Establishing in China's 'good-enough' market

- A benchmarking study on Scandinavian engineering industries' further establishment in China

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Master Thesis in Technology Management – No. 164/2008
ISSN 1651-0100
ISRN LUTVDG/TVTM–08/164–/SE

KFS in Lund AB
Printed in Sweden

Abstract

Title: Establishing in China's 'good-enough' market - A benchmarking study on Scandinavian engineering industries' further establishment in China

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Problem discussion: The Chinese market is gaining importance for Scandinavian engineering industries and is by many considered a crucial market to be successful in. These companies have a tradition of producing premium products for premium customers. However, in China many are currently experiencing the threat from local competitors producing products of somewhat less quality aimed at the vast Chinese middle market - the good-enough market. Entering this market mean a first time venture into a lower quality segment for the Scandinavian companies. Hence the questions of if the good-enough market should be entered or not and what trends that can be distinguished.

Purpose: The purpose with this thesis is to examine how Scandinavian engineering industries producing premium products for premium customers, enter local middle markets in China.

Methodology: The research consisted of a benchmarking study where Scandinavian engineering industries in China were studied in order to distinguish an eventual pattern and trends. Distinguished trends were finally analysed according to the Uppsala internationalisation model and the theory of good-enough markets.

Conclusions: It is possible to merge segmentation theories with the Uppsala internationalisation model; it acts as a complement in order to better understand the mechanisms in the initial phases. The decision-making process remains incremental during the entire establishment chain where R&D is a natural continuation. The same internalisation model can also be distinguished during further establishment of an existing market, as in the case of the good-enough market. Companies that acknowledge this

market tend to also see the threat aspect of it. Hence the trend of acquiring a good-enough company and get rid of a potential threat.

Key words: Uppsala internationalisation model, industrial behaviour, market segmentation, good-enough market, growth strategy

Recommended reading for the hurried executive:

If one is only interest in the core contents, the thesis authors recommend a quicker reading version of the thesis and hence the following chapters to be read:

- Chapter 1 – Introduction (p. 1-6)
- Chapter 3.4 – The good-enough market (p. 21-25)
- Chapter 4 – Empirical findings (p. 29-52)
- Chapter 5.2 – Entering the good-enough market or not (p. 57-61)
- Chapter 6 – Conclusions (p. 66-68)

Acknowledgements

This thesis would not have been possible if not for the help and time of so many people from so many different companies and institutions. We had a wonderful time conducting the benchmarking study and writing the thesis. This is truly the most interesting and fun master thesis project ever to be apart of. The ambition was for this thesis to be of use for all the participating companies, not only for our partner company Alfa Laval, we hope that none of the companies will be disappointed.

First of all, we would like to thank Alfa Laval and especially our supervisor Björn Wilhelmsson, R&D manager, for providing us this interesting topic and giving us the opportunity to experience Shanghai and the dynamic Chinese environment from its most compelling side. We really appreciate the freedom, encouragement and attention Björn gave us. We would also like to address additional thanks to all other Alfa Laval employees who have helped us, both in Lund and in Shanghai.

This study relies heavily on the interviews conducted and the essence of this thesis lays in the hours our interviewees' put into this thesis. We are honoured by the attention and interest this topic was received with among the benchmarking companies and we are grateful for time and effort laid down by the companies to support us. We want to express our deepest respects and thanks to each representative from ABB Robotics, ASSA ABLOY, Danfoss, Dynapac, Holip, Höganäs, Sandvik, SKF, Tetra Pak and one more company that has chosen to remain anonymous. We would also like to thank the Swedish Trade Council and the Swedish General Consulate in Shanghai as well as the nice and kind professors at Shanghai Jiao Tong University for taking their time to give us valuable inputs and wise guidance in for our work.

Finally, we would like to thank our supervisors at Lund University, Martin Blom from the Department of Business Administration and Bertil Nilsson from the Department of Industrial Management. They have been of tremendous help for us during this process.

Lund, 2008-05-23

Yixin Fang Per Wiklund

Table of contents

1 Introduction

With the Olympic Games, the Tibetan riots and the ever increasing presence of multinational companies, China is for good and for worse, indisputably the country and topic of the year 2008. This thesis deals with the increasing middle market of China and how Scandinavian engineering industries can enter it. By starting with the local conditions and a presentation of the thesis submitter Alfa Laval, this chapter further introduces the problem discussion and the purpose of this master thesis.

1.1 China and the Shanghai region

China is a huge country, not only in population – 1.322 billions at the latest population count (Swedish Embassy, 2008), but with its 9.6 million km^2, it is also the third largest country size wise in the world (Nationalencyklopedien, 2008a). Over the past five millennia this oldest known civilisation has been naturally isolated from the outside world by vast oceans to the South, jungles to the South, the world's highest mountains to the West, and endless freezing steppes to the North. The Chinese empire has however prospered within these natural barriers and over time the Chinese inhabited and influenced their Asian neighbours both culturally and morally (Lewis, 2000).

Deng Xiao Ping was the first Chinese leader to seriously open China up for foreigners after the death of Mao Ze Dong in 1976. He gained power after a period of power struggles and launched the idea of "Socialism market economy". This meant a series of reforms to steer China towards a communist version of an open market economy, with private ownership but under rigid state control (Nationalencyklopedien, 2008b). Since then the annual economic growth have been 9% on average. The World Bank estimated in 2004 that roughly 400 million people have been lifted out of extreme poverty as a result of the economic growth (Schwaag & Widman, 2005).

Today China is the world's third largest economy after the US and Japan, and is growing far more rapidly than the countries mentioned. By 2025, the Chinese economy is expected to surpass the American (Hawksworth & Cookson, 2008). With the newly gained wealth, the Chinese middle class has grown as well and many companies are eyeing the potentially largest market possible in world.

The economic reforms started with a number of experiment areas in so called "economic free trade zones", all located within costal areas and much of the growth today remains there. With most of its wealth concentrated along the costal areas, Shanghai – located in the Yangtze River Delta Region (YRD), is more or less the main engine behind the booming Chinese economy. The region only has about 10% of the country's population, 2,2% of the land areal, but is responsible for 38,5 % of the entire Chinese exports in 2005 and receives about 41% of all the foreign direct investments (FDI) in China (Swedish Trade Council, 2006). The GDP growth in Shanghai have been 2-digit for the last 15 years and with over 6 millions immigrant

workers (Andreasson, 2007) there is plenty of labour available to fulfil all the needs of this new wealth. Worth to mention is, among many things, the maglev train, the deep-water harbour with its 32 kilometres sea bridge and the Pudong International airport.

A majority of the 500 largest multinational companies (MNC) have chosen to establish themselves in the YDR region and in Shanghai in particular, the same goes for Swedish MNCs. 60% of the Swedish exports to China and 61% of the Swedish investments are located in this region. Here the companies are close to their customers, have access to suppliers, good infrastructure and become an attraction for potential highly qualified workforce (Swedish Trade Council, 2006).

1.2 Swedish companies in China

The Swedish industry is generally good at entering and establishing themselves in new markets at an early stage – the domestic market in a small country as Sweden does not offer much of expansion possibilities (Johanson & Vahlne, 1990). According to Swedish General Consul Lars Andreasson, many of the traditional large Swedish companies had sales offices in China prior to the communist take-over. They all moved out before or during the Cultural Revolution between 1966-1976. It is therefore not surprising that many Swedish companies were amongst the first ones to re-enter the newly opened Chinese market during the 80s. Since then, many of the companies have enjoyed first-mover advantages, building strong brands based on quality and reliability.

It all started in the middle of the 80s with Ericsson being the first Swedish company to re-establish in China, soon after Pharmacia followed with the creation of the Sino-Swedish Pharmaceutical Corporation, both in the YRD-region. Many large Swedish manufacturing MNCs followed, starting representative offices in the YRD-region or in the Beijing area as complements to what they already had in Hong Kong and/or Taiwan. During the 90s the production followed and those representative offices gradually became investment companies that were allowed to own factories and sales companies. By the turn of the millennia, most of the supplying companies followed – almost like a flock. Around 2004 all kinds of Swedish lifestyle companies started to queue to get into the Chinese market, probably attracted by the emerging consumption orientated Chinese middle class. With these smaller companies came the Swedish banks and lawyers, but also the Swedish universities. The Swedish General Consul describes it almost like a ketchup bottle effect.

1.2.1 Market position

The Swedish manufacturing companies generally enjoy a high esteem in the industry. The Swedes are considered by the Chinese to be honest, polite, quality-focused and to always deliver on time (Jin, 2008).

Generally the Swedish industrial products are too expensive for small domestic companies. The typical customers are other large MNCs' subsidiaries in China. These

companies themselves are manufacturing high quality products for a premium market both in China and globally.

However the market environment in China today is quite unique and small or medium Chinese companies are growing at unbelievable rates. Chinese companies, favoured by having substantially lower prices and experience of being OEM[1]-supplier since many years, are today often capable of manufacturing top-quality products. They start off using or copying foreign technology and after gaining experience as OEM manufacturer or as copycats, they start developing technologies and best practices of their own with often very good results (Gao, Woetzel & Wu, 2003). These companies can be competitors as well as suppliers or customers to the Swedish companies.

In many cases, large Swedish MNCs – in fact most of the international MNCs, tend to ignore these companies as they are often too small to be key customers or competitors. However in the last couple of years, according to Alfa Laval Vice President Steven Zhou, many of these companies have grown in size, in capacity and in quality; making them factors to be considered, not only in the Chinese market but also in the global market. A good example is Huawei Technologies that has managed to pass the obstacles of moving upwards in the markets, and are today considered a multinational player, in only 14 years. First, they focused on China's developing areas and got established there. MNCs were scarcely present here since they did not have any incentives to compete on these markets. Secondly, through using the Chinese good-enough market as a catalyst, they approached other developing countries, such as Russia and Brazil, and are now competing on developed markets against other global competitors, and are doing this quite aggressively through its sales and marketing channels. From the beginning, Huawei have invested 10% of their sales into R&D activities. Through having low-cost R&D they have managed to quickly and fairly inexpensively release new products to penetrate the markets with (Gadiesh, Leung & Vestring, 2007).

Alfa Laval Regional Product Manager Alif Saleh claims that Swedish companies face the potential of losing future important customers because these customers are today price sensitive rather than quality focused. They require products that are good enough. Good enough means that the products do not need to be operable in extreme situations, it should not last longer than the end user need it, it should have good trade-off between cost and quality and lastly, the customer wants products without frills.

Associate professor Guoxiang Huang at Shanghai Jiao Tong University believes that Chinese market requirements will spread with time, first to other emerging markets where they might even be considered premium requirements, and later also to more developed countries.

[1] OEM (Original Equipment Manufacturer) – the original manufacturer of a component for a product, which may be resold by another company

1.3 Presentation of Alfa Laval

This master thesis has been written in collaboration with the R&D organisation of Alfa Laval's Product Centre for Compact Heat Exchangers (CHE). Gustaf de Laval and Oscar Lamm founded Alfa Laval in 1883 under the name of AB Separator. Gustaf De Laval invented the first continuous separator that separated skimmed milk from cream. In 1938, the company started to make heat exchangers and moved the development and production to Lund. 1963 the name was changed to today's Alfa Laval. In 1991 Tetra Pak Group acquired Alfa Laval. The headquarters were moved from Stockholm to Lund and were an independent industrial group within Tetra Pak Group. In 2002 the company was reintroduced to the Stockholm Stock Exchange and today the company provides equipment, systems and services for process optimisation based around three key technologies: centrifugal separation, heat transfer, and fluid handling. Their broad product range includes high-speed centrifuges, decanters, filters, desalinations plants and heat exchangers, and the company is operating in more than 100 countries (Alfa Laval, 2008).

Alfa Laval has today set a goal to grow at an average of 5% annually over a business cycle. The growth is to be accompanied with favourable profitability. One of the key factors to help the company achieve these targets is its broad geographic coverage and strong local presence. Today, 30% of Alfa Laval's sales originate from Asia (Alfa Laval Annual Report 2007).

1.3.1 China establishment

Alfa Laval has sold separators to China through its centralised division since the 50s. In 1984 Alfa Laval placed a representative office in Beijing and the sales were managed through Alfa Laval's Hong Kong subsidiary (Anderson, 2008). Alfa Laval Manager Rolf Håkansson who worked towards the Chinese market during the early 90s says that Alfa Laval were looking for a partnership in China in order to further establish their presence at this time. In 1994 Alfa Laval formed a joint venture with a Chinese heat exchanger producer in Jiangyin, which was fully owned by 1997, and the Chinese sales management moved from Hong Kong to the production facilities. They also tried a joint venture with another company with the purpose of producing separators, although this endeavour failed. In 1995 they formed another joint venture in Jiangsu that produced fluid equipment. This is today also fully owned.

Today, Alfa Laval's Chinese headquarters including sales are located in Shanghai and they have two production sites in the country. China, represent 12% of all orders, is Alfa Laval's second largest market after the US. The growth is also larger in China than in the US (Alfa Laval Annual Report 2007). In spite of this, Alfa Laval's sales of commodity CHEs in China are not nearly as successful as they are globally. Alfa Laval has like most other Scandinavian industrial engineering companies a long history of serving premium customers with premium products of high quality. The situation in China today is evidently not fitted for Alfa Laval's current business model. The by far largest, volume wise, market for CHEs in China is the middle market. This is often referred to as the *good-enough* market and Alfa Laval's

perception is that it is increasing at the expense of both the premium and low-end CHE markets. It is suggested that Alfa Laval should enter the good-enough market. The options are basically to either develop good-enough products themselves or acquire an existing Chinese good-enough competitor, or to do both; yet still keep their strong presence on the premium market (Saleh, 2008). However, the core question remains – how should this be managed?

1.4 Problem discussion

For Alfa Laval and many other Scandinavian industrial engineering companies, the Chinese market is representing more and more shares in overall turnovers. The Chinese market is considered a crucial market to be successful in. Alfa Laval is a perfect company to illustrate the problem. The company enjoys a premium brand and operates in a relatively stable premium market. It has had many years of reasonable market share growth in China but not as fast as the market. If Alfa Laval chooses to enter the good-enough market, it will be an issue of a first time venture into a completely new quality-segment in a single but dominant market. Much of the internationalisation theories deal with establishments in completely new geographical markets, the case of Alfa Laval is about a further establishment into a new segment in an existing foreign market.

The thesis authors have noticed that many internationalisation theories are dominated with quite simplistic approaches. We have studied three other internationalisation theories: the eclectic paradigm (Dunning, 1988), the business strategy approach (Turnball & Paliwoda, 1986) and born globals (Knight & Cavusgil, 1996; Oviatt & McDougall, 2005).

The eclectic paradigm and transaction cost analysis are more focused on the mechanisms behind the international entry modes of production rather than international establishment in general. The focus is on comparing the costs of control with the costs of vertical integration. The conclusion is that the pattern of international production relies on three sets of advantages in the multinational company: the competitive advantage, market internationalisation advantage and location specific advantages (Dunning, 1988).

The idea behind the business strategy approach is quite pragmatic and represents a holistic and ad-hoc view of a variety of different findings on internationalisation. A MNC must always make trade-offs when deciding the methods of internationalisation. The basic assumptions are that a foreign expansion is a way to reduce the risk associated with only having a single market and that is a result of choosing amongst many available expansion strategies (Turnball & Paliwoda, 1986).

Born globals is a more recent theoretical addition. The theory states that new companies today are international right from their birth. These companies do not take incremental steps for exports but are export focused right from the start (Knight & Cavusgil, 1996). The global market is the domestic market (Oviatt & McDougall,

2005). However, the theory tends to focus on new start-ups, often in high-tech industries.

We see that the focus is often simplistic; it is on costs (the eclectic paradigm), on competition leverages (born globals) or just simply saying that it is all about trade-offs (the business strategy approach). Few of these theories actually try to combine these different factors with each other. The Uppsala internationalisation model is perhaps one of few theories that do so. This model assumes the internationalisation process as a series of small incremental steps in which each decision is based on gained experience and the need of reducing uncertainty. Though many researchers (Reid, 1983; Anderson & Gatignon, 1986; Morgan & Katsikeas, 1997) have been interested in the Uppsala model, few attempts have been made to develop the model. People have preferred to create completely new theories instead of continuing to do what the original authors Jan Johanson and Jan-Erik Vahlne did – to mix existing theories in different disciplines. The authors off this thesis would like to combine and try the model on a Chinese context and mixing it with ideas of market segmentation and expansions in an international market.

If Alfa Laval chooses to go through with entering the good-enough market, Alfa Laval faces various options that need to be cautiously analysed. We have found that much of traditional marketing literature and theory discusses moving up towards premium segments and not downwards. With the issue of China and other developing countries' good-enough markets, the thesis authors identify the need of studying this reverse behaviour.

The ambition with this thesis is to create a simple and comprehensive overview on the industrial behaviour concerning Scandinavian engineering industries in the Chinese good-enough market.

- Do the companies consider the good-enough market a threat or an opportunity?
- Are there any apparent trends when it comes to acting upon this segment?
- What presumptions are related with which actions?

1.5 Purpose

The purpose with this thesis is to examine how Scandinavian engineering industries producing premium products for premium customers, enter local middle markets in China. By doing this, the thesis authors intend to study if the Uppsala internationalisation model can be combined with market segmentation theories to explain the establishment behaviour and verify the applicability of this theoretical merger for Scandinavian MNCs in the Chinese good-enough market.

Additionally, the results of this thesis shall be of benefit for all the participating companies in the benchmarking study, for Alfa Laval in particular, when manoeuvring in the shifting market of China.

1.6 Delimitations

The data collection is gathered through a benchmarking study and only covers the cases of the participating companies. This limits the results, and the conclusions are hereby based upon these cases and cannot represent an explicit reality. There may be other cases of high interest that could have had an impact on the study that unfortunately have not been considered.

This study only covers B2B[2] industrial engineering companies; hence the outcome may not be as applicable to other industries.

1.7 Target group

This thesis is principally written for the academia and for Alfa Laval. Additionally, every participating stakeholder is considered as secondary target group. Since the subject is of such a newsworthy kind, anyone doing business in China or with just interest in the Chinese market is recommended by the authors to take part of this thesis.

[2] B2B (business to business) – activities that occur between businesses and other businesses rather than between businesses and consumers.

2 Methodology

2.1 Sequence of work

The work of this master thesis has stretched over 20 weeks and has generally consisted of phases representing chapters of the final report.

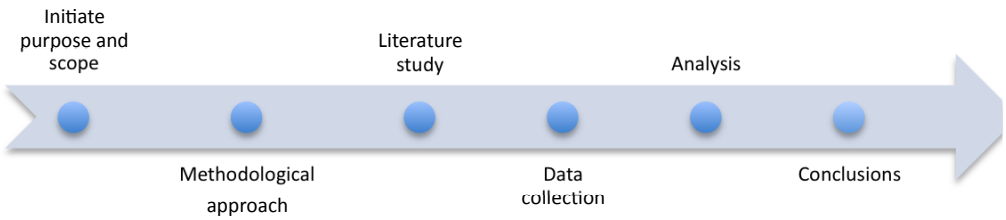

Figure 1: Sequence of work.

