

# Doing Business in China

Key Success Factors for Building a Sustainable Presence in the Chinese Market

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## Abstract

International expansion has become more and more important for companies in search of growth. China, especially, as a large and fast growing country, has become an increasingly popular target for such expansion. Sweden and its companies, being export dependent and with an ever increasing volume of exports to China, have a strong interest in understanding the question 'What are the key success factors for a Swedish MNE for building a sustainable market presence in China?' A single in-depth case study has been chosen to analyze such a complex question.

The internationalization process can be broken down into four phases - exporting, licensing, JV and WOFE - and seen as a longitudinal process. For each phase, this thesis examines various factors and breaks them down into three categories believed to be important for the internationalization process: (i) Partner Interaction; (ii) Control and Protection and (iii) Product and Management. The literature identifies success factors for each phase and our findings support this.

Overall five overarching success factors could be observed within the phases and categories. In line with the theory of internationalization, *experiential learning* plays an important role and is seen as vital to succeed in the Chinese market. The study also provides evidence to support and add to the network theory arguing that, rather than having a strong and extensive network, having the right *network* and listening to the network contacts are of utmost importance. *Continuity* and *endurance* for the development of trust; *protection of technology*; and becoming a *local actor* were identified as the three final key success factors for building a sustainable market presence in China. The finding that continuity is vital in the Chinese market is particularly interesting as it adds to Yang's (2010) theoretical addition about social networks in China.

The idea, however, that clear-cut golden rules exist for building a sustainable market presence in China was not supported; neither within the phases nor overarching the phases.

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## Abbreviations

CEO	Chief Operating Officer
EE	Emerging Economy
EU	European Union
FECL	Foreign Economic Contract Law
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPR	Intellectual Property Rights
JV	Joint Venture
MNE	Multi National Enterprise
PRC	People's Republic of China
PPP	Purchasing Power Parity
SEZ	Special Economic Zones
UN	United Nations
WOFE	Wholly Owned Foreign Enterprise
WTO	World Trade Organization

# 1 Introduction

*“If you want to be the market leader in the world, you have to be number one in China.”*

*(Ronnie Leten – President & CEO Atlas Copco)*

## 1.1 Growth and market expansion

Growth, preferably above market average, is crucial for any company looking to ensure its future. There are, of course, many ways to achieve this goal, however, Porter (1998) and Dubs et al. (2004), see company expansion to other markets as one of the most meaningful ways to do so. With trade barriers vanishing, transportation getting faster, and information exchange accelerating thanks to technological advancements, the concept of international expansion is becoming more and more relevant to companies (Sprig, 2011). In recent years, one country above all others has been of special interest to firms seeking to expand: China.

Following China’s economic reforms in 1978, foreign companies were allowed to establish business operations and an enormous market emerged. When China, after thirteen years of negotiations, successfully joined the World Trade Organization (WTO) at the end of 2001 it had a remarkable impact on the economic growth of the country (Chan, 2006). In 2004, China became the top country of foreign direct investments in the world with a total of USD 123 billion (United Nations, 2006). Already by 2004, 80% of the Fortune Global 500 companies<sup>1</sup> had invested in China – a figure that is likely to be close to 100% by 2015 (Gao, 2008). Today, China is the world’s largest market for beer, cars, cement, elevators, high-speed rail networks, internet (253 million users), iron ore, on-line games, steel, white goods and wind turbines (Asia Pacific Executive Advisors, 2011).

In 2006, almost 100 Swedish companies with no previous presence in China entered the Chinese market (SEB & Swedish Trade Council, 2007) and many of the Swedish companies already there expanded geographically in the country. China is becoming more and more important for Swedish companies because Sweden is a high-export country. In 2009 the total exports accounted for 49% of the total Gross Domestic Product (The World Bank, 2011d). In the same year exports accounted only for 36% of the GDP in the European Union (EU), 24% in high income countries and 11% in the US (The World Bank, 2011e). Historically Germany and the United States have been the main export markets for Sweden and the literature focuses on these markets for international expansion. For the last five years however, the compound annual growth rate of exports to China has been 14% while it has been 0% for the exports to Germany and -6% for the exports to the US (Swedish Trade Council, 2011).

Unfortunately not all companies that expand to China are successful (Harold & West, 2005). Large international companies such as Bulten, Foxconn, BestBuy and Vodafone have failed in China. Fiat – highly unsuccessful in its first approach – initiated a second market entry attempt

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<sup>1</sup> The Fortune Global 500 are the top 500 global corporations as ranked by their gross revenue published and compiled by Fortune Magazine



in 2010 which, again, does not look promising (Hill, 2011a). It has become clear that doing business in China is difficult. The culture, language and political system are different to the West and successful western business practices often do not work there (Hill, 2011a; Turley, 2010).

Many Western magazines focus solely on the Chinese economy and business world<sup>2</sup>. There is also an extensive academic literature on how to succeed when doing business in China with insights on the culture, business practices and communication aspects that should be taken into account when working there (Ambler et al., 2009). Most articles focus on specific aspects about doing business in the country and, since piracy is considered a major threat in China (Stock, 2006), copyright and intellectual property issues are commonly featured. Others discuss joint ventures and their composition while, more recently, due to the development of the Chinese market, articles relating to human resource management and after-sales marketing are beginning to emerge. Sadly, despite all the theory, neither clear, overarching factors have been given on how to successfully build a sustainable presence in China nor could a scientific study investigating a company's long-term presence in the country be found. Such a study would not only be very relevant but is also badly needed as Ambler et al. (2009) and Harold and West (2005) claim that the key to doing business in China is to be found in past experience. Based on the opinion by Ambler et al. (2009) and on the view by the theory of internationalization and the network theory that actions are interlinked over time, a process perspective has been adopted for understanding internationalization of the Chinese market.

## 1.2 Purpose and research question

We feel, given all the above, there is a gap in the literature for a longitudinal study of a Chinese market entry process. By means of a case study of a Swedish company which has built up a strong presence in China we hope to identify the most important factors, for successfully developing a sustainable market presence. With *factors* we mean actions, decision or capabilities that influence the process of internationalization and with *sustainable* we refer to a lasting presence that is based on the three pillars *economy*, *society* and *environment* as defined by the United Nations (2005).

The goal is to identify the key factors that are crucial for other Swedish multinational enterprises (MNEs) to succeed at building a sustainable presence in China. We believe that such a study will bring new insights to theory and provide good practical guidelines for others attempting to enter the Chinese market. It might also explain why some companies fail in China and others do not. In order to detect interlinking phenomena and to provide a wide-ranging learning experience we have deliberately kept the study broad looking at three

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<sup>2</sup> E.g. Management and Organization Review

categories of factors<sup>3</sup>. In the light of all this, the thesis aims to answer the following research question:

*What are the key success factors for a Swedish MNE for building a sustainable market presence in China?*

### 1.3 Organization of the thesis

Chapter 2, reviews the extensive existing literature relating to foreign market entry, presents information on current theoretical conclusions and provides a link to the empirical data. Furthermore, a theoretical framework is developed for the analysis of the empirical data. In Chapter 3 the methodology used in our case study is discussed, the data analysis is introduced, and the validity and reliability of the case study is considered. Chapter 4 contains the background information relating to the company and Chinese market and the empirical data. In Chapter 5, the empirical findings are analyzed and the most interesting findings are presented. In Chapter 6, the conclusions and implications will be discussed. Finally, in Chapter 7 the limitations of the thesis and further research are reviewed.

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<sup>3</sup> Categories are introduced in chapter 2

## 2 Theoretical Overview

*In this chapter, a theoretical overview of relevant theories about market entry and expansion is given and a theoretical framework is developed that is used for the study.*

### 2.1 Overview of theories

There are several theories relating to the process of foreign market entry and foreign market expansion. Although they tend to take a different perspective on the foreign market entry process they rarely contradict each other. Rather they complement each other highlighting various aspects and challenges. As a result, we will start by discussing the most prominent theories concerning the process of foreign market entry and foreign market expansion and then conclude by putting the existing theories into a holistic framework. This will allow for a detailed understanding of the existing theories.

