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Industrial parks – a new entrance strategy to the Chinese market

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Abstract

- Title:** Industrial parks – a new entrance strategy to the Chinese market
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- Authors:** Jan Isaksson, Gustav Johansson and Oliver Regnström Larsson
- Advisor:** Cecilia Cassinger
- Key words:** Industrial parks, establishment, China, culture, guanxi
- Purpose:** The purpose of this paper is to shed light on possible cultural, political and legal problems and possibilities that may arise when western companies enter the Chinese market by means of an industrial park.
- Methodology:** An explorative case study of industrial parks. Both primary data in the form of interviews and secondary data such as literature have been used.
- Theoretical perspectives:** The essay is based on theories of business start-ups.
- Empirical foundation:** Empirical data are collected from companies with experience of entering the Chinese market.
- Conclusions:** Industrial parks are not a universal establishment strategy that solves all potential problems. For small and medium enterprises entering the Chinese market through an industrial park could be a good alternative.

Sammanfattning

Examensarbetets titel:	Industriparker – en ny etableringsstrategi för den kinesiska marknaden
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Ämne/kurs:	FEKK01, Examensarbete kandidatnivå, 15 poäng
Författare:	Jan Isaksson, Gustav Johansson och Oliver Regnström Larsson
Handledare:	Cecilia Cassinger
Fem nyckelord:	Industriparker, etablering, Kina, kultur, guanxi
Syfte:	Syftet med denna uppsats är att belysa de eventuella kulturella, politiska och legala problem och möjligheter som kan uppstå för västerländska företag som etablerar sig på den kinesiska marknaden med hjälp utav en industripark.
Metod:	En explorativ fallstudie av industriparker. Både primär data i form av intervjuer och sekundär data i form av diverse dokument och litteratur har använts.
Teoretiska perspektiv:	Uppsatsen baseras på teorier kring företagsetablering.
Empiri:	Empirin är insamlad från företag som har erfarenhet av etablering på den kinesiska marknaden.
Resultat:	Industriparker är inte en universal etableringsstrategi som löser alla tänkbara problem. Att som litet eller medelstort företag etablera sig på den kinesiska marknaden via en industripark är dock ett gynnsamt alternativ eftersom det underlättar nätverksbyggandet.

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1 Introduction

This part of the essay will cover an introduction of the background of the subject. It will also serve to present the purpose of the essay, its issue and the target groups/limitations.

1.1 Background

In recent years, China's economy has grown at an incredible rate and has risen to become the world's fifth largest economy (Ljunggren 2005). This might not seem odd considering that China houses the world's largest population at over 1.3 billion people. However, one must take in to consideration that the economic growth of China had to start out of virtually nothing after the communistic regime of Mao during 1949-1976. Today China is the third largest trade nation in the world (2005). There is however, a darker side of this economic growth in the form of corruption, uneven distribution of wealth and medical care between different social groups etc.

Historically, foreign investors have mostly seen China as a great factory due to its cheap labor and this is still true, many companies establish their production in China. However, the enormous domestic market of China has begun to interest foreign companies who are racing to establish themselves on the Chinese market. The foreign economic interest in China is so great that China is the greatest target of foreign investment in the entire world (2005). Large and well-known brands such as IKEA, H&M, Coca Cola and KFC are well established in China and provide work for hundreds of thousands of people (Ljunggren 2005).

The interest for the Chinese market is something that Swedish companies and investors share with the rest of the world and are rushing to get a part of the profits. China is the most important Asian trade-partner to Sweden with over 250 Swedish companies established on the Chinese market as of today (Ljunggren 2005). However, it's not all easy money; there are many obstacles that must be defeated before companies can reap the profits of investing in China. Or like the Swedish-Chinese Trade Council put it on their homepage:

China of today is a market of opportunities. But the road there can be both long and troublesome. The language, the culture and the tradition are factors that make it harder for Swedish companies to establish business contacts with China.

(Sweden-China Trade Council)

Like this quote mentions, business with China can be profitable but the road there is filled with bumps. This rings true not only for Swedish companies but for all western ones interested in establish themselves on the potentially profitable Chinese market. However, China is a land with an ancient history and culture, a culture that affects how the Chinese people and companies act and perceive things. Translations, symbols and even different meanings of color can lead to misunderstanding between Chinese businessmen, customers or workers and their western counterparts. Other objects that might prove cumbersome are things such as political structure, different views on things such as time and copyright. However, with the right preparations and knowledge, establishing yourself on the Chinese market can prove very profitable.

1.2 Problematization

Many problems await the unprepared company that plans to establish themselves on the Chinese market. The establishment itself can take form in many different ways. It can be done with investments (direct and indirect), licensing/franchising, export/import or even in the forms of joint venture of different kinds. These are all classic marketing-strategies of entering foreign markets. However, no matter if a company plans on constructing a factory in China for its cheap labor, making a joint venture to establish their business on the enormous Chinese market or even making a huge expansion with direct investment into the Chinese market there will still be problems that the company will have to face.

Establishing through industrial parks is a form of establishment that has become increasingly common for companies entering China. The fact that this way of establishment is predicted to play a big role in future Chinese economy (Geng & Hengxin 2009) and that industrial parks is not mentioned along with other entering strategies in traditional marketing literature makes them an interesting field of study.

Different culture means symbols, words and even colors can sometime hold different meaning which can lead to costly mistakes in the business relationships. Also problems can arise when faced with the Chinese legal and political system which can appear complex to western eyes. Also cultural and legal problems may differ from different parts of China due to China being a very large country compared to the European ones (except for Russia). By being prepared of the different cultural, legal and political differences companies can save lots of time and

money and perhaps even beat the competition due to them being able to handle these problems in a superior way.

1.3 Purpose

The purpose of this paper is to shed light on possible cultural, political and legal problems and possibilities that may arise when western companies enter the Chinese market by means of an industrial park. By reviewing three traditional entrance strategies it becomes possible to relate these industrial parks to the more traditional entrance strategies.

1.4 Issue

What are the pros and cons for a western company establishing in China through industrial parks in relation to traditional entrance strategies?

1.5 Target group

This essay is primarily written for students, PhD's and teachers who are studying/teaching economics with marketing and/or organization as specialization. It might also be considered an interesting introduction to companies who have a relationship with China or have plans to establish themselves on the Chinese market within a near future. A rudimentary understanding of economics and marketing/organization is required by the reader since the essay will only briefly cover the basics and mostly focus on more advanced theories.

1.6 Limiting the essay

The essay will be limited to the establishment of companies on the Chinese market. It will not cover follow up after the establishment phase. However, already established companies will be subject of this essay as examples of successful/unsuccessful attempts of establishing a company in China. Also the essay will limit itself to three of the classical entrance strategies in the form of joint venture, licensing and direct investment and only one alternative strategy in the form of industrial parks. The problems faced will be limited to those that are based in cultural, political and legal differences between western and Chinese markets and not other such as economical or technological.

1.7 Definitions

Culture can be defined in many ways. Mats Alvesson's definition: "Culture is regarded as a more or less cohesive system of meanings and symbols, in terms of which social interaction takes place" (Alvesson 2002, p. 5)

According to European Commission an enterprise is "any entity engaged in an economic activity, irrespective of its legal form" (European Commission 2005, p. 12).

European Commission also defines small and medium enterprises: "The category of micro, small and medium-sized enterprises consists of enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro.

Within this category:

Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro." (European Commission 2005, p. 13-14).

2 Method

In this part of the essay, the method used for writing it will be presented.

2.1 Positivism versus hermeneutics

Positivism and hermeneutics are two established research-methods within social science. Within the positivism that comes from natural science the unbiased scientist searches for the true and objective reality. In this essay however, the method primarily used is that of the hermeneutic school. Basically this method is used to try to interpret and understand that which is being studied (Lundahl & Skärvad 1999). This method has been chosen as the best way of answering the questioning and purpose of the essay. The reason for using a hermeneutic method in favor of a positivistic is the interpreting purpose of the paper.

Positivism is the basis of the quantitative method-theory. The quantitative method-theory works in that it measures different actions and attempts to find a connection between these. Since the essay is going to be using a hermeneutic ideal for its research it will be using the qualitative method since this method, just like hermeneutics, mainly focuses on interpretation and understanding (Lundahl & Skärvad 1999).

2.2 Analytical induction versus grounded theory

Analytical induction and grounded theory are two commonly used ways of forming qualitative research. In the research created by using analytical induction you start off with formulating a scientific problem. You then proceed using this formulated problem without forming a formal hypothesis. Afterwards you will proceed to identify relevant and reliable sources. The next step is to pick out the individuals; cases or likewise that is assumed to create new relevant knowledge. Data will be added progressively and then coded and interpreted (Lundahl & Skärvad 1999).

When using grounded theory the process of collecting data, concept development and the developing of theories all take place simultaneously. The work process does not happen in different stages when using this theory but you switch between the different processes on different levels of the work (Lundahl & Skärvad 1999). The method for working on this essay is similar that of the grounded theory since the purpose and issue of the essay have been changed a couple of times to better suit the empirical data gathered for the essay. With this

approach, it becomes possible to follow up new-found and interesting aspects, which in turn leads to a higher degree of flexibility.

2.3 Explorative case study

To answer the issue of the essay an explorative case study will be used. The case study is the most common form of qualitative studies. A case study is a study that only covers one or a few cases that are thoroughly studied in different dimensions (Lundahl & Skärvad). The case in this study is industrial parks. First hand data have been gathered from interviews with representatives from two different companies. The interviews have been about the experience these companies have regarding the entrance on the Chinese market. With the help of the information gathered at these interviews, comparisons of industrial parks and other entrance strategies can be made.

A combination of primary data in the form of above-mentioned interviews and secondary data from the companies' websites will be used in the paper. As a complement to this, certain documents in the form of popular literature will be used in order to create a broader image of industrial parks as means of establishment.

What kind of results that can be used from a case study is debatable since it can be seen both as a first step to the high point of the research. The result of a case study cannot be statistically generalized to be used as a rule for an entire population; instead the result can be used to create theories, to see patterns and to use earlier theories as a benchmark that can be used against the empirical data for comparison (Lundahl & Skärvad, 1999).

2.4 Selection

There have been two interviews with representatives from companies that are active in China. These companies have been contacted using the network Chinese Business Club. By using this network, suitable companies were contacted after being deemed useful for the essay. So a convenience selection has been used rather than a random one. This has been done due to the limited timeframe of writing this essay and also due to this being a qualitative study, meaning that random selection is not as necessary as it would have been making a quantitative study. (Bryman & Bell 2005).