Initiate purpose and scope
This master thesis has been written in collaboration with Alfa Laval, Lund. It is the outcome based on Alfa Laval's current needs concerning their present situation regarding commodity CHEs on the Chinese market. Consequently, the first issue that needed to be taken care of was to integrate Alfa Laval's demands with the academic requirements. Therefore, the authors conducted brief interviews with the different functions within Alfa Laval that had an interest in the thesis. Along discussions with the university supervisors, the purpose and scope of the master thesis was initiated.

Methodological approach
The methodology used for the thesis was decided to fit the purpose and scope. The activities needed for the thesis was determined. The methodology was modified when the literature and empirical studies was completed in order to correspond to the actual methods used.

Literature study
The literature study started using Lund University networks ELIN and LOVISA after brief discussions with the university supervisors. The theoretical framework was formed after finding multiple books and/or articles on the topics, preferably from various authors in order to add supplementary perspectives. Furthermore, reports and articles originating from consultancy firms McKinsey & Company, Bain & Company, Booz Allen Hamilton, PricewaterhouseCoopers, and Swedish Trade Council where added as additional secondary sources of empirical data.

Data collection
Internal interviews
In the beginning interviews were held with representatives from different functions and business areas at Alfa Laval headquarters in Lund. These added to the generating

of the thesis purpose as well as an empirical base when reflecting over the market situation.

During one month, the authors worked from Alfa Laval's office in Shanghai, China, conducting both internal and external research. In order to well understand the local demands and processes, interviews were held with key employees in HR, marketing, sales, production, R&D, and finance.

Benchmarking study
The benchmarking study in this thesis focused on nine Scandinavian multinational industrial engineering companies, including Alfa Laval. Not one is in direct competition with Alfa Laval but they all face and/or have faced similar challenges. These interviews were conducted with company representatives from both corporate headquarters and China.

Other sources
The authors arranged a workshop with three local Chinese professors. Interviews were also held with the Swedish Trade Council and the Swedish General Consulate. Additionally, a discussion was held with Jan-Erik Vahlne, Professor of International Business at the School of Business, Economics and Law at Gothenburg University.

Analysis
The authors' theoretical framework was compared with the empirical findings during the analysis. In the end, the Uppsala internationalisation model was merged with good-enough market theory.

Conclusions
The final commission of the research was to summarize the analysis and findings. The key findings of the research is presented and emphasised in the final chapter of this thesis.

2.2 Methodological approach

Research can be discussed as a method to increase the accumulated amount of knowledge through the collaboration and fit between a pyramid's three nodes: *paradigm*, *methodology*, and *problem* (see Figure 2). A researcher's hypotheses and assumptions concerning reality and knowledge develop into paradigms while methodology relates to the available methods and techniques when obtaining the higher knowledge. The problem concerns the research issue of focus (Nilsson, 1994). The thesis authors used a deductive method and positivistic assumptions when solving the problem of this thesis.

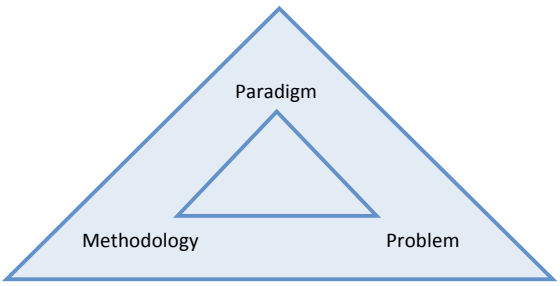

Figure 2: Three nodes of research. Source: Nilsson, 1994

2.2.1 Deductive method

Research can be conducted through various ways, typically related to either the empirical or the theoretical world. During this research, a deductive method has been used, which means developing theory from theory. The theories have been tested in contrast to the empirical findings of the benchmarking study in order to verify their applicability and to examine the validity, which is known as empirical research (Nilsson, 1994). The last undertaking was to combine the theories and to verify this theoretical merger.

2.2.2 Positivistic paradigm

The definitions of the types of paradigms differ between authors. E.g. Morgan (1980) distinguishes four types of paradigms: *functionalist*, *interpretive*, *radical-humanist*, and *radical-structuralist* while Gephart (1999) discusses three types: *positivism*, *interpretism*, and *critical theory/postmodernism*. Additionally, Nilsson (1994) discusses and defines the *analytical*, *systems theoretical*, and *interpretive* paradigms.

Gephart's (1999) positivistic paradigm has been the main foundation for the thesis authors' working perspective during the research process, although other authors' paradigms with the same denotation can be recognized. The key focus during the study has been to distinguish the circumstances when the benchmarking companies have acted. To verify hypotheses and the theory merger's applicability is also a method according to positivism. Trying to recognize an industrial pattern of the benchmarking companies is practically comparable to finding an objective reality as in the case of positivism as well as in both Morgan's (1980) functionalist paradigm and in Nilsson's (1994) systems theoretical paradigm. The systems theoretical paradigm focuses on the relation between entities. One can model systems and situations from a structural perspective, focusing on situations at given points of time in order to clarify the current states (Nilsson, 1994). This research has focused on decisions and events on strategic levels at each company. The functionalist paradigm assumes ordered and regulated state of affairs while it focuses on understanding the situation in a manner that can generate useful empirical data (Morgan, 1980). This means that among the benchmarking companies, each event and actions taken can be compared and analysed since practically the same situations, or functions, have been studied from the same perspectives.

To sum up, although the systems theoretical and functionalist paradigms could be used to describe the approach, the overall applied paradigm has been the positivistic. This given the fact that positivism assumes that situations can be portrayed by knowledge or theories and since its key focus is to find related aspects and variables that generate the actions of organisations (Gephart, 1999), very similar to this benchmarking study. Additionally, positivism uses different approaches or interview objects when doing qualitative studies (Gephart, 1999), which the thesis authors accomplished by aiming to interview representatives from different functions at the companies.

2.3 Empirical data collection

The major gathering of empirical data has been conducted according to a benchmarking methodology. These have inevitably had a subjective perspective from each interviewee. The Swedish General Consulate and the Swedish Trade Council was contacted in order to understand the historical establishment of Swedish companies in China and also to get their view and opinions on the situation. These sources was approached because of their long presence in China and for the reason of their Scandinavian origin, hence hopefully the same business mentality as of the benchmarked companies.

A workshop was held with local Chinese professors representing the fields of International Business & Management and Management of Organizations. During the workshop, the issues of the thesis problem discussion were discussed. The objective was to get local experts' points of view to the situation and what the possibilities and opportunities are according to them.

Additionally, a discussion with Jan-Erik Vahlne was held. He is a Professor of International Business at the School of Business, Economics and Law at Gothenburg University, and is one of the original authors of the Uppsala model. The reason was to get his view of the thesis authors' theoretical framework and to add further insights and perspectives to the research.

2.3.1 Benchmarking study

According to Karlöf (1997) a benchmarking study is a tool with several benefits when applying to both strategically and operational issues, with strategy clarified as actions done in order to generate future prosperity. In order to compare strategies and presumably distinguish an industrial behaviour, the choice of benchmarking against similar companies was therefore made. The objective was to study under which circumstances the chosen strategy was decided, and important milestones and key issues during the actual implementation. There was an option to only study one case company but this was discarded since the relevance of such a research would not be as significant as benchmark against several companies.

Camp (1993) distinguishes four types of benchmarks: *internal, competitive, functional* and *generic*. The benchmarking conducted by the authors is functional.

This is done on companies not solely with direct competing products. The potential is considered vast when studying other industries that still have similar functions, for example when studying time-to-market, R&D efficiency, human resources issues, logistics, and/or as in this case, how to act upon the changing mid-range market in China.

There are several advantages with functional benchmarking such as it is easier to create interest for the investigation at the benchmarking companies. The issue with information confidentiality becomes less of a problem if the companies are not competitors, and the other companies are often interested in the result if they are also facing the same concerns. A functional benchmarking is supposed to often have a more objective approach. This has been supported in cases with lack of specific product involvement; where the acceptance level of the result has been higher (Camp, 1989). The thesis authors did not have any experience from any of the studied industries. A final version of the thesis will be distributed to every participating company and other stakeholders as a noble gesture of gratitude.

2.3.1.1 Benchmarking wheel

The thesis authors have chosen the *benchmarking wheel* method of conducting the benchmarking study (see Figure 3). The purpose of this model is to present a process of five steps when conducting a benchmarking study. It is a general process that is relevant independent on the study's outcome, whether it fulfils the hypothesis or not (Andersen & Moen, 1999).

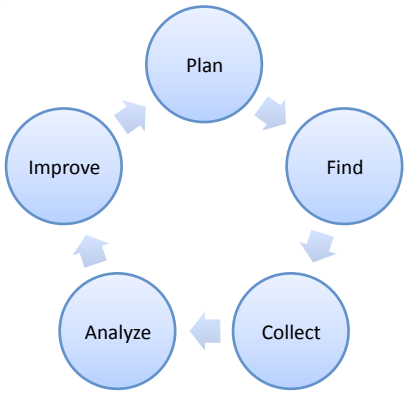

Figure 3: Benchmarking wheel. Source: Andersen & Moen, 1999

Plan

The benchmarking team consisted of only the two thesis authors. In this first phase, the thesis authors decided what the benchmarking's focus should be and what should be prioritised. The thesis authors studied secondary data and consulted internal Alfa Laval stakeholders in order to set the focus. The chosen focus was divided into five parts that also formed the agenda for the interviews (see Appendix - Agenda, page 77). Priority was on each company's interpretation of the market today and their reasoning concerning their China-strategies.

Find
Eisenhardt (1989) claims that although there are not an ideal amount of cases to study when benchmarking, a number between four and ten typically works well. More cases usually add too much complexity to the research. The thesis authors chose to be in the higher range in order to increase the likelihood of finding case organisations that has reached an as mature phase in their China establishment as possible and hopefully that are also targeting the good-enough market. Certain criterions for the benchmarking companies were set before choosing them. The following were set:

- *Engineering industries* – A benchmarking study with other CHE manufacturers would not be possible. Therefore, the criteria were expanded to industrial engineering companies.
- *B2B* – All companies need to deal with deal with industrial procurement and B2B activities, thus not sell its products to the end customer.
- *Long product lifecycles* – In order to benchmark companies with similar functions and processes as Alfa Laval, the development of products with long product lifecycles were set. This meaning that a company can sell a specific technology for a long period of time.
- *Scandinavian origin* – Organisational cultures vary between countries (Hofstede, 2005), which make it important to compare similar leadership styles when studying control systems and methods. Having organisations originating from Scandinavia is therefore crucial for the benchmarking companies.
- *Multinational* – Being a global company with activities in a vast number of countries adds similarity to the benchmarking companies.
- *Chinese R&D* – That the company has some kind of R&D function in China. The selected companies all have at least a group of engineers working with local adaptation of its products.

Apart from Alfa Laval, among the identified companies that met the criterions, the following were approached and accepted their involvement in the study; ABB Robotics, ASSA ABLOY, Danfoss, Dynapac, Höganäs, Sandvik, SKF, and Tetra Pak.

Collect
Based upon the agenda, a list of interview questions were created and interviews were carried out. See chapter 2.3.1.2 Benchmarking interviews, for an in-depth clarification of the interviews that represent the majority of the collected data.

Analyse
Every interview object has read the empirical data that the analysis is based on in order to confirm its reliability. In order to perform a proper analysis, the collected data was structured in four issues so that the different companies could be compared and eventual gaps between them could be studied further. Each company's data is divided and presented according to each issue. First, a summary of each company's business and its historical establishment in China is presented. Secondly, each

company's situation and perception of the Chinese market is presented. Thirdly, each company's R&D activities in China are presented. Finally, other interesting issues that have been noted along the research are presented. The analysis was structured to examine the Uppsala internationalisation model's applicability, the companies' attitudes toward the good-enough market and how this is related.

Improve
The final phase of the benchmarking aims to carry out appropriate changes based on the study's input. This part is excluded in our case since the thesis authors does not represent an organisation for such intention.

2.3.1.2 Benchmarking interviews

The interviews for the benchmarking study followed a semi-structured approach, which is a combination of structured approach; which has strict interview manuals and in advance the knowledge of possible answers, and unstructured approach; which are of a general kind and the interviewer only offers the topic as a guideline. The semi-structured approach has the option of being structured but the order of the questions can vary, and the depth of possible answers is not known in the beginning (Bryman & Bell, 2005). It could be described as flexible interviews with structure.

All interviewees were prior to the interview sent an agenda (see Appendix - Agenda, page 77) in order to be properly prepared. The benchmarking focus was divided into five parts that also formed this agenda:

1. Historical establishment in China
2. Strategic reasons
3. The Chinese market today and current R&D activities
4. Pre-studies and lessons learned
5. HR-management in China (this focus is especially for the thesis submitter, Alfa Laval, and is not dealt with in this master thesis)

During the interviews, the authors used a list of questions as a guideline (see Appendix - Questionnaire, page 78). These questions were however not strictly followed; the chosen questions were dependent of each situation and the interviewee's area of expertise. The thesis authors set the questions in order to suit the focus of the benchmarking and they were chosen in collaboration with the supervisors at Lund University as well as with the Alfa Laval supervisor.

The respondents at each benchmarking company were chosen in collaboration with each company dependent on their availability. The authors' strive was to interview people who had been part during the decision-making process concerning chosen China-strategies as well as people actively working towards or in the Chinese market today. This resulted in various representing positions; i.e. global President, local President, global R&D Manager, local R&D Manager, Production Manager, Integration Manager, Sales Manager, and HR Manager. The number of interviews with each company was not decided beforehand since the authors wanted to be

flexible if an interesting opportunity or aspect arose and a company was willing to agree on further interviews.

Whenever possible, the interviews were held face-to-face but a couple of interviews had to be carried out over telephone. Every interview except one was held by both the authors in order to add reliability to the interview reproduction. Directly after every interview, each author wrote a summary. The two summaries were later combined to one document after a dialogue between the thesis authors.

2.3.2 Secondary data

A majority of the empirical studies were performed through the benchmarking study and little was collected as secondary data. However, in order to broaden the perspectives, secondary sources of data were used. The thesis authors were interested in how published literature experienced the situation, which parts of the theoretical framework that were supported. Several China-related articles and reports were read. The university library networks ELIN and LOVISA were used to find some of these articles. Used key-words when finding relevant articles were for example, China, developing markets, emerging countries, M&A, growth strategy, good-enough, and middle market.

With many companies facing similar issues as Alfa Laval, the Chinese market is a hot topic and several consultancy firms have helped other MNCs in China. Some of these have published reports and articles that the thesis authors also examined. Since most of this data do not have any references and its validity may thereby be questioned, the thesis authors studied these with cautiousness. The reports and articles originated from McKinsey & Co, Bain & Co, Booz Allen Hamilton, PricewaterhouseCoopers, and Swedish Trade Council.

2.4 Methodological reflections

The option of comparing and benchmarking against nine companies was made under the presumptions of that not all companies would be as eager to participate fully and not all cases would be as relevant and/or interesting as others. However, the thesis authors were aware that having nine participating companies could generate so much data that it could become difficult to deal with. It could result in having companies within very different industries; hence the result could become less significant. Having many benchmarking companies was practically a tool within the Find-phase in Andersen & Moen's (1999) Benchmarking wheel. It was a tool in the sense that the thesis authors managed to find companies among other companies that were more interesting for the thesis as well as were more eager to participate in the study, hence the different amount of data concerning the different companies.

In regards that the companies are not dealing with the same businesses, the benchmarking study's kind was chosen according the purpose of studying functional activities such as further establishment on a market and R&D activities, and not how to best manufacture the frames for a CHE. Furthermore, it would have been very

difficult to have Alfa Laval's competitors such as GEA and APV to participate in a relevant manner in this benchmarking study. With companies not directly competing with each other, and some that are part of the same value chain as others, the thesis authors believe that the studied companies have supplied them with relevant answers. Nevertheless, most of these companies are facing the same issues and are therefore interested in the study's outcome.

The reproduced empirical data could be criticised of lack of reliability since they have not been recorded. The thesis authors chose to not record the interviews because of the great amount of interviews that were going to be conducted. To listen to around 40 interviews a second time and then reproduce them literally was considered to take to much time. In spite of everything, the thesis authors only had 20 weeks at their disposal. This issue has also been tackled by the fact that all the participating companies have read through the empirical findings and have given their consent regarding its contents. The around 40 interviews are nevertheless seen by the thesis authors as a factor that adds reliability through its vast amount of perspectives that actually have affected the research.

3 Theoretical framework

There is a great fascination with multinational companies. They are viewed as huge power machines with infinite capacity. But a lot of these multinational companies started out small and more importantly started their internationalisation process with incremental steps. The internationalisation process is a phrase that is used extensively in the literature but rarely clearly defined. The definition of internationalisation for this thesis is "*The process of increasing involvement in international operations*" (Morgan & Katsikeas, 1997). This means that the thesis authors are not only regarding the internationalisation process as an outward/foreign expansion of a company's operations, but rather as an extension of a company's international activities.

3.1 Uppsala internationalisation model – the Uppsala school

The Uppsala internationalisation model tries to find a common structure that is primarily based on knowledge. The model was first developed in the 1970s by empirical studies of the behaviour of Swedish companies when establishing themselves in foreign countries. It showed that companies develop investments with increased knowledge and experience of the new market. They found two particular interesting aspects (Johanson & Vahlne, 1990). One was the correlation between the order of a foreign expansion and the psychic distance. The second was the establishment chain.

Physic distance is defined by the authors as the total sum of factors that are obstructing information flow to or from the certain market. Factors can be social, like language problems, difference in education systems and culture differences or they can be structural like difference in business practices, laws and regulations and the level of industrial development. Thus the company will start internationalisation in countries with low psychic distance because these markets are more easily understandable hence reducing the perceived risks of an investment (Johanson & Vahlne, 1977).

3.1.1 Establishment chain

Based on previous empirical studies (Forsgren & Kinch, 1970; Hörnell, Vahlne & Wiedersheim-Paul, 1975; Johanson & Wiedersheim-Paul, 1975; Johanson, 1996), the authors could also conclude holistic pattern. Almost all foreign subsidiaries to the studied Swedish industries – pharmaceutical, engineering, pulp and paper and steel, have been established following a distinct "Establish Chain" (Johanson & Vahlne, 1977):

1. The firm have no or sporadic exports to the market.
2. An agreement with an established agent is formed after some time to serve new customers.

3. After a few years with increasing sales, the company establishes wholly owned sales subsidiary or acquires a former agent.
4. The subsidiaries get more involved with incremental implementation of production, by starting with the simplest products and over time adding more complicated ranges.

Almost all the sales subsidiaries started through the acquisition of a former agent or through a person formerly employed by a former agent. With the acquisition, a sales organisation was formed and is generally followed by a production unit if the market proved large enough (Johanson & Vahlne, 1977). The companies can stray from the set path of establishments by not doing things in the suggested order. But that usually only happens when experiential and extensive market knowledge existed within the organisation (Johanson & Wiedersheim-Paul, 1975). In later works, the authors expressly comments that the speed or order of the establishment chain can vary with company internal factors (Johanson & Vahlne, 1990). According to Vahlne, people learn and make decisions in fashions similar to those many years back (Vahlne, 2008).