There are four theories covering the foreign market entry and internationalization process that we consider to be of particular relevance for this thesis: (i) the theory of internalization which discusses internationalization in the light of transaction costs; (ii) the eclectic theory of internationalization looking at foreign market entry from a strategic point of view; (iii) the internationalization theory (Uppsala model) which sees foreign market entry as a step-by-step process driven by learning; and (iv) the network theory which regards foreign market entry as process of network building where contacts need to be developed and nurtured. We discuss all the four theories below.

Moreover, there does not seem to exist any standard definition for foreign market entry. The theory of internalization and the eclectic theory of internationalization both regard market entry as simply getting in to the market. The internationalization theory and the network theory on the other hand agree with Root's description saying that the entry strategy time horizon should be long enough to "achieve enduring market performance" (Root 1987, p. 2). Hence, it is not about briefly entering a foreign market just to leave it shortly thereafter but rather to build a sustainable presence in the entered market. Hence, for the latter two theories, foreign market entry refers as well to foreign market development, a process which takes several years. Throughout the thesis, we will take the view of Root that foreign market entry needs to be enduring and consequently market entry will also refer to foreign market development in this thesis.

#### 2.1.1 Theory of Internalization

The theory of internalization dates back to Ronald Coase (1937). He argued that under certain conditions it is more efficient for firms to develop in a market by themselves rather than relying on foreign partners and the interaction with them. His primary condition for developing internal capabilities, as opposed to outsourcing parts of the operation to external parties, is high transaction costs which might exist in foreign markets. The costs include information stealing, cultural complications or language barriers. Williamson (1975, 1985) extended the work of Coase and about the same time researchers, such as Buckley and Casson

(1976), Dunning (1980), Rugman (1980, 1981) and Hennart (1982), associated with the Reading School in England further developed the internalization theory and applied it to MNEs.

In the 90s, Buckley and Casson (1992) further developed the internalization theory and summarized it. According to the most recent discussion of the theory of internalization, market failures, such as opportunism, asset specificity, excessive information costs and other components of transactions costs, are the key reasons why MNEs use direct ownership structures rather than licensing when entering or developing a foreign market (Fina and Rugman 1996). The internal market protects firm-specific advantages from the risk of loss of knowhow and technology transfer and is hence primarily used by firms in areas where they have competitive advantages. However, since there are costs associated with creating and sustaining an internal market, such as integration costs and costs of de-specialization, internalization will only take place when the benefits outweigh the costs (Fina and Rugman 1996).

Overall, the theory of internalization is relevant but, because of its predominant focus on transaction costs, it is very specific and narrow which limits its ability to describe a market entry process in a profound way (Hill, 1990). The applicability of a theory which simply views internationalization as a one-time entry decision is restricted because learning and relationship building occurs over an extended period of time as is discussed in the theory of internationalization and the network theory below.

### 2.1.2 Eclectic Theory

While agreeing that transactions costs are of high importance, Hill et al. (1990) argue that global strategy and global competition must be considered as well in order to understand the appropriate entry mode into a foreign market. Moreover, Hill et al. (1990, p. 117) claim that much literature focus “in a piecemeal fashion on seemingly unrelated factors including country risk, country familiarity, the stage of country development, transactions costs” and that there is a clear need for a “unified framework”. In an effort to construct such a unified framework the entry mode into foreign markets is discussed from the perspective of three constructs: (i) control; (ii) resource commitment and (iii) dissemination risk. Each construct is evaluated under each form of market entry/development mode.

Entry Mode	Control	Resource Commitment	Dissemination Risk
Licensing	Low	Low	High
Joint Venturing	Medium	Medium	Medium
WOFE	High	High	Low

Table 1. Entry mode characteristics. Source: Hill et al. (2011b).

Table 1 above shows, that licensing is theorized to offer low control and high risk of dissemination, but has the advantage of low resource commitment. The control is low because the licensor has no ability to decide how the technology should be used by the external

licensee as long as no clear contract violations are found. And because the licensor cannot control the external licensee's operations, dissemination risk is high. However, resource commitment is low because the licensor must only make minor investments as only the transfer of technology and know-how to the licensee is required, but no investments for production or similar is required. WOFEs on the other hand give high control and low dissemination risk because the organization controls everything itself, but demand high resource commitment because all functions and activities need to be performed internally. *Joint Ventures* are assumed to be somewhere in between *Licensing* and *WOFE*.

The three constructs are in turn affected by three variables: (i) Strategic variables; (ii) Environmental variables and (iii) Transaction variables. The strategic variables consist of National Differences, Scale Economies and Global Concentration. The environmental variables are Country Risk, Location Familiarity, Demand Conditions and Volatility of Competition. Transaction variables consist of Value of Firm-Specific Know-how and Tacit Nature of Know-how. All the variables affect the desired levels of Control, Resource Commitment and Dissemination risk. First, Organizations favoring standardized product offerings, low cost production and seemingly irrational behavior based on strategic decisions under high global concentration tend to favor high-control entry modes. Second, when country risk is high, location familiarity low, demand conditions uncertain and volatility of competition high, the organization tends to favor low resource commitments. Third, the greater the value of the organization's firm specific know-how the more likely is the organization to use an entry mode that minimizes dissemination risk and the greater the tacit component of the firm-specific know-how, the more does the organization tend to favor high-control entry modes (ibid.).

Later theories, such as the organizational capability perspective, rooted in the resource-based theory (Andersen, 1997) add to the eclectic theory by proposing that the adaptive capabilities in the foreign market, by influencing the three variables described in the eclectic theory, affect the entry and development of the foreign market (Cheng, 2008).

This suggests that by accurately assessing all the variables in the eclectic theory MNEs can obtain information about which market entry modes or market development modes are likely to be the most appropriate for the MNE in question. In other words, the eclectic theory suggests that MNEs might move in a non-linear way from phase to phase.

### 2.1.3 Theory of Internationalization (Uppsala Model)

In addition to the theories above there is also the theory of internationalization that discusses the foreign market entry process. The theory of internationalization, as discussed by Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977), Luostarinen (1979), Welch and Luostarinen (1988), Luostarinen and Welch (1990) and Vahlne and Nordstrom (1988) has its roots in the behavioral theory of the firm (e.g. Cyert & March, 1963; Aharoni, 1966). The theory argues for a slow and sequential internationalization process from country to country and step-by-step within a country. The Uppsala School theory – or the Uppsala model as the

theory of internationalization is also called – emphasizes an evolutionary pattern of international activity. According to Guillén (2003 p. 186), the theory of internationalization “builds on a central assumption in the field of international business, namely that the knowledge required for a firm to operate in a foreign environment is different from that accumulated in its home country (...) and companies explore foreign opportunities sequentially, accumulating knowledge in an incremental way as they build their capabilities over time (...) and escalate their commitment to a foreign location as they accumulate relevant operational knowledge in it.” Hence, the theory of internationalization is a dynamic model and the theory can be seen as a process where there is interplay between development of knowledge about the foreign markets and operations and an increasing commitment of resources to those markets (Johanson & Vahlne, 1990). Central to the theory internationalization is that organizations need to learn and that the learning affects the investment behavior (Forsgren, 2002). The prime learning in regards to the internationalization theory is the knowledge that grows out of experience in current operations in the foreign market (Johanson & Vahlne, 2009). However, there have also been extensions made to the internationalization theory.

Delios and Heinsz (2003) suggest that although the internationalization theory enjoys “strong heritage and face validity” the theory can be improved. According to Delios and Heinsz (2003, p 227), the entry and development sequence depends on the “policy uncertainty” in the target country.”As uncertainty in the policy environment increases, initial entry by distribution is increasingly likely to be eschewed in favor of an initial entry by a joint venture manufacturing plant.” The two authors hypothesize that a local manufacturing plant is more appealing to the host government compared to a distribution facility and as a consequence of “frontloading” the investment, the entering firm “minimizes the likelihood of unfavorable policy responses” (Delios and Heinsz, 2003, p. 230) from the host country. This sort of reasoning also ties into the eclectic theory where policy uncertainty or country risk is a variable to consider.