The people that have been interviewed:

Andreas Erensjö, Area Manager, Nordic Industrial Park Co. Ltd.

Dan Fredheim, Vice President Global Sourcing, Bona.

The reason for choosing Nordic Industrial Park is that they are the first foreign wholly owned industrial park in China (Nordic Industrial Park a) and consequently have vast experience with the concept. Andreas Erensjö is the Swedish Area Manager. He handles the initial meeting with Swedish companies interested in establishing within the park. Erensjö has extensive knowledge since a part of his job is to answer questions about the park and to map out the specific needs of a company in order to work out a prospect and therefore proved a good candidate for an interview. The interview with Erensjö was conducted over telephone, tape-recorded and later transcribed (see appendix 1).

Bona has been in China since 2004 and established a production facility in Dalian 2007. They have also set up a training facility in Shanghai where Chinese floor dressers are educated in how to install and maintain wood floors since this is a new phenomenon in China¹. This put together we felt made the company interesting as a case company. The interview with Fredheim took place at Fredheims office at Bona, Malmö. During this interview, notes were taken (see appendix 2).

To find suitable literature for the essay the Electronic Library Information Navigator (ELIN) has been used which has enabled the finding of scientific articles from multiple databases. By using search words such as “industrial parks”, “culture” and “China”, articles that suited the essay were picked out. Some of these articles have been published in various journals like International Journal of Business and Management and Journal of International Marketing.

We have also used Google search on specific topics. Articles found in this manor include newspaper articles and popular science articles. All articles used have been scrutinized in order to assure validity.

¹ Dan Fredheim, Vice President Global Sourcing Bona, interview 100506.

2.5 Structuring and standardization

To help prepare the people being interviewed they were presented with the purpose of the essay and the subject that they were to be questioned about during the interview. Before the interviews were performed preparations were made in the form of writing down the questions that were going to be asked along with follow-up questions. The interviews were dialog developing rather than information seeking. The goal of the interviews was to allow the people being interviewed to give their version of what kind of problems that western companies can face when they establish themselves on the Chinese market. The people being interviewed have been allowed to freely express themselves and to give their own opinions and estimations. The interviews have therefore had a rather low level of structure (Lundahl & Skärvad 1999). The benefits of having a flexible structure is that the focus of the interviews have been able to change during the course of the essay to better suit the focus of the essay itself.

When performing standardized interviews, the structure of the interviews and questions are decided beforehand. When doing the opposite, the un-standardized interview, the interviewer freely choose how to formulate questions and the following up (Lundahl & Skärvad 1999). The interviews performed for this essay have had a low degree of standardization since a more flexible approach has better suited the essay itself. By working this way, the possibility of a qualitative processing of the answers has greatly increased since the answers have been more comprehensive using this method.

2.6 Analytic method

After reading and processing the gathered data and articles and after performing the interviews, we could identify five major problems regarding the establishment of western companies in China. These problems were put in relation to industrial parks and the other strategies used when entering foreign markets that are presented in the theory-part of the essay. In the analysis section the main problems encountered by the entrance strategies being analyzed while also mentioning the benefits of using them. This will be done based on empirical examples gathered by doing the interviews and also from secondary data.

2.7 Validity and reliability

To be able to decide the quality of a quantitative study the terms validity and reliability are used. If the study possesses a good validity it means that the subject that have been the planned target of the research remains so, which can then be reinforced by theories, good instruments and careful measurements. In a qualitative study where the aim is to interpret and understand different connections the term validity instead covers the entire research process (Patel & Davidson 2003).

To be able to answer the issue of the essay, it was decided to do two interviews with handpicked representatives of companies. Like other qualitative studies that cover so few cases it can be problematic to get believable generalized results through this essay (Bryman & Bell 2005). By making a larger number of interviews there would have been a larger amount of empirical data, which would have been beneficial to the essay. Since the analytic part of the essay cover four different strategies of companies entering the Chinese market it would have been natural to interview representatives from four companies that each has experience of using one of the four different strategies. However due to a limited time frame this has not been done.

The study could have a better result if more and newer articles had been used. Another disadvantage with the study is the use of secondary sources. The study could have been more systematic, however the method for working on this study has been that of the grounded theory.

Qualitative research is sometimes subject to criticism regarding them being subjective and therefore built upon the personal opinions of the researchers. Another criticism that qualitative studies have been subject of is that they are hard to reply to. This is because the data gathered for these researches usually is unstructured by its nature (Bryman & Bell 2005).

Good reliability in this case means that a study has been performed in a reliable way (Patel & Davidson 2003). The interviews performed for this essay have been done over the phone as well as face to face. The people that have been interviewed have been experienced and have had good knowledge of their respective company and its involving in the Chinese market. Since the interviews and the questions were announced beforehand the people we interviewed were well prepared and they had the opportunity to decide whatever or not they were appropriate to answer the questions.

3 Theory

In this part of the essay, different theories will be presented before they are used in the analysis.

3.1 The international marketing task

Here the potential challenges and rewards of entering a foreign market is presented. This is to present the reader with a general feel of why and why not companies might want to enter foreign markets.

To enter a foreign market is combined with high risk and a difficult task for any marketer. It is far more difficult since the company will have to deal with not one but two levels of uncontrollable uncertainty (Cateora & Ghauri 2000). These uncertainties exist in all business environments but if a company decides to go abroad it has to face the domestic uncertainties of its home market as well as the target market.

Figure 1 – The International Marketing Task

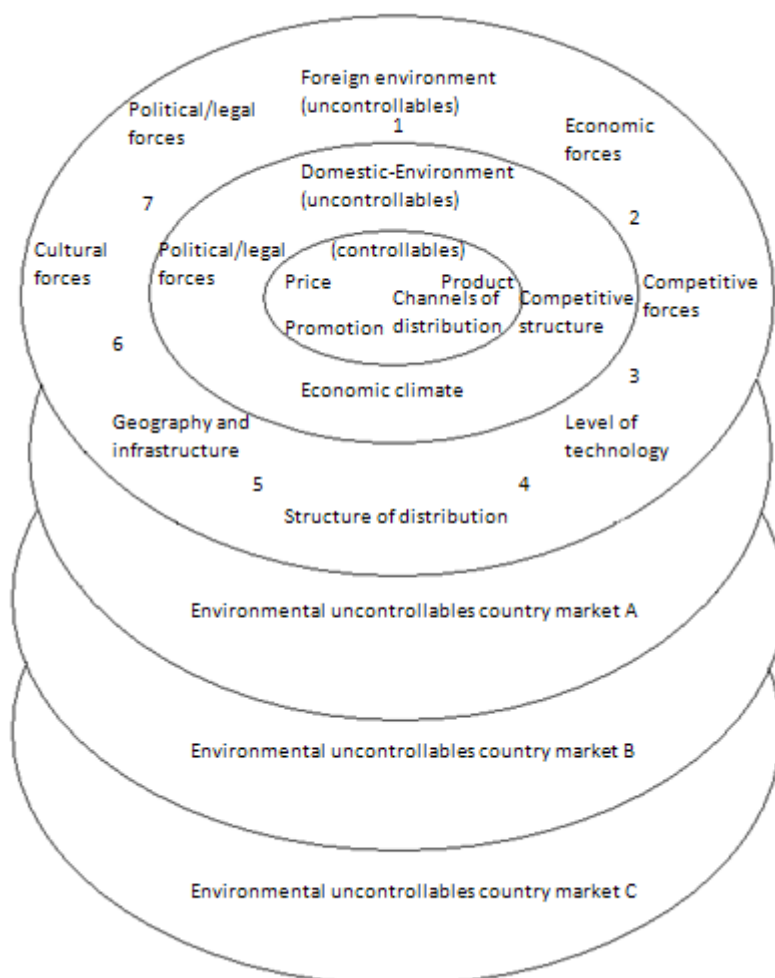


Figure from Cateora and Ghauri 2000, *International marketing*, p. 9.

This figure can describe the uncertainties the companies face. The inner circle represents the controllable factors, these consists of factors such as pricing, promotion, product and channels of distribution, also known as the four P's of marketing (Kotler 1999). These factors can be altered by the company, usually rather quickly to adapt to changes in the marketing environment.

However, there are also factors that cannot be controlled by the company. These are shown in the next circle; the domestic environment. This is the company's home market and the factors here are things such as political/legal forces, the economic climate, the competitive structure and such. These factors do not only affect the company's success on its own domestic market but also on its international market and its success there. Examples of this can be of the domestic political/legal market factors deciding on restricting trade with certain countries by means of trade blockades or tariffs. This could quickly affect the actions on the foreign market if it is affected by these changes.

The third circle consists of the foreign marketing environment and its uncontrollable factors. These factors add uncertainty to a company's decision-making process. Another problem with these factors is that the company will have a hard time to recognize the potential impact of these uncontrollable elements since it's in their foreign environment in time due to not being adapted to the environment. Signs and warnings of incoming danger might be misunderstood or simply ignored due to the company not being prepared for the differences that may exists between the different markets (Cateora & Ghauri 2000). The uncertainty factors for a foreign market consist of political/legal forces, cultural forces, economic forces, competitive forces, geography and infrastructure, structure of distribution and of the level technology. Those that are of most interest for this essay are the political/legal and the cultural forces.

Differences in government, administration and different laws compared to the domestic market can prove difficult for companies when attempting to establish themselves on a foreign market. This makes for what Cateora and Ghauri (2000, p. 11) call an "*alien status*". The alien status phenomenon consists of two dimensions; the first one of these that the company is alien since its controlled by foreigners and the second dimension is that the company is alienated in that the culture of the host country is alien to that of the company's home theater. Some other risks with going into international markets are written by Kotler and

Keller (2009):

- The company might not understand preferences and could fail to offer a competitively attractive product/service.
- The company might not understand the foreign country's business culture.
- The company might underestimate foreign regulations and incur unexpected costs.
- The company might lack managers with international experience.
- The foreign country might change its commercial laws, devalue its current, or undergo and political revolution and expropriate foreign property.

According to Kotler and Keller (2009), most companies would prefer to remain in their domestic market if this market were large and profitable enough for them. Remaining in the domestic market means not having to learn new languages, laws and cultures. Not having to face unstable currencies and governments. Business would be a good deal easier if the company were to remain within its home market. However, there are numerous reasons that companies might consider as an excuse for going abroad:

- Some international markets present higher profit opportunities than the domestic market.
- Some companies need a larger customer base to achieve economies of scale.
- The company wants to reduce its dependence on any one market.
- The company decides to counterattack global competitors in their home markets.
- Customers are going abroad and require international service.