In order to explain the clear pattern of the establishment chain, the authors, Jan Johanson and Jan-Erik Vahlne, made some basic assumptions when setting out to create the model. Firstly, companies tend to first develop in the domestic market, both geographically and market wise. Then it is assumed that the most important impediments for expansion abroad are lack of knowledge and resources. Thirdly, the firm is assumed to have long-term profit as their main goal, which is interpreted by the authors as long-term growth. In order to fulfil the goal it is assumed to have a strive to reduce risk taking within in the organisation that pervades the decision-making at all levels. The last assumption is that any internationalisation process is the result of a series of independent incremental steps and not the result of an optimal strategy. The last assumption is an important part of the model. It actually states two fundamental building blocks of the model. First, that the decision of internationalisation is not relevant to the process model. Secondly, that the process most likely starts in a country with a similar culture or business practice. Here lies the core question of the model, the balance between market force and the knowledge available within the company (Johanson & Vahlne, 1977).

3.1.2 The four mechanisms for the internationalisation process

Johanson & Vahlne identified four main mechanisms for the internationalisation process. Two of them concern the present state of internationalisation: market commitment and market knowledge. The other two deals with the change aspect of the process; current business activities and commitment decisions – see Figure 4. The model is dynamic which means the output of one cycle is the input on the next cycle.

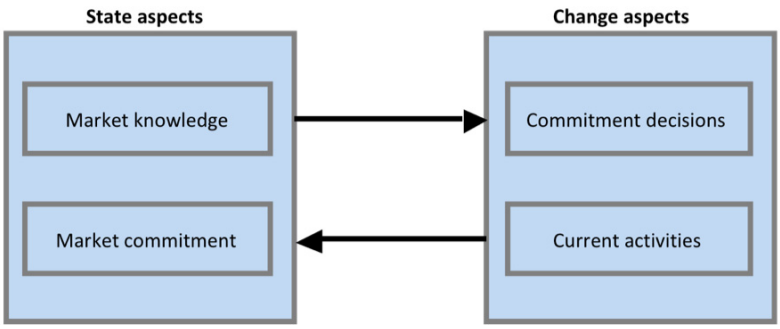

Figure 4: The basic mechanism of internationalisation. Source: Johanson & Vahlne, 1977

The concept of market commitment contains both the amount of resources committed to the market and how committed those resources are to that specific market. Resources deployed at a certain market are usually quite easy to grasp. It is generally the size of the total investments in the particular market. The investments could be within marketing, organisation, personnel and so on. But the real issue lies in the degree of commitment of those resources. A resource is considered deeply committed if it is market specific, integrated with other parts of the firm or integrated vertically with the market. Marketing resources are a good example of that. A resource that is on paper easily transferable to other markets can in reality be deeply committed to a specific market because of efficiency issues. For example a production unit located in a market can in theory be a kind of resource transferable to other market by producing units with other market requirements, but only after investing a substantial amount of money to rebuild the production lines and retraining of personnel. There are a risk of that the production unit will not be cost efficient in that new market (Johanson & Vahlne, 1977).

Market knowledge is perhaps the most crucial element in the Uppsala model because this affects so many other mechanisms. The authors use the Penrose definition of knowledge. There are two types of knowledge- one that can be taught and transferred between people are called objective knowledge, the other one can only be learned through personal experience and cannot be transmitted to others are called experiential knowledge (Penrose, 1959). Since experiential market knowledge is harder to acquire than objective, it has to be gained successively through having continuous operations in a market. The importance is increased when the activities are less structured and knowledge intensive, such as in marketing activities. The experiential knowledge provides the basic framework in which identified opportunities are acted upon; it is the logics behind the decisions. Johanson & Vahlne (1977) also distinguishes between general knowledge and market specific knowledge. General knowledge is common best practices, customer traits or production methods that hold true regardless of your current geographical position. The market specific knowledge concerns the national or regional market only. It is the differences in business culture, customer characteristics or the traits and wishes of the local personnel. The market specific knowledge need to have operation in a foreign market is mostly gained through experience and cannot be transferred between countries. Market knowledge is a resource, sometimes more specifically viewed as a human

resource. When market knowledge increases so will its value as a resource, hence increasing the commitment to that market.

The third concept of current activities is a great resource driver, because it will always be some sort of time lag between a performed activity and the results of that activity. That time binds the resource to a certain market and becomes a commitment. Current activities are the prime source of experiential knowledge in a market. The authors distinguish between the firm experience that can only be gained trough working within the organisation and market experience that the firm can be gained by hiring experienced personnel. This is one of the reasons of why internationalisation processes generally are slow in progress, the necessary market experience may not be available for hiring or the newly hired personnel need to be slowly integrated into the organisation. A long learning process is only obtained through the current activities (Johanson & Vahlne, 1977).

The last mechanism is that about deciding to commit resources to international operations. It is assumed that decisions are made as a response to raised problems or opportunities on a market. The perception of threats or opportunities is, as already mentioned, dependent on the experiential knowledge available on the firm and on the market – hence these situations are usually discovered by those who are responsible for operations on the market. Then it is reasonable to assume that whatever solution or response will be related to the current activities performed in that market and usually related to some sort of extension of market commitment (Johanson & Vahlne, 1977).

Johanson & Vahlne (1977) mean that scale-increasing decisions will only be taken when current market risks are lower than the maximum tolerable market risks for the company. The maximum tolerable market risk depends on the company's strategy when it comes to risk taking and the amount of resources available within the organisation. The current market risk depends on the current degree of market commitment for the company and the amount of market uncertainty the organisation feels. The uncertainty can have external reasons like an unstable market, new competitors or rapidly changing political situations, or be an internal uncertainty because of the lack of market experience. The conclusion drawn by the authors is that scale increasing decisions which is risk increasing decisions, will only be made if the company already possesses a large amount of local resources and there is little uncertainty about the market or if it is a fast expanding market. The conclusion is that all commitment decisions are small and incremental unless the company has very large resource and/or the market is considered very stable or extensive market experience from other similar markets. Market growth is only acting as catalyst; it will speed of the process but is never the main factor behind a commitment decision (Johanson & Vahlne, 1977).

3.2 The industrial network approach

Both the previous mentioned theories of internationalisation process, the Uppsala model and the Eclectic paradigm, regards the company as an independent entity.

Individuals within the organisation with regards to the accessible market information make all decisions. The industrial network approach however focuses on the industrial systems that exist around the company. An industrial system is a network of companies that together produce, distributes, and uses goods or services. Between each other they have long and lasting relationships that are sometimes important competitive advantages (Johanson & Mattsson, 1988). The internationalisation process is in this theory described as an interaction process between the company and its suppliers and customers. How the interaction turns out depends on four variables. 1) How does the interaction process look like? 2) What are the characteristics of the relationship between the involved parties; are they suppliers and buyers or are they cooperating? 3) What is the current atmosphere of the interaction? 4) How is the general environment in which the interaction takes place? (Whitelock, 2002)

This means that the company need not only consider its own position relative to its customers and suppliers, but also take into account the environment in a new market for the other actors in its industrial network (Whitelock, 2002).

3.3 Comparing internationalisation theories

All two theories presented above represent a distinct field within internationalisation research. The common traits include a heavy dependence on reliable and up to date market information in order to make the decisions. The industrial network approach require a number of market factors that affects the mode of entry on the market, hence extensive information about those factors are crucial. The Uppsala industrialisation model regards market information, specially the kind that are based on experiential knowledge to be the crucial indicator of whether a market entry should be made and what kind of entry mode that should be selected (Whitelock, 2002).

In comparison with the network approach the Uppsala model focuses fundamentally on the firm and its actions. The Uppsala model has been criticised to pay little attention to the competition of the market since the model only has one explanatory variable – the firm knowledge (Andersen, 1993; Morgan & Katsikeas, 1997; Johanson & Vahlne, 2003). It may be argued that the emphasis on experiential knowledge must also include knowledge of other factors and competitors influencing the market. In later works Johanson and Vahlne has acknowledged the need for more external variables as input, especially the need of investigating the relationships with other bodies in a foreign market (Johanson & Vahlne, 2003). They mean that the business relationships in an industrial network are often subtle processes and can only be understood through interaction inside a network. Hence the network information is experience-based knowledge from current activities. So an industrial network approach can be combined with the Uppsala internationalisation model (Johanson & Vahlne, 1990). The Uppsala model has also been criticised for 1) not explaining why or how the internationalisation process starts, 2) that the definition of commitment is very vague and in some places overlaps the definition of knowledge as an intangible resource commitment and 3) that it lacks explanation of how knowledge affects commitment (Andersen, 2003).

The thesis authors have chosen to regard the Uppsala model as their main internationalisation process model. There are several both theoretical and practical advantages with the Uppsala model compared with the other theories.

- The model dates back over 30 years but is still relevant, which means it has survived the test of time. The model has a proven record of validity with many international studies and works confirming the internationalisation process and the establishment chain (Johanson & Vahlne, 1990).
- Our study is based on an empirical benchmarking study, just like the studies that formed the model. Johanson and Vahlne's empirical studies were mostly concentrated on Swedish manufacturing industries (Johanson & Wiedersheim-Paul, 1975), many of which are also present in our study.
- The model has been criticised for being too deterministic since it doesn't reflect the market conditions (Reid, 1983) and only applicable on the early stages of the internationalisation process, but for this thesis, it is regarded as an opportunity to develop the model.
- The Uppsala internationalisation model is the only internationalisation model that discusses the important of experience and the psychic distance, which the thesis authors believe is a very important factor when dealing with a country like China.
- The Uppsala model rests on behavioural theories (Johanson & Vahlne, 1990) rather than rational decisions based on perfect information. This thesis has the ambition of finding some sort of industry behaviour and assumes the lack of perfect information; the model fitted our purpose and delimitations better.
- Lastly and perhaps most importantly, the Uppsala model is a dynamic theory. It postulates changes of factors and views of internationalisation decisions over time. The thesis authors regard it a necessary presumption for today's globalised and fast changing markets and hi-tech industries.

3.4 The good-enough market

During the last three decades, protectionist barriers have been dissolved in many developing countries. Developing countries are becoming more and more exploited. While many Western corporations have stomped in and gained market shares and acquired local companies, some local companies have managed to retaliate. By offering products with a little less quality than MNCs offer and having superior market knowledge, local companies in developing countries are having the major part of the middle market. They have restructured their businesses, exploited new opportunities, and are today not only posing a threat but are in fact competing with Western MNCs. In China there are cases like Baosteel, Galanz, TCL, Lenovo and Huawei Technologies, which confirm that successful stories do exist (Khanna & Palepu, 2006; Gao, Woetzel & Wu, 2006; Tse, 2007).

3.4.1 Market segmentation

The changes that have occurred in developing countries over the years have shaped their markets differently from the markets that typical Western MNCs are used to.

Most developing markets consist of three or four layers and there are various definitions of these. The segmentation is often also applicable to the markets for talent and capital and represent about the same proportions. Khanna & Palepu (2006) distinguishes the *global*, *glocal*, *local*, and *bottom* markets. Another definition is the *premium*, *good-enough*, and *low-end* markets (Gadiesh, Leung & Vestring, 2007), see Figure 5.

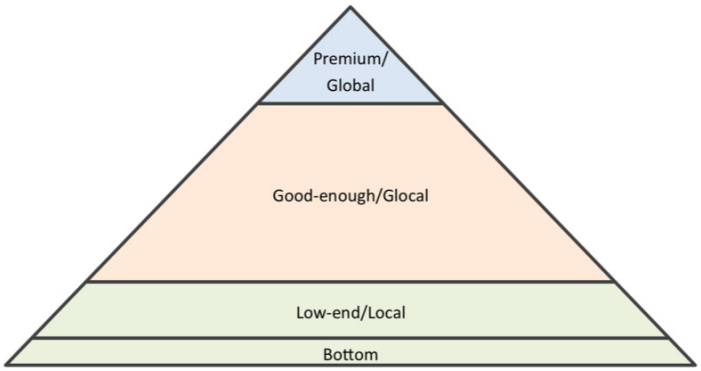

Figure 5: Segmentation pyramid: market segmentation in developing countries. Source: Gadiesh, Leung & Vestring, 2007; Khanna & Palepu, 2006

The global, or premium market as it will be referred to in the rest of the thesis, is where global customers seek products of global quality, with global features, and are prepared to pay global prices for them (Khanna & Palepu, 2006). In other words, the products are typical high-end products purchased by customers who recognises quality and has considerable purchasing power (Gadiesh, Leung & Vestring, 2007).

The market of focus in this thesis is the glocal or good-enough market, although the used term in this thesis is the good-enough market. This is a segment that demands products similar to premium quality, but with fewer features and at cheaper prices (Khanna & Palepu, 2006). They are produced locally and sold primarily to rapidly expanding local companies that request value for money (Gadiesh, Leung & Vestring, 2007).

The local, or low-end market as it will be referred to in the rest of this thesis; demands locally produced products of lower quality that basically meet the requirement of functionality (Gadiesh, Leung & Vestring, 2007) and with a price set accordingly. At the base of the pyramid we find what sometimes are called the bottom segment, which can and are in this thesis, included as a part of the low-end segment. This market is for the customers who can only afford to buy the most inexpensive products (Khanna & Palepu, 2006).

MNCs encounter several problems when venturing down from premium to good-enough markets. The common theme is however insufficiency - the lack of knowledge and insufficient infrastructure. Most companies lack market research concerning how to understand local customers, they are inexperienced with underdeveloped distribution networks and do not know how to deliver beyond the most developed areas. In the case of talent markets, MNCs most often do not have

enough knowledge concerning how to attract, motivate, and retain employees, which is often crucial for local success (Khanna & Palepu, 2006).

Many industries in China, both business to consumer and B2B ones, are experiencing a good-enough market that are nurturing on the expense of both the low-end and premium segments. In some industries it already accounts for half the market share. Expanding companies are trading up from low-end products and components while wealthy corporations start to accept locally produced alternatives that are less expensive but still possess reasonable quality (Gadiesh, Leung & Vestring, 2007).

China is in many industries considered an essential market for companies that want to succeed globally. China often plays an important role for companies when preparing to utilise opportunities and enhance their position in other developing countries. Local Chinese companies are consolidating and strengthening their positions at home before expanding globally. For some industries, the Chinese good-enough market will be the main battleground for the entire global market. The challenges of competing on this market are however several. The number of competitors is greater, price points are lower, business models are different, and there is the, almost unavoidable, conflict of cannibalising on your own premium products and harming your company brand (Gadiesh, Leung & Vestring, 2007).

3.4.2 Strategies of entering the good-enough market

There are two methods for MNCs to enter good-enough markets; from above through downgrading of existing products and services; and through M&A. Independently of the chosen method, the first task when entering the good-enough market is to recognize and evaluate its importance. One has to determine if it as a market with enough potential to enter, and that is necessary to do so. If so – the next question is when to enter. It depends on the trends within the premium segment; if it is still growing, if returns are still large, etc. MNCs considering entering the good-enough market have to do scrupulous market and competitor analyses, and thorough customer segmentation analyses. Top management need to point out critical success factors concerning everything from branding to pricing to distribution (Gadiesh, Leung & Vestring, 2007).

For MNCs experiencing stable premium markets, the good-enough market is not recommended. Probably the customers are still willing to pay more for reliability in spite of several low-cost alternatives. They should instead focus on lowering costs and further differentiate their products on the premium market. If their competitive position is weak or eroding it is suggested to also try to differentiate through innovation. However, if the premium market's growth is slow and returns are getting smaller, the good-enough market could be highly attractive. Figure 6: "Should you enter the middle market," presents the suggested actions whether entering or not based on the premium market's situation and on which competitive position a company has. It is proposed that even companies that because of their major position have chosen to not enter a lower segment should continually reconsider their

decisions to facilitate themselves against emerging competitors (Gadiesh, Leung & Vestring, 2007).

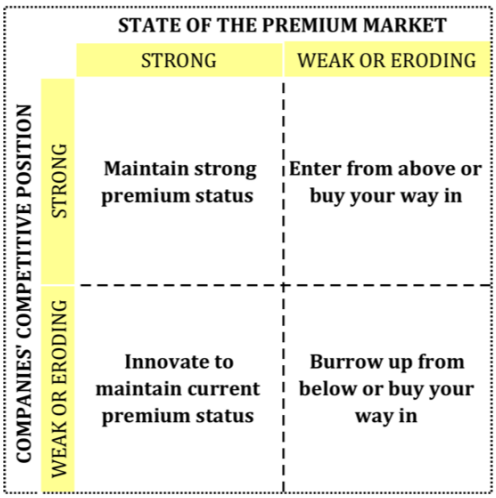

Figure 6: Should you enter the middle market. *The x-axis represents the state of the premium market in the country of focus. The y-axis represents the company's competitive position in this country.* Source: Gadiesh, Leung & Vestring, 2007

3.4.2.1 Entering from above

A major concern when entering the good-enough market should be the cannibalisation of existing products. It could have a negative effect on high margin premium sales, both through cannibalisation by also through harming the brand. If a traditional premium product producing company starts to produce lower quality products it can loose its reliability among existing premium customers. It is therefore important to understand the actual difference between the premium and good-enough markets. In some cases there can be a geographical factor that makes it possible to introduce good-enough products in areas were the premium segment does not exist, but still keep exploiting the premium market in another areas. Another aspect that needs to be taken into consideration is how the definitions of premium and good-enough will change, and how their segment frontier will adjust (Gadiesh, Leung & Vestring, 2007).

MNCs aiming to enter the good-enough market from above do this through lowering their manufacturing costs, develop and introduce simplified products and services with less features, and extending their existing distribution network. However, the product quality remains at a reasonable level. One important question remains though; if it is possible to benefit from lower procurement costs, larger manufacturing scale, distribution synergies. Then the issue of how to adapt the organisation for this change comes into focus. New needs and issues will arise such as designing new products and services, branding, and sales approach for attracting good-enough customers. All this without weakening the company's position and brand on the premium market. Proposed actions are to assemble teams whose only objective is to study the observed opportunity and its required dedication of resources. Additionally,

one should to close research on local competitors' cost structures in order to understand how they profit from their business while still being so inexpensive towards customers. Local material sourcing may just not be enough when trying to match local companies production costs (Gadiesh, Leung & Vestring, 2007).

3.4.2.2 Entering through mergers & acquisitions

If the option of lowering the costs is not manageable quickly enough there is the option of mergers and acquisitions. This option is for both companies with strong, eroding, and weak competitive positions. Ever since China entered the World Trade Organization in 2001 the number of mergers and acquisitions by foreign companies in China has increased greatly. The approval processes when foreign companies acquire Chinese companies have nevertheless become stricter – the regulatory and political approval for mergers and acquisitions has become a major obstacle. Due to increasing public concerns about foreign companies gaining more and more ground in China, several deals have been opposed at provincial or ministerial (Gadiesh, Leung & Vestring, 2007).

It might not be sufficient to draft an extensive business case; companies must be prepared to redraft cases during the acquisition process. It is proposed to include factors that are beneficial for local authorities and companies. One must be prepared to put a vast amount of time and resources in building sound relationships with key stakeholders. The deal's structure, terms, and conditions may have to be adjusted several times. Successful MNCs, in terms of completing Chinese acquisitions, tend to have first used a clear strategy when finding the right acquisition candidate and later have overinvested in the due diligence process (Gadiesh, Leung & Vestring, 2007).