Yet, despite its logical appeal, there is some criticism about the internationalization theory. Forsgren (2000) claims that there are other ways for firms to acquire knowledge rather than through entering a market. Secondly, all commitment decisions, Forsgren claims, are not incremental, but can be rather drastic. Likewise, Eriksson et al. (1997) argue that companies can obtain knowledge by acquiring other firms in that specific market or by hiring experienced professionals. Companies can also learn by conducting market research rather than by getting experience from operational activities in the foreign country. Despite the criticism, the internationalization theory remains one of the most used theories for explaining foreign market entry.

#### 2.1.4 Network Theory

Building on the internationalization theory is the network theory. Although similar to the internationalization theory where the foreign market entry is described as a process where the

firm creates and develops business relationships (Johansson and Vahlne, 1990), the network theory does not see foreign market entry and development as the result of the entry firm's unilateral decision. As described by Ellis (2000), one should consider many parties to fully understand the process of foreign market entry. According to later it is not uncommon that it is the potential buyer or importer in the foreign market who establishes the connection between local market needs and foreign-sourced products. Moreover, there could also be a mutually related third party, such as a government agency, financial institution or business partner that first becomes aware of potential opportunities for entering or developing a foreign market. And sometimes opportunities are discovered by chance. This means that business relationships and networks become central for understanding how and under what form an MNC enters and develops a foreign market.

From a broader network perspective, foreign market entry can be seen as an ongoing inter-organizational interaction between the entry firm and its network. This means that foreign market opportunities can be thought of as communicated to the MNE through its relationships with network partners. And according to Blankenburg (1995), foreign market entry and development can be regarded as entering into new networks. Consequently, to establish business relationships with local firms can be seen as the critical task in foreign market entry processes.

### 2.1.5 Phases of internationalization

The theory discussion above already indicated that the foreign market entry and development process can be thought of as going through various phases. However, the phases are not always classified in the same manner in the literature. For example, Johanson and Wiedersheim-Paul (1975) distinguish the following four steps for entering and developing an international market: (i) no regular export activities; (ii) export via agents; (iii) establishment of overseas sales-subsidary; and (iv) overseas production. Moreover, Hill et al. (1990) initially mention four phases: (i) exporting, (ii) licensing, (iii) joint venture (JV) and (iv) wholly owned foreign enterprise (WOFE). Later, Hill (2007, 2011), expanded the four phases to also include franchising and turn-key contracts. Similarly, other authors also mention other forms and phases for foreign market entry and development. Yet, although not always identically described in the literature the most commonly used phases for describing international expansion can generally be thought of as: Exporting, Licensing, Joint Venture (JV) and Wholly Owned Foreign Enterprise (WOFE).

The Eclectic theory suggest that a change in the influential variables have an effect on the desired levels of control, resource commitment and dissemination risk, which then determines the mode of foreign market entry or penetration.

The step-by-step involvement in foreign markets described by the internationalization theory has logical appeal (Delios and Heinsz, 2003). It rests on the assumption that the MNE moves through the various phases in a sequential order. As can be seen by figure 1 below, Johanson

and Vahlne (1977) use a model consisting of state aspects and change aspects to describe how an organization moves between the phases of foreign market operations. A full cycle – going from one state to another through change aspects – can be seen as one further step of market commitment. Each cycle or additional step of market commitment makes the organization move within its current phase and eventually makes the organization move to the next phase in a sequential step-by-step process.

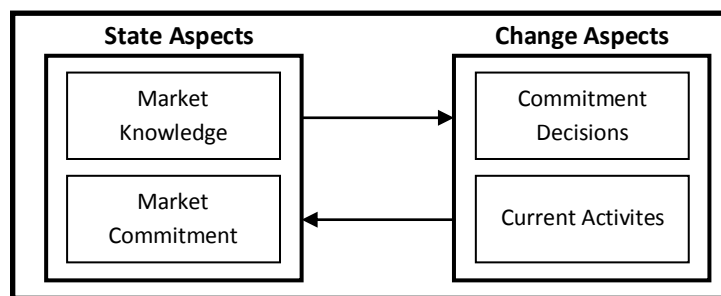


Figure 1. State and change aspects of internationalization. Source: Johanson and Vahlne (1977).

The state aspects are composed of knowledge about the foreign market and the operations, and resources committed to the foreign market. The change aspects are decisions to commit resources and the performance of current business activities. A central assumption is that all state aspects affect all change aspects and the other way around. The model assumes that the state of internationalization affects perceived opportunities and risks, which in turn influence commitment decisions and current activities. Moreover, there is a direct relation between market knowledge and market commitment. Knowledge can be considered a resource and consequently the better the knowledge about a market, the more valuable are the resources and the stronger is the commitment to the market. Similarly, current activities affect commitment decisions since current activities generally are the base for the future decisions. Hence there is an ongoing interaction within the state and change aspects as well.

However, not all scholars believe that the model in figure 1 can fully explain how the organization moves through the phases in a sequential manner. Indirectly, by questioning parts of the internationalization theory, Andersen (1993) gives support to the thoughts of Ellis and Blankenburg. While agreeing with the internationalization theory that it is useful for classifying firms according to their degree of internationalization, Andersen questions how accurately the internationalization theory can predict movements of the firm from one phase to the next. Even Johanson and Vahlne (2009), who initially developed the internationalization theory agree that networks have an important impact on the entry into and development of foreign markets and that the sequential development from one phase to the next not always holds true.

However, Coviello and Munro (1995; 1997), after having conducted empirical studies where they found that networks impact foreign market development, developed a model that



combines the process model (theory of internationalization) and the network approach. Such a combined model has received strong support lately. The model suggests that MNEs are likely to enter and develop markets through interplay with its partners within its network. Yet, although not always linear and sometimes omitting some of the phases, MNEs deepen their foreign market commitment as they learn and they also develop the foreign markets in phases. Hence, the step-by-step process suggested by the internationalization theory can still be used as a good proxy for predicting the foreign market development of MNEs.

## 2.2 Holistic framework for Chinese market entry

As seen above there are several theories relating to the process of market entry taking different perspectives. In some cases they build on each other while in others they complement each other by highlighting different aspects and challenges. Moreover, several scholars have found evidence that multiple theories are relevant for explaining the process of foreign market entry and foreign market expansion (e.g. Cheng, 2008; Fina & Rugman, 1996). Therefore, the different theories can be combined in a way that explains the typical market entry process of a company. However, the framework needs to be adapted for the Chinese market entry process first.

### 2.2.1 China specific aspects on market entry process

All theories and models mentioned above, although highly accepted in many parts of the world, have a Western origin. According to Yang (2010, p.4), the mentioned analysis frames “are developed from the business practice of mainly Western firms in Western markets, and provide theoretical analysis frames for Western firms’ international activities in Western market systems”. Yang – based on a study of 272 Swedish firms that have entered the Chinese market – came to the conclusion that the Chinese market entry differs from Western market entry in three respects: (i) the market-entry process is more time-consuming, especially for manufacturing companies and firms with state-owned Chinese partners; (ii) there are more non-business actors involved; (iii) more non-business activities or in other words more social activities are needed in the market entry process into China. Yang claims that the all the factors above are interrelated: The process takes longer because social activities with business and non-business partners are more important. Yang (2010, p. 145) states: “Western firms entering into the Chinese market are not supposed to establish themselves in the market, but rather in Chinese society”. This sort of reasoning might explain why the market entry process is more time-consuming in China than in other country markets.

Similarly, Torres (2011, p.39) claims that successful operations in China must be able to “capture the depth and understanding of China’s political, legal, economic, social, cultural, and environmental systems” implying a time-consuming process with both business and non-business actors. Menzies and Orr (2010) also argue that expanding into China is a more time consuming process compared to most other markets because of the need for personal relationships. Menzies and Orr (2010, p. 27) claim that “personal relationships are particularly

effective in China because of the preference given to them over contractual relationships” and that this is a contributing factor for the more time-consuming market entry process.

