for a more extensive research on a larger population. It provides interesting knowledge of why entrepreneurs leave their home market in order to start business elsewhere. This is interesting both for the home country that is loosing actors that could be important elements for the business climate. Also it is interesting for the new market to understand why foreign entrepreneurs choose to establish small business in their country, and what it is that is perceived as opportunities as well as difficulties with running a business on their market.

In further quantitative research based on this model, the result could be improved by working more thoroughly on analysing the previous literature as all the factors in the model could be examined deeper to find even more suitable aspects for discussion in the empirical part. The empirical part could also be improved by describing the actual local regulations and conditions for entering and establishing and not only the respondents’ experiences. In further research it could also be of interest to choose to focus on either the home country’s perspective on why entrepreneurs choose to leave, a “push” perspective. The other focus would then be the new market and a “pull” perspective (Mathews and Zander, 2007). The usable value of the information would increase as the “receiver” of the research is more clearly identified.

In a qualitative study with a “pull” perspective, the different industries and the time perspective of how long time the person has been running its business in the country would need to be taken into consideration when analysing the outcome. As seen here the respondents are answering somewhat different, with the newest actor on the Chinese market differentiating in some aspects from the others. I strongly believe that there would be a notable difference between for example a producing company and a company providing services. One would also need to take into consideration whether the company is aiming for the consumers on the new market or the benefits of other aspects.

Furthermore, a suggestion for further research, apart from when using this model, is to study the Chinese business culture with a more contemporary perspective. With the fast and big changes in the Chinese economy, the difference between the well
developed industrial and international regions where these respondents have their business have probably increased during the past decades. For example; does the concept of guanxi still affect business in a specific way in China or has it decreased to a level comparable with international business and relationship marketing? Does it differ between the developed and undeveloped Chinese regions? A challenge when studying the Chinese business culture is also the need to study it with a greater understanding of the Chinese philosophy and not only from a western perspective.
REFERENCES


**WWW sources**


APPENDIX

1. Interview – The second letter to participant and interview questions.

Dear Björn,

Thank you very much for participating in my research about the internationalisation of new entrepreneurial ventures. The study is made on Swedish entrepreneurs in China, primarily Shanghai. I am very happy about the respondents that take part; you are all not only good respondents to this paper but also great inspiration for other entrepreneurs aiming for doing business in China (such as myself).

Please don’t rush the answers. I rather wait a few more days for good answers than get fast ones tomorrow. Also, please don’t hesitate to answer the questions in Swedish if you wish.

Since there are not that many Swedish entrepreneurs in China that are suitable for this paper, I am dependent on your participation. So ones again, many thanks for your time, I appreciate it!

Kind regards,

Marielle Boström

Questions

These questions often only requires very short answers, this to ensure that you’ll have the time to answer all of them. If you do have the time though, I would appreciate very much if you would elaborate on the answers. Once again, I am very grateful for your kind participation!

1. Your background

Since I focus on the entrepreneur in this research rather than the company, it is very important for me to get information about your background, which is also important background of the company.

1.1 Do you have previous work experience within your current industry? If so, what did you work with and for how long?

1.2 Have you had your own business before starting this company? Please describe what you did, on which markets and for how long.

1.3 What previous experience do you have from China, such as studies, work, travels etc?

1.4 Do you have other previous international experience from work, studies or other?

1.5 Before establishing in China, did you have knowledge of the Chinese language?

1.6 Would you say that Chinese language skills are necessary for establishing in China?

1.7 Before establishing in China, did you have an extensive professional network there? If so, would you say that it was essential for the establishment and if not, did you encounter any difficulties because of that?
1.8 Before establishing in China, did you have an extensive social network there? If so, would you say that it was essential for the establishment and if not, did you encounter any difficulties because of that?

1.9 What would you say are the most important personal assets to be able to successfully go through with such a venture as yours?

2. About the company

For this part I would like to know some facts about your company.