The issue of potentially diminish the original brand has been avoided by some companies by keep on selling the original premium brand as premium brands and the acquired brand will continue to target the Chinese mass market. Gillette, Danone, L'Oréal, and Anheuser-Busch have acted this way. Through this approach, a company gains access to the good-enough market while preventing the acquired company from moving up segment wise towards the premium market. In spite of that these examples are consumer brands, it should be applicable to B2B companies as well according to Gadiesh, Leung & Vestring (2007).

Companies in low-end markets also have the option of entering good-enough markets through acquisitions and mergers. An example is the case of computer company Lenovo who via a joint venture entered and prospered in the good-enough market in the 2005 bought IBM's PC division and is now the third largest PC producer (Gadiesh, Leung & Vestring, 2007).

3.4.2.3 Burrow up from below

Companies in low-end markets are today moving up towards good-enough. The trend, from having hundreds of companies competing on the same market, is that low-end companies are consolidating and forming new corporations. With a growing customer base in the middle market that have become price sensitive, Chinese companies are now focusing on designing and launching products with somewhat lower quality than

premium ones but with higher margin than low-end products (Gadiesh, Leung & Vestring, 2007).

Local Chinese companies moving towards the good-enough market face different obstacles than MNCs that enters from above. They often lack an adequate amount of managerial talent necessary. When doing international businesses, this becomes more evident. More and more Chinese students are getting education and training that fits better with international corporations' managerial styles than current Chinese manner. The growth of China's economy outpaces the education of future managers which also points at this problematic issue. Furthermore, the smaller size Chinese industries and their lack of sufficient management tools often generate problems such as to establish strong brands and to compete with MNCs through innovation. The required infrastructure in sales and distribution, branding activities, and R&D are not familiar to local companies in terms of understanding how to correlate and integrate these activities with the segment-specific needs of the good-enough market (Gadiesh, Leung & Vestring, 2007).

Successful local companies that have arisen from low-end markets tend to have used three different strategies. The first is taking advantage of superior market knowledge and adapting to the special needs of local customers. Many companies have tailored their products to local customers and have developed a product for every identified need. Investing in not only urban areas but also in semi-urban and rural areas along with investment in after-sales services and distribution have been new approaches made by Chinese companies. Having their home experience as a foundation, some companies have also exploited the resemblance between the home market and other developing markets abroad. In order words, successful Chinese companies have often at first avoided confrontation with MNCs and instead focused on finding niche opportunities to capitalise from before entering the true global battle (Khanna & Palepu, 2006).

Another group of companies have exploited their knowledge concerning the factors of local production and logistics and have thereby gained competitive advantage. Many MNCs find it difficult to find local talent with the sought skills and expertise – the talent pool is wide and the quality of applicants varies wildly because of the differences between local educational institutions. A local company knows better how to find and attract talent from semi-urban and rural areas than a MNC does. The experience of already working with poor infrastructural presumptions is another advantage local companies have (Khanna & Palepu, 2006).

The third strategy concerns how local private sector businesses can take advantage of institutional voids. Some industries and institutions can only be set up by the government, although companies can act as intermediaries in product and factor markets. These intermediaries specially suits local companies since they are often manpower intensive and therefore require acquaintance with the language and culture, they are characterised by a vast amount of information that requires local expertise in order to analyse, and some institutions such as banks and media are of such kind that

the government do not want to drop control to foreign companies (Khanna & Palepu, 2006).

3.5 Theoretical framework of the study

For this thesis, the theoretical framework is based on the combination of the Uppsala internationalisation model and the theory of good-enough markets in emerging countries. This thesis looks at establishments in good-enough markets as new establishments into a new market, at least for the benchmarking companies.

The participating benchmarking companies are all quality focused and in the more mature markets, considered premium industrial brands. Entering a more price sensitive and competitor intensive market is, according to the thesis authors and Jan-Erik Vahlne (2008), a step into a foreign market. The Uppsala model must be valid for further establishments in a foreign market since it is a dynamic model, subject to changes in circumstances and the amount of the knowledge. We regard it as a commitment development model within given risk constrains.

The thesis authors are using the Uppsala model in its latest incarnation, the version that takes into account the relationships within industrial networks. The model's basic assumptions are that all companies have uncertainties and bounded rationality when deciding about foreign or new establishments. The main factor that prevents new establishments is the psychic distance, which hinders information to flow from the market to the company. The psychic distance can be overcome with gradual commitment of resources as to gain knowledge about that certain market, which is time consuming.

The knowledge needed for establishments is of both general character and of market specific character. The market specific knowledge develops from experience through the current activities and commitment decisions of the firm on that market. Here the assumption is that the acquired experiential knowledge makes it possible to develop foreign operations still more. We argue that market specific knowledge can be obtained through acquisition of companies with that experiential knowledge or by imitation as well.

The thesis authors would like to avoid any discussions about knowledge and whether it is an intangible resource or not. Discussions with professor Vahlne has concluded in a generous definition of knowledge (Vahlne, 2008) and for this thesis, the concept of knowledge is both a resource that can be committed as well as a tool of perceiving opportunities on the market.

Even though the theory about good-enough markets in emerging countries is not based on academic studies, the number of researched companies behind the articles is extensive. Alone, this may be considered qualified trends in emerging markets, but we believe that when integrated with the Uppsala model, it can be explanatory for the actions made by MNCs.

The issue of venturing towards a good-enough market is a case of business development, the same way internationalisation is. The processes and basic prerequisites are the same; experiential learning, commitments and trust building with partners. Hence the good-enough market theory needs the Uppsala model for process view and the Uppsala model develops with a theory concerning new business opportunities.

4 Empirical findings

The thesis authors have chosen to present the empirical data divided in four major issues. First, a brief introduction of the participating benchmarking companies including a short business presentation and their historical Chinese establishment. Secondly, the focus has been on the Chinese market today and tomorrow, and each company's situation and market perception. Thirdly, the R&D activities in China are presented for each of the benchmarking companies. Finally, other interesting issues according to the interviewed companies are highlighted.

4.1 Presentation of the benchmarking companies and their China establishment

Nine companies, including Alfa Laval, have been studied in this thesis. They all match the criteria mentioned in chapter 2.3.1.1 Benchmarking wheel.

4.1.1 ABB Robotics

The thesis authors interviewed ABB Robotics Global R&D Manager Charlotte B. Brogren who has worked within ABB since 1995.

The ABB Group is a leading company in power and automation technologies. It consists of five divisions: Power Products, Power Systems, Automation Products, Process Automation, and Robotics. ABB's vision is to help their customers to use electrical power efficiently, to increase industrial productivity and to lower environmental impact in a sustainable way (ABB Group Annual Report).

The thesis authors have only studied ABB's Robotics division, which is a leading supplier of industrial robots, modular manufacturing systems and service. ABB Robotics has installed over 160,000 robots worldwide. However, Robotics only accounts for 4% of the ABB Group's overall revenues in 2007, and 18% of the Robotics revenues originates from Asia. 11% of ABB Group's total revenues in 2007 were generated in China (ABB Group Annual Report 2007).

According to Robotics' Global R&D Manager Charlotte Brogren, ABB Group has been present in China for about 30 years but Robotics has only had their own sales activities in China for about ten years. Today they have both manufacturing, and since three years back, also R&D in China.

4.1.2 Alfa Laval

At Alfa Laval, the thesis authors interviewed several company representatives in both Lund and Shanghai within the functions of sales, marketing, production, procurement, R&D and finance.

Please see chapters 1.3 Presentation of Alfa Laval and 1.3.1 China establishment for a presentation of Alfa Laval and its China establishment.

4.1.3 ASSA ABLOY

The interviewee in ASSA ABLOY is Ulf Södergren. He has been with the company since the year 2000, first as head of operations and since 2007 as the CTO (Chief Technology Officer).

ASSA ABLOY is the global leader in door opening solutions. They focus on satisfying the end-users' requests for security, safety and convenience. Founded in 1994, ASSA ABLOY has grown from a regional company to an international group with 32,000 employees and sales over SEK 33 billion. With more than 150 subsidiaries in over 40 countries they have more than 10% of the global market, and offer a more complete range of door opening solutions than any other company (ASSA ABLOY Annual Report 2007).

ASSA ABLOY's overall focus is to lead the industry trend towards increasing security with the customers in the centre when developing products. Their strategy has been divided in three focus areas: 1) Market presence through exploiting the strength of their brand portfolio, increasing growth in their core business, and through expanding into new markets and segments. 2) Product leadership by continually developing new products that increases the customer benefits and lowers the costs through using more product platforms with fewer components. 3) Increasing cost-efficiency in all areas (ASSA ABLOY Annual Report 2007).

ASSA ABLOY's Asia Pacific division includes subsidiaries in Australia, New Zeeland, China, and the rest of Asia. The division has doubled its organic growth over the past year from 4% to 10%, had turnover of SEK 2,708 million, and employs over 5,000 people. The headquarters are located in Hong Kong (ASSA ABLOY Annual Report 2007).

In September 2000 ASSA ABLOY entered a joint venture with Williams PLC's lock division - Yale Intruder Security, who had operations in China. At this time, ASSA ABLOY served the Chinese market only through a sales office located in Singapore. In January 2001 ASSA ABLOY acquired the remaining 40% of Yale. The Chinese company Guli Security Products, which was a part of Yale, was now fully owned. Guli had two main objectives: 1) to serve the Chinese market, and 2) to act as a low-cost manufacturer for export markets (Södergren, 2008). In 2005 the company entered a new joint venture when acquiring 70% of Wang Li, specialised in high-security locks and doors for domestic use. The company is today exporting to North America, Europe and Southeast Asia. In late 2007 ASSA ABLOY acquired the Chinese high-security lock company Baodean, which further strengthened their market leading position in China. Today, all ASSA ABLOY's production facilities in China are producing for the local Chinese market. The ASSA ABLOY factory in Chaolan, Guli, has on top of this a very strong export. They have continued to invest in these facilities because of rising demands on the home market and in order to increase the

internal deliveries to Europe and North America. ASSA ABLOY's sales in China represent about 2.5% of the group's total sales (ASSA ABLOY Annual Report 2007).

4.1.4 Danfoss

The thesis authors interviewed five representatives within the Danfoss Group: CEO (Chief Executive Officer) Jørgen Clausen, Vice President Erhardt Jessen, Sales Manager Arthur Xu, Integration Officer & Administration Supervisor Christina Shen, and General Manager David Lu at Danfoss' Chinese subsidiary Holip. Both Erhardt Jessen and Christina Shen are working at both Danfoss as well as at Holip.

Founded in 1933, Danfoss is one of Denmark's largest industrial companies. Headquartered in Norborg in southern Denmark, it is still a privately owned company with about 21,300 employees, factories in 25 different countries and hundreds of distributors and sales companies in all six continents (Danfoss Annual Report 2007).

Danfoss develops and manufactures applications in the three core business areas, Motion Controls, Heating and Refrigeration & Air Conditioning. The company's vision is to be global leaders in those three areas and to be a highly respected company that creates value for all kinds of stakeholders. The overall strategy is to become, or maintain, number one or two market position in all strategic core business areas and markets. The strategy is going to be realised by purchasing companies, to create innovative products, venture into new businesses that can strengthen the core business in the long run and develop the Danfoss brand (Danfoss Annual Report 2007).

In May 1994, Danfoss opened its first sales office in Hong Kong to market and sell Danfoss products in China. Later that year a representative office was established in Beijing, followed by another representative office in Shanghai the year after. The first factory started its operations in 1997 and by the year 2000, Danfoss put forward a new long-term strategy for the Chinese market – making it their "Second home market" (Clausen, 2008). Since 2000 four joint ventures have been made and in 2005 Danfoss acquired Holip - one of the interviewed companies. Today Danfoss China has a turnover around RMB 2 billion, representing about 6-7% of Danfoss' total sales, and employs about 2,500 persons, making China Danfoss' fourth largest market (Clausen, 2008).

4.1.5 Dynapac

The interviewee at Dynapac is Per Berggren, Global R&D Manager who has worked within Dynapac during his entire career – since 1989.

Dynapac is a global manufacturer of compaction and paving equipment such as rollers, pavers, planers, and rammers. Founded in 1934, today Dynapac has its head office in Stockholm and has eight production facilities in Sweden, Germany, France, Brazil, USA, and China. They are focusing on providing excellent machine performance, hence the success of their customers. The after-sales service is very

important and the sale of a machine is only considered the beginning of a partnership (Dynapac, 2008).

Several different companies have owned Dynapac since the 90s. Between 1992-1999, Svedala Industri AB was the owner but was eventually acquired by Finnish Metso Corporation. In 2004, the Nordic private equity firm Altor Equity Partners acquired Dynapac but was during 2007 once again sold, now to the Atlas Copco Group (Berggren, 2008).

Dynapac had sales in China through agents and distributors before the 80s. The sales were however very low. Dynapac formed a joint venture with a Chinese company in the 80s. They contributed with knowledge and products while the Chinese brought access and knowledge about the market. This partnership was ended after a few years and the Chinese company remains a competitor to Dynapac (Berggren, 2008).

Berggren believes that since Dynapac has changed owners numerous times, their strategy for China has been disrupted and never had the opportunity to fully develop. During the Svedala ownership they had plans to establish themselves in China, plans that however never were realised. By the turn of the millennium and under Metso's ownership, first sales channels were established and later in 2001 a production plant was located in China. It manufactured products for both Dynapac and Metso. Products that Dynapac previously had produced in Sweden were now produced in China though slightly modified in order suit the Chinese market. During the Altor years, they tried a partnership with a Chinese company. Dynapac wanted to gain access to of new sales channels and suppliers, in return the Chinese could use Dynapac's brand. This partnership did not last since the Chinese actor was too small and the desired new volumes were not generated nor did Dynapac obtain new suppliers. With Atlas Copco as parent company, which has a tradition of acquiring companies at high rate - the possibility of acquisitions concerning Dynapac in China is not ruled out (Berggren, 2008).

4.1.6 Höganäs

Within Höganäs, the thesis authors have interviewed three representatives from the Höganäs China subsidiary: Per Engdahl, President; Peter Zhang, Sales Manager China; and Sidney Luk, Vice President.

Höganäs is a world-leading supplier of metal powder. The company started in 1797 as a coal mining company. It later diversified to bricks and pottery during the 19th century. The company shifted focus to metals when the Höganäs Sponge Iron Process was introduced in 1910 and the first iron powder plant opened in 1945. Since then the business concept has been to develop, produce and market metal powder technology globally (Höganäs, 2008).

Their largest customers are in the powder metallurgy, welding, chemical and metallurgical industries. The end products are usually consumed by the automotive industries and home appliances. According to Höganäs China President Per Engdahl,

by cooperating closely with the end customers' development teams, Höganäs is working to outrival other forms of belaboured metals.

Höganäs have production units in Belgium, India, Japan, China, USA, United Kingdom and Brazil. The group has about 1600 employees globally. The use of metal powders grows with about 5% annually, mainly because of substitution to metal powder technology from other forms of technology (Höganäs Annual Report 2007).

Höganäs have been doing business in China for over 25-30 years. It was however not until the mid-90s that their first joint venture started in QingPu outside Shanghai. Today this subsidiary is wholly owned and is mainly focused on technical support and sales. The factory has some production as well, but mostly refinement of semi manufactured products made in Sweden or other production sites. The production cost is not much lower in China compared to other places in the world. Höganäs has also a sales office in the Guang Dong province (Engdahl, 2008).

4.1.7 Sandvik

The thesis authors interviewed Svante Lindholm, President of Sandvik China and former President of Sandvik Process System.

Sandvik is a high-technology industrial engineering group with competences in materials technology focused around three core areas: 1) cemented carbide and high-speed tools, 2) machinery, equipment and tools, 3) stainless and high-alloy steels, special metals, resistance materials and process systems. They have obtained a world leading position among certain segments and are represented in 130 countries. Sandvik develops, manufactures and market highly processed products that are supposed to contribute to enhanced productivity and profitability for the customers. The company has three main business areas; Tolling which provides cutting equipments to metalworking, Mining and Construction which provides excavation tools and equipment for mining sites, and Materials technology which supplies stainless and high-alloy steels and other forms of special metals or metal process systems for niche markets (Sandvik Annual Report 2007).

Sandvik has sold products to China for more than 20 years, at first through agents. They opened their first representative office in 1985 and their first production site outside of Beijing in 1994. Sandvik China Holding was established in 2006 and is the legal parent company of all Sandvik subsidiaries in China. Today they have six factories, none of them can though be considered large. Sandvik is investing more and more in China, and want to lower the import of materials. Their primary growth should be organic, but mergers and acquisitions is however an option not to be ruled out. They are in the process of building five new factories of various capacities. In 2007 Sandvik China had a turnover of about SEK 4 billion, representing about 4-5% of Sandvik's total sales, and employed 1,400 people in 65 cities around China (Lindholm, 2008).

4.1.8 SKF

The thesis authors interviewed Magnus Johansson, President of SKF China Investments.

SKF is one of the global leaders in supplying comprising rolling bearings, seals, mechatronics, and lubrication systems. Their business is divided in three Divisions: Industrial, Automotive and Service, each globally focusing on its specific customer segments. SKF has 110 manufacturing sites around the world and sales companies in 70 countries. Totally, SKF is represented in more than 140 countries through more than 15,000 distributors and dealers (SKF Annual Report 2007). SKF has about 20% of the total world market (Johansson, 2008).

SKF's mission is to strengthen their global leadership and to remain profitable. In order to achieve long-term profitable growth SKF's strategy includes for example keeping a clear and dedicated customer focus, focusing and investing in faster growing segments and regions, strengthening the product portfolio through investing in R&D and acquisitions, and attracting, retaining and developing the right personnel (SKF Annual Report 2007).

SKF founded their first agency in China in 1912 and their first sales company in 1916. A majority of the operations took place around Shanghai. Due to the political instability, SKF had to leave China in 1951. In 1986 they re-established business in China when they opened a consignment centre and in 1988 they established SKF China Ltd. in Hong Kong. After that SKF has opened representative offices in Shanghai, Beijing, Guangzhou, Chengdu, Dalian, Nanjing, Xian and Wuhan along with another consignment centre in Beijing. SKF has also focused on partnering with other major bearing producers, which has resulted in a vast expansion in China in the bearing business (SKF, 2008).

Today, SKF has 18 sales offices and more than one hundred SKF-exclusive distributors in China. Out of ten production subsidiaries, three are still joint ventures but the rest are fully owned from which two of these started as joint ventures. Joint ventures are not actually preferred by SKF when acquiring new companies. SKF are cautious concerning branding aspects of their acquisitions, though their policy is to only have one brand – SKF. Only the latest acquisition in 2007 has not yet been rebranded. However, SKF China's President Magnus Johansson claims that SKF's primary growth is supposed to be organic and they have opened three own factories in 2007. In the last 1.5 years, SKF has doubled its capacity in China with a total of 3,150 employees.

4.1.9 Tetra Pak

The thesis interviewed two Tetra Pak employees: Lars Binder, Carton Economy R&D Manager, Development & Engineering, Tetra Pak China; and Gösta Seuranen, Manager Quality, Capital Equipment Supply Chain Operations, Tetra Pak China.