### 2.2.2 The holistic framework for the Chinese market entry

Besides the inputs from Yang and Torres, we do not see obvious indications why the typical sequence of a company expanding to a foreign market should not apply to China. Therefore, we see all the theories presented above as relevant for explaining the market entry process in China. Moreover, we not only believe that the theories are relevant and complement each other but can even be combined into a holistic framework of foreign market expansion to China because they explain different aspects of the same process. Figure 2 below represents this thought where elements of the discussed theories are brought together in a summarizing model.

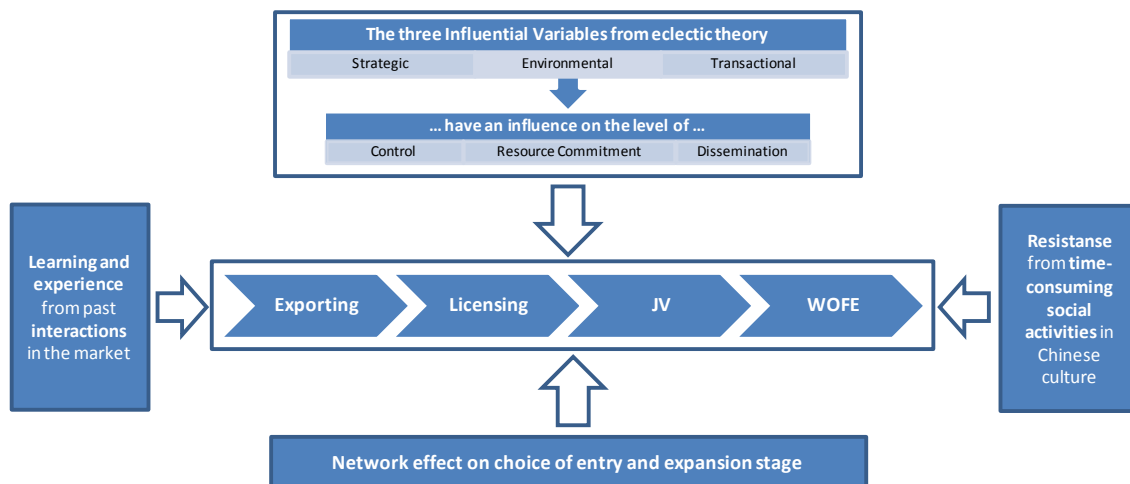


Figure 2. Summarizing model of the theoretical internationalization process.

The theory of internationalization, where MNEs generally move in a process from exporting to licensing to JVs and ultimately to WOFEs can be seen as the standard model of market expansion and it is the model which has received most support (Malhotra & Hinings, 2010; Yang, 2010). This therefore builds the base in our holistic framework as shown above. The arrows and boxes represented the forces that influence the movement through the model. The primary force, which, according to the theory of internationalization, makes the organization move through the four phases, is learning and experience from past interactions in the market. Generally, learning and experience is a step-by-step process making the organization move through the phases in a linear manner. Counteracting, or at least slowing down, the step-by-step process is the resistance from time-consuming social activities in Chinese culture. As described by Yang (2010), the social activities required with business and non-business actors in Chinese society make it difficult for companies to quickly move through the step-by-step process. The eclectic theory and the network theory both affect how an organization moves through the phases too. Elements from both these theories affect the progress and the linearity of the step-by-step process as well as the actual entry phase.

Corporate strategy and business choices, through decisions about control, resource commitment and dissemination risks as defined by the eclectic theory, explain why an organization on occasion might move in non-linear, alternative manner through the phases or leave out one of the phases. The same holds true for the force of networking. As described by the networking theory, the force of networking might make an organization move through the phases in a non-linear manner or leave out some of the phases. Especially, an organization with strong connections to particular partners might, because of its relationships with those partners, follow an atypical path through the phases.

### 2.2.3 Key factors in each phase of the holistic framework for Chinese market entry

The market entry process is a long, if not even never ending, process. Obviously, to find the key success factors of such a process it is important to consider it as a whole. This is not different for the Chinese market entry. However, different aspects are important at different times or stages and every stage has its own success factors. To gain insight of the overall process it is important to find the key aspects of the individual stages because otherwise key elements can perish under the too high level of consideration. Therefore, for both the theory discussion and the analysis, the process has to be broken down. Since theory suggests the four phases mentioned above we decided to follow this structure of exporting, licensing, JV and WOFE. However, literature presents an almost uncountable amount of factors, elements and aspects that are important in and over these phases. Some of these points are on a micro-level either within a phase like computer system designs for exporting or in the overall process as meeting behavior of employees. Others are more on a macro-level and therefore overarching and comprehensive in terms of the whole process. Given the longitude of the market entry process and our study we will focus on the later ones.

A list with the most important, generic advantages and disadvantage of each of the four phases can be found in appendix A. The list is based on the relevant literature for foreign market expansion (i.e. Root, 1987; Hill, 2011a; Hill, 2011b, Hill et al., 1990 and Johanson & Vahlne, 1990). Most of the disadvantages presented can also be considered as key challenges because they deal with the potential difficulties of each phase. If a company is able to overcome the difficulties within the phase it is generally more successful than another that does not (Hill et al., 1990; Root, 1987; Hill, 2011b). A logical interpretation is therefore to use these as a base for the success factors for each of the phases. Furthermore, there are additional aspects that are mentioned in the theory that are relevant in the phases. Especially, since literature points out that China is special in many ways (i.e. Backman & Buttler, 2007; Ambler et al., 2009; Plafker, 2007; Yueh, 2010).

Altogether we found that most of the aspects can be grouped in three generic categories: (i) *Partner Interaction*; (ii) *Control and Protection*; and (iii) *Product and Management*. Under (i) fall

all the aspects that have to do with external parties and their interaction except clients<sup>4</sup>. (ii) includes all the controlling and protecting aspects and mechanisms of the MNE in or for the foreign market, while (iii) includes the product and service considerations of the MNE as well as specific management considerations (mainly relevant in the WOFE phase). On occasion, an element could potentially fall under more than one of the categories and a decision based on the interpretation of the author had to be made. Under these conditions, we present below – whenever possible or appropriately China specifically – the most relevant success factors for each phase.

### 2.2.3.1 Phase 1: Exporting

In the first phase of entering a foreign market a company generally exports from the home market or from a nearby market in a relatively quick and simple way. Only a low degree of foreign market knowledge is required, and it requires relatively small investments (Root, 1983).

#### Partner Interaction

The biggest risk in the exporting phase is to become too dependent upon foreign agents and distributors and to face high transportation costs since the MNE does not have any local production (Hill, 2011b). According to Root (1987) it is therefore highly important to solve any challenges associated with *distribution* – both in terms of partnering up with the appropriate distributing agent as well as using the partner that can arrange the physical delivery of the goods in the most appropriate manner.

#### Control and Protection

Connected to the distribution challenges are general difficulties in understanding legal requirements, obtaining necessary documents, and arranging for payments (Root, 1987). When entering a foreign market, where rules are unclear, traditions not well known, and where people speak and write a different language, a company can find it difficult to operate (Köksal, 2008). However, as argued by Köksal (2008), a company must do the best it can to overcome such challenges through “the collection of high quality, timely, and relevant information.” On the one hand, the collection of data described by Köksal (2008) relates to control and protection. By having the right information, the organization ensures that the distribution is controlled and efficient. Moreover, it also helps to control the agents as the company knows what the necessary steps are. And by having good information about the environment the organization operates in, it can better protect itself from negative external shocks.

#### Product and Management

On the other hand, collection of data as described by Köksal (2008) also has to do with the management of the organization because to just collect high quality, timely, and relevant

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<sup>4</sup> The inputs from clients and therefore also their interaction are considered under (iii) *Product and Management*

information is not enough. The organization must also learn from the information it collects. In order to do so, it must disseminate the information throughout relevant parts of the organization and use it properly (Doole et al., 2006). In the long run that will contribute to the exporting company's success (Wang and Olsen, 2002).