3.2 Different strategies to enter foreign markets

In this section different strategies to enter foreign markets will be presented. Using a carefully selected entrance strategy when entering a foreign market such as China can help companies manage some conflicts that may occur.

Once a company has decided to enter a foreign market it must decide on a strategy. Five different and very broad strategies are joint venture, indirect export, direct export, licensing and direct investment (Kotler & Keller 2009). All these classical strategies differ in potential profit, risk, commitment and control. All will be presented here but only joint venture, direct

investment and licensing will be used in the analysis. The other are included for a sense of completion.

3.2.1 Licensing

Licensing is a form of entrance strategy where a foreign company allows a domestic company in the target area to use the first company's brand, secrets of trade, production facilities etc in exchange for parts of the profit. A form of licensing is *franchising* where the company sells a complete concept along with a working system to the other company (Kotler & Keller 2009).

The drawbacks of licensing except the obvious one of gaining less money are that of control. The original company can't fully control the actions of the company that is licensed. Also it is important to have in mind that once the licensing ends, the company might have created a competitor, therefore it's important to keep in mind not to share all innovations and secrets (Kotler & Keller 2009).

3.2.2 Joint venture

In a joint venture, foreign investors join forces with local investors to establish themselves on a new market and share profits and risks by having shared the control and ownership. Also it can be good for a rich foreign investor to co-operate with locals that have some know-how of the market. The usage of joint ventures might be desirable not only for the obvious economic and risk-minimizing reasons but also for political reasons. For example, governments within the target market might not allow foreign investors to invest all by themselves since they do not want these to dominate their domestic market (Kotler & Keller 2009).

The loss of doing a joint venture is potential conflict between the companies performing the joint venture together. When the companies can't decide in questions regarding investments, allocating of resources, profits and suchlike, the joint venture is performing badly (Kotler & Keller).

3.2.3 Direct investment

The most costly and risky method of establishing your company in a foreign market according to Kotler and Keller (2009) is through direct investment. By investing directly in local companies, buying these or even by building your own, a company can quickly establish themselves at the new market. Buying existing companies might be interesting due to the

know-how that might come with the purchase. Being close to resources, having cheap and/or highly experienced personal can give the company great benefits. The risks of a direct investment are that huge amounts of money are needed and the investment is exposed to the changing market and for example unstable governments, currencies etc.

3.2.4 Indirect/direct export

This is according to Kotler and Keller (2009) the most common way to engage in a new international market. The most usual way to do this is to export your wares/services/concept or idea indirectly to the market, meaning that the company uses an independent middleman to reach the foreign market. This middleman then sells the products on the other companies or to the final consumers. Exporting creates two benefits for companies. The first is the lower cost to invest since intermediaries manage the selling to the final consumers. The second benefit provided by exporting is the reduced risk since intermediaries usually have a good knowledge of the market and can therefore handle the reselling successfully. On the other hand, the potential gains are of course lower when using intermediaries.

3.3 Industrial parks - another way in to the Chinese market

Here a newer strategy to enter foreign markets will be presented in to further complement the classical strategies; industrial parks. This is presented as an alternative to the more classical strategies and will be further analyzed later on in the essay.

Industrial parks are a way of entering a foreign market that is not included in the classical strategies. In China high technology industrial zones are key places for the growth of a middle class, particularly one featuring new skills in management, science, and entrepreneurship. These zones are geographically concentrated heavily in the eastern section of the country (Walcott 2003). Specially limited zones for foreign economic activity in China were established over a century and a half ago. Special Economic Zones established in the late 1970s.

More specialized areas with the mission of fostering businesses in the technology-intensive sector of industry are the 54 Economic and Technological Development Zones (ETDZ). Between 1984 and 1988, the State Council approved 14 of these designed areas within the open cities. They were largely created on greenfield sites adjacent or proximate to established

cities to take advantage of urbanization economies. Additional ETDZs were established between 1992 and 1993 (Walcott 2003).

China's 15 (as of mid-2002) Free Trade Zones primarily feature tax-free bonded warehousing, expedited and less expensive import and export of parts and products. They are all located in harbor cities along the east coast. The 53 national-level Science and Technology Industrial Parks represent a further minor change of this notion. They seek to take benefit of the short-distance "spillover effect" of technology by locating close to a university or research site. The local names differ by designation, but 53 are considered a group with similar characteristics in official state documents (Walcott 2003).

3.4 Potential problems when entering the Chinese market

Regardless of entering strategy companies can have same problems entering the Chinese market. In this section problems that have been discovered when doing research about the Chinese marketing environment will be presented. The problems chosen for this essay are; Chinese law, guanxi, time perspective, marketing research and brands. These five different categories each hold problems that can be encountered when establishing your company on the Chinese market.

3.4.1 Chinese law

Establishing inside China of course mean abiding under Chinese law. Due to the Confucian notion that stipulating laws is not the best way to solve problems, Chinese society has been short of a well functioning legal system since archaic times. From a Confucian standpoint, a better way to influence behavior is instead by using self-regulating moral mechanisms (face and shame) (Fang 1999).

In the legal system of today's China there is an ongoing conflict between two normative elements. On one side there is Chinese legal tradition, on the other, there is western style elements. These elements are expected to function together against the backdrop of a political system that in part does not accept the basic legal principals of which the western norm have sprawled out from (Lagerqvist 2010).

Legal reforms in China have been taken in steps and in different concepts are sometimes tested practically before laws are formally written and introduced into the system. The reform

work has have to function within a structure consisting of a socialistic social system in combination with a mix of a market economy and “state capitalism”, all in constant flux and with elements of the above mentioned conflict (Lagerqvist 2010).

According to Fang (1999), six major flaws burden the legal system:

- The party and government’s instructions (*zhishi*) and opinions (*yijian*) is what traditionally guide Chinese law in the PRC. An example of this Fang names a crucial juncture of China's reform and opening up program in 1992 regarding the nature of the special economic zones. Deng Xiaoping’s tour to Shenzhen in 1992 abrogated previous taboos as the zones were considered to be socialist rather than capitalist.
- Administrative measures and regulations by the government agencies functions as the facto law. All the regulations, orders, decisions, instructions and decrees of the Chinese government (the State council, ministries, commissions, etc. at central and local level) have the force of law and are applicable throughout China (*Brown 1993 in Fang 1999*). The relationship between Chinese companies and external government agencies are not established by law but by administrative regulations (*Boisot & Xing 1992*). Further, the government use unpublished internal regulations (*neibu*) that are unavailable to foreigners to regulate business. Chinese laws are also internationally ambiguous and remain open to interpretation (*Potter 1995 in Fang 1999*).
- There are many loopholes in the legal system.
- Efforts to implement existing laws are fairly anemic.
- The legal concept will take a long time to root itself in society due to a low overall level of education.
- Due to the experimental nature of Chinas reform, existing laws are constantly changing.

China is still a country that is guided by *Rule by law* and not *Rule of law*. The Communist party can be said to be using law in to control its citizens, but does not allow the laws to control the party (Lagerquist 2010). The legal environment and its shortcomings obviously have an effect on how and if foreign companies establish themselves in China.

3.4.2 Guanxi

Chinese people are generally very focused on relations. This means that they rarely do business with people who are complete strangers to them. Before business is made you must first get to know each other and build a relation. In comparison to China Sweden can be said to have a deal- or project focused culture (Fang 2005).

In Sweden you can do business with anyone, even people who are complete strangers to you. You immediately initiate the businesses process and focus only on the deal to be made. Getting to know your business partners is done while you are doing business together. A relationship is created as a bi-product to the ongoing business process. This is a project-based view (Fang 2005).

Before Chinese people enter the formal business process they spend much time and energy to cultivate and develop personal relationships with the potential business partner. There is a period of time of building trust before the business process takes over, a time when you talk about everything else other than the business. The human relationship is not a bi-product to the ongoing business process but rather the key to the formal business process instead. During the business process you talk business and you might go out to eat dinner and drink wine. When the deal is closed you do not end the relationship, you have a moral obligation to maintain the relationship. Maintaining the personal relationship is very important if you wish to make new business in the future, if you do not maintain the relationship, you will be seen as a shortsighted businessman only interested in making money in a single project without any future ones in mind. A good businessman must be able to spend both personal time and business time doing business. Even if relationships are important all over the world they still hold different meaning in different cultures, in China relations are seen with a longer time perspective than they are in the western world (Fang 2005).

A Chinese term that is linked to relationships is the term guanxi. Guanxi can be defined as “a particular kind of interpersonal relationship or connection that serves as a form of social currency. It provides managers with access to scarce information, resources or influence.” (Tsui, Farh & Xin 2000, p. 225). Guanxi is founded on a mutual relationship between people and shows how you take care of family, friends and relatives in China (Björkstén 2005).

Social anthropologists make a difference between the great circuit (society) and the small circuit (family and friends). Western culture is said to often put the greater circuit first while Chinese are said to prioritize the smaller circuit since this have been the only social network you have been able to trust during long times of political instability (Björkstén 2005). Guanxi is built through sustainability and care. Trust is an important component in guanxi and takes a long time to build up. Through performing favors and repaying them you also help building guanxi, asking for help and giving help also creates guanxi equally. Trust is gradually built through sustainability and care. Guanxi can be likened to what in modern management likes to call “networking”. It’s all about creating and maintaining relationships with people who affect your business. Since Chinese officials like to have contact with foreign businessmen and politicians it can often be easier for westerners to create guanxi than for their Chinese counterparts (Björkstén, 2005).

3.4.3 Time perspective

There are two different perspectives on time; M-time and P-time. M-time culture (monochromic time) and P-time culture (polychromic time). M-time is focused on scheme, segmentation, speed and efficiency, which makes M-time ideal for planning. Spontaneity is considered immature and as a lack of planning and structure. The time is seen as linear from an M-time perspective. People who follow M-time do not simultaneously work on two projects but prefer to finish the task at hand before moving on to the next one. Many western people are considered to be living in M-time, Swedish people included. M-time people value being punctual and efficiency (Fang 2005).

The other perspective on time is P-time and what is characteristic for P-time is that multiple actions happen at the same time and time is not seen as linear. Focus is on people participating rather than sticking to the given plan. P-time people do not believe that everything can be planned or schemed and rather believe that anything can happen. P-time people do many things at the same time and have projects running alongside each other. Spontaneity and flexibility is more important than planning and what you do is considered more important than how you do it. Chinese mainland culture is typical for its P-time perspective (Fang 2005).

3.4.4 Marketing research

The systematic gathering, recording and analyzing of data to provide information useful in marketing decision-making.