Tetra Pak is part of the Tetra Laval group. It was founded by Ruben Rausing in 1951 and is still today privately owned. Tetra Pak's business deals with food processing and packaging. The name stems from the first original package marketed which hade the shape of a tetrahedron (Tetra Pak, 2008a).

Today Tetra Pak has operations in more than 150 markets and employs around 21,000 persons worldwide. The company is market leader with an estimated 80% of the world ultra heat treatment (UHT) milk carton packaging market (Bloomberg, 2007) and has a very long-term view on investments. According Binder, the company's long-term strategy is to package a large part of all unpackaged milk. A large part of the milk produced in world today is still not packaged, which in other words means needs to be consumed in a day or two. The milk market is Tetra Pak core business; however juices and other forms of noncarbonated liquids are of course business opportunities (Binder, 2008).

Tetra Pak was one of the first Swedish companies to heavily invest in marketing activities in China after the civil war in the 40s. The company participated in agricultural fairs in communist China as early as 1972 and delivered its first filling machine in 1979 (Tetra Pak, 2008b).

Tetra Pak has three factories producing packaging materials in China; the first one was established in 1987 in Fusan outside of Beijing (Tetra Pak, 2005). Tetra Pak have technical centre in Shanghai. Apart from offices in Shanghai, Beijing and Hong Kong, there are also sales offices in other major Chinese cities (Binder, 2008).

4.2 Chinese market, today and tomorrow

Great efforts have been put down to get fairly holistic views of the Chinese industrial market today (Luo, 2007; Hexter & Woetzel, 2007; Meyer, 2004). However any holistic view is not of any specific interest for the individual company. Every market has its own specific conditions, obstacles, customer segmentations or niches. This thesis acknowledges these factors and chooses to map each and every company's market separately based on their own comments, so that general trends concerning competitors or customer behaviours can be perceived. Many of the benchmarked companies are often suppliers/customers or partners with each other; hence a strong connectivity exists between them, making it possible for this thesis to draw conclusions later.

All of the interviewed managers had to answer questions about how their company perceived their own market situation and how they would describe their specific market. They are also asked to leave comments on whether they perceive any trends in their customers' behaviours, trends in the markets and competitors. The interviewees were also questioned about each company's past, current and future strategy in China (see Appendix - Questionnaire, page 78 for further detailed questions).

4.2.1 ABB Robotics

ABB Robotics is a leading supplier of industrial robots, modular manufacturing systems and service. Brogren explains that ABB Robotics differentiates their business by providing the best products to the customers. Customers using and demanding industrial robots seek reliability in their manufacturing processes. Therefore there is no reason for wanting a good-enough robot; the customers simply want and need the best. ABB are consequently only focusing on the premium market, they believe that a market with lower quality products principally do not exist. There are smaller Chinese companies that are trying to enter the market but they are too small and do not have the proper technology yet. However, within ten years, some of these can become competitors (Brogren, 2008).

China has become Asia's third largest robot market and the sales grew by 23% in 2006 (Litzenberger, 2007). ABB Robotics has a strong competitive position in the market for industrial robots, where there can basically only be premium robots. The inexpensive labour costs in China makes human labour represent the low-end products while principally all industrial robots represent premium products (Brogren, 2008).

4.2.2 Alfa Laval

Alfa Laval has two factories and the headquarters for their China market company in the Yangtze River Delta region. For Alfa Laval, the sales process starts with cooperation with building consultants, contractors or other forms of system builders helping them with specifications for projects by promoting existing products to them. The equipment is then sold to the system builder who in turn sells a complete system or building with Alfa Laval equipment to the end user (Berg, 2008; Karlsson, 2008).

According to product managers at Alfa Laval (Berg, 2008; Frennfelt, 2008; Karlsson, 2008; Saleh, 2008), the Chinese CHE market is viewed as a triangle, with themselves and two or three Western MNCs at the top, the premium segment which is large in value but small in volumes. Most of the sold CHEs are for specialised applications within the industry or for prestigious building projects. But for Alfa Laval even their commodity products are in the premium segment.

Beneath is the good-enough market with mostly small or medium sized Chinese competitors. These companies started with the simpler and smaller kinds of heat exchangers unfit for extreme conditions and with quite low quality. These manufacturers often start by copying existing products from the product ranges of Alfa Laval or its Western competitors. And with time and gained experience, these companies become better of selling and marketing their products, as well as better in developing new models. They are making more and more advanced models of CHEs (Saleh, 2008).

The low-end market consists of heat exchanger manufacturers that are not even using plates but a technology called shell and tube. Most of these factories are nothing more

than small sheds. This is not an area that is of any interest for Alfa Laval or any other Western competitors (Saleh, 2008).

The regional product manager at Alfa Laval, Saleh, believes that the good-enough market will grow at the expanse of both the low end and the premium markets. Even though not everybody in Alfa Laval agrees on this trend, the market is definitely shifting. According to the local sales managers, there are several reasons behind this development. In some cases they believe it is a temporary trend, such as when customers in the food business switch to cheaper equipment with non-hygienically parts (Ye, 2008). Some customers started out copying entire systems from Western companies; they bought all the equipment as it said in the specifications. However with time, they learned which parts that is critical and which parts that can be switched to generic products (Lee, 2008). Some customers are not interested in products compliant with a number of Western standards and specifications, when there are no laws and regulations for these kinds of products in China. Other customers, local system builders, are simply not interested in buying CHEs that are built to last and operate under extreme conditions for at least 20 years when their contract or guaranties for the delivered product is in most cases less than 5 years (Saleh, 2008). The system builders are never the end users and hence never interested in delivering the best products; just the best possible product with regards to their own profits. Tommy Li, the Chinese sales manager for the CHROME- and EFU[3] segments exemplifies: "*Chinese families in the cities, switch residents every 5-10 years. The families buy their own AC which is left in the apartment after moving. Hence few want to spend extra money on a premium AC that lasts more than 5-10 years, so that the next tenant can use the AC as well*".

Another reason for Alfa Laval to enter the good-enough market is to keep Chinese competitors away. By entering their home turf or market could be a tool for Alfa Laval hinder Chinese good-enough competitors from entering the premium market – Alfa Laval's home market and area of expertise. Wilhelmsson refers to this as a containment policy after the Truman doctrine in 1947 concerning how to keep communism from spreading around the world.

Sales managers in China are concerned that the premium price of Alfa Laval's products is keeping smaller or medium sized customers with big growth potential away (Lee, 2008; Li, 2008; Zhou, 2008; Ye, 2008). If entering the good-enough market, Alfa Laval may bring the domestic customers up to the premium market when they in turn grow and become large international companies (Zhou, 2008). They believe that the market trends are shifting towards quality thinking and productivity. This means that the demand for premium products will grow with time (Ye, 2008; Zhou, 2008) or at least the premium and the good-enough segments will experience about the same growth rate (Li, 2008). However, Leon Lee, the sales

[3] CHROME stands for Comfort, Heating, Refrigeration and OEM Equipment. EFU stands for Equipment Fluid Handling. These two segments use the simpler kind of CHEs and are often the sorts of markets that newcomers start with. Hence this is the most vulnerable segments because of the commodity nature of the products.

manager for fluid utilities is concerned that the demand for Chinese good-enough industrial products is spreading to other emerging markets making the global good-enough market to grow at a faster pace than the premium market. Tommy Li are worried that the gap between Chinese good-enough products and Western premium products are reducing so fast, that it might be no differences within 3-5 years.

The Chinese competitors are getting better in both design and quality of their products and they are doing this at a lower cost. Generally these smaller companies are much cheaper and have substantially lower overheads. Their R&D costs are lower since they can afford to copy a great deal from Western CHE-producers (Ye, 2008), they are usually only strong regionally (Lee, 2008) and have a lot better local market knowledge than the MNCs (Li, 2008). They are also more flexible when it comes to customer needs and adaptations, but most importantly response-time at after service; since it is cheaper for them to send a local engineer to a nearby customer than for Alfa Laval to send a service man from Shanghai to some remote part of the countryside. The materials used in these good-enough products are low end, the packaging, the logistics, the functionality and testing are also just basic. These companies do not need to care about having a high standards when it comes to corporate social responsibility, environmental issues, social benefits for their workers and health and safety regulations at their factories, all of which contributes to their low overheads (Lee, 2008; Ye, 2008).

4.2.3 ASSA ABLOY

ASSA ABLOY is a very divisionally strong company, with a pronounced growth strategy through acquisitions. The company has adopted the concept of multiple branding in most of its markets. Officially there are six global and independent brands in which the brand ASSA ABLOY is nowhere mentioned in the name, they are Yale, Abloy, HID, Besam, Vingcard and Mul-T-Lock. These brands are all market leaders in their respective segments globally and have different security classes. Besides these brands, ASSA ABLOY owns numerous smaller, locally very strong brands in which after their names, ASSA ABLOY are always mentioned, as to give a quality mark. There are efforts to rationalise and decrease the number of brands and thus strengthen the remaining brands (Södergren, 2008).

In China ASSA ABLOY have acquired three local brands: Guli, who came as a part of the Yale-acquisition, Baodean which is focused on OEM-projects and Wang Li who are market leaders in high-security domestic locks. The brands are produced under local brand for the local market. However, Guli serves both the Chinese domestic market under the own brands Guli and Yale, as well as being a low cost production unit for other ASSA ABLOY brands globally. Today ASSA ABLOY is still quite small in the Chinese market compared to the 10% market share they enjoy worldwide. The goal is reach about the same market share in China as well, mostly through growth by acquisition, but also organic growth (Södergren, 2008).

The Chinese market for different locks is today 2 billion locks per year and growing. There are about 2,000 different actors on the market, mostly local companies

manufacturing non-standard compliant locks since there is not a generally accepted standard in China. The market is quite fragmented and extremely price sensitive. Local companies dominate the market since few international players yet have managed to significantly penetrate the low cost mass market according to Södergren. One of the reasons is that many of the products introduced in China are copied, so it is hard for the MNCs to differentiate themselves and have a sufficient return of their investments unless the production is local. Many products made in China are hence not very different from the global products.

The market is instead segmented after standards, the top segment consists of locks compliant with the American standards and usually also sold under American brands. The next segment is the European Standard locks under European brands, which can be described as a middle segment. Then there is the Chinese standard compliant locks which makes up for some sort of higher low end market. ASSA ABLOY has products in all these three segments. In the bottom are the local producer's non-standard locks, see Figure 7 (Södergren, 2008).

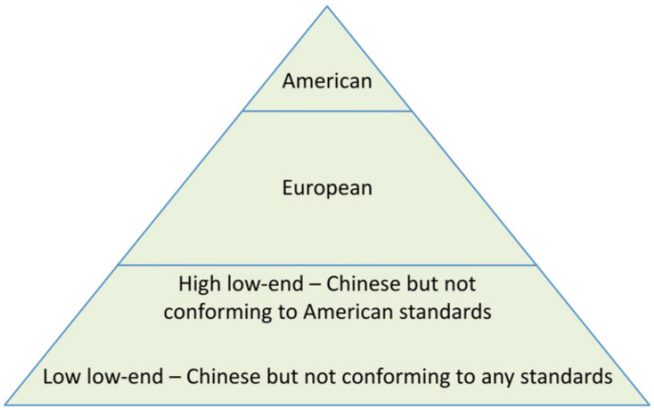

Figure 7: ASSA ABLOY's Chinese market segmentation. Source: Södergren, 2008

4.2.4 Danfoss

Employing about 2,500 people and having a turnover in China of about RMB 2 billion is not enough according to Danfoss' CEO Clausen. Together with management consulting firm McKinsey & Company, Danfoss has developed what they call a *Supergrowth-strategy*, which has been implemented. Danfoss' objective is to become number one or two globally in their industry. This meaning global markets share of 20-40%. Today they are however the fifth largest company in their business. Danfoss wants to make China their second home market.

According to Danfoss Vice President Jessen, Danfoss perceives the market as a sandglass consisting of two markets; the international standard market and the good-enough market. In 2004, the good-enough market comprised 35% of the total market but today it is about 50% (see Figure 8). He points out that the good-enough market is

not static as its conditions shift, since 2004 more features have been added to good-enough products.

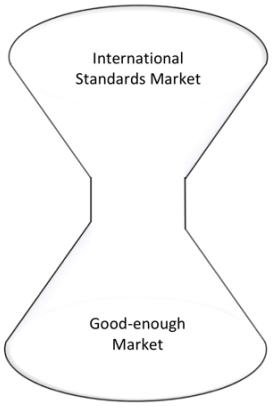

Figure 8: Danfoss' Chinese market perception. Source: Jessen, 2008

Danfoss is generally only selling through distributors. Within the international standard market it happens that products are sold through OEM-channels, but these are never Danfoss-branded products. On this market, which cannot be considered as flexible, Danfoss offers global service and they never take any risks in terms of product reliability. Good-enough market companies are however much more flexible when it comes to market needs, deliveries, pricing, payment terms, engineering alterations, customisations, and technology. To offer service is also more expensive in Western countries than it is in countries such as China (Jessen, 2008).

Jessen expects the Chinese to be the new Japanese, which entered the global market in the 70s with inexpensive products of not the best quality. Despite this, today many Japanese companies enjoy great success and Jessen predicts that the same will happen with the Chinese. He also believes that the Chinese good-enough products will spread internationally. Countries like India and Russia are already today highly interesting since low price is crucial and service is inexpensive to offer (Jessen, 2008).

With their Chinese acquisitions, Danfoss are administrating a concept of second brands, most often the local company's brand. Danfoss secures the quality of the local products through for example an inspector or a new department. Nevertheless, they want to keep old suppliers and distribution channels. But in the case of electronic components, Danfoss has sometimes interfered since they have larger volumes and can get better offers from suppliers. Danfoss' acquisitions in China run their own R&D operations and have managed to keep their low costs by not implementing expensive Western routines such as project management processes, check lists, best practice tests, and IT-systems. The companies can thereby keep their time-to-market short. Danfoss has no or a minimum number of expats working for the acquired companies and the factories look just like other Chinese factories. Danfoss also wants to keep the original entrepreneur within the management so he/she can take advantage of Danfoss' financial resources. Clausen describes the relationship as symmetric; Danfoss has the needed capital and scale, while the Chinese companies have the local knowledge and products.

Most Chinese companies are selling products on their low price while Danfoss and other foreign MNCs differentiate themselves on both quality and reputation. By selling products under Chinese brands, Clausen claims that Danfoss can sell them based on low price but with a higher quality than other Chinese companies' products.

An example of Danfoss' Chinese acquisitions is Holip, a major player on the Chinese market for low cost frequency converters. This is also Danfoss' first acquisition in line with its Chinese growth ambition. Holip has around 300 employees, among them only two Danes; one within sourcing as well as the President, however they have kept Holip's founder and entrepreneur as the General Manager. Holip's goal is to keep growing on the Chinese market without any real operational interference from Danfoss. Holip and Danfoss are treated as two separate organisations with different products focused towards different customers (Jessen, 2008).

Holip is satisfied with the Danfoss take-over. Holip's brand image has been improved with Danfoss as parent company, Danfoss' superior technology has fixed some quality issues, they can purchase material cheaper today, and since Holip has to relive Danfoss' core values, the working conditions has also been improved (Lu, 2008). Nevertheless, Jessen emphasises that the total cost structure between the two companies is completely different. Good-enough companies' overhead costs are much lower; rent, salaries, travels, automation, and research are all examples of what is cheaper for the Chinese than for Danfoss. Jessen summarises the Holip case with "*Big volume and Chinese behaviour makes us very, very strong!*"

4.2.5 Dynapac

According to Berggren, Atlas Copco and Dynapac are very cautious concerning Dynapac's brand. Their ambition is to obtain as high local market share as globally – approximately 20%. The market shares in China for asphalt rollers are around 5-10% while they barely have any sales of soil compactors at all. At first they strive to stabilise their position before venturing on. Dynapac's parent company Atlas Copco is currently in a strong investing phase and Dynapac is expected to grow both organic and through acquisitions, which could both be global and local Chinese competitors.

Berggren describes the compaction and paving equipment market as quite stagnant. It is strongly regulated by national authorities and global standards do not exist, every country has its own norms and requirements. China is not adopting Western research rapidly enough to suit Dynapac's interests. The regulations in China are based on the actual weight of the equipment and not on the effective output, and Dynapac's technology enables greater output for less weight. These regulations can almost be seen as trade barriers. Berggren also claims that there are few companies in their industry who actually are running profitable businesses in China. It is hard to obtain high volumes, which is essential if you want to use local suppliers to source from. Dynapac has to import material and components for their production in China. Berggren also admits that it can exist a mental block at the headquarters in Sweden that focus too much on ergonomics, quality and features.

Five years ago, Dynapac perceived the Chinese market as divided into premium and low-end products. About 10% of the volumes were premium products but Dynapac forecasted that the premium market would grow to 50% since the Chinese government were about to do major investments in infrastructure such as road constructions. In spite of this, the premium market did not grow. The market is unaffected and Berggren believes that it is necessary to enter the lower quality market in order to achieve high enough volumes so they can attract local suppliers to source from. However, he still believes that the market evolvement generally is towards higher quality.

4.2.6 Höganäs

The metal powder industry is considered as quite stagnant according to Engdahl, and Höganäs is therefore working with timeframes of 3-5 years in advance. Asia is Höganäs' third largest market which makes it interesting. They see the market according to Khanna & Palepu's (2006) segmentation of global with products that is the same everywhere, glocal with certain local adjustments of the products, and local with only locally produced products of poor quality (see Figure 5, page 23). Höganäs is not operating in the local market at all (Engdahl, 2008; Zhang, 2008).

In terms of volume, the glocal market is increasing more rapidly than the global and is doing this on the global and local markets' expense. However, in the long run, Höganäs believes that global will increase the most. According to Engdahl there are mainly three reasons why Höganäs should target the glocal, or good-enough, market:

1. Many customers are considered to eventually change from glocal to global products. By operating in the glocal market, Höganäs can establish customer relationship at an early stage, and hence be the company that brings the customer up into the global market instead of letting a local company do so.
2. A defensive strategy: Entering the glocal market is a tool to avoid confrontation with domestic competitors in the global market at a later stage. You move the frontline downwards in the segmentation pyramid (see Figure 5, page 23).
3. The glocal market is a very large market and Höganäs wants to increase their production volumes. In basic industries, as in Höganäs case, Engdahl points out the importance of high volumes in order to keep the costs low.

According to Zhang, Höganäs has quite good overview of their Chinese competitors. These seek contact with Höganäs in order to obtain technology and Western management skills. Höganäs is continually having a discussion with the competitors and have a fairly good perception of how they are working with procurement and management. Chinese companies are using what Engdahl refers to as a capacity-based strategy. They focus on volume and want to increase their production capacity through the purchase of new equipment. However, they still lack the proper technology knowledge and out of the 40 local competitors today, Engdahl only believes that four or five will pertain in the long run.