Köksal and Özgul (2009, p.206) claim that the "brand image and product quality in the export markets are found to be the most important competitive advantage factors leading to success in the export markets." This means that in order to succeed as an exporter, an MNE needs to efficiently produce and transport products which are liked by the consumers and perceived to have an attractive image. The authors furthermore highlight the importance to understand consumers' needs and strong consumer relations. Lee and Griffith (2004) add to this by claiming that performance can be improved by adapting products and prices to foreign tastes and conditions. As the company does not need to solve local operational and business challenges it can then focus on production, marketing and product adaption (Köksal and Özgul, 2009). However, this illustrates somewhat of a paradox: while exporting allows the company to focus on these areas, not being present in the foreign market makes it difficult to understand which local adaptations might be needed and how to best market the product, resulting in less successful product adaptations and local marketing strategies.

Finally, to obtain the right price is important in the exporting phase (Root, 1987). Once the price has been set, it might be difficult to change in the future, even if there are reasons in support for price changes. For that reason price negotiations should always be well thought through (Köksal & Özgul, 2009).

### **2.2.3.2 Phase 2: Licensing**

Licensing is interesting for a MNE because it not only avoids the high transportation costs which exist under the exporting phase (as licenses generally are granted to licensees producing in the market where the MNE wants to sell its goods) but it is also an efficient way to get around trade barriers. Moreover, the MNE is able to place some of the burdens on the licensee, because the (foreign) licensee becomes immune to expropriation and places the cost of local adaptation on the licensee.

#### **Partner Interaction**

In the licensing phase several of the aspects important in the exporting phase intensify. Although it was already important to select appropriate partners and distributors in the exporting phase, it is even more critical to select suitable and reliable licensees (Root, 1987). The reason for that is that now the MNE will transfer intangible assets to the licensee who will produce products using the MNE's technology and know-how in exchange for royalty payments.

Just as it was during the exporting phase, the negotiation process is important for the licensing phase as well. It is in this process that important aspects such as prices, payments and rights

are agreed upon. A further key aspect for the negotiation process is to have knowledgeable lawyers which stipulate the important clauses in the contracts (Wang, 2009). It is during the negotiation process that the foundation to the collaboration is put in place and for that reason, it is a very important factor concerning whether or not the licensing agreement will be successful or not.

### **Control and Protection**

According to Roy & Dugal (1999), licensing makes most sense when: (i) the licensor lacks complementary assets to produce and market the product, (ii) the barriers to imitation are low and (iii) there are many capable competitors. If any of the criteria above apply, the innovator's technology is likely to rapidly spread (Gallini 1984, Shapiro 1985). Naturally, this argues for licensing because by licensing the technology, the licensor can at least share in the benefits of diffusion. But as the licensing agreement transfers some of the intangible assets to a competitor, the licensor needs to do what it can to make sure it stays ahead of its competition. According to Root (1987), the best way to do so is to develop even better technologies and immaterial capabilities.

Not surprisingly, the risk of dissemination is high under licensing and there is a rather substantial risk that the MNE's intangible assets will be transferred to a third party (Hill et al. 1990). Additionally, by licensing its technology and know-how, the MNE risks creating a competitor, which in the long run might pose a serious threat to the MNE's operations (Yi, 1998). History is full of such examples (Rockett, 1990). For that reason, a highly important decision for the MNE is *whether or not to license cutting edge technology* or technology where competitive advantages exist (Hill et al. 1990).

Good lawyers are also important for *obtaining legal protection* of patents, trademarks, service marks and trade names (Root, 1987). Furthermore, the licensor needs to consider whether or not to allow the licensee to get *access to its corporate name*. In the event that an MNE has allowed the licensee to use the MNE's corporate name, its brands or protected names, the MNE can suffer serious damages in the event that product quality does not meet required standards or if ethical standards are questionable (Reese & Kossovsky, 2011).

### **Product and Management**

Just as in the exporting phase, local adaption is highly important (Roy & Dugal, 1999). Given this importance, the MNE should not only find a licensee who is able to adapt the products for the local market, but who the MNE also can have a good relationship with and who the MNE can influence so that the local adaptations are acceptable. Good working relationships and efficient conflict handling are therefore keys to success. This requires good internal management and training of employees who will interact with the licensee.

### 2.2.3.3 Phase 3: Joint Venture (JV)

In the third phase the MNE enters the foreign market in an extensive manner by signing joint venture agreements. Generally, it is this phase where the MNE starts to own production capabilities in the foreign market. Because the JV, by definition, is an equity investment in an entity where the MNE is not the sole owner, the MNE is highly dependent on its partner.

According to Geringer and Hebert (1991), despite their increasing importance, JVs have historically encountered performance problems. However, it can be difficult to exactly define “performance” and “success”. Katsioloudes and Isichenko (2007, p 137.) claim that “success is a multidimensional phenomenon that is subjective to each individual’s perception thus making the definition of success highly ambiguous.” Adding to the complexity is the fact that success in itself can be split into two categories: the joint venture’s overall success, and each individual partner’s success (Meckler, 1996). Hence, it becomes evident that it is difficult to outline factors that will allow for an “allembicing” assessment of success (Katsioloudes & Isichenko, 2007).

#### Partner Interaction

Already in the two previous phases picking the right partner was important. According to many authors (e.g. Nippa et al., 2007; Root, 1987) it is absolutely essential for the MNE to choose the right partner in the JV phase because the two partners will need to work together. Root even compares the JV to a marriage. Since social networks and relationships are especially important in the Chinese market, it is argued that this places increased significance on partner selection (Burgers and Padgett, 2009).

Mostly, a local partner is chosen for the JV. Having a local partner can be beneficiary for a MNE because it can be a way to get around legal requirements (Nippa, et al., 2007). Additionally, with the right partner, an MNE can get access to: (i) local capital, both monetary and human; (ii) knowledge about host country; (iii) personal contacts; (iv) skills in production or marketing; and (v) local prestige (Hill, 2011b; Root 1987). Clearly, these are great benefit to an MNE entering a foreign market. However, there are also challenges with a partnership that need to be resolved. The MNE risks becoming highly dependent on its partner’s goals, which might be conflicting or diverging from the goals of the MNE and there might be disagreements concerning issues such as management, production, financing or marketing (Nippa et al., 2007). In order to be successful the MNE needs resolve such issues without investing substantial amounts of resources.

Many authors claim, that most JVs fail because of the conflicts, lack of trust and lack of commitment of the parties (Nippa et al., 2007; Gulati & Singh, 1998; Granovetter, 1985). Robson et al. (2006) also found that “commitment” and “cooperation” of the parties were most consistently linked to performance. However, even more importantly, there is also interesting evidence how such problems can be overcome. A *project champion* can create appropriate support structures and mechanisms for enterprises to successfully work together

as JVs overcome challenges with commitment and cooperation (Bhaskaran & Gligorovska, 2009). By not taking any of the partners' side, the project champion can obtain trust from both sides and by being seen as unbiased and trying to reach a fair deal the project champion has good chances to get the parties to agree to the solution presented by the project champion.

### **Control and Protection**

While some focus on trust as the determinant of the success of the JVs, others focus on *control* (Mohr, 2007). For example, Lukman (2009) argues that strategic control, indirectly through commitment, significantly contribute to the success of the JV. Yan and Grey (1994) find that the control-performance relationship is "complex and non-linear" while Guidice and Cullen (2007) argue that where support has been found for control, the conclusions drawn are inconsistent. Although the exact nature and definition of control is complicated, it seems clear that an MNE in a JV must to some extent be able to control the other parties in order for the JV to be successful for the MNE.

Related to the issue of control is again the issue of whether or not an MNE should let its partner get access to its most advanced technology just as in the licensee phase (Nippa et al., 2007; Hill et al. 1990). Generally, again it is necessary for an MNE to protect and control its most valuable technology even from partners. But sometimes it is a fine balancing act between the need to contribute assets of importance for the JV and the need to protect its most valuable technology.

### **Product and Management**

Just as in the previous phases, it is important that the company adapts its products to the market demands (Nippa et al., 2007). This is also the reason why a JV is generally partners up with a local company that has the market access and knowledge. The partner then should provide the crucial information about consumer needs so that the products can be produced together.