Operating in a foreign market, or debating whether or not to do so, might present many difficulties and access to good information is imperative. This information needs “range from general data required to assess market opportunities to specific market information for decisions about product, promotion, distribution and price” (Ghauri & Cateora 2006, p. 150).

In addition, a broader scope is needed when performing marketing research on an international level. According to Ghauri and Cateora (2006), research can be divided into three types based on information need:

- General information about the country, area and/or market.
- Information necessary to forecast future marketing requirements by anticipating social, economic and consumer trends within specific markets or countries.
- Specific market information used to make product, promotion, distribution and price decisions and to develop marketing plans.

Furthermore, the broader scope entails collecting and assessing of the following kind (Ghauri & Cateora 2006):

- Economic: growth of economy, industry studies, inflation et cetera.
- Sociological and political climate: A general non-economic view of conditions affecting the divisions business.
- Overview of market conditions.
- Summary of technological environment.
- Competitors: Market share, segmentation et al

In a domestic environment, much of this information is already in place by virtue of long experience with a single market. Entering a foreign market, this information must be gathered (Ghauri & Cateora 2005). In short; information is the key component in developing successful.

3.4.5 Brands

To be able to sell products and services in China you will need a brand in Chinese. Even Chinese people who know how to speak English still prefer their own language to it. Nearly all companies who have been successful on the Chinese market have their own Chinese names for their company and its brands. Short names with few letters can in some cases work but for most companies a local version of the name is preferable. Companies that do not create a Chinese name risk getting one anyways since Chinese people themselves will translate the English name (Lagerqvist 2005).

There are many ways to translate a brand name. Chinese typing is heavy with meaning. It is possible to create a brand name that directly supports the positioning of the company in question. It's often hard to find a Chinese name that sounds like the original name since the Chinese language is very different to pronounce compared to western languages. The Chinese language also has many different accents and dialects, which mean that a name that sounds good in one part of China, might sound very odd in another part. It is also very important that a company finds a Chinese brand that has proven useful and can be protected. This can save the company great sums in packaging and marketing. For many companies the greatest problem is not the cost or the process of registering a brand name in China but the language barrier itself (Lagerqvist 2005).

4 Empirical data and analysis

In this part of the essay empirical data will be presented and analyzed using the theories presented in part 3.

4.1 Presentation of Nordic Industrial Park and Bona

4.1.1 Nordic Industrial Park

Nordic Industrial Park (NIP) is an industrial park in China. Their Area Manager Andreas Erensjö² appreciate there are 20 000 parks like this in China today. NIP is one of the first wholly foreign-owned and operated industrial parks in China. A privately owned Norwegian investment company, Styrbjörn AS, is the main shareholder of NIP. The park owns in China both land and industrial facilities, which including 130 000 m² of offices, logistics and production facilities. According to Erensjö³, there are about 50 Scandinavian companies in these buildings. NIP offers fully decorated and ready-to-use assembly.

NIP wants to offer small and medium-sized companies an easy entry into the Chinese market whether they are involved in sourcing, sales, logistics, consultancy, engineering, assembly or production (Nordic Industrial Park b). In NIP's sales brochure the idea of Nordic Industrial Park is described:

The idea of the Nordic Industrial Park (NIP) is based on our own personal experiences of setting up businesses in China where we faced similar challenges to those of other foreign companies. During the past 10-15 years, we have built a solid network with local partners and authorities with whom we have excellent working relations. This planted the seeds of NIP. We realized that the knowledge and practical know-how we have gathered over the years could benefit other foreign companies.

(Nordic Industrial Park a)

² Andreas Erensjö, Area Manager Nordic Industrial Park, interview 100427.

³ Ibid

4.1.2 Bona

Bona is a company that was founded in Malmö 1919. The company focuses on the wood floor industry and is committed to the whole lifetime of wooden floors. According to Bona, the company is a world-leading innovator with a unique system. Today Bona is through subsidiaries and distributors, present in more than 50 different countries all over the world (Bona). According to Dan Fredheim Bona has under the period of the last ten years established at the Chinese market.

4.2 Analyses of entrance strategies

In this section the entrance strategies in 3.2.1 – 3.2.3 and 3.3 are analyzed in relation to the potential problems in 3.4.

4.2.1 Licensing

For a company establishing in China through licensing, that is, letting a Chinese company use the company brand, it is of course useful to investigate what rules and regulations that applies on that usage. It might also prove useful to find out what the general attitude is towards brands in China. Doing so could minimize negative impact of cultural differences.

According to Björkstén (2005) in order to do successful business in China it is essential to translate the brand name into Chinese. Using a licensing strategy in China without making any adjustments to the brand name could result in problems. Almost all successful companies in China use a translation of their name, except companies using abbreviations.

One company operating in China through licensing under their original name is Kentucky Fried Chicken although they frequently use the abbreviation KFC. Even though the choice was made to use the original name going into China, the company has made various other adjustments. KFC have adapted them to the point that they have changed their approach to customers, their menu and even altered the famous mascot Colonel Sanders to meet the Chinese customer's preferences. Even though all these changes KFC still manage to retain its original idea and image. Thanks to this combination of adapting to the foreign market and still managing to retain their image; KFC is one of the most popular and fastest growing fast food chains in China with over 1800 restaurants and its own distribution channels and logistics to be able to rapidly expand in to smaller towns (Kotler & Keller 2009).

It is important to have a Chinese name that is well protected and works locally. The Chinese language consists of many, and in some cases, very different dialects. Therefore can a name,

which sounds good in one part of the country sound strange in other parts. One example of this is Viagra, which was named “weige” which translates roughly into “big guy”. When Pfizer came around to registering Weige as a brand, local competitors already had done so. In addition, they had registered twenty odd versions of the name. Pfizer instead had to settle with a name few Chinese associate with Viagra resulting in large sums having to be spent on advertising and commercials (Björkstén 2005).

In this case, the problem is the language barrier, not the actual process of registering the trademark (Lagerqvist 2005). For companies establishing in China through licensing it is therefore imperative to listen to the licensee who has local knowledge of how a specific name sound in a particular area. Local language issues can consequently be overcome by having a lucid and clear dialogue.

Refraining from making adjustments to the brand can as previously mentioned lead to problems for a western company establishing in China by means of licensing. Even if a company using a licensing strategy succeeds in avoiding problems, other difficulties may arise.

Erensjö⁴ points to the fact that China is almost a continent in itself. Rules and regulations vary throughout the different districts. It is local authorities that stipulate requirements and superintend the implementation of these requirements. In order to find out exactly what rules and regulations that needs to be observed when establishing, Erensjö advises companies to contact a western company in the same line of business already in place where you wish to establish in order to get information.

For companies choosing a licensing strategy this is less problematic than, for instance, establishment through direct investment as the company remain in their native country, and the company licensed hopefully are familiar with the Chinese legal system.⁵

Using licensing as an establishing strategy could however subject the company to difficulties with how to soundly protect their intellectual property rights (IPR). This is an area that could entail significant problems for newly established companies even if legislation surrounding

⁴ Andreas Erensjö, Area Manager Nordic Industrial Park, interview 100427.

⁵ Ibid

this area is very good in China and well up to par with international standards. The problems derive from the fact that China is a very big country where commitments at national level are not always carried out in the provinces and on a local level. Another problem is the lack of understanding and respect for IPR on these levels (Lagerqvist 2005).

Depending on what line of business the company is in, a licensing strategy could lead to problems with piracy and counterfeiting since there are obvious flaws present in the Chinese legal system and compensation for damages are low. Counterfeiting is not limited to high-end brands and products. “Ordinary” products also get copied and commercially exploited in violation of IPR legislation. For intellectual property holders, this entails a challenge finding the right mix of policies and strategies in order to counteract the problems (Lagerqvist 2005).

Foreign companies seeking successful business in China must often rely on middlemen in order to obtain the proper connections (Yeung & Tung, 1996). One advantage with using a licensing strategy is not having to deal with the painstaking work of building up the ever so important network onsite in China. Instead another company that already has a strong guanxi network in place can be licensed.

According to Yeung and Tung, trust is essential for building a strong guanxi. Regarding market surveys, if the licensed company enjoys a reputation of being trustworthy and on that account has strong guanxi, this could mean that this company has a better chance of a high response rate than a western company lacking guanxi would have.

4.2.2 Joint venture

In what is usually referred to as the West, two companies cooperating in the form of a joint venture is only to a small extent regulated by the state. Since the joint venture entity is unregulated in most legal frameworks, there are no regulations regarding the content of the contracts (Johansson 2001). As long as the content does not violate mandatory legislation, the companies have contractual freedom.

The level of involvement of the state is somewhat different in China. As the vast majority of Chinas biggest companies are still state controlled (Lagerqvist 2010), this means dealing with these companies effectively means dealing with the state and unpublished internal regulations. Government planning and control also extend to foreign businesses in China: “All joint

ventures contracts and articles of association must be approved by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and local government authorities (Foreign Economic Relations and Trade Commissions) depending on the scale and importance” (Fang 1999, p. 82).

Article 5 of Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures reads, when applying for the establishment of a contractual joint venture “such documents as the agreement, the contract and the articles of association signed by the Chinese and foreign parties shall be submitted for examination and approval to the department in charge of foreign economic relations and trade under the State Council or to the department or Local government authorized by the State Council.” (The Standing Committee of the National People's Congress 2000).

The foreign part thus runs a risk of having the contract rejected by the state. When negotiating, the requirement that all joint venture contracts must be approved by the Ministry of Foreign relations and trade “gives the Chinese a formidable “government card” to play: The Chinese negotiator can threaten that unless the foreign company accepts the Chinese requests, the transaction in question will not be approved by the government instructions” (*Chang 1987* in Fang 1999, p. 290).

Clarity of laws and regulations are consequently one of the most problematic operational concerns in a joint venture (Vanhonacker & Pan 1997). Even though Chinese law studies are a growing field of study outside China and expertise is gradually getting better. A foreign company is most likely best served using local expertise of the law. Dan Fredheim⁶ stated that foreign consultants do not understand local reality and can be seen as “gallery experts”, this is plausibly very relevant in this complex area. A number of operational difficulties due to cultural differences are also associated with Joint ventures in China. The nature of these problems depends according to Vanhonacker and Pan (1997) on three factors: national culture of the foreign partner, geographic location and business scope-defined in industrial sector terms. Their study shows that most problematic operational concerns are lack of quality sourcing, recruitment of skilled Chinese managers, high overhead costs, as mentioned above, clarity of laws.

⁶ Dan Fredheim, Vice President Global Sourcing Bona, interview 100506.