Höganäs consider themselves better than their Chinese competitors when it comes to quality, logistics, service and support. Therefore, they believe that they can compete against local companies with this instead of pricing, and can hence contribute to the customers' development. But since the customers are demanding less expensive products, Höganäs feels that they must produce products with somewhat poorer specifications. To lower the price, Höganäs can cut the products' performance, hence the poorer specifications. Quality for Engdahl includes access to service, delivery reliability, and value adding outcome for the customers. These are features that Höganäs will not finger on since it enables an extra 10% margin. Engdahl highlights the importance of the right mixture of pricing and quality in every market niche. Each product should only be marketed towards specific niches and have an explicit requirements profile of specifications in order to carry out the precise marketing operations.

Another action in order to lower the price is sourcing material locally. It is not cheaper to buy material in China compared to other places, but Höganäs' major accumulation of capital lies in the logistics. So they want to lower their transportation costs. The long-term goal is to control more of the value chain (Engdahl, 2008).

Höganäs must understand where the strategic decisions are made in the customers' organisations. An example is the automotive industry where much production is located in China but the development and the decisions are made in Japan or Europe (Engdahl, 2008).

According to Engdahl, Höganäs will probably keep the Höganäs brand on the glocal products. The products will probably have different subordinate model names, like Nokia's mobile phones, which have different features and scopes of use. Dependent of the performance of Höganäs' products, they will be included in different subordinate groups and model names.

4.2.7 Sandvik

From Sandvik's and Lindholm's point of view, the Chinese market consists of a high-end market and low-end market that are distinctly separate by ISO standards. In the low-end of the market there are only domestic producers; while in the high-end there are only Western and Japanese companies. Sandvik is and will always remain only in the high-end markets because the company is very engineering focused. According Lindholm, Sandvik is not competing with its actual products but the productivity that the products generate for the customers.

Within Mining and construction, the Chinese mining companies are focused on conducting even more large-scale mining operations and are therefore asking for more advanced heavy and automated machinery (Lindholm, 2008).

In the Tooling market, Sandvik is experiencing a clear increase in demand for high-end tools. According to Lindholm, there is no sense of doing a good-enough

metalworking tool, it is either low-end and then the tools will have to be replaced often or it is high-end which means it will last as long as current technology permits. The general market trend is an increased focus on productivity, which was unheard of just five years ago. Lindholm speculates that the urge or need of improving product quality have forced a lot of Chinese manufacturers to invest in expensive and new machine parks. In order to regain the investments as fast as possible, the machines need to run around-the-clock and not be stopped by frequent tool replacements, hence the demand for high-end tooling will clearly increase even more with time.

As for Materials Technology, Sandvik is offering such niched products in the big steel market, which means the niche only contains high-end products and customers (Lindholm, 2008).

Although today, none of the Chinese producers can truly be regarded by Sandvik as competitors, Lindholm is aware of a few companies moving upwards in quality. He also mentions that in the past, the Chinese companies were only interested in cooperation in order to gain new technology and to do exports to the West. Today however many of these companies are becoming more like Western companies, they have competent management and lots of capital to invest with. So he is expecting them in the high-end market in the perceivable future.

4.2.8 SKF

SKF China President Johansson emphasises that SKF consider China as a major market and not a country for low-cost production. Among their so called target customers, SKF has an equally strong position as globally. 8% of SKF's total sales are generated in China. However, SKF can only locally produce a forth of their total sales in China. During the past 1.5 years, SKF has doubled their capacity in China. SKF's primary growth is supposed to be organic and they have opened three own factories in 2007. Acquisitions made due to strategic issues such as market position, distribution channels, and products of the acquired companies. Their products have been complementary to SKF's existing range.

Several companies develop for the low-end market as the global competition increases. However, the low-end market is not a target for SKF since they are a pronounced premium company and wants to remain so. The challenge is to reach out to a wider market (Johansson, 2008).

The SKF strategy is clear and quality remains as the key dimension and they do not have a special China-range of products either. The Chinese local competitors produce commodity products – small bearings sold inexpensively to high volume customers. In contrast to SKF's business where high technology content and long product life span is a prerequisite, these low-end bearings remains functional for a more limited time. The Chinese companies are however moving upwards in their performance and also further forward in the value chain. Their products have also started to spread globally (Johansson, 2008).

Johansson claims that doing business with SKF implicates a certain sense of safety. But the needed price differentiation in China generates a new way of doing business for SKF.

4.2.9 Tetra Pak

Tetra Pak has a dominant position globally and in China (Tse & Haddock, 2005; Seuranen, 2008). They have chosen to grow organically and not through acquisitions. One reason is that Tetra Pak has a policy of always wholly own the subsidiary and another reason is the decision of gradually moving more equipment manufacturing to China to reduce cost and have local presence on the market (Seuranen, 2008). The strategy is to gradually source material locally in China. By purchasing within China, the company saves both transportation and toll costs and benefits from cutting a piece of local manufacturers' large volumes on commodity or standard products. Tetra Pak is also aware that most of their original suppliers have manufacturing in China today, so by purchasing from them within China, Tetra Pak aim to lower their material costs and also get to buy all their materials in local currency or currency linked to USD. Today Tetra Pak would like to balance their currency fluctuations by procurement and sales in the same currency. (Binder, 2008; Seuranen, 2008).

Tetra Pak segments offerings into different value adding attributes globally and in China. There is a growing market for premium packaging that is made with more exclusive materials. The idea is to package exclusive juices or give-away milk products. For most value for money and convenience, there is the *Carton Value* segment, the kind that is used in most OECD countries – thick brick-shaped paper cartons. Tetra Pak has the *Carton Economy* range that offers a low-cost carton design and thinner packaging, an example are the thin fibre-based Tetra Fino Aseptic (cushion shaped) milk packages found in Southeast Asia and in other low GDP countries. *Carton Bottle* which offers the premium segment products with reclose ability (screw cap, bottle like) is not yet a large seller in China (Binder, 2008).

Tetra Pak sold about 25 billion packages in China last year. About 20% was Carton Economy packaging and the rest was almost solely Carton Value. A large portion of the Carton Economy packages are sold to China and this segment is expected to grow in both China and the rest of Southeast Asia. By the end of 2009, the goal is that a large portion of packaging and distribution machines for Carton Economy will be made in China, with specifications for the global market. However, the R&D manager for Carton Economy machines, Binder, says that the global/Chinese specifications are going to be hard to meet.

Since the last quarter of 2007, the price of milk has increased by 50% on the market and the price is climbing steadily. This has meant an unfortunate decline of sales in the Carton Economy segment but a rise of sales in the premium segment. Binder gives the following calculation example:

"*If regular white milk packages in Carton Economy or Carton Value cost around RMB 10-14, the milk packaged in exclusive cases with little windows on the side will*

cost between RMB 28-20. This means that the dairy industry is trying to make up for profit losses by promoting the more expensive kind of milk. Like when we go to a party with a bottle of wine, the Chinese arrive to a party with a gift package of milk. The usual profit margin for regular milk is 5% compared to the 100% profit margin of enriched milk like drinkable yoghurt."

4.3 R&D in China

The benchmarked companies' current R&D activities were studied in this research. The interviewees answered questions regarding what kind of R&D activities that are established in China, their mission and what their future plans are.

4.3.1 ABB Robotics

According to Brogren, ABB Robotics has for a long time had an engineering centre in China. They worked with delivery, installations and general service – providing system solutions for the customers. Three years ago ABB Robotics started what they call an R&D unit in Shanghai. The unit has three responsibilities: First, to support the production unit at the same location. Second, to support and help the low-cost sourcing unit in China by helping to redesign for new materials. Thirdly and most importantly, to make all China-specific adaptations. 60% of the unit's work consists of redesigning for Chinese market requirements and customer specific needs.

Brogren emphasises that all basic research is today conducted in Västerås and will remain there also in the future. The R&D unit in China is to support the Chinese market, they do not have any saying in which products to make, but they decide on how to make a chosen product.

4.3.2 Alfa Laval

The company is right now starting a development unit at their Chinese headquarters in Shanghai. A Danish manager is appointed, and on site the idea is to employ four persons within six months. The team's mission is currently to redesign the CHE frames for locally sourced materials but that mission can be subject to change depending on whether the general management decides to invest in a China adapted product range or not (Frennfeldt, 2008; Wilhelmsson, 2008).

There are several reasons for situating the development unit in the Shanghai centre. Alfa Laval hopes it will make it easier to find suitable candidates for the unit. They want the unit to be of support to the production, but not buried by work from the production. By situating them next to the sales force, Alfa Laval hopes that the unit will become more market perceptive and adapt market changes to the product faster (Wilhelmsson, 2008).

4.3.3 ASSA ABLOY

ASSA ABLOY's Asia Pacific division has an R&D lead-office in Australia. They develop products for their Australian factories and also for Guli. Guli and the other

subsidiaries have also their own development resources. At the moment, ASSA ABLOY are having discussions on whether they should create R&D competence centres that could serve more than one brand (Södergren, 2008).

There are about 100 people working within R&D in the entire Asia Pacific division. About half of these are located in China, distributed over three factories. Every factory has their own development group working 50% on production adjustments and 50% with product development, including incremental development. The groups' performances are not measured specifically. However, the corporate group keep statistics over contribution marginal, how much costs are lowered and profits increased, and how much of the sales that are generated by products launched during the last three years. Södergren highlights the success factor of reaching a critical mass – volume – not only in the production but also in R&D resources.

The Chinese factories are working with fairly close collaboration with the market and have high autonomy. They are working according to ASSA ABLOY's standardised gateway-process. In order to keep a close contact with the market and manage the local factories in the most efficient way, ASSA ABLOY has chosen to keep many locals in the management teams (Södergren, 2008).

4.3.4 Danfoss

When Danfoss was looking for an acquisition candidate, which in 2005 resulted in Holip, they were at the same time starting an R&D group in order to rapidly access the good-enough market. The group started to work in October 2004 with four Danish engineers in Denmark and they later brought five Chinese engineers to Denmark. The group was after a few months relocated to Beijing. Today there are 25 engineers and the Danish engineers have gradually returned to Denmark (Jessen, 2008).

Danfoss wanted production in China and did not believe it was possible without adjacent R&D operations, which would also result in better sourcing. The R&D group was supposed to develop, based on Chinese requirements, a "lean", or good-enough products for the lower premium/upper good-enough market, and is today sold globally. The R&D units in Danfoss and Holip are kept separate, but they have on one occasion helped Holip by providing them with a Danfoss lean product for Holip to further downgrade. This downgraded product is sold by Holip, not only in China, but is actually being shipped to other emerging countries such as Pakistan (Jessen, 2008).

Jessen claims that Danfoss has no plans to establish full-scale R&D operations in China. However, when it comes to local products, the decisions are made locally but for global products the decisions are made centrally in Denmark. Jessen also emphasises that they have not focused on the cost per R&D-hour in China, a major advantage is that Chinese engineers enables better opportunities for local sourcing, which drives Danfoss' Chinese expansion.

4.3.5 Dynapac

The company has about 60 people in three R&D units around the globe. They have three persons in a unit at their factory outside Beijing. Berggren prefers to call it a development unit since it is strongly linked with the production and the idea is to act as some sort of back-office or physical link between the R&D in Sweden and production in China. The development unit is only little over a year old and is not yet fully in operation and right now they are only dealing with production maintenance. However the idea is that in the future to also act as a resource to the main R&D (Berggren, 2008).

4.3.6 Höganäs

Höganäs has a tech-centre at their production site that serves the entire Asian market. This is one of three Höganäs tech-centres in the world. Their objective is to aid customers and production with troubleshooting. In China it acts as technical support that brings the company closer to the customers and the market. They do some slight customer adjustments. They also offer educational seminars for customers. Doing more development in the future is however not excluded. Engdahl says that Höganäs is not large enough as a company in order to have multiple R&D centres. An innovative environment requires a critical mass and hence the reason to keep R&D in Sweden.

The Chinese tech-centre is managed by the production manager and consists of further nine people, all with engineering degrees. The Asian region is working with fairly high autonomy with not much interference from the headquarters in Sweden. The working routines are the same at all three tech-centres and they work with a common database (Engdahl, 2008).

4.3.7 Sandvik

Sandvik are today not conducting any research in China nor do they intend to start a full-scale R&D centre in China. They do however have a special tooling site where Sandvik designs specially adapted metalworking tools after customer preferences and a tech-centre in Shanghai with about ten engineers that together with customers develop product solutions for specific problems (Lindholm, 2008).

4.3.8 SKF

SKF pursues product development in China. They do adjustments on existing products in order to suit the market. These are often project-specific for different sectors of application. Their factories deal with various kinds of businesses and carries out certain adjustments. Additionally, SKF has four service centres in China that function as support to the sales teams engaged with customers. Minor adjustments are resolved locally in China but when it matters product performance, the decisions are made centrally (Johansson, 2008).

4.3.9 Tetra Pak

In 2006, Binder started looking for engineers for a full-scale R&D unit in China. Today they are eleven Chinese engineers, two Swedish managers and a Swedish engineer and they are still looking for a couple more to fill the group and to reach what Binder calls a critical mass. It means that if one person choose to quit, it won't affect the productivity of the group and a new team member can be trained by the group themselves instead of needing to send the person to Sweden for training.

Regardless, Binder still emphasises on sending new recruits to the central R&D in Lund. This is because they need to form networks, contacts and get a sense of the original Tetra Pak spirit. The Chinese R&D, operations and market unit can submit desired projects and tasks into a master list, which the central R&D in Lund will redistribute among all the R&D sites globally. This means that this local development unit work with other projects than only China-specific and that all their work need to be approved by the engineers in Lund (Binder, 2008).

The main projects today for the development unit are to support and ramp up production of distribution machines in China. They will also support Supply Chain and Operations to adapt filling machines for local production. But they are not to develop key technology for filling machines since this is Tetra Pak's core technology. The unit will most likely be responsible for product lifecycle maintenance for the Chinese produced machines. However, the general management at Tetra Pak has not confirmed a long-term goal for the development unit, they are according to Binder: "*Let's start and see how where it goes*". For Tetra Pak this development unit also has a PR-value. It sends strong commitment signals to the market that they are investing in development in the market and they hope to have a shorter response time to shifting market needs (Binder, 2008).

4.4 Observed difficulties and other issues

In this section, the thesis authors would like to highlight some other issues when it comes to the participating companies' situations in the Chinese market. It can concern general obstacles or interesting lessons learned. However, not all the participating companies chose to comment or elaborate around these issues, or they simply have not perceived any unusual difficulties.

4.4.1 Alfa Laval

Alfa Laval has experienced that their current commodity CHEs have too superior specifications for a large part of the Chinese market. A single product often ranges over a too big share of its market sector of application. There are therefore opportunities to differentiate products towards particular market needs instead. Chinese competitors are better at this and they design their products with less safety marginal and with fewer components which enables them to have a shorter time-to-market and, above all, a lower cost (Saleh, 2008).

When looking at Chinese acquisition candidates, Alfa Laval has encountered that the ownership structure is often quite diffuse and that the government often owns a small share of the company. This makes it harder to complete an eventual acquisition (Saleh, 2008). Several previous external studies (Cooke, 2006; Tse, 2006; Fugazy, 2007) concur on this aspect.

Alfa Laval faces the issue if they should target the good-enough market, and of how to target it. They face major issues concerning how to not harm their premium status while entering a new lower quality segment, and how these products should be distributed, marketed and sold (Wilhelmsson, 2008).

4.4.2 Danfoss

Danfoss CEO Clausen emphasised a great deal on the importance of soft issues. Soft issues such as incorporating corporate values like respect for other cultures, care for employees, good food at the factory cantinas, flat hierarchy when it comes to relationships between manger and worker; these issues cost little to introduce, but the returns are huge especially in enhancing the corporate entrepreneurship in the company.

When it comes to acquiring a Chinese good-enough company, it is crucial not to do too much integration. The acquired company need only the most basic make over to fit the parent company's corporate standard in corporate social responsibilities issues and in financial reporting; otherwise it could be hard to keep the companies separated. Jessen also notes that integration mean rise of overheads. The parent company should not make too many changes in processes and management in the acquired company. That will only make the employees worried and extensive processes are just expensive habits (Jessen, 2008).

For Jessen, the biggest challenge is how to conduct and coordinate global R&D activities in the most efficient way. How should practical issue such as knowledge transfer and IT-access be handled? It requires two different cultures when managing an international standard market company like Danfoss or managing a good-enough market company such as Holip. However, there need to be some sort of knowledge transfer so that Holip management can benefit from best practices within Danfoss (Jessen, 2008).

4.4.3 Dynapac

Berggren claims that Dynapac's development unit in China is not functioning effectively yet, and he thinks it is still a long way before it will do so. Today, there are not any clear objectives to work towards. Dynapac has listened to its Hong Kong subsidiary and previous owners before venturing on in China; hence the information has been obtained internally.

When recruiting to the development unit, Dynapac has had requirements of engineering exams, previous design experience of heavy construction equipment, and English bespoken. Dynapac have experienced three major obstacles concerning the

employees: First, it is hard to find people with proper English speaking skills. Secondly, the applicants often do not live up to the expectations nor what their CVs claim. Thirdly, few Chinese take initiatives and make their way (Berggren, 2008).

4.4.4 Höganäs

Since Höganäs China is a bit further back in the product life cycle compared to Sweden, the organisation is more characterised by a dynamic and entrepreneurial environment. Everything is run at a faster pace and the people are more impatient, which demands special considerations in terms of human resource issues. Höganäs is experiencing problems finding the right personnel. They seek English-speaking engineers with proper university education, but this is not the easiest task. Engdahl also distinguishes three other problems: 1) Retaining of personnel, especially within sales, 2) Communication issues concerning different cultures and languages between China and Sweden, and 3) Having the Swedish management style to work successfully, it is new for the Chinese. Engdahl finds it important to discover key personnel and focus on retaining them by tailoring individual employment packages. If someone does not fit Höganäs way of work they should be discharged.

According to Engdahl, most of the accessible data regarding Chinese market presumptions is not applicable and is more or less inaccurate. Up until two to three years ago, Höganäs acted poorly when it came to collecting relevant market data. Today however, they have continuous communications with stakeholders and competitors in order to collect up-to-date knowledge, which they continually test by consensus- and plausibility analyses.

4.4.5 SKF

Johansson claims that it is very easy for a foreigner to notice the differences between the home country's culture and the Chinese. Instead, one should focus on the similarities and thereby find opportunities to endeavour from. When selecting people SKF would rather look for people with the right values and attitude and build the competencies. For instance, they have experienced slight problems with personnel whose English skills are not the best. But this has most often been outweighed by their personality and values. Given that SKF is a global company, Johansson highlights the importance of having Chinese employees working on international project since Chinese people generally do not have any international work experience. It is also important to educate the staff in teamwork because of their general lack of experience in this field.

4.4.6 Tetra Pak

Although personnel retention is not a big problem, Tetra Pak works very hard to retain their employees. They want people willing to give long-term commitments to the company, which is why a couple of years of work experience is most desirable, since new graduates usually like to try their wings in different companies at the start of their career (Seuranen, 2008). Tetra Pak would also like to have a mix of people

that reflects the society they are active in, hence the need of mixed ages (Binder, 2008).

The turnover rate in China is generally higher than what Tetra Pak experiences in other markets. Seuranen believes that there is more pressure in China for people to switch jobs, as to prove their competency and climbing the career ladder.