#### **2.2.3.4 Phase 4: Wholly Owned Foreign Enterprise (WOFE)**

In the fourth and last phase of the international expansion the MNE starts to wholly own its foreign enterprises. For that reason it is called the WOFE phase. By this phase, the MNE has the full profit and loss responsibility for the foreign entity, meaning that the WOFE structure allows the MNE to earn all the profits from the foreign operations. On the other hand, it also forces the company to bear all costs associated with the WOFE. Those costs can be substantial and without access to a sufficiently large capital base, the WOFE structure might put the entire foreign operation at risk (Hill, 2011b).

### **Partner Interaction**

Dikova and van Witteloostuijn (2007) claim that without the legitimacy of a local partner the process of overcoming the *liability of foreignness* may be difficult. This liability of foreignness can in fact be so severe that an MNE is not able to efficiently operate in the foreign market. As



a result, in order for the MNE to succeed using the WOFE structure, it is important that the MNE develops capabilities to overcome foreignness and the most substantial risks. Ellis (2000) and Johanson & Vahlne (2009) argue however that by this stage the MNE has become so familiar with the foreign market and built so many relationships with local actors that the advantages of access to local capital, knowledge, contacts, skills and prestige through a domestic party is not as significant anymore and consequently outweighed by the benefit of being able to avoid resource consuming cooperation with its JV partners. That implies however, that the MNE had to have a JV before and also successfully gained the insights described by the authors.

The liability of foreignness is particularly severe for small firms with limited international experience. The larger multi-national firms with greater international experience face fewer local knowledge disadvantages (Dikova and van Witteloostuijn, 2007). For that reason, it is important for any company utilizing the WOFE structure in a foreign market to have accumulated enough international experience to overcome the knowledge deficit.

In the previous phases the interaction with the local authority and government could be handled by the (export, licensee or JV) partner. In the WOFE phase the company needs to deal with state actors itself. The Chinese government did become more modest since 2001<sup>5</sup> (Chan, 2006), but China has never been a true democracy and the government is known to be bureaucratic and regulated (Ambler et al., 2009). As Yang (2010) and Ambler et al. (2009) pointed out, for the political parties, the economy is at the state's service and every business shall first benefit the economy, second not do any harm to the culture and third be needed by the people. Therefore, every business in China will have much interaction with local, regional and national authorities. Many rules and regulations govern what to report and how to act. Complicated and time consuming approval processes oftentimes required to be passed and the Chinese central and regional government officials still have much of the power over resource allocation (Gao, 2008). Therefore, maintaining a close relationship with the government sectors and their officials is essential for a MNE. In China this is referred to as Guanxiwang.

In China, relationships (Guanxi) are considered to be very important. According to Backman & Butler (2007) this is not surprisingly because the less developed the legal system in a country is the more important are relations ("connections"). However, the general importance decreases with the development status of the whole country. Backman & Butler (2007, p.81) state: "At one time, Guanxi was sufficient to win deals. Then it became necessary but not sufficient. Now we are between that phase and the time when Guanxi will no longer be necessary."

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<sup>5</sup> Especially after China's acceptance into the WTO

### Control and Protection

According to Dikova and van Witteloostuijn (2007), WOFEs offer the benefits of managerial autonomy and full control over local operations. This is a key reason for using the WOFE structure. Dubs et al. (2004) also state that if a company owns something it can also control it. Therefore control also has to do with ownership. The greenfield approach<sup>6</sup> and the Mergers and Acquisitions approach represent two ways a company can come to ownership. But there is a trade-off between greenfield operations and acquisitions. Greenfield operations take much time and acquisitions are associated with post-acquisition integration failures, which are often rooted in cross-cultural differences and technological mismatches (Tan, 2009). The trade-off between greenfield operations and acquisitions must be studied and understood by the MNE.

Sometimes, the situation in the foreign market might be different to the situation in the MNE's other markets. For that reason, one cannot just assume that if an MNE historically has used an acquisition strategy that it will do so in this foreign market as well. According to Dikova and van Witteloostuijn (2007) there are three firm-level factors that tend to be influential in the MNE's decision whether to use a greenfield strategy or acquisition strategy: (i) the asset specificity of the firms; (ii) the international strategy, such as knowledge protection, global integration and host-country experience and; (iii) level of international experience and organizational capabilities. The more specific the assets need to be for a particular operation, the more likely is the organization to choose a greenfield approach where everything is tailor made for the organization's demands. Similarly, organizations which have traditionally employed a strategy to develop everything from scratch tend to continue to follow such a strategy and use the greenfield approach. Naturally, the other way around applies as well. Finally, organizational capabilities in one particular area are important for understanding whether or not an organization will use a greenfield approach or an M&A approach. If the company has developed substantial capabilities for acquiring other businesses, the organization is more likely to use such a strategy also in the future.

Already in the other phases protection considerations were important. However, a company has a much bigger market exposure in the WOFE phase because it carries all the responsibility. Additionally, protection becomes more important the more products are sold within a country and usually this is linked to the phases of expansion (Hill, 2011b). Therefore, even though copyright/piracy aspects were important before, they become even more important in this phase. This is particularly true for China. According to United States trade representatives, 85% of all copy-right products sold in 2006 were pirates (Ambler et al., 2009). Moreover, Balfour et al. (2005) claim that China account for nearly two-third of the estimated \$512 billion worldwide counterfeit market. Some scholars claim that the problem with the IPR is considered to be the major hurdle for expanding into China (e.g. Stock, 2006; Tuerly, 2010). With the admission to the WTO the IPR regulation and enforcement started to build up (Chee

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<sup>6</sup> Building up an own company from zero

& West, 2004; Stock, 2006) reducing the problem somewhat. Still, an active involvement against piracy is especially important in China.

Anand and Galetovic (2004) developed a multi-layer IPR protection strategy. They claim that an MNE needs to be cautious with its technology and products (“defend core assets”) but also fight against piracy (“embrace the threat”). This means that an MNE should not rely on the laws but take actions against piracy. In countries with young and immature legal structures like China this is even more important.

### **Product and Management**

Just as it was true for the other phases it is true here that Western companies need to adapt to the particular Chinese business landscape (Ambler et al. 2009). This also includes production. Ambler et al. (2009) believe that products that are sold in China should also be produced in the country.

Naturally, when the MNE starts to establish itself with a whole organization in the foreign market local employee considerations become important. Especially, since HR (Human Resource) considerations are seen as – in many cases the most – important aspect for business. Several scholars argue that this has been the case in recent years (i.e. Dubs et al., 2004; Ready et al., 2008). Ready et al. (2008) claim that MNEs should not just export the domestic talent strategy to China because the difference in culture will require an extensive tailoring even of well functioning strategies in the home market. The authors see it as crucial that MNEs establish a core of local talent that helps to understand the region, even though such investments require a long time lag. Backman and Buttler (2007) underline this point when arguing for a localization of the labor force, even if the MNE has to accept a cutback in efficiency and productivity. To ensure that the best local talent is attracted to an MNE in China Ready et al. (2008) developed a framework (see appendix B) that is based on two aspects: *promises made* and *promises kept*. The framework is designed for emerging markets and specialized for China since different cultures want and expect different things. Three aspects are especially important for the young Chinese generation. First, the young Chinese want to see others just like them in position of Power (Ready et al., 2008). Second, a company that is merit-based with challenging work and career opportunities will stick out in the hierarchical society of China. And third, the culture has to be of a good nature, meaning an authentic, talent-centricity and fun atmosphere. Schmidt (2011) complements this framework by arguing that the MNE has to be smart about pay and become a quasi-local company.

However, filling all the positions with local people is not easy in China, because of the current shortage of talent. Ready et al. (2008) speak of a talent gap because of the Cultural Revolution that created a “missing generation” of talent aged 45-55<sup>7</sup> that can handle management

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<sup>7</sup> For further explanation about the talent gap see appendix C

positions. The authors suggest that the gap therefore is still filled by expatriates and the quasi-local company is difficult to achieve on a high hierarchical level.