2.1 What was your business concept when you first started and has it changed since?

2.2 When was your company legally started and when was it established in China?

2.3 What’s your turnover and annual growth?

3. Identified Opportunities

This part is about what opportunities, which you identified on the Chinese market, that made you choose to establish a business in China rather than in Sweden. I would like to know whether you identified the opportunities by active research because you wanted to do business in China or if you rather identified opportunities that made you consider doing business in China. With opportunities I refer to, for example, a need for a service that was not provided on the market yet, closeness to suppliers, a large reachable market etc.

3.1 Before establishing in China, what were the opportunities that made you consider the possibility to do business there? Name at least three if possible and please elaborate on why you considered them as opportunities.

3.2 Would you say that comparable opportunities did not exist in Sweden?

3.3 Would you say that these opportunities could be provided in other markets as well, or are they specifically connected to China? Please answer both in a general aspect and in your personal specific case.

3.4 Was it any other reasons that made you establish your business in China, rather than only pure business opportunities?

3.5 Did you actively search for opportunities or did you identify the opportunities by other circumstances? Please elaborate on the answer.

4. Market Entry Modes

There are several different ways of entering a market, in this part I’d like to know how you did when you established your company in China.

4.1 In what legal form did you start your business and how has it changed since? Were / are the company legally Swedish and / or Chinese? Was the company active in Sweden before the establishment in China?

4.2 How would you describe your market entry mode? (Fully owned, joint venture, acquisition, HK-registration, representative office etc.)
4.3 Did you co-operate with a local partner when first establishing? Why did you or did you not choose to work with a local partner? If you did, do you still work together or why did you end the partnership?

4.4 With the knowledge you have got now, would you have chosen another entry mode? In that case, why?

5. Resources

When discussing the creation of new organizations, resources and the deployment of these, plays an important role. In this part I’m interested in knowing what kind of resources that played an important role in your establishment in China. With resources I refer to such components as human and financial capital, knowledge, equipment etc.

5.1 When first starting out, what resources that you brought with you were your main assets?

5.2 How did you deploy these and what kind of investments did you make initially?

5.3 What resources that you didn’t have did you find most necessary to obtain initially?

5.4 When using external resources, would you say you have a close relationship to your counterparts or do you rather keep a distant relationship to these? Why do you choose to use that option?

6. Cultural Challenges

China is most certainly different from Sweden in many different ways. A lot of research has been done on cultural differences and their effect on doing business over boarders. In this part I’d like to know a little about your experiences of this. Are the cultural characteristics of China an obstacle to overcome or would you rather say it creates opportunities, or is it something in between?

6.1 How do you relate to the concept of guanxi? How has that affected your business?

6.2 What would you say has been the most difficult characteristics of Chinese business culture to overcome?

6.3 What parts of the Chinese business culture has been the most positive in your experience of doing business in China?

6.4 How would you respond to the statement that it is particularly difficult to establish a business in China compared to other foreign markets, this in regards to the cultural differences?
2. Interview – Table 1 – Answers from the interviews.

<table>
<thead>
<tr>
<th>Company/Entrepreneur: Branch of business:</th>
<th>&quot;Quest&quot;: Björn Trading/Sourcing</th>
<th>&quot;Eastwei&quot;: Johan PR/Communication</th>
<th>&quot;Black portfolio&quot;: Alex Fashion accessories</th>
</tr>
</thead>
</table>
| *1 Indicates that the answer is retrieved from Stockelberg (2007)  
*2 Indicates that the information is retrieved from the official website. |

**1. The Entrepreneur:**

1.1 Previous work experience within the industry:  
No, but helpful experiences from other work experience.  
No  
No

1.2 Have you had your own business before starting this company?  
Yes, two companies. Also grew up in an entrepreneurial family.  
Yes, two previously in China.  
Yes, different sourcing companies.

1.3 Previous experience from China, such as studies, work, travels:  
Extensive. Studies, travels and work on and of 94-99.  
Extensive. Three years of university in China.  
Yes. Language studies one semester.