Binder, who is soon moving to China to lead the development unit, wants to connect his employees to the brand and company Tetra Pak, rather than him as manager. He has observed that many times loyalty to the manager is stronger than to the company, so when he moves back to Sweden, the employees would like to remain at Tetra Pak.

5 Analysis

The analysis is based upon the numerous interviews conducted during the research. It is structured to first examine the Uppsala internationalisation model's validity concerning the benchmarked companies' China establishment and analyse whether R&D is a natural next step. Secondly, the companies' attitudes and actions concerning the good-enough market are analysed. Finally, we merge the Uppsala internationalisation model with the good-enough market theory and study how they are connected.

5.1 The Uppsala model and the establishment chain - tested in China

As mentioned earlier in the theoretical framework, the order and the speed of the establishment chain are of no consequence. However most of the benchmarking companies have an establishment history in China that is well consistent with the Uppsala internationalisation model's establishment chain. When asked about their company's history in China, most interviewees regarded the start of the Chinese establishment being the first joint venture made, usually sometime in the late 80s or early 90s.

Since the start of the economical reforms in the late 70s, the gradual opening in the Chinese market has very much influenced the companies' entry mode. All of the interviewed companies had some sales into the Chinese market before deciding to enter with a subsidiary. The sales were usually conducted through agents in China, or through their own sales offices in other countries in Southeast Asia which traditionally had channels into the otherwise closed China, such as Hong Kong, Singapore or Taiwan.

The companies entering before 1993 more or less had to enter through forming joint ventures with Chinese companies. The Chinese counterpart provided the land, factory buildings, labour force and crucial market knowledge, while the MNC provided the technology. All of the interviewed companies chose to as soon as possible either to leave their first joint venture or to buy out the Chinese counterpart. The reasons stated varied from company policy being to always wholly own subsidiaries, to irreconcilable differences, and to the Chinese counterpart not being what they seemed to be from the beginning and thus the outcome of not being enough satisfied.

On a quick glance, the development portrays that, in the case of China, the MNCs did not have the chance to enter with small and incremental steps as predicted by the establishment chain and the Uppsala model. It looks like the companies had to make large market commitments without sufficient experiential market knowledge. We agree that external factors like the Chinese government's control over the market affects the order and time scope of the establishment chain, but not the pattern. The establishment chain can be said to have been followed by all the studied companies,

just in slightly different ways. They all first had sales sporadically into China, some before the communist take-over, others after. The daily sales were then mediated by agents and distributors or by the companies' own sales offices outside mainland China, since establishment in China at that time was almost impossible. Sandvik and SKF established representative offices in China in the 80s to complement their sales offices in Hong Kong. Others (Tetra Pak, Höganäs, Dynapac and Alfa Laval) leaped in the 90s with opening production plants through joint ventures.

The establishment chain reflects the incremental steps of an internationalisation based on the firm's acquired market knowledge. Some market knowledge was acquired through sales offices outside China or by agents inside China. However, the experiential knowledge on the Chinese market was mostly weak. The commitment decision to enter China were based on current market knowledge at the time, which was small; and the psychic distance to the market was large, meaning that the companies must have viewed the Chinese market's potential as very large, which indicates a larger tolerance of risk. The forming of a joint venture may reduce the financial risks taken since any profits or losses were shared. But more importantly a joint venture where the Chinese counterpart could provide all the required connections and the much-needed experiential knowledge which was besides being compulsory, also very much helpful. The entering company lacked the market knowledge required, and had to compensate with making a large market commitment.

In the 80s the Chinese market was much less developed compared to the market in the 90s. So when Sandvik and SKF entered in the 80s, representative offices meant little market commitment since the risk tolerance for the Chinese market was low at the time. The economical reforms had after all just started. In the 90s when the prognosis became clear, also these two companies formed joint ventures with leading local companies.

Danfoss, which entered China in the mid 90s, had the chance to start with wholly owned subsidiaries. The company has had sales through distributors in China or through its sales office in Hong Kong. Since the late entry, the company already had strong sales into the Chinese market and hence started from the beginning with wholly owned production facilities. There were no long-term strategy behind the commitment; it was rather about taking the opportunity to gain cost benefits from the cheap labour costs in China. The strategy was simply not try too many difficult things at one time. They had already started with a big commitment decision with wholly owning the factory from the beginning, so the current activities of the firm were simply a replication of what they did in production facilities in Europe. When everything started up well, the next step in the cycle was to switch to local suppliers, which are a form of market commitment and required market knowledge, again since the operations were doing fine, Danfoss could afford a bit of risk. Like this, Danfoss gained market knowledge and increased market commitment gradually.

ASSA ABLOY is the latecomer in this troupe. They entered late since their Western competitors did not dare to enter the Chinese market. They followed a stringent acquisition strategy with multiple local brands, which enabled them to make large

financial commitments with little actual resource commitment to that market. Each Chinese locks company that is bought adds experiential market knowledge from the acquired company to ASSA ABLOY, making them better at targeting and acquiring the next company as well as coordinating procurement of materials.

5.1.1 Developing R&D in China

All of the studied companies have engineers working with product adaptations for the Chinese market. The China share of the total sales is ever increasing for these companies and with big sales comes customer modifications. The production facilities need engineers for production problems and maintenance. These engineers are also sometimes working on the product adaptations. In other cases there are engineers solely dedicated to product development. However, none of the studied companies have engineers working with core research. Only the 'D' in R&D is located in China. The 'R' representing research is left back home in the West. In spite of to what extent R&D is conducted in China, we refer to it as R&D activities.

We interpret that establishing R&D activities step by step in a market, means to re-evaluate ones current activities, and make the decision of increasing the R&D activities. Deciding to increase the R&D activities, is seen as commitment to that actual market. In other words, we see each form of establishment of R&D activities as a form of market commitment. Each new step of market commitment results in more market knowledge since the development becomes more specific to the particular market. With engineers committed to work towards the market, they naturally become nearer the market, hence the increased market knowledge.

Having production facilities also results in having production engineers dealing with at least production maintenance at the factories. Alfa Laval and Dynapac have up until today had the least R&D activities of the studied companies; production engineers dealing with production maintenance, slight adjustments according to local production conditions, and functioning as the link between centralised R&D and the local production. Alfa Laval has, as already mentioned, started a new development unit that shall redesign the products for locally sourced materials. This is similar to SKF's current R&D activities in their Chinese service centres that also pursues product development. They perform product development in the sense that they do adjustments of products as long as the products' performance is not altered with.

ABB Robotics has had for a long time an engineering centre providing customised system solutions and of course, service. Today they have what they choose to call an R&D unit, although it does not deal with actual research. ABB Robotics' R&D unit supports the production and the low-cost sourcing function, and redesign products for Chinese market requirements and specific customer needs. It is quite similar to the case of Tetra Pak, where they are adapting machines for local production and conducting product lifecycle maintenance. This kind of R&D commitments is the result of a gradual shift of focus, from streamlining production operations to optimising procurement operations and stems from the current market activities of the company.

We can also distinguish a kind of R&D commitment being the kind of tech-centres that Höganäs and Sandvik have. They provide service through customer interactions, aiding customers in order to find the proper solutions suited for them. This also brings the company closer to the market and hence increases the market knowledge. Höganäs' plans to enter the glocal/good-enough market from above, will therefore increase its local R&D commitment.

The R&D activities taken place in China is correlated with the market knowledge. We see a trend of R&D activities being incorporated with a nearness to the market: from tech-centres as Höganäs and Sandvik, to ABB Robotic who locally provides system solutions, and Tetra Pak who adapts machines for local production. The decisions tend to be made locally as long as the actual product performance is not altered; those decisions are still made in the West. By having R&D activities locally incorporated with the market, the chance of seizing new market opportunities is increased

The more R&D activities being transferred from a company's original R&D activities, the risk-taking on the new market increases. The risks accumulate with the more parts of core technology knowledge that enters into a foreign industrial network. This means that the company is taking a bigger risk since its technology and resources become expanded over a larger area of contact in the new industrial network. In a country like China, this is especially a problem because of plagiarism being a major issue of concern here. We find that establishing R&D in a new market implies an enormous market commitment because once the technology has entered the market it will stay there. This explains why none of the benchmarked companies has established any true 'R' of their R&D activities in China. Nor are they planning to.

The process of acquiring a good-enough market company follows similar steps of increasing market commitment, starting at evaluating its current activities. Concerning R&D, the acquiring company buys both the market knowledge and the R&D knowledge. This R&D knowledge can be product specific or network specific. With network specific, we mean the knowledge concerning good-enough suppliers, good-enough customer requirements, experiential knowledge of how to best package and treat the finished product for logistics and so on. This is a kind of experiential knowledge whereas product specific knowledge is transferable general knowledge.

However, we believe that no matter if a MNC is interested in entering the good-enough market by gradually learning this network specific knowledge or are buying the knowledge through acquisitions, the process should be incremental from the top to the bottom of the segment. If a premium company would acquire a company in the lower good-enough market as a first time venture into the good-enough market, the market knowledge would most likely not be sufficient. Nearness to the targeted market adds market knowledge since one would encounter the adjoining market more frequently than if the targeted market is further away. Acquired R&D activities is also incremental, hence the compay should not target acquisition candidates far down in the good-enough market because they lack the sufficient market knowledge of the

adjoining segments. If the acquired company's quality position is very far away from the company's, the market in between them is still lost for both. Danfoss and ASSA ABLOY for example have both acquired top good-enough market leaders rather than targeting lower good-enough market leaders.

Danfoss is the only studied company that has made use of both establishing own R&D as well as buying new R&D resources through the acquisition of a company in the good-enough segment. They started an R&D unit in Beijing developing a product for the lower international standard market. In the meantime they sought the Chinese market for a good-enough company to acquire and found Holip. With the knowledge gained by having their own "good-enough R&D unit", they could jumpstart cooperation with Holip by supplying them with their lower high-end/ international standards product to strip further. The R&D in Holip does not follow the same procedures or timeframes as R&D in Danfoss; Holip focuses on the using their market knowledge in downgrading the product. Without too much of Western best practices, Holip can maintain their cost structure low. This in return gives Danfoss market knowledge of the present state and development of the good-enough market, making their lower high-end market R&D better. The case of Holip and Danfoss exemplifies that a large part of good-enough market can be reached, having taken two steps downwards simultaneously, in a short period of time by combining the two strategies.

ASSA ABLOY is the company with most number of acquired local brands among our benchmarking companies. The acquired brands were all market leaders in their small segments and each brand has continued their own R&D activities at separate production sites. The Chinese R&D units are given high autonomy to cater to their specific segments. There is no common corporate knowledge exchange between the units since they are not working on the same kind of products, neither are there any exchange with other ASSA ABLOY brands or competence centres globally. ASSA ABLOY is hence not conducting any knowledge transfer into their new markets. There are talks about centralising some of the development; however that would mean the R&D units in each segment would be less committed to their closest markets but rather transferable to other markets as well.

These examples show that no matter if the R&D is bought or gradually committed, it is a natural and logical next step to the Establishment Chain of the Uppsala model.

5.2 Entering the good-enough market or not

Gadiesh, Leung & Vestring (2007) have discussed whether MNCs should enter the good-enough market or not, based upon the company's competitive position in the concerned country and the current state of its industry's premium market. With a premium market that has an eroding position compared to the good-enough market it is suggested that the good-enough market should be considered attractive. Gadiesh, Leung & Vestring have created a model (see Figure 6, page 25) presenting the possible circumstances and their respective suggested actions.

The benchmarking companies have progressed differently concerning entering the good-enough market. Some have gone further into the good-enough market than others. There are also cases of companies that only are discussing the opportunities of the good-enough market and other companies that have chosen to neglect it. We have distinguished three different phases that the benchmarked companies have reached: 1) Ignoring the good-enough market. 2) Discussing how to act. 3) Entered the good-enough market, which has three subordinate groups: a) Entered from above. b) Acquired into the market. c) Both from above and through acquisitions. (See Table 1, page 62 for an overview.)

By plotting each studied company in the boxes of Gadiesh, Leung & Vestring's (2007) model (see Figure 9) we aim to see whether the studied companies are acting according to the theory of the good-enough market. We will refer to each of the model's boxes as the "upper left", "upper right", "lower left", and "lower right" box.

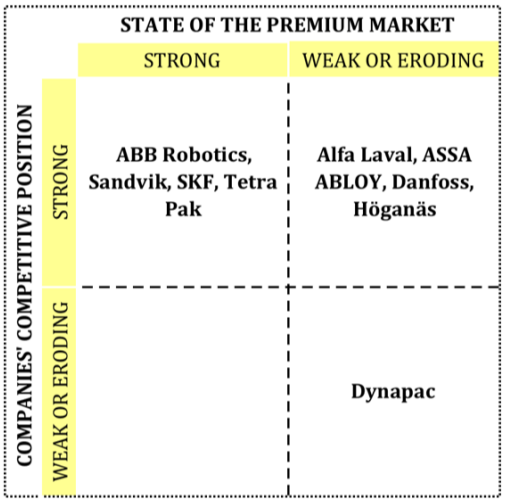

Figure 9. *The benchmarking companies plotted in Gadiesh, Leung & Vestring's (2007) model "Should you enter the middle market."* Source: Fang & Wiklund, 2008

ABB Robotics and Sandvik do not really acknowledge the existence of a good-enough market in their industries. At least they have chosen to not take any measures against it. SKF claims that the low-end market is enhancing the performance and quality of its products, but like ABB Robotics and Sandvik, SKF has not chosen to act. All three companies have customers seeking productivity generated from the purchased products. Productivity is enhanced when they do not have to abort processes caused by either failure of the product or because of the product is worn out and needs to be replaced. The industry of industrial robots is considered to basically only consist of a premium market. Customers buying industrial robots tend to prefer automation before manual labour. In China with its inexpensive manual labour, we find it being of no doubt that those potential customers that choose robotics are seeking productivity and reliability in their production. Consequently, ABB Robotics, Sandvik and SKF experience strong premium markets. Since their companies are among leaders within each industry, both globally and in China, they are placed in the

upper left box of the model. By maintaining their premium positions they are acting according to the model.

We interpret the premium segment of packaging consisting of both Tetra Pak's premium and Carton Value range. The Carton Economy range is a form of good-enough products for a lower market where Carton Value is too expensive. Carton Economy is supposed to package the today, unpacked milk around the world's developing markets - a form of good-enough packages for a low price. Tetra Pak is plotted in the upper left box because they have a dominant competitive position in China and because the premium market for milk packaging is currently growing. One of the reasons for the premium market's growth is the recent increase in the price of white milk. The dairy producers in China are trying to compensate the loss of profits by promoting enriched milk, a progress recognisable also in the West with increased offerings in yoghurts and flavoured milk drinks. According to the model, Tetra Pak is suggested to maintain their strong premium status. However, Tetra Pak has previously developed and is now producing distribution machines for a lower quality market with the Carton Economy range as a step towards creating a larger market.

Alfa Laval perceives the market according to the same segmentation as Gadiesh, Leung & Vestring (2007). They have a strong competitive position concerning CHEs in China. However, concerning commodity CHEs the good-enough market is currently gaining market shares at the expense of the premium market. Alfa Laval believes that the specifications of good-enough products will spread both globally, as well as being accepted by more and more current premium customers, even in the long run. Hence the company is plotted in the upper right box. Alfa Laval has principally made the decision of entering the good-enough market. However, they have yet to decide how. Alfa Laval is starting a development unit in Shanghai but its mission does not yet include designing good-enough products. They are at the same time looking for potential acquisition candidates to address but have not yet acquired any. Hence both the suggested alternatives for the upper right box are considered.

ASSA ABLOY is a global leader in their industry. ASSA ABLOY has further strengthened their position in China through the acquisitions of Guli, Wang Li and Baodean. The company perceives the market segmented according to different standards. The premium market in China is not very strong since not many of the international companies have not managed to penetrate the market with their premium products, and local companies are actually dominating the market. This places ASSA ABLOY in the upper right box. With its history of Chinese acquisitions; Guli, Wang Li and Baodean; ASSA ABLOY has acted accordingly to Gadiesh, Leung & Vestring's recommendations.

Danfoss is experiencing prosperous times in China and is considered to have a strong competitive position. Danfoss segments the market according to its standards: the international standards market and the good-enough market. The good-enough market has grown the last years at the expense of the international standards market, or the so called premium market, placing Danfoss also in the upper right box of the model. Danfoss is the only company that already has entered the good-enough market both

from above and by buying their way in; both suggested strategies according to Gadiesh, Leung & Vestring (2007). They are targeting the top of the good-enough market with their own products and they have acquired the local Chinese company Holip to target the true Chinese good-enough market.

Höganäs prefers to segment the market in global, glocal and local according to Khanna & Palepu (2006), nevertheless glocal is what we refer to as the good-enough market. Höganäs also has a strong competitive position in Asia but the glocal market is currently gaining shares at the expense of the premium/global market, making Höganäs another member of the upper right box. Höganäs has made the decision of entering the glocal market. They have decided to start developing a new range of products suited for this market. This is however a short-term strategy since they believe that the global market will benefit and increase the most in the long run. Which conforms to both the "Should you enter the middle market"-model and the containment strategy suggested by Alfa Laval.

In Dynapac's case, the market is segmented according to Chinese regulations concerning rollers and pavers. Dynapac do not have a strong competitive position in China because of these regulations since they do not conform to the Dynapac rollers' specifications. As a matter of fact, the regulations do not conform to premium rollers at all, hence the plotting of Dynapac in the weak/weak box in the lower right corner of the model. Dynapac's major issue is to achieve large enough volumes in order to source material locally and then lower their material costs. According to Gadiesh, Leung & Vestring (2007), the suggestion for Dynapac is to acquire their way into the Chinese market. Berggren do not discard the possibility of acquiring a Chinese company, but they have not acted upon it yet. However, the best possible outcome for Dynapac would be changing Chinese regulations.

Table 1. *The benchmarked companies' phases regarding entering the good-enough market*. Source: Fang & Wiklund, 2008.

	Acknowledged	Discussed	Entered	*Entered from above*	*Entered through acquisitions*
ABB Robotics	**No**	**No**	**No**	**No**	**No**
Alfa Laval	**Yes**, in the case of commodity CHEs	**Yes**	**No**	**No**	**No**
ASSA ABLOY	**Yes**, to the extent that different international standards segment the market.	**Yes**	**Yes**	**No**	**Yes**
Danfoss	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Dynapac	**Yes**, to the extent that Chinese regulations segment the market	**Yes**	**No**	**No**	**No**
Höganäs	**Yes**	**Yes**	**Yes**, to the extent that the decision has been made	**Yes**, to the extent that the decision of developing a new range has been made	**No**
Sandvik	**No**	**No**	**No**	**No**	**No**
SKF	**Yes**, at least acknowledged that the low-end market is improving its business	**Yes**	**No**	**No**	**No**
Tetra Pak	**Yes**	**Yes**	**Yes**	**Yes**	**No**

The previous sections have proven the theory's validity for our benchmarking companies. Since all the benchmarking companies have acted, are acting, or at least discussing to act, according to Gadiesh, Leung & Vestring's (2007) model.