#### 2.2.3.5 Summary of key success factors mentioned in literature

In the table 2 below the above mentioned success factors for each of the phases are summarized according to our categories. It is obvious that similar aspects are important in the different phases. However, with the development and the extent of the market entry the priorities do shift towards a local focus. Since theory does not give any indications which of the factors are especially important we consider the factors to be on a same level and do not have any sort of prioritization.

	Partner Interaction	Control and Protection	Product and Management
<b>Exporting</b>	<ul style="list-style-type: none"> <li>• Agent/Partner selection</li> <li>• Reliable and efficient distribution</li> </ul>	<ul style="list-style-type: none"> <li>• Understand environment</li> <li>• Overcome cultural hurdles</li> </ul>	<ul style="list-style-type: none"> <li>• Adapt to local conditions</li> <li>• Strong brand image (good product) in home market</li> <li>• Price negotiations</li> </ul>
<b>Licensing</b>	<ul style="list-style-type: none"> <li>• Licensee selection</li> <li>• Negotiation and interaction with partners</li> </ul>	<ul style="list-style-type: none"> <li>• Protection of core technology</li> <li>• Brand protection</li> </ul>	<ul style="list-style-type: none"> <li>• Product adaptations to local needs</li> <li>• Management skills for local interaction</li> </ul>
<b>Joint Venture</b>	<ul style="list-style-type: none"> <li>• Partner selection</li> <li>• Conflict handling and resolution</li> <li>• High commitment and cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic control</li> <li>• Protection of core technology vs. high commitment</li> </ul>	<ul style="list-style-type: none"> <li>• Gaining of market information</li> <li>• Product adaption</li> </ul>
<b>WOFE</b>	<ul style="list-style-type: none"> <li>• Overcoming foreignness</li> <li>• International experience</li> <li>• Interaction with officials</li> </ul>	<ul style="list-style-type: none"> <li>• Efficient acquisition strategy</li> <li>• Defend core assets</li> </ul>	<ul style="list-style-type: none"> <li>• Local production</li> <li>• Local HR strategy and execution</li> </ul>

Table 2. Summary of key success factors for each phase mentioned in literature.

#### 2.2.4 Overall key success factors of the holistic framework for Chinese market entry

So far, only key aspects within each phase have been discussed. However, the market entry process is a process that includes multiple phases and should therefore also include aspects that are spanning over the entire internationalization process. However, theory is very limited in that respect. Nevertheless, we can see that there are two significant overarching success factors that are entailed in the discussed theories.

##### 2.2.4.1 Learning and experience

The first such overarching success factor is learning and experience. It derives from internationalization theory (Uppsala model). The theory argues that learning and experience is needed for the organization to move from one phase to the next during the internationalization process (Johanson & Vahlne, 1977). Without moving through the faces the theory suggests that it would be difficult, if not impossible, to successfully develop a foreign market. However, it is not only that the organization will not be able to move through the

phases without learning, learning is also vital for the overall success of companies' internationalization undertakings (Johanson & Vahlne, 2009; Zou & Ghauri, 2010).

However, learning is a broad topic covering several different types of learning and as described by many researchers learning can be seen as a form of sustainable competitive advantage, important for a business to succeed whatever it does (e.g. Rose-Anderssen et al., 2009; Mundra et al., 2011). Given the nature of our thesis we focus on learning in the process of market expansion, but even within this field multiple types exist. For example, general internationalization knowledge that reflects an organization's resources and capabilities for taking part in international business is important for how an organization learns (Eriksson et al., 1997; Welch & Luostarinen, 1988). Generally, the more resources the organization commits and the more refined the capabilities are, the more efficient is the learning (ibid.). Moreover, knowledge about a particular area can also improve learning. For example, strong knowledge about one's core business (Chang, 1995), how to build and maintain alliances (Hoang & Rothaermel, 2005), or how to execute and implement acquisitions (Nadolska & Barkema, 2007) can all result in improved learning capabilities (Johanson & Vahlne, 2009).

Although learning can be affected by the kind of knowledge mentioned above, we will regard learning as the theory of internationalization introduced it. The theory suggests that learning by doing – or *experiential learning* – is a central factor in a firm's internationalization process and should be practiced in an extensive manner (Johanson & Vahlne, 2009).

#### 2.2.4.2 Networks

The second overarching success factor is the development of a strong and extensive network. This success factor can implicitly be derived from the network theory, because without a well-developed network, an organization will not be able to expand into foreign markets (Ellis, 2000). When an organization enters a foreign market network, it faces complexities making it vital for the organization to identify the relevant market actors in order to determine how they are connected in often invisible complex patterns (Johanson & Vahlne, 2009). Moreover, building networks are also crucial for moving through the discussed phases (ibid.). But just like learning, building networks are not only needed for moving through the phases. A good network can be a sustainable competitive advantage (Hughes et al., 2009; Eisingerich & Bell, 2008) and is important for the overall success of a company's international business endeavors. Consequently, derived from theory in current literature is that it is highly important for an organization to learn and to develop its network in order to succeed with whatever it does. These success factors apply on the meta-level and can be seen as success factors for the entire internationalization process.

### 3 Methodology

*In this chapter the research methodology of the thesis is presented. This entails the choice of perspective, method, organization and interviewees. Moreover, the data collection and analysis are discussed as well as the overall quality of the research.*

#### 3.1 Choice of perspective

The understanding of how a company can build up a strong and successful presence in China is highly complex and difficult to measure, since it draws on several different research fields. Not only might findings stem from intuitive research fields such as strategy and economics, but could also draw upon fields such as geography, anthropology and psychology. The number of success factors for establishing a presence in China can in many ways be seen as endless. Consequently, in order to contribute to the largest extent to the understanding of how companies can build a successful presence in China a detailed literature review was conducted. Additionally, discussions with experts in relevant fields were held to aid in the process of identifying key areas believed to be relevant for establishing a successful presence in China.

The information discovered during the extensive “pre-study”, combined with discussions with our advisor about the purpose of the research, led us to focus on three key areas and how they are interrelated. We constructed the three areas (i) Partners Interaction; (ii) Control and Protection; and (iii) Product and Management based on logical appeal as described in part 2. Areas other than the three mentioned are not studied although they potential could be important as well. The goal of this thesis is not to identify all possible success factors for establishing a Swedish business in China. Rather the aim is to focus on the most important factors in the three areas covered throughout the time of the study in an attempt to make scientific contributions about various aspects about the market entry process to China and to provide a learning experience for companies trying to enter China.

#### 3.2 Choice of method

There are two commonly used theoretical approaches when conducting social science research connecting theory with empirical findings, namely the inductive and deductive methods (Brymann & Bell, 2007). The inductive method starts from a set of single cases and theory is developed after the data has been collected (Saunders et al., 2009). However, the method can be risky because going from single facts to general truth is difficult (Alvesson & Sköldberg, 2009). The deductive method on the other hand starts from a general rule that is then used to explain an individual case (Blumberg et al. 2011). In other words, the researcher starts by formulating one or several hypotheses from existing theories. The hypotheses are then tested against the collected empirical data. For that reason, deduction is commonly used for theory testing (Saunders et al. 2009). However, although less risky than induction, deduction too can miss underlying patterns and tendencies (Alvesson & Sköldberg, 2009).

The inductive and deductive methods can be seen as the two extremes (Bryman & Bell, 2007). Due to their complementary strengths and weaknesses it can be desirable to combine or alternate between the two (Saunders et al., 2009; Blumberg et al., 2011). As a result Alvesson and Sköldbberg (2009) present the abductive approach as a third method for research. This method contains and combines features from both the inductive and deductive method (ibid.). Using the abductive method means that a deductive aspect is important in the data collection process as parts of existing theories are the base for the collection of the empirical data. The findings are then compared to the existing theories. On the other hand, new aspects and interpretations from the specific case can also add to theory. Such interpretations should then be strengthened by new observations in further research.