1.4 Other previous international experience from work, studies etc:  
Yes. Extensive travels all around the world. EU-China related work internationally.  
Yes. Two years of studying in the US. Extensive work and travels in the Soviet Union.  
Yes. Work and studies abroad on several different occasions.

1.5 Knowledge of the Chinese language before establishing in China:  
Yes. Master degree in Chinese from Lund university.  
Yes. Fluent in Chinese.  
Yes. Three semesters of mandarin studies in Sweden, one in China.

1.6 Are language skills necessary for establishing in China?  
No. But helps a lot.  
No. But an advantage, as in any country.  
No. Better if you have, but a lot of people manage without.

1.7 Before establishing in China, did you have an extensive professional network there? If so, would you say that it was essential for the establishment and if not, did you encounter any difficulties because of that?  
Yes, had contacts from school that later became helpful professional contacts. Has never given anything substantial when it comes to business though.  
No.  
No. But it is not difficult to create since Chinese people are very open for doing business; it is easy to establish contacts. Also easy access to social networks through communities for likeminded people.

1.8 – see above

1.9 The most important personal assets:  
Persistence, ability to endure hardship. Flexibility and tolerance of other ways of thinking and living.  
Perseverance, willingness to adapt to local conditions.  
Willingness to live a life that is nothing like the one you live in Sweden.

**2. The company**

2.1 Business concept when you first started and has it changed since?  
Started out with a publishing house but had the intention from start to work with import/export. Today  
Started out with several projects; TV, record company and PR. Later focused only on PR which is the business  
Limited edition fashion accessories for men.
<table>
<thead>
<tr>
<th><strong>2.2 When was your company legally started and when was it established in China?</strong></th>
<th>Swedish company from 2002, established in China from start but became a legal Chinese company in 2006.</th>
<th>2001, established from start in China.</th>
<th>2007, established the production and administration from start in China, now starting also sales. Remains a Swedish HB still.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2.3 What’s your turnover and annual growth?</strong></td>
<td>5-10 million SEK turnover 2008.</td>
<td>About 30 million RMB turnover (normally about the same value in SEK), 30% growth annually before the crisis.</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>+ Number of employees</strong></td>
<td>Two, Björn and his wife Marina *2</td>
<td>Over 200 2009 <em>2 started out with only two partners though</em>1.</td>
<td>*2</td>
</tr>
<tr>
<td><strong>3. Identified Opportunities</strong></td>
<td>Enormous economic development, undeveloped services and industries, low prices on products and services. This has changed though.</td>
<td>N/A See below 3.4</td>
<td>Cheap labour, easy access production, cheap cost of living expenses and a fantastic dynamic environment.</td>
</tr>
<tr>
<td><strong>3.1 Before establishing in China, what were the opportunities that made you consider the possibility to do business there?</strong></td>
<td>Not really. The Swedish market is small and static and not much is happening, also taxes and cost are high.</td>
<td>N/A</td>
<td>No, they did not.</td>
</tr>
<tr>
<td><strong>3.2 Would you say that comparable opportunities did not exist in Sweden?</strong></td>
<td>In late 90’s and early 00’ the opportunity of exporting from China to international customers were excellent. Today Vietnam etc. are taking over due to price levels, market supply and political factors. Generally business opportunities are inconsistent.</td>
<td>Chose China because he wanted to live and work in China.</td>
<td>Similar opportunities exist in other markets as well, but China still gathers them all.</td>
</tr>
<tr>
<td><strong>3.3 Would you say that these opportunities could be provided in other markets as well, or are they specifically connected to China? Please answer both in a general aspect and in your personal specific case.</strong></td>
<td>The personal engagement in China was very important. He wanted to do something in China, but what? China was the Johan went to China to get some change from his life in Sweden. He wanted to live in China and do business. No particular</td>
<td>Yes. We love China and the culture. The choice was predominantly strategic but in an important aspect also emotional.</td>
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</table>
### 3.5 Did you actively search for opportunities or did you identify the opportunities by other circumstances? Please elaborate on the answer.