Moreover, *guanxi* being vital to a successful business strategy is also accentuated:

In China establishing a good *guanxi* will not only bring benefits to the company, it also makes the firm interior operate well. Moreover Chinese mutative business environment conceal some inevitable risks and barriers. When you get the appropriate *guanxi* network working for you, the risk you will encounter will be reduced
(Yin 2008, p.9)

Fang points out the relevance of different time perspectives, in his example he describes Chinese business students having difficulties formulating a vision and mission statement. The explanation for this is according to Fang is the Chinese orientation towards M-time. People in an M-time culture are less inclined to plan events in a linear manner, as is the case in a P-time culture (Fang 2005). The concept of M- and P-time helps explain a lot of cultural and operational difficulties. This concept seems to be more relevant than Hofstede's theory of Confucian dynamism (Fang 2003).

According to Dan Fredheim⁷ the Chinese are in favor of fast decisions, Swedes have a more bureaucratic approach, as an example of this he points out that Swedes generally want approval from their closest superior before a decision is made. This might result in business lost, when the decision finally is made, the business opportunity might be gone.

In a joint venture situation this uneven speed regarding decisions might cause friction between the companies and undermine a well functioning management.

Bona has not experienced any problems with conveying vision and mission. It is however important to have a flexible stance towards policies in order to avoid losing opportunities. Having flexible policies might also contribute to a smoother operation in a joint venture. Erensjö⁸ see big possibilities of creating an effective organization in China by providing detailed instruction on what should be carried out on each and every station in a production process. Erensjö⁹ illustrates these possibilities by stressing that China is said to be exceptional when it comes to making a great number of people doing something simultaneously. This way

⁷ Dan Fredheim, Vice President Global Sourcing Bona, interview 100506.

⁸ Andreas Erensjö, Area Manager Nordic Industrial Park, interview 100427.

⁹ Ibid

of thinking is more consistent with western P-time orientation where focus is placed on schedules, segmentation, speed, and planning than of the M-time culture, which according to Fang (2005) dominates large parts of China. Erensjö¹⁰ states that a big challenge lies in the administration of the company where it is harder to define work tasks along the lines of a production process.

4.2.3 Direct investment

All the cultural issues discussed under joint venture are relevant also when it comes to direct investment, which might be the next step for a company with a desire to operate on the Chinese market. In a joint venture situation the partner company is likely to have first hand emic knowledge of the market but a western company making a direct investment has to obtain this knowledge singlehandedly. A direct investment is a substantial investment for most companies and competition in China is fierce. If you fail to deliver a good product, your customer will simply choose a different brand. In order to offer a good product, good information about the market is therefore vital. Gathering and deciphering market intelligence in China is conveyed as a challenging task.

Tony Fang (2005) describes a failure in performing a marketing survey using questionnaires. A marketing company sent out 2000 questionnaires to randomly selected Chinese companies. The response rate turned out to be 0.1 %. Fangs explanation for this is lack of trust. What may serve as part of an answer explaining the low trust is that throughout history, the merchants' status in China has been very low. "Confucianism honors knowledge and scholarship and discredits trade and commerce" (Fang 1999, p. 112).

Traditionally, professionalism was divided into four classes. A) Scholars (Shi), B) Farmers (Nong), C) Artisans (Gong), D) Merchants (Shang). Scholars ranked the highest as they produced knowledge. Farmers also ranked high because they produced food. Artisans were considered useful because of their production of tools. Merchants were ranked dead last due to the fact that they produced, nothing (Fang 1999). An illustration of the attitude towards merchants is the Chinese old saying "There is no merchant who is not evil" (Wu shang bu jian) (Fang 1999, p. 176).

¹⁰ Andreas Erensjö, Area Manager Nordic Industrial Park, interview 100427.

During the reign of Mao Zedong and in particular during The Cultural Revolution, as a result of airing the “wrong” opinion people ran the risk of branded “Rightists” and subsequently being sent to Re-education camps (Spence 1999). Today even though there have been a lot of economic and political reforms, the government, to a large extent, controls what the Chinese people can and should say. This could leave people hesitant to answer even seemingly trivial questions regarding consumption. This pattern is seen in states of eastern European, formerly behind the Iron curtain (Hall 2000).

The example provided by Fang describes an extremely low response rate. It is difficult to find any statistics on any average response rate in China, merely reference to as being “low”. It could be questioned if the response rate in China is regarded as low on an international level. In the article “Varför svarar svenskarna” (Why does Swedes respond) by Henrik Hall (2000) at Internationella Handelshögskolan in Jönköping, the author states the following: “The difference in response rate, and we are talking big differences, have a big impact on what kind of survey method that are used in different countries”.

Further, according to the article, Sweden has the highest response rate in the world, regardless of method and purpose of the survey. Hall provides a number of explanations for this as he compares and discusses marketing surveys in different countries. One reason for the high respond rate is the low number of surveys performed: “A decisive difference between the United States and Sweden, which surely affects the response rate, is the number of questionnaires being sent out. A questionnaire or a phone interview is still somewhat interesting, even exciting for many Swedes, while in North America this is mostly a nuisance” (Hall 2000).

Since 2000 telemarketing have increased in Sweden. 1.8 million households have joined the NIX-register, a service that prevents companies to use telemarketing towards a household in the register (Westerlund 2009). The service is run by NIX-telefon on behalf of ten trade organizations including SWEDMA (Swedish direct marketing accusation) and was established October 1 1999 (Nix). The service does not include surveys, marketing surveys, civic information, political campaigns et cetera, but it could be symptomatic of an attitude leaning towards “nuisance”.

Moreover, Hall also addresses choice of method:

The Swedish patency and access to address registers makes large surveys a good option. In the United States on the other hand, a large portion of the population has unlisted phone numbers. This and the fact that surveys using mail rarely has response rate above 15 % has led to the use of other forms of survey with less participants who are used repeatedly in various surveys and are being paid for their time and trouble

(Hall 2000)

Another reason for discrepancies in response rate in can be tied to sociological and political factors:

However, in my view, a more important factor is fundamental differences in the perception of society and various experiences with authorities and organizations one might have. In Sweden we trust authorities and colleges (högskolor) and regard helping them out somewhat of a duty when asked for ten minutes of our time. In Sweden, the boundaries between what you must, should and can do not seem to be fixed. If you declare and pay your taxes, which you do, you should also fill out questionnaires and answer questions over the phone, should it be a commercial research company and not an administrative authority calling, there shouldn't be any reason to be disobliging and say no

(Hall 2000)

Consequently, the main factor influencing response rate seems to be trust, which is consistent with the view of Fang.

4.2.4 Industrial parks

According to Geng and Hengxin (2009) many investments in China from foreign companies are located in industry parks. “However, the general situation and management perspectives of developing Chinese industrial parks are not very clear to the westerners. With the rapid development, industrial parks will play a key role in China’s economy, therefore, those issues relating with China’s industrial parks need to be further discussed” (Geng & Hengxin 2009, p.).

Companies that decide to enter the Chinese markets by the means of using industrial parks have the means of getting general information about the country and the area where the industrial park is located. However, when it comes to more specific information that companies might acquire through marketing research before establishing themselves on the market, it is not always obtainable from the industrial park. Nordic Industrial Park does not perform, according to Andreas Erensjö¹¹, any marketing research for the companies in the industrial park since they believe it to be rather hard for a third party to perform these in China. Erensjö¹² claims that NIP cannot help with marketing research due to the industrial park lacking the detailed knowledge about the company’s activities and products needed to make the most out of the information gathered from potential customers. NIP can however help companies by setting up meetings with potential customers but lets companies do the analysis of the data themselves. The companies that establish themselves through NIP can therefore end up facing the same problems regarding marketing research as companies establishing themselves by other methods.

According to Erensjö¹³, companies that establish themselves through NIP often start up by producing products for western customers in China. These companies keep on using their Swedish brand names when in China and therefore they do not follow the advice of Björkstén (2005) to change the name to a Chinese one when in the Chinese market. According to Björkstén it is very important to have a name in Chinese that is protected and useful. Since the Chinese language have many different dialects, a name that sounds good in one part of the country might not sound so well in another part. Even though the Swedish companies keep their Swedish names when in China they are still very keen on keeping their brands and

¹¹ Andreas Erensjö, Area Manager Nordic Industrial Park, interview 100427.

¹² Ibid

¹³ Ibid

immaterial rights protected according to Erensjö¹⁴. To prove this point Erensjö¹⁵ points out an examples where the industrial Park has helped a company register their brand after a long co-operation with a distributor in China. The distributor claimed and registered the brand name, naturally this meant trouble for the western company.

Industrial parks have been aroused to make rational adjustment in the distribution of small and medium enterprises in towns or cities in China since 1980s. Over the years two kinds of industrial parks have been developed in the country. The first is the parks with one or several anchor companies. The second is the parks composed of small and medium enterprises from many distinct business sectors but without anchor enterprises, which account for the main part of the total industrial parks (Lu, et al. 2005).

Almost every university with a strong tradition in technology-based research is encouraged to construct a park close or within the campus as a location for indigenous technology transfer to a business application. China's creation of science and technology industrial parks form an important part of the country's strategy for taking its place as a major and respected player in the global economy (Walcott 2003).

The companies that are a part of an industrial park in China gets one big advantage compared to companies choosing another form of entrance, namely access to the network that the industrial park have access to. Regardless if the company establish themselves on the Chinese market by joining an industrial park or if they do so by buying land, one of the things that companies, according to Erensjö¹⁶, struggle the most to do is to build up a network against Chinese officials and local authorities. Erensjö claims that it is more important during these circumstances to have good contact with local authorities rather than having good political contacts. This is due to that local authorities interpret the laws regarding foreign companies wishing to enter the Chinese market. The network with the local is therefore extremely important according to Erensjö¹⁷. In the interview with Dan Fredheim¹⁸ it was revealed that he believes network to be of lesser importance to companies when they establish themselves in the parts of China that are classified as development zones. In these parts it is possible to do

¹⁴ Andreas Erensjö, Area Manager Nordic Industrial Park, interview 100427.

¹⁵ Ibid

¹⁶ Ibid

¹⁷ Ibid

¹⁸ Dan Fredheim, Vice President Global Sourcing Bona, interview 100506.

well without having a strong network according to Fredheim¹⁹.

Yeung and Tung (1996) believe that it is very important to build strong relationships with the right people to be successful in China. Schnepf et al. (1990) claims in (Fang 1999) that a well-established network (guanxi) with people in high political positions can create a good basis for good business by being able to affect marketing penetration and the ability to negotiate. According to Erensjö²⁰ there is nothing wrong with having high political contacts, something that many companies already established believe themselves to have. But once the company is in China it is the local authorities that companies need to have good contact with since it is these that can help the company with the approvals and permits that are needed and therefore these contacts are more important than then higher political ones since these usually cant aid the company on a local level according to Erensjö²¹.