5.3 Merging the good-enough market theory with the Uppsala model

The "Should you enter the middle market"-model gives a good overview of how a company's product offerings and activities are affecting the company's situation in that market. By placing our benchmarked companies into the model, an instant snapshot is created based on the same features that characterise one of the change aspects in the Uppsala model, the current activities. This "Should you enter the middle market"-model simply tells the company, where they are today and what their options are. However it would be unwise to decide upon any strategy based on such a general model. But if we use the information obtained in the previous section and insert it as input into the Uppsala model (see Figure 10) we can analyse the amount of resources committed to the Chinese good-enough market at present, how committed these resources are, and what kind of market knowledge there exists in the company. Together, a commitment decision should be derived.

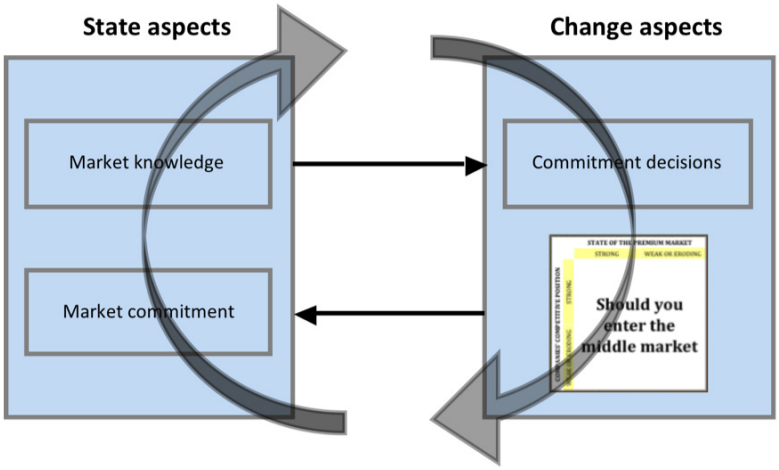

Figure 10. *This figure illustrates the "Should you enter the middle market"-model's function in the dynamic Uppsala internationalisation model.* Source: Fang & Wiklund, 2008

5.3.1 State of market commitment

A company that decides to enter the good-enough market from above has first evaluated its current activities and then chosen to further commit itself towards that particular market. Entering from above requires nearness to the market itself and consequently certain market knowledge. What the company actually knows about the good-enough market is generated through its current commitment in that country. More commitment mean more knowledge generated through the relationships with its existing subsidiaries, sales offices, representative offices, suppliers, distributors, retailers, agents, customers; i.e. the industrial network. Based upon what the company actually knows about the good-enough market's stakeholders, the market knowledge needs to be converted into developing new products specifically developed for the good-enough market. The benchmarking study has showed that the degree of R&D commitment increased gradually but most companies are far from having serious R&D activities, even on the Chinese premium market, much less activities aimed at the good-enough market. The R&D activities of Höganäs and Danfoss (excluding Holip) are targeting the high good-enough or low premium market at first, which is where every company that have discussed entering the good-enough market from above are aiming for. We interpret this as a strong indication of incremental commitments to the new segment, and that the further down into the good-enough market a company ventures, the more market commitment and knowledge is needed.

These companies' market commitments to the premium segment are large. Our benchmarked companies employ hundreds of people in sales, marketing, manufacturing and development in China. These are, according to the Uppsala model, considered resources that are tightly committed to the Chinese market specifically. If a company strives to enter the good-enough market, additional resources have to be committed. The marketing organisation has to gain market knowledge about a new type of customers and their needs, creating new R&D units with that market

knowledge to design new products and the production has to adapt the operations for more products - in other words a huge increase in market commitment. If entering far down in the true good-enough market, it most likely requires separate sales organisations dealing with different selling agents, hence even more market commitment.

But how about the market knowledge, do these companies have enough market knowledge to make the decision of huge increase in market commitment?

5.3.2 State of market knowledge

The market knowledge about the good-enough market varies from case to case. Most of the information, concerning the domestic competitors in the good-enough market, available to these companies comes from customers or through service engineers visiting customers with both premium and good-enough products. Some information comes from current sales or marketing activities, mostly when the company failes to make any sales to traditional premium customers.

The fact that the companies in the upper right box recognises the existence of a good-enough segment as well as being concerned about the actors in that market, is a sign of extensive market knowledge of the boundaries for the premium segment. However, the actual knowledge about the good-enough market is very superficial. Few of the companies knew the extent of the good-enough market or the growth rate of the local competitors. The required market knowledge of entering the good-enough market is like building up entire new industrial network. Only by having reoccurring activities that actively attracts participants of good-enough networks can experiential market knowledge be obtained. It is by committing sales and marketing resources to target the otherwise uninteresting customers who are more price focused that information about the competitors in the good enough market can be obtained. The case of Höganäs is a good illustration.

Höganäs tries to lift the entire market to a higher standard by sharing their knowledge and expertise to suppliers, customers and customers' customers. Their intention is to create a larger premium market but it has also given them a fairly extensive knowledge of the good-enough market and its players. Their current activities create lots of market commitment since they share their expertise. But it also generates extensive market knowledge because they interact with everybody from the iron suppliers, to the customers many stages in front of them in the value chain, and most importantly also domestic competitors. According to Höganäs it is about choosing the battleground on which they are going to meet their glocal competitors. By stealing customers and suppliers far down in the good-enough market, the company in the end hopes to not having to risk their premium products in direct competition about price.

The same goes for Alfa Laval, they are willing to take the risk of venturing down into a market that is culturally totally different from their traditional company mentality because they rate the risks of having domestic competition in the premium market much higher. The volumes of the good-enough market are to ensure future premium

and service profits as the good-enough customers one day will grow into premium customers as well. By committing resources on potential customers early, the experiential knowledge on those customers will increase for Alfa Laval as well. There is a general sense of urgency since many of interviewed companies perceive their Chinese competitors to grow and learn very rapidly. By buying rising competitors that are in the good-enough market today enables the MNCs to gain the required market knowledge and the good-enough mentality in a much shorter period of time than by gradually doing it themselves, but most importantly it is a way for MNCs to delay direct confrontation with the Chinese for some time.

5.3.3 Commitment decision of change

We believe that the case of Danfoss clearly illustrates the need of not only purchasing a local competitor, but also to commit R&D resources on your own. Most of the people we spoke with believe that the demands and requirements of the Chinese good-enough market is spreading to less developed markets. Other talked about finding Chinese good-enough producers marketing their products in mature markets like Western Europe. This indicates that the Chinese good-enough market is gradually becoming a global phenomenon that we believe needs to be addressed.

Danfoss proved it to be essential to keep Holip and the rest of Danfoss group quite separated since each improvement made by Danfoss on Holip increases Holip's costs structure. If the parent company starts to meddle into the daily operations of the acquired company, then the company will gradually cease to be a good-enough company and merge into just another production plant within the large MNC. Danfoss were also strict with keeping their different R&D units apart. They didn't want Holip to become a low cost R&D resource to be used centrally, but also to hinder Holip from learning too many expensive practices.

Having a totally separated company in another market, does not add much new market knowledge to the organisation at large. The resources put into the acquired company are not very committed to the market in a sense that the parent company can quite easily sell the acquired company again. If Danfoss had only acquired the Holip and not cared to start an own R&D unit, the strategy of China being the second home market, would have sounded a bit hollow. For both Danfoss and Tetra Pak, the R&D unit itself has a promotional value.

If a MNC is serious about entering the good-enough segment, the resources invested in the market have to be strongly committed. The company must strive to engage in activities towards that market and transmit and integrate that gained knowledge to the entire organisation. R&D is an excellent resource to commit and most necessary current activity to have.

Based on industrial behaviour, the different perspectives we encountered through our interviews and the theoretical framework used for this analysis, our recommendation for Alfa Laval, our partner company, is to both acquire a local competitor and to set up a serious attempt of a development unit in China. The unit should focus on

developing products for the upper good-enough or lower high-end markets and to make sure that these products can be sold globally. The battle of the global good-enough market will take place globally. Buying local competitors gives Alfa Laval the chance to choose the battle for the Chinese good-enough market on their own terms.

6 Conclusions

We have conducted around 40 documented interviews and talked to numerous people within Alfa Laval and other institutions. We believe that it is crucial for a MNC to experience success in the Chinese good-enough market today in order to ensure future success, not only in the Chinese market, but also globally.

The names and definitions of the good-enough market in China varied from company to company. But the similarities were clear; a more price sensitive market where customers want more product value for money rather than reliability or lifespan. The pyramid model of market segmentation in developing countries offered by Khanna & Palepu (2006) and Gadiesh, Leung & Vestring (2007) is found to be a well descriptive model according to most of the interviewed companies. No matter what the companies had chosen to call their markets, it could be represented through the pyramid.

The state of the companies' premium market and the nature of their product offerings have a large effect on their view of the good-enough market. Only two out of nine companies did not recognise the description of a good-enough market. Most of our benchmarking companies believe that in the long run, the premium segment will grow the most. The reason is that most Chinese customers strive to become premium companies themselves. The companies who saw an emerging or growing good-enough market also perceived it as a threat of their existing market in China. It is a threat partly because of a shift in requirements from traditional premium customers, but more importantly, the threat lies in the potential development of companies producing good-enough products today. These, mostly domestic Chinese manufacturers, improve their quality and technology at an impressive pace. The real danger is those good-enough Chinese companies that in a near future are able to enter the traditionally high-margin markets.

Among the companies that have acted upon the good-enough market, the trend seems to be of adopting a containment strategy against these good-enough companies. The MNCs can through acquisitions of key good-enough competitors hope to delay any direct confrontation in the premium market for another period of time. They can also invest in R&D activities targeting the higher good-enough or lower premium market, targeting either new customers or offering lean versions of existing products to previous customers. By managing multiple brands, MNCs hope to attract potential good-enough customers and with time lift them up to the premium market. The third option is to do both of the suggested actions.

The study also confirmed that the pattern of establishing operations in China is correlated with the establishment chain from the Uppsala internationalisation model. The studied Scandinavian MNCs had all started with sporadic sales into China through sales subsidiaries outside of China. Partly because of governmental regulations, all except one company, Danfoss, started with forming joint ventures

with Chinese factories. We found that the behaviour behind the commitment decisions to enter the Chinese market and the behaviour in deciding whether or not to enter the Chinese good-enough market, follows the same incremental approach and takes into account the same four mechanisms that are described by the Uppsala internationalisation model. Two conclusions can be drawn:

- It proves the suitability of the Uppsala model for further establishments into new market segments within a foreign market.
- Establishing R&D activities is a logical step to add to the establishment chain. Whether the R&D unit is obtained through acquisition of another company or the gradual transfer of core technology knowledge into the market, it is the natural further resource commitment needed to develop in important foreign markets.

Based on the different perspectives we encountered through our interviews and the theoretical framework used for our analysis; our recommendation for further establishment into the Chinese good-enough market is:

1. To create global downgraded product versions for products in the risk of becoming commodities. The development of such a product can be advantageously conducted by Chinese engineers since they are closer to the market hence have a better market knowledge.
2. To acquire a leading good-enough company and to take advantage of their superior market knowledge and industrial network in the good-enough market. The acquired company should not be integrated with the premium parent company.

6.1 Suggestions for further research

This thesis has opened many doors for more detailed research in many areas. There are several factors to take into consideration whether to enter a good-enough market. All these factors should be studied in detail. During our research we have, for example encountered sales, marketing, logistics, financial, procurement and human resource management aspects that definitely require further and more detailed attention.

Additionally, the "Should you enter the middle market"-model is fairly simplified. Its upper right box is the box where competitive MNCs that should enter the good-enough market are being plotted. We suggest that the behaviour of these companies should be studied closely and examine if it is possible to further develop and divide this box into subordinated boxes with new more specific and detailed suggestions.

This thesis has studied the behaviour of premium companies. It would be interesting to apply the Uppsala internationalisation model on good-enough companies to see if their development towards the premium segment also can be explained according this model.

Furthermore, we suggest conducting the same analysis on similar companies in other BRIC-countries, in this case in Brazil, Russia and India. The expression BRIC-countries is often mentioned and there is an interest to study if one can observe the same behaviour here; if these countries have middle markets similar to China and if Scandinavian MNCs are acting according the Uppsala internationalisation model here as well. We believe that our conclusions can be applicable on other emerging markets, not just the Chinese market, but this needs to be confirmed.

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Appendix

Agenda

We estimate the interview to take two hours at the most, depending on your answers. The interview consists of five main topics as seen below with some standard questions. We would like you to take a look through this agenda and see whether there are things that you need to look up. If you consider someone else better suited for our area of discussion, please feel free to forward us within the organization.

1. **Historical establishment in China**
   We would like to know more in detail how the company's establishment in China have grown, what have been the key milestones and decisions? How have ownerships structures been, joint ventures or acquisitions of Chinese companies? Here we try to understand how you have as a company gained your expertise in the Chinese market.
2. **Strategic reasons**
   What are the company's long-term commitments in China? What is the official strategy? What external or internal factors have contributed to the strategy?
3. **The Chinese market today and current R&D activities**
   Here we like to discuss your views on the present market situation. Have the product portfolio been adapted to the Chinese market specifically? Then we are interested in how the Chinese organisation relates, reports and communicate with the central organisation in Sweden. What forms of synergies have arisen, both planned and unplanned?
4. **Pre-studies and lessons learned**
   How did the company prepare for the establishment in China. We are curious about the what kind of sources/literature/organisations were used to gain market information. What are your views on the implementation, what were the problems, what could have been done better and what when better than expected.
5. **HR-management in China**
   What are your views on the existing HR-strategy with regards to recruitment, training and retention? What are the pros and cons? Is HRM a priority issue or just a necessary evil? How different, in your mind, are HR in China compared to Scandinavia?

Questionnaire

Generellt

1. Berätta lite om dig själv och din bakgrund.
2. Hur kommer det sig att ni började på företaget?
3. På vilket sätt jobbar ni mot Kina-marknaden idag?

Historik

4. Redogör för företagets historiska Kina-etablering**.**
5. Berätta mer ingående om de enligt dig kritiska besluten eller mest avgörande skeendena.
6. Varför valdes just den strategin?
7. Vilka var de viktigaste faktorerna för etableringen, både marknadsmässigt och kapacitetsmässigt?

Strategi och avsikter

8. Hur ser den nuvarande Kina-strategin ut?
9. Vilken målsättning finns?
10. Hur pass långsiktig är strategin?
11. Varför valdes just denna strategi?
12. Om förvärv eller JV - Varför just dessa företag? Och varför just den förvärvsformen?
13. Om organisk tillväxt - Varför det? Vilka var faktorerna som talade för och emot?
14. Vilka övriga omständigheter, både externt och internt, påverkade besluten?
15. Överensstämmer kinastrategin med den övergripande strategin för företaget?

Marknadssyn

16. Hur är marknaden segmenterad?
17. Hur ser ni på marknaden idag, för fem år sedan och om fem år?
18. Var någonstans ligger tycker ni att företaget ligger marknadsmässigt?
19. Vilka trender anar ni på marknaden idag?
20. Upplever ni att mid-range växer mer än de andra segmenten?
21. Er relation mot era främsta kinesiska konkurrenter. Head on competition? Hur ser ni på dem som hot?
22. Hur har dessa kinesiska konkurrenter agerat på sistone?
23. Hur har ni agerat gentemot dem i sin tur? Ex. JV? Uppköp? Etc.
24. Har företaget tagit fram eller ska ta fram en mer Kina-anpassad produktportfölj?
25. Vad är marknaden beredd att betala för?
26. Sprider sig kinesiska krav globalt? Ses Kina som en eventuell ny världsstandard?
27. Är eventuella kinesiska produkter ”nedspecade”? Varför exakt?
28. Hur ser den nuvarande organisationen ut i Kina?
29. Hur ser R&D organisationen ut i Kina?

30. Efter vilka mätetal styrs den med? Hur ofta mäts dem?
31. Vilka är förväntningarna? Både från lokalt håll och från central ledning.
32. Hur är den inkorporerad med resten av organisationen och Sverige?
33. Hur pass marknadsnära är R&D? Är enheten mer av en back-office eller front office?
34. Hur ser det ut i förhållande till eget ansvar v.s. centralstyrt ute i organisationen?
35. Hur har ni satt det beslutsmässiga ramverket för enheten?
36. Vilka skillnader och likheter i rutiner har ni funnit mellan Sverige och Kina?
37. Hur ser ni på företagskulturen i Sverige jämfört med den som finns i Kina?
38. Vilka ideal har ni försökt förmedla gentemot Kina-organisationen?
39. Vilka synergier har uppstått, både planerade och oplanerade?
40. Vilka problem har uppstått, både planerade och oplanerade? Dvs både produktproblem och organisatoriska problem.
41. På vilket sätt bidrar den kinesiska R&D-enheten till er värdekedja i Kina och även resten av världen?

Lessons Learned och övriga förberedelser

42. Vände ni er till några specifika journaler/litteraturer och teorier när ni planerade etableringen, i så fall vilka?
43. Tog ni in konsulthjälp inför etableringen, och specifikt med vad?
44. Nu när etableringen till viss del är klar, hur ser ni på förloppet?
45. På vilka sätt var den över förväntan och hur har den eventuellt varit en besvikelse?
46. Vill ni dela med er av några praktiska lessons learned? Alltså, vad som ska tänkas på, dolda fällor osv.

HR-Management

47. Beskriv kortfattat hur ert belöningssystem fungerar.
48. Recruitment
    - **a.** Språkkrav
    - **b.** Arbets/studieerfarenhet
    - **c.** Typ av utlysning/annonsering (headhunters/newspaper ads/ job fairs/ etc.)
    - **d.** Golden handshakes?
    - **e.** Västerlänningar eller kineser som intervjuar?
    - **f.** Hur ser ni på arbetskraftskvaliteten som är tillgänglig?
    - **g.** Hur förhåller ni er till att erbjuda raka karriärsvägar?
49. Training
    - **a.** Vart har fokus legat?
    - **b.** Feedback?
    - **c.** Training centers? I Kina?
    - **d.** Eventuella problem pga kulturella skillnader under träning? Lösning?
    - **e.** Jobbutbyte i väst?
50. Retention
    - **a.** Det pratas mycket om hög turnover rate på anställda i Kina, har ni samma problem?

   - **b.** Vilket är er genomsnittliga anställningstid för olika yrkesgrupper?
   - **c.** Vad har ni för personalomsättning? (%)
   - **d.** Kan ni identifiera några specifikt utsatta grupper?
   - **e.** Hur skiljer det sig mellan de olika yrkesgrupperna?
   - **f.** Vad har de anställda för förväntningar?
   - **g.** Hur ställer ni er gentemot de förväntningar som den anställde har på företaget?
   - **h.** Retention bonus / golden handshakes? Löneutveckling?
51. Vad erbjuder ni som andra företag inte erbjuder?
52. Strävar ni efter att erbjuda något mer?
53. Vad är kvoten för kostnaderna mellan en svensk och en kinesisk ingenjör med samma kompetens hur ändras den kvoten med kompetens och tid?
54. Era största HR-utmaningar?
55. Övriga skillnader och likheter mellan HR i Kina och era operationer i resten av världen?
56. Finns det faktorer som hjälper/stjälper er rent HR-mässigt för att företaget har en svensk/nordisk/dansk företagskultur?