| Yes. | Yes 1* For the PR business clients started to approach Johan, creating the opportunity by chance. | Yes. They went to China to search for a profitable business opportunity, as they already knew they wanted to do business there, just not what. |

### 4. Market Entry

#### 4.1 In what legal form did you start your business and how has it changed since? Were / are the company legally Swedish and / or Chinese? Was the company active in Sweden before the establishment in China?

| Started with a Swedish AB but run the activity in China from start. Later partnered up with a Chinese company hence not the legal owner anymore, still in full control. | WOFE, Wholly Owned Foreign Enterprise, no activity in Sweden. | Swedish HB. |

#### 4.2 How would you describe your market entry mode?

| Swedish owned... later Ad-hoc partnership | See above. | N/A |

#### 4.3 Did you co-operate with a local partner when first establishing? Why did you or did you not chose to work with a local partner? If you did, do you still work together or why did you end the partnership?

| Partnership after a while. Did not work initially but is now working fine. | Chinese partners from start. Johan bought them out 2004. *1 Today many local co-workers. *2 | No local partner, but an important local network. |

#### 4.4 With the knowledge you have got now, would you have chosen another entry mode? In that case, why?

| Yes. Small entrepreneurs should start with a Hong Kong company because the bureaucratic hassles and lack of transparency are mind-bugging. | Yes. Would have been more ensuring that the partners had shared visions and ambitions for the company. | No |

### 5. Deployed Resources

#### 5.1 When first starting out, what resources that you brought with you were your main assets?

| Knowledge, motivation and ability. (Plus 100’000 SEK). | N/A | Human capital, our own knowledge and abilities. |

#### 5.2 How did you deploy these and what kind of investments did you make initially?

| No investments initially, extreme low-cost profile. | N/A | No investments other than normal expenses. |

#### 5.3 What resources that you didn’t have did you find most necessary to obtain initially?

<p>| More financial capital as many opportunities could not be pursued due to lack of capital. | N/A | More network contacts |</p>
<table>
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<tr>
<th>5.4 When using external resources, would you say you have a close relationship to your counterparts or do you rather keep a distant relationship to these? Why do you choose to use that option?</th>
<th>As much information and close relationship as possible.</th>
<th>N/A</th>
<th>Very close, if you don’t know your business partners, the will definitely screw you over.</th>
</tr>
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<tbody>
<tr>
<td><strong>6. Local Challenges</strong></td>
<td><strong>6.1 How do you relate to the concept of guanxi?</strong> How has that affected your business?</td>
<td>Guanxi is more of an international concept, as business relationship is in play anywhere in the world. Bigger companies might be more affected when getting things done. Has not affected my company, there are more to playing the game in China than guanxi.</td>
<td>Guanxi is the single most overrated concept in Chinese business. China is increasingly a market economy, and guanxi is the same as in all other markets. Relationship are important in marketing, for opportunities etc. but not a key to success in China in particular.</td>
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<td><strong>6.2 What would you say has been the most difficult characteristics of Chinese business culture to overcome?</strong></td>
<td>The bureaucracy and Chinese inability to give direct and clear answers like “yes” or “no”.</td>
<td>The lack of experienced talents. The lack of clarity in systems and the bureaucracy.</td>
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<td><strong>6.3 What parts of the Chinese business culture has been the most positive in your experience of doing business in China?</strong></td>
<td>The “everything is possible attitude”. And I have been positively surprised by how trustworthy some Chinese businessmen are.</td>
<td>The willingness to learn and try new things, openness and the entrepreneurial spirit.</td>
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<td><strong>6.4 How would you respond to the statement that it is particularly difficult to establish a business in China compared to other foreign markets, this in regards to the cultural differences?</strong></td>
<td>The problem is the state administration’s bureaucracy. Human interaction and cultural differences can be overcome.</td>
<td>I wouldn’t know. Started out with knowing the language and started out with a big interest in the culture and history. Have not experienced difficulties related to China in particular.</td>
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