A strategy of guanxi can be helpful for a company when it comes to doing background research about potential business partners, when negotiating and when implementing contracts (Hsieh and Liu, 1992). Björkstén (2005) writes that Chinese are usually very good at relations but they tend to see them as something individual. According to this line of thought Chinese people usually lack methods to systematically document and expand networks.

According to Erensjö²² it is a complex and time-consuming work to build up a network against Chinese local authorities as a western company due to cultural, bureaucratic and lingual differences. Björkstén (2005) claims that foreigners usually have it easier to create guanxi and network with the Chinese than the Chinese themselves due to Chinese people being more open, curious and more open to foreigners.

To trust in friendship and good personal contacts is crucial to foreign companies wishing to make it in China according to Hu (1994) in Fang (1999), however, it is a time consuming process to create. The general perception of building a strong useful guanxi being almost impossible and very time-consuming is further reinforced by Björkstén (2005). Also Yeung and Tung (1996) make the conclusion that guanxi is necessary but not enough to have a long lasting business success in China, an example of which being the Nordic Industrial Park

¹⁹ Dan Fredheim, Vice President Global Sourcing Bona, interview 100506.

²⁰ Andreas Erensjö, Area Manager Nordic Industrial Park, interview 100427.

²¹ Ibid

²² Ibid

which is totally dependent on its guanxi in order to succeed according to Erensjö²³.

Another conclusion made by Yeung and Tung (1996) have drawn when it comes to having long lasting business success in China is that non-Chinese companies usually needs to get help by intermediaries when it comes gathering the right contacts in China. An example of such an intermediary could be industrial Parks. It is reasonable to assume that the industrial parks that have already helped numerous companies to establish themselves in the same area have cultivated the contacts necessary to help the companies entering the market. For small to medium enterprises wishing to establish themselves on the Chinese market, industrial parks might seem like an effective shortcut.

In the words of Nordic Industrial Park:

Having a solid Guanxi towards the various local government bureaus represents high value the day you really need help and support. It takes years of relationship building before your Guanxi represents solid value for you and your company. Companies in NIP enjoy our Guanxi from day-1.

(Nordic Industrial Park c)

²³ Andreas Erensjö, Area Manager Nordic Industrial Park, interview 100427.

Figure 2 – Potential cultural, political and legal problems and advantages for western companies when entering the Chinese market.

Entrance strategy	Dominant problems		Dominant advantages	
Licensing	Chinese law	Companies using licensing might have problem protecting their intellectual property rights.	Guanxi	The westerns company can use the local company's network.
	Brands	Translating the brand and adapting it to local conditions can prove troublesome.		
Joint venture	Chinese law	The foreign part runs a risk of having the contract rejected by the state	Guanxi	The westerns company can use the local company's network.
	Time perspective	Different perspectives on time might lead to cultural clashes between the two companies.		
Direct investment	Marketing research	Performing market research might prove difficult for a company to carry out on its own.		
Industrial parks	Marketing research	The industrial park might not have in- house recourses for conducting market research.	Guanxi	The western company gets direct access to a network that can take years to create.

5 Conclusion

There has been extensive previous research done on both entrance strategies as well as culture issues related to China. There seems however seem to be a lack of research taking a comparative approach on the matter. Furthermore, although industrial parks in China seems to be an area of interest for many researchers, (a search on “industrial parks” and “China” in ELIN result in 315 matches), the existing marketing literature says very little about this phenomenon.

It is obvious that there are many difficult issues to deal with when entering the Chinese market regardless if the company establishing through an industrial park or not. When establishing through means of *licensing*, an aspect of great importance is that of branding. Before establishing it is imperative to make sure that the translation of the brand name works in a local context, in regards to meaning and evoked associations. From a legal perspective, in Chinese culture, claiming rights to something immaterial and intangible are regarded as somewhat strange, therefore immaterial property rights is sometimes neglected. As a rightful owner it is consequently essential to have these rights thoroughly protected in accordance with Chinese law. Finally, using licensing as means of establishment, the company gets access to an existing company’s *guanxi*. This can be seen as a big advantage.

When it comes to *joint venture* the level of involvement from the Chinese state regulating even as far down as content of contract is very different from the western way of doing business and this is something that needs to be taken into consideration before going in. Given the speed of reform, it’s of course very hard for a small or medium sized company to keep track on changing regulations and laws. A failure to do so might lead to having to renegotiate or even canceling the establishment. Therefore it seems important to develop connections with legal representation in China on a very early stage. Further, a company could probably benefit from being aware of the different time perspectives and that this sometimes calls for a flexible approach.

In addition to the issues above, *direct investment* require a lot of information about the market and this is preferably done so before entering. Gathering market information in China is from at least from a Swedish point of view difficult and it seems to come down to trust. Swedish companies inexperienced internationally might be used to a fairly “friendly” environment when conducting market surveys. Sweden is, in an international sense, by no means default

but more so an exception. In China, the methods used in a more “hostile” environment, namely the United States might prove more useful.

Industrial parks are an alternative to the classical entrance strategies available to western companies in China. One major advantage for companies establishing through industrial parks, in relation to companies that uses traditional entrance strategies, is that they get instant access to a very strong *guanxi*. To quickly establish contact with local authorities, responsible for interpreting the laws and regulations that foreign companies abide under, help to facilitate a smooth establishing phase. In order to do business successfully in China, having a solid network is crucial. Since establishing this singlehandedly can be a daunting task for small and medium sized companies, industrial parks can prove to be a good alternative. Although this form of establishment facilitates creating *guanxi* it does not solve every problem that might surface. One example of remaining issues is that of gathering market intelligence.

5.1 Further research

In the fast pace of Chinese reform, research results concerning economic issues quickly become obsolete. Therefore to understand the problems associated with establishment in China, further more in-depth studies are obviously needed. Also, since much of the current research regarding entrance strategies seem to be aimed at bigger companies, the possibilities of establishing SMEs would benefit from examination.

Finally, from a Swedish point of view, our knowledge of Chinese law and legal system is today not as extensive as our knowledge of the Anglo-Saxon, German or French legal framework. Research concerning practice in different legal areas, as for instance intellectual property rights and sale of goods, would most likely help avoiding some of the problems previously mentioned.

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Appendix 1

Interview with Andreas Erensjö, Area Manager, Nordic Industrial Park Co. Ltd.

2010-04-27

English

Can you tell us what it is you do?

Nordic Industrial Park is an industrial park in China, there are probably 20 000 of these present. The industrial park concept is common in China, as there has been a desire to control what areas should be opened up and privatized, and what companies that should be allowed to establish where. The unique thing about us is that when we started up in 2003, we were the first wholly owned foreign industrial park, which we might still be. A Norwegian investment company by the name of Styrbjörn stands as the sole owner of the park. We own land and industrial facilities in China, as of today we have 130 000 m² of office-, logistics- and production facilities build. These buildings house approximately 50 Scandinavian companies. We keep the buildings fully equipped and ready for tenets, I have 7 Scandinavian colleagues who are running a service organization who takes care of everything needed in connection with starting up and with day-to-day operations.

Do you have any examples of mistakes Swedish companies make when they establish by themselves that you can help prevent?

When establishing through us, you are in fact establishing by yourself. When establishing in China, the options are...there are different forms of joint-venture..then there are industrial parks, either us or a Chinese industrial park. You can also buy land and build your own production facility, but that is a hassle and only the really big companies do that. The answer to your question, what differs us from others, are that we have built up a Scandinavian milieu, my colleagues are experts on what they do. Then you have IT, management control, recruiting...everything needed in the establishment phase is present in-house, which optimizes the whole structure. For our companies, the time span from decision to full production has been six months. For China, this is unique.

Is establishing through you a form of joint-venture?

No. The alternatives for establishment are joint venture, a Chinese industrial park, our park or buying land.

Do you see any kind of trend as to what kind of companies you cooperate with? What kind of companies are interested in working in China at the present?

No. I can't say I do. What I do see is that companies are more and more interested in the Chinese market; this is a trend I have experienced. China has long been used as the *world factory* it effectively is, through effective sourcing, material supplies from China..and in some cases where you have established production because of low costs. Generally speaking I think the companies focus on the Chinese market and realize that this market would be worthwhile for them to enter. That also goes for the companies in the park, a lot of them have entered China in order to buy cheap. That is, structuring their buy-ins by being on site in China. If you are present in China buying goods, you also build up a network and a knowledge, and you realize there is a market there, which I think is neat. We think that the company type in China

will change due to the fact that companies today present put more and more into research and development and thus express a will to move higher up on the value-chain. We have recently completed the construction of 32 000 m² of office space, which will be ready for tenants by summer. We think this represent the next wave of engineering- and service companies.

You said you can buy land and establish your own factory. As of now, do you think political connections are important in order to do this?

I would like to make the right definition here. If you put it this way, on one hand there is political connections, on the other, there are connections to local officials. I would state that if you want to establish in China, regardless if you are an industrial park or if you buy land, one of two things companies struggle the most with when establishing is to build up a network towards local officials, that is, local authorities. Take Ningbo where we are situated as an example, 68 million people live there, it is divide up into seven districts. In every district you find authorities who set the standards, provide the framework and interpret the laws relevant for a foreign companies establishment and daily operation. This means that establishing a network towards local officials and authorities is important.

Is the party involved at a local level?

I can't comment on that, but these local authorities are executive and then it is said that the party constitutes the board of all executive agencies. So there is a mirror image in the organization, which is that of the party, but the authorities are still the operational and executive organ. The reason for me wanting to make a distinction between the party and local authorities (this I find interesting, it is a good question) is that many companies I talk to, who are about to establish in China, think they have high political contacts, which they regard positive. High political connections are a good thing, nothing said about that. But when you are actually starting up, it's a different ballgame. Then it is the local authorities that call the shots. It is not certain that this politician you have contact with can participate on a daily basis and hold your hand when you are pushing papers, learning how the red tape works and getting your approval from the local authorities. Building up a network towards local authorities is a painstaking and troublesome task for many companies. The process is complicated, the culture, the bureaucracy, the language is all different. I think that is a decisive factor.

Have you seen any signs if the importance of the guanxi culture (networking) deceasing or perhaps increasing?

