

Success factors for market expansion of Western born global firms entering China

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Western companies have for long followed the internationalization process described as the Uppsala model. The model states that companies gradually expand to, often nearby, regions that are similar to their domestic market. The choice of the next country to expand to is based on a low psychic distance, which takes into account factors such as culture, language, and business practice. With the emergence of the phenomenon of born global firms, the Uppsala model could not explain the new and rapid internationalization process that took place. Born global companies could expand to entirely different markets without being dependent on either physical or mental proximity to the new markets.

Despite the relatively new trend of rapid internationalization to large parts of the world, some companies are avoiding entering the world's second-largest economy, China, while other companies see it as a golden opportunity. Even if the company is successful in entering the country, their visit may be short-lived. A comparison between companies that have entered China, managed to stay in the country, and those that avoid China is made in this project to find differences and similarities, as well as identify success factors to become part of the Chinese market.

Because of this, the topic got researched to identify the factors that indicate success when Western born global companies expand to China. The purpose of the project was to identify critical success factors and to create a visual framework for important aspects of a market entry into China. In addition to Sweden, the project was also carried out in Singapore to get closer to Chinese culture and reach people who could contribute to the project. The reason it was not made in China was due to the COVID-19 pandemic, which made it difficult to enter the country. In Singapore, a course was conducted on the Chinese economy, attendance at foreign policy talks on China, and discussions with people associated with the business climate in the country. The project was mainly carried out through a literature study, interviews, and a case study on various companies.

By conducting a literature study on China and born global firms, important factors were picked out. These conclusions were put together in a framework to visualize the features that characterize the market and how born global companies can adapt to these to achieve success. The framework was iterated with interviews and a case study to identify the most critical aspects of a market expansion to China. Finally, the framework got applied to the European company XXXXX.

The final framework, see below, contains four pillars and four rows with bullet points of core attributes within each segment. Each pillar is based on the previous giving that China attributes indicate which traits are affected of born global firms, which issues it leads to, and which actions are necessary to take.

	China	Born global firms	Issues	Actions
Business Fit	<ul style="list-style-type: none"> Societal and cultural fit (S) Political fit (Mo) Industry fit (Mo) Common prosperity (Co) Crackdown (Co) Expectations on companies (Co) Laws Local variations (S) Confucianism (Co) 	<ul style="list-style-type: none"> Networks Change makers Innovative culture Managers 	<p>How does the company contribute to a socialist society?</p> <p>In which cultural and societal context does the company fit into?</p> <p>How does the company, and home country, fit into the political context?</p> <p>Is the industry open for foreign companies to operate within?</p>	<p>Define the purpose of entering the country. (Managers)</p> <p>Create shared values connected to the country's socialist vision. (Change makers)</p> <p>Increase agility and flexibility to manage the rapid changes on the market. (Innovative culture)</p> <p>Operate the business locally with local networks. (Networks)</p> <p>Focus on establishing trustworthy mutual relationships. (Networks)</p>
Focus on Value Creation	<ul style="list-style-type: none"> New technology (Co) Shift from low-cost to high end Investments in R&D and innovation Open to international collaboration Future growth depends on high productivity Advanced products and services (S) 	<ul style="list-style-type: none"> Unique offerings Resources and capabilities Reduced low-cost arbitrage Flexible and agile Innovative and high tech 	<p>Are our offerings and connected services advanced or basic?</p> <p>How does the company create value for all potential stakeholders in China?</p> <p>Are we operating in an industry encouraged for investments?</p> <p>How do we benefit from Chinese investments in high tech industries?</p>	<p>Offer high tech solutions. (Unique offerings)</p> <p>Leverage internal knowledge and connect it to the country's necessity of evolving within science and technology. (Resources and capabilities)</p> <p>Be able to take decisions quickly and adapt the business to create value for multiple stakeholders. (Agile & Innovative and high tech)</p>
Technology and Digitalization	<ul style="list-style-type: none"> Advanced country with large digital economy Smart cities Globally integrated with domestic protection Follows international standards but adaptations necessary Accelerating digital development Not uniformly matured 	<ul style="list-style-type: none"> Leverage ICT Networks and agents Innovative and high tech Remote offers 	<p>Which partners, global or local, can provide necessary supporting services in China?</p> <p>Which region provides best support and prerequisites?</p>	<p>Go digital local and identify advantageous region. (Leverage ICT & Remote offers)</p> <p>Secure a reliable network or partners suitable for the business. (Networks and agents)</p> <p>Be aware of applicable laws.</p> <p>Absorb Chinese technology and benefit from investments. (Leverage ICT & Innovative and high tech)</p>
Risks	<ul style="list-style-type: none"> Low IP protection Corruption Protectionism of domestic companies Tariffs and unfair trading Forced technology transfer Social differences Political landscape COVID-19 measures Competitive environment Sensitive topics 	<ul style="list-style-type: none"> Few organizational routines Networks and agents Innovative culture Intangible resources 	<p>What environment does the firm want to operate in and contribute to?</p> <p>Does the company have satisfactory corporate governance?</p> <p>Can the company handle protracted legal processes connected to IP rights and forced technology transfer?</p> <p>What are the effects, short and long term, if a competitor in China gets access to the technology right after establishment?</p> <p>Which unique competences can the discriminated foreign company leverage to compete with domestic businesses receiving advantages?</p>	<p>A good corporate governance system should be in place. (Few organizational routines)</p> <p>Create sticky knowledge that cannot be easily transferred. (Intangible resources)</p> <p>Develop a reliable network preventing technology leakage. (Networks and agents)</p> <p>Leverage intangible resources and agile operations. (Intangible resources & Innovative culture)</p> <p>Awareness and credible communication.</p>

The final framework of important aspects to consider for born global companies when expanding to China.

Through this project, it was possible to shed light on which factors are essential to take into account for Western born global companies to fit into the Chinese market. One of the most prominent characteristics was the outsized role of the Chinese government, compared to Western countries, which naturally affects business in the country. Many companies declined to participate in interviews due to uncertainty and fear of making incorrect statements, which was also surprising. Although there are many differences politically, culturally, and business-wise, there is much to be gained from the country. Being able to learn lessons from the country, and understand differences, are core attributes for operating successfully in China.