This I have no real experience of but according to my colleagues it is still a decisive factor. I can't come up with a good answer for this since I don't have the experience. It could be that guanxi is becoming afflicted with a different meaning. Perhaps the phenomenon is changing in the big cities where western involvement is greater. It is possible. In our operation we are completely dependent on our guanxi. Guanxi must be dealt with and handled in the correct way.

Regarding market surveys: It that something you help companies with?

No, unfortunately. We believe that it is hard for an outside party to do market surveys in China. As a company, it is you alone that knows your product, has sure instinct, can compare your product to those of your competitors and listen to your customers and understand what they say about your product. This is hard to do for an outside party, if what we talk about is market surveys in terms of selling. We can possibly book meetings with potential clients in

order to get a feel for things. The analysis itself is hard for hard for anyone else but you to make. My personal opinion is that we can do more in this area but we don't.

Have you heard anything about difficulties with performing market surveys in China?

The process of sales pitching is different in China. It's a lot about building relations and trust. In those cases where we have had companies who might have hired someone and placed them with us in order to pitch on-site it is often difficult. Well, not difficult per se, but you have to realize that breaking the ice in China takes a long time, If it is about finding the first customer, finding a distributor, making sure the distributor meets the quality standards, it all takes longer because building relations, or guanxi is different in China. A lot of companies have run out of patience in this phase.

Are we talking about B2B here?

Yes, most of the time this involves B2B-companies. Patience is lacking and the companies might have had other expectations. If it is B2B it takes time, but I think it takes longer in China because relations matter more. I can think of many examples of companies who have had a Rep office with one employee for a full year without finding that first distributor who is deemed sensible and also interested in doing a job for you. This is not unusual. Many companies becoming aware of the Chinese market might have ideas that are a little bit too ambitious. 1.5 billion people and a gigantic market and many beliefs.

Do you have any clients who have found it hard to communicate the company's mission and vision?

That I think most companies have. Generally speaking, the challenge in China is different because the people live in a society that is communistic and hierarchical. They are used to having their orders described to them in great detail. A running joke is that in Sweden you can explain 50 % and the other 50 % are filled in. But if you in China just explain the first 99 %, the last percent will sink the whole deal. If you for example look at production organizations in China, these companies work adamantly at our facility with explaining in detail what should be done at each station. Partly with text, but also to the extent that pictures are used to explain. If you do this really well, you can end up having a real effective organization. People usually say that there is no place like China where you can have so many people doing the same thing at the same time. I think there is something to that. On the other hand, administrating usually pose more of a challenge for a westerner as its harder to detail the work tasks in the same manner as in the west. Therein lie the challenges I think. You must achieve a state of consent and an understanding of their culture, the Chinese culture.

Are there a lot of companies that translate the company name into Chinese? To my best knowledge you need to also legally register your Chinese name in order to prevent it from being hijacked. I wonder if that is correct.

That is correct. I don't quite know what the law says here, but companies establishing through us use their Swedish name as their corporate name in China. It is often companies setting up production with the purpose of serving western customers in China. Brand protection and IPR are very eagerly protected anyway. We have there have cases where companies have had a long history with their supplier in China. By the timer we help them register, it turns out that the supplier have already registered the brand name and such. Then you have a problem. This question doesn't concern entrance strategies to any large constant. This issue is important to

bear in mind for all companies doing business with China. Regardless if you are in China or conduct your business from your home country, it is important to think things through before making your move.

How do you think a company should prepare before entering China, Both regarding establishment in the country or by contact with the Chinese market in more general terms?

Do your homework. Talk to people who know their stuff, experts. Mistakes are costly in China and it is worthwhile talking to these people. Ask companies with experience that is companies already established in China. I think that is very important. Also, China is a big place; it is a continent, not a country. This thing with the local districts, it has to be frustrating as an enterpriser if you are interested in China, because if you ask questions about what the deal is in China, you will always receive different answers. This is because it is the local authorities that execute and sets the standards. In order to really find out what the deal is you need to talk to western companies in the same line of business and in the district as the one you are planning for in China. Then you can get a decent answer. Moreover, the districts differ. If you just take Ningbo as an example, (Company) tax and sales tax differ between the different districts. This is important to bear in mind.

Do you have anything to add?

If you have more questions, feel free to call.

Appendix 2

Interview with Andreas Erensjö, Area Manager, Nordic Industrial Park Co. Ltd.

2010-04-27

Swedish original.

Kan du berätta om vad ni gör?

Nordic Industrial Park är en industripark i Kina, det finns säkert 20000 sådana. Industriparkskonceptet är vanligt i Kina, man har velat styra vilka områden som ska öppnas upp eller privatiseras, vilka företag som ska vara var någonstans. Det unika med oss är att när vi startade upp 2003 var vi den första helägda utländska industriparken, det kan vara så att vi fortfarande är det. Vi ägs av ett norskt investmentbolag som heter Styrbjörn till 100 procent. Vi äger land och industrifaciliteter i Kina, idag har vi 130 000 m² kontor, logistik, produktionsfaciliteter byggda. I de här byggnaderna huserar ungefär 50 skandinaviska företag. Vi har byggnaderna färdigutrustade redo att flytta in i, jag har 7 skandinaviska kollegor som står för en serviceorganisation med allt som krävs i samband med uppstart och daglig drift. Vi hjälper skandinaviska företag att komma igång och ha en bra daglig drift i Kina.

Har du några exempel på misstag som svenska företag gör när de försöker etablera sig på egen hand som ni kan hjälpa dem att undvika?

Man etablerar sig på egen hand hos oss. När man ska etablera sig i Kina är alternativen... det finns olika joint venture-former... sedan kan man gå till industriparker, antingen till oss eller till en kinesisk. Eller så kan man köpa land och bygga sin egen facilitet, men det är krångligt och idag är det bara de riktigt stora som gör det. Svaret på frågan är att det som skiljer oss från andra är att vi har byggt upp en skandinavisk miljö, mina kollegor är specialister på det de gör. Sedan har du IT, ekonomistyrning, rekrytering... alla sådant som behövs vid etablering har de in house, det gör att man kan komma igång otroligt snabbt och få en bra daglig drift, det optimerar hela strukturen. För våra företag har det tagit högst sex månader från beslut till att komma igång med full produktion. Det är väldigt unikt i Kina.

Är det en form av joint venture när man etablerar sig vid er park?

Nej. Alternativen för etablering är joint venture, kinesisk industripark, vår park eller att man köper land.

Ser du någon trend i vilken typ av företag som ni samarbetar med? Vilken typ av företag som vill jobba i Kina nu?

Nej. Det kan jag inte påstå att jag gör. Däremot ser jag en tydlig trend att företag blir mer och mer intresserade av marknaden i Kina. Det är en trend jag har upplevt. Längre har man utnyttjat Kina som den världsfabrik som Kina är, genom att sourca effektivt har materialförsörjning från Kina... och i vissa fall har det varit case där man har etablerat produktion för att det är låga driftkostnader. Generellt sätt tycker jag att företagen fokuserar på marknaden och inser att de kan ha en marknad där. Det gäller också företagen i parken, många har etablerat sig för att köpa in billigt, alltså strukturera upp sina inköp genom att vara på plats i Kina. Om man är där med sina inköp bygger man upp ett nätverk och en kunskap, då inser man också att det finns en marknad och det tycker jag är väldigt kul. Vi tror att det kommer bli en annan typ av företag i Kina i och med att de satsar mer på utveckling och vill

ta ett kliv upp i värdekedjan. Vi har precis byggt 32 000 m² kontor som står klart till sommaren. Vi tror att detta är nästa våg med engineering och service- och tjänsteföretag.

Du sa att man kan köpa mark och etablera sin egen fabrik. Tror du att politiska kontakter i dagsläget är viktiga när man ska göra detta?

Jag skulle vilja göra rätt definition här. Om man uttrycker sig så här; det finns dels politiska kontakter och dels tjänstemannakontakter. Jag hävdar att om du ska etablera sig i Kina, oavsett om du är en industripark eller om du köper land, är en av två saker som företag kämpar mest med i samband med en etablering i Kina är att bygga upp ett nätverk mot tjänstemän, alltså mot de lokala myndigheterna. Ta Ningbo som exempel där vi finns. Där bor 68 miljoner människor, det är uppdelat i sju distrikt. I varje distrikt sitter alla myndigheter som sätter kraven, ramarna, tolkar lagen för ett utländskt företags etablering och dagligdrift. Det innebär att det nätverket är viktigt, till de här lokala myndigheterna, till de lokala tjänstemännen.

Har partiet ett finger med på lokal nivå?

Det kan jag inte uttala mig om, men de här lokala myndigheterna är verkställande sedan brukar man säga att styrelsen i alla verkställande organ är partiet. Så det finns en spegling i organisationen som är partiet men myndigheterna är ändå operativa och verkställande. Anledningen till att jag vill skilja mellan partiet och tjänstemän, (det här tycker jag är intressant, det är en bra fråga,) är många företag som jag pratar med som ska etablera sig i Kina tycker att de har bra höga politiska kontakter. Det är bra, inget ont om det men det är en helt annan sak sedan när du ska igång. Då är det de lokala myndigheterna som gäller, då är det inte säkert att den här politikern som du har kontakt med är med dagligen och håller i handen när du ska springa in med papper till de lokala myndigheterna och lära sig byråkratin och få godkännande och tillstånd från de lokala myndigheterna. Just att bygga upp ett nätverk mot lokala myndigheter är ett stort arbete och krångligt för många. Det är krångligt, en annan kultur, en annan byråkrati, ett annat språk. Jag tror att just det är en avgörande faktor.

Har du sett något tecken på att guanxikulturen, alltså detta med nätverkande, har minskat eller kanske ökat i betydelse?

Det har jag ingen riktig erfarenhet av men mina kollegor menar att det fortfarande är väldigt avgörande. Det här har jag inget bra svar på, på grund av att jag inte har någon erfarenhet. Det kan vara så att guanxi får en annan betydelse, kanske förändras det i storstäder där det är en större västerländsk inblandning. Det är möjligt. I vår verksamhet är vi helt beroende av vår guanxi. Det gäller att hantera den på rätt sätt.

En fråga om marknadsundersökningar; är det något ni hjälper företag med?

Nej, tyvärr. Vi menar på att det är svårt för en tredje part i Kina, som företag är det bara du som kan din produkt och som har fingertoppskänsla och kan jämföra den med konkurrenter och lyssna på kunder och förstå vad de säger om din egen produkt. Det är svårt för en tredje part. Om vi nu pratar om marknadsundersökningar i termer om att sälja. Vi kan möjligtvis boka upp möten till potentiella kunder för att man ska få en känsla. Själva analysen är svårt för någon annan att göra. Jag tycker väl att vi kan gå in och göra det där lite mer men det gör vi inte.

Har du hört talas om att det skulle vara svårt att göra marknadsundersökningar i Kina?

Införsäljningsprocessen är annorlunda i Kina. Det handlar mycket om att bygga relationer och förtroende. De fall där vi har haft företag som kanske anställer en person och sätter den hos oss för att sälja in i Kina är det ofta svårt, eller det är inte svårt men man måste veta att det tar lång tid i Kina att bryta isen. Om det nu handlar om att hitta första kunden, hitta en distributör, kvalitetssäkra en distributör så tar det längre tid på grund av att relationsbyggandet eller guanxi i Kina är annorlunda. Så där har många tappat tålamodet.

Handlar det då om B2B?

Ja, det är det oftast. Man har dåligt tålamod, men hade kanske andra förväntningar. Är det B2B så tar det tid, men jag tror också att det tar lite mer tid i Kina för att relationer är viktigare där. Jag har många exempel på företag som har haft ett Rep Office med en anställd under ett helt år för att hitta den första distributören som man bedömer är vettig och intresserad av att göra ett jobb. Det är inte ovanligt. Många som får upp ögonen för marknaden i Kina kan ha lite ambitiösa idéer. 1,5 miljarder människor och jättemarknad och så tror man mycket.

Har du någon kund som har upplevt det svårt att kommunicera företagets mission och vision?

Det tror jag att de flesta har. Generellt sätt så är det en annan utmaning i Kina eftersom de kommer från ett kommunistiskt hierarkiskt samhälle. De är vana vid att få orders väldigt detaljerat. Man brukar skoja och säga att i Sverige kan du förklara 50 %, så fylls de andra 50 % i. Medan om du i Kina bara säger 99 % så stjälpes den sista 1 % hela casen. Tittar man exempel på produktionsorganisationer i Kina så jobbar företag stenhårt hos oss med att detaljera shoppa och vad som ska utföras på varje station, dels med text men även att man går så långt att man förklarar med bilder. Gör man det där riktigt bra kan man få en väldigt effektiv organisation. Man brukar säga att det finns ingenstans som i Kina där man kan få så många att göra samma sak samtidigt. Det ligger nog lite i det. Å andra sidan brukar man som västerlänning få lite mer utmaning i en administration, för där är det svårare att detaljera arbetsuppgifterna på samma sätt. Däri ligger nog utmaningarna. Det gäller att ha ett samförstånd och förstå deras kultur, den kinesiska kulturen.

Är det många företag som översätter sitt namn till kinesiska? Jag har för mig att då måste man väl varumärkesskydda det kinesiska varumärket också, rent legalt, för att det inte ska bli hijackat. Jag undrar om det stämmer?

Det är riktigt. Jag kan inte juridiken här riktigt men de företag som etablerar sig hos oss använder sitt svenska namn som bolagsnamn i Kina. Ofta är det företag som sätter upp en produktion för att serva västerländska kunder i Kina. Varumärkesskydd och immateriella rättigheter är man väldigt mån om att skydda ändå. Där har vi haft case där vi har hjälpt ett företag att registrera företag som har handlat länge hos en underleverantör i Kina. Då visar det sig att denna underleverantör har registrerat varumärken och liknande. Då har man ett problem. Den frågan har inte så mycket med etablering att göra, det är viktigt att tänka på för alla företag som gör affärer med Kina oavsett om man är på plats i Kina eller om man sitter här hemma så får man tänka igenom saker och ting innan man tar steget.

Hur tycker du att man bör förbereda sig inför en etablering i Kina eller en kontakt med den kinesiska marknaden överhuvudtaget? Vad är det viktigaste du kan komma på?

Gör din hemläxa. Prata med folk som kan, experter. Misstag kostar i Kina, det är värt att snacka med folk som kan. Fråga företag som har gjort det också, alltså företag som är

etablerade. Det tror jag är väldigt viktigt. En fjärde sak; Kina är stort, det är en kontinent, inget land. Det här med de lokala distrikten, det måste vara frustrerande som företagare om man är intresserad av Kina för om man följer frågor om vad som gäller i Kina kommer man alltid få olika svar. Det beror på detta att de lokala myndigheterna som verkställer och sätter kraven. Ska man veta vad som gäller måste man prata med ett västerländskt bolag som har samma verksamhet som man själv planerar i Kina i det distriktet där man vill etablera sig. Då kan du få hyfsade svar. I övrigt skiljer det sig mellan distrikten. Bara i Ningbo är det olika skatt och moms mellan de olika distrikten. Det är inte att förglömma.

Har du något att tillägga?

Ring om det är något.

Appendix 3

English notes from the interview with Dan Fredheim, Vice President Global Sourcing. 100506

According to Fredheim:

Bona had customers in Asia. The company started up in Sweden and later branched out to various European countries, Australia, China and Singapore. Bona came in contact with Singapore through one of its first distributors. From there, the company has sold its products to other distributors in other parts of Asia. The next step for Bona was a sales office in Beijing. In the beginning of 200, the company obtained suppliers in China. Bona had customers in China who bought products from the company's ultra violet line of products (UV-varnishes is one of five different product areas in the companies portfolio) From 2008 the companies entire range of products are available in China. At present they manufacture machinery and cleaning kits in China. In Dalian there is a development center.

It took one year to build an office in an area outside the areas classified as development centers and three weeks to build a factory inside one. In areas classified as development centers everything consequently happens at a much quicker pace.

Contrary to the situation in Sweden, exhibitions and fairs are still important venues to attend.

Bonas recipe for success spells:

- a) Where other companies buy raw material Bona manufactures it.
- b) Bona educates and trains of artisans all over the world in the local language in how to maintain wood floors.

This strategy has also been exercised in China.

Companies much smaller than Bona are able to establish their own factories in China. Fredheim cannot see why not. . As long as the factory is established inside a special economic zone the size of the company does not matter.

In terms of environmental thinking, China as a country is lagging. However, Bona is far ahead of its competition, in this area according to Fredheim.

Bonas local contact person's network was irrelevant when establishing because they choose to establish in a special economic zone. Guanxi is of less concern in these areas according to Fredheim.

The company has had no problems with communicating vision and mission because the company's mission is well articulated. In contrary it's the Swedes who has a problem understanding the situation of the Chinese.

It is easier to lower than to raise prices, therefore when entering a new market, prices are preferably kept high.

Non-Chinese consultants do not understand local reality; they could rather be regarded as gallery experts according to Fredheim.

The Chinese wants speedy decisions, Swedes are more bureaucratic and wants approval from their closest superior before making a business decision. When the decision finally is made, the business possibility might be gone. If you are not familiar with Chinese culture, it might be hard to understand why this is.

China can at the same time be the world's fastest country and the world's slowest country. Business is conducted in a manner which we (westerners) are not used to. The Chinese wants to meet right away and if you meet the right person Fredheim are of the opinion that things happen quickly.

Time is not regarded as linear in China. The Chinese are always reachable for example, cell phones are not turned off during meetings.

When establishing in China, company policies sometime has to be changed. It is important to. It is important to have a flexible approach to this matter. Use local personnel to understand the local market.

Bona was at first opting for a different Chinese name but were not allowed. The reason for this was the name being to close to an existing one or already taken. The Chinese chief of sales was working with the name process. Fredheim does not know if the name is registered.

Appendix 4

Swedish original notes from the interview with Dan Fredheim, Vice President Global Sourcing. 100506

Enligt Fredheim:

Bona hade kunder i Asien. Företaget började sin verksamhet i Sverige, senare andra länder i Europa, Australien, Kina och Singapore. Kom i kontakt med Singapore via en av de första distributörerna. Därifrån har företaget sålt till andra delar av Asien, bland annat till Kina, till andra distributörer. Nästa steg var ett säljkontor i Peking. I början av 2000-talet skaffade företaget underleverantörer i Kina. I Kina fanns uv-kunder (uv-lack är ett av företags fem affärsområden). Från 2008 finns hela sortimentet i Kina. Gör nu hela maskiner och kit i Kina. I Dalian finns ett utvecklingscentrum.

Det tog ett år att bygga ett kontor i ett område som inte klassas som utvecklingscentrum och tre veckor att bygga en fabrik i ett utvecklingscentrum. Där det är klassat som utvecklingscentrum går allt mycket snabbare.

Tillskillnad från i Sverige är det i Asien fortfarande viktigt att vara närvarande på mässor.

Bonas framgångsrecept består av

- a) Där andra köper in råvaror, tillverkar Bona råvaran
- b) Utbildning av hantverkare över hela världen på det lokala språket.

Vid etableringen i Kina använda Bona sitt normala framgångsrecept.

Mycket mindre företag än Bona kan sätta upp en fabrik i Kina, Fredheim ser inget problem med det. Så länge fabriken sätts upp i ett utvecklingscentrum spelar företagsstorleken ingen roll.

Kina som land har inte kommit så långt med miljöbiten, men Bona ligger enligt Fredheim långt före konkurrenterna.

Bonas lokala kontaktpersons nätverk var oväsentligt eftersom det var i ett utvecklingscentrum, nätverk spelar mycket mindre roll i sådana enligt Fredheim.

Företaget har inte haft några problem med att kommunicera vision och mission eftersom företaget har en så pass tydlig mission. Enligt Fredheim är det snarare svenskarna som inte förstår kinesernas situation.

Det är lättare att sänka än att höja priset, därför går man gärna in med ett högt pris till en ny marknad.

Utländska konsulter förstår ej den lokala verkligheten, de är snarare läktareexperter.

Kineserna vill enligt Fredheim ha snabba beslut, svenskar är mer byråkratiska och vill få saker och ting godkända av sin närmsta chef innan beslut fattas. När beslutet är fattat kan

affärsmöjligheten vara borta. Om man inte är insatt i den kinesiska kulturen kan det vara svårt att förstå varför det är på detta sätt.

Kina kan på samma gång vara världens snabbaste och långsammaste land. Affärer går till på ett sätt som vi ej är vana vid. Kineser vill träffas på en gång och om man träffar rätt person är Fredheims uppfattning att det går ganska snabbt.

För Kineser är inte tiden linjär. Kineser är alltid närbara, ett exempel på detta är att mobiltelefoner inte stängs av vid möten.

Vid etablering i Kina behöver ibland policies ändras, det gäller att vara flexibel. Det gäller att förstå marknaden via lokala personer.

Företaget sökte ett annat kinesiskt namn men fick ej detta. Antingen låg det för nära något annat eller var det upptaget. Den kinesiska säljchefen jobbade med detta. Fredheim vet inte om det är registrerat.