In this thesis the *abductive approach* is used as it is arguably the most appropriate method. That is because, on the one hand, new theories must be derived, based on existing theories, for the particular Chinese context in line with the deductive method. Additionally, for this thesis, a number of previous research findings and theories were examined before empirical data was collected, in order to identify topics appropriate for further research. On the other hand, findings and conclusions are preferably derived from both existing theories and empirical data going back and forth between the deductive and inductive methods.

According to Yin (2003) case-studies can either consist of multiple cases or a single case. Bryman and Bell (2007) argue for a single case study because it allows analyzing the complexity and particular nature of the case in question and obtain a deep understanding (Voss et al. 2002). Likewise, Marshall and Rossman (2006) and Yin (2003) suggest that case studies are particularly useful when studying topics concerning *what*, *how* and *why* questions. Given that we want to study *what* the key factors for building up a sustainable presence in China are, the single case study seems to be the appropriate approach. Moreover, the case study helps to find new insights which have not been considered before (Yin, 2003) and even for generating theory (Bryman & Bell, 2007). However, in general, generalizability is lower when only a single case is used (Voss et al. 2002) and the risk of misjudging an event increases without comparisons (Leonard-Barton, 1990). Success factors of establishing a business in a market like China involves many diverse areas such as human relations, business and product strategies, and partner collaboration. Sometimes factors are interrelated and sometimes not. As a result, to understand which factors contribute to success and which do not is a highly complex and challenging task. Additionally, a longer time-horizon increases the possibility to observe sequential relationships of events and can be particularly valuable as mentioned by Voss et al. (2002). For all these reasons, despite some of its drawbacks, we chose an in depth, single-case study with a large Swedish organization that has a long presence in China (>20 years) in order to be able to get a deep understanding of the complex issues affecting the establishment of a business in the Chinese market.

Case study research is often associated with qualitative research, but such an equalization is not correct (Bryman & Bell, 2007). Case study research can both be quantitative or qualitative. However, in terms of the most suitable instrument to collect the empirical data for our case we have also chosen *qualitative interviews* rather than any quantitative form of data collection<sup>8</sup>. The area of Chinese market entry is relatively unexplored and only limited research has been conducted and therefore, the key success factors are not yet defined. According to Ellram (1996) and Stuart et al. (2002), in exploratory research where concepts are complex and developing, qualitative studies can aid researchers to explore real world concepts and to distinguish patterns that might explain what is happening, how things are done and why they are done as they are. Furthermore we believe that by conducting a qualitative study, we will be able to avoid some of the confusion and definitional discrepancies common in cross-national studies. According to Lieberman (2005), by using qualitative instead of quantitative studies when researching cross-national issues, different proxies can be used in order to achieve the best description possible for one's audience. Given that we have already in initial discussions noted the difference in interpretation between Chinese and Swedish managers of issues such as relationships and hierarchy, Liberman's findings give further support for the qualitative approach. Additionally, Borgström et al. (2011) reveal that much data in China are unreliable, inconclusive or unfit for quantitative studies. This thought has been noted by us as well. We therefore believe that a statistical approach would be complicated at best and inaccurate at worst. Furthermore, qualitative interviews allow to capture the big picture of an event and to find the links between actions, decisions and events. Since it allows for subsequent questions that further clarify the answers and put them into context this enables to rebuild the actual events. As a result we believe that qualitative in depth interviews are the best way to collect the empirical data.

### 3.3 Choice of organization and interviewees

As indicated by the single case method we decided to use one organization to conduct interviews with. Within the organization individuals at different levels were interviewed. However, given the long time-scale of the organization's market entry process to China some of the interviewees were retired while others were working in other organizations.

#### 3.3.1 Choice of organization

According to Gerring (2008) there are different ways to select an organization for a case study. The organization can be chosen because: (i) it is a typical example of the population of cases; (ii) it is extreme or is an outlier in the population; and (iii) it is most likely to fulfill a theoretical prediction. For our thesis we wanted to choose an organization in line with Gerring's first method. Hence, in a first step we defined the population made up of companies of interest for our study and therefore developed four criteria that had to be fulfilled by the organization. The organization had to:

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<sup>8</sup> E.g. Surveys



- (i) be Swedish
- (ii) be an MNE
- (iii) have substantial presence and local organization in China
- (iv) have had a presence in China for a long time (>20 years)

Being “Swedish” does not only refer to being headquartered in Sweden, but also that the values, the culture and the way of working are typically Swedish. Being a MNE organization means that the organization is large and is active in many countries world-wide. Given that we want to look at how a Swedish MNE company can build up a strong and successful presence in China, the first two criteria are important. Having a “substantial presence and local organization in China” is defined as being represented in all provinces of China and having more than 1000 employees (including subsidiaries) in China. Having had a “presence for at least 20 years in China” simply means having done business with Chinese partners in one form or the other for the last 20 years.

Our research purpose of finding success factors for Swedish companies explains the reason for our first criterion. The second criterion is important, because we want to study an organization that is a typical example for a market expansion in China. An MNE has by definition already experienced other market entry processes and therefore will be more likely to follow a standardized format that has value for generalizability. The risk with having a small company is that a very company specific approach was taken, driven by a few individuals (e.g. owner) using an unstructured process what Dubs et al. (2004) define as “muddling through”. The third criterion is needed because we do not want to have an organization that has limited interest in the Chinese market or does not have the last phase of internationalization according to Johanson & Vahlne (1977). The last criterion plays together with the other criteria. Given our phase overarching approach it is necessary that we have an organization that is an example also for the last and most complex phase in the theory of internationalization.

Having applied the four criteria above, a short list of suitable organizations – the population of interest – was created. Out of the suitable organizations we chose Atlas Copco because it was deemed possible to obtain access to a large amount of interviewees at various positions providing for a detailed and thorough study. None of the other companies on the final list offered that possibility. At the same time, out of the short list of suitable organizations we believe that Atlas Copco is a typical example in line with Gerring’s first criterion.

### 3.3.2 Choice of interviewees

According to Alvesson and Sköldborg (2009), a prerequisite for exploratory research is the use of reliable and accurate data. In order to overcome this challenge, a relatively large sample of interviewees is used in order to be able to make comparisons between respondents’ answers. Additionally, a sample of interviewees with different backgrounds and from different parts of the organization is used in order to get different perspectives on events. In order to be able to replicate the organizations market entry process into China we decided to use three different

types of interviewees: (i) Members of the organizations group management due to their overarching and high-level perspective on the process and their knowledge about the organizations involvement; (ii) Members of the organizations management in China due to their proximity to the market and their involvement in the process; and (iii) Interviewees involved in or knowledgeable about specific functions or topics that are relevant in the market entry process. Since the organization's involvement in China spans a long time period we also included employees that were employed at different time periods. Additionally, given the topic and focus of our research ten of the interviews were conducted with employees in China. In total 19 interviews were conducted with member of the three categories.

In order to get complete the picture of the topic, interviews were also conducted with four field experts that are knowledgeable about the organizations entry process and/or China in general. Table 3 displays the number of interviewees in each position and where the interviewee is based.

	Sweden	China
<b>Group Management</b>	4(2)	1(1)
<b>China Management</b>	1(1)	2(0)
<b>Functions</b>	5(0)	6(0)

Table 3. Location and position of interviewee at time of interview. Figures within parentheses display number of retired people.

### 3.4 Data collection

In order to structure the collection of the empirical data the interviews were grouped around different topics covering different aspect depending on the interviewee's role, function and history within the company<sup>9</sup>. All the interviews conducted were *semi-structured* with *open-ended* questions with members at multiple levels of the organization. In semi-structured interviews, the researcher has the freedom to make, sometimes significant, adjustments to the interview guide. For example to add, modify and cancel questions, to increase or reduce the time spent on a particular topic or to elaborate on an aspect raised by an interviewee. All of this in order to leave room for reflection, interpretation and time for the most relevant questions and for obtaining nuanced answers (Bryman, 2006).

However, according to (Leonard-Barton, 1990), the biggest challenges with a study over a long time period are (i) participants may not remember important events; (ii) participants may use post-rationalization to explain decisions and events; (iii) participant may use arguments not available at the time to justify decisions; and (iv) there is an increased likelihood that old data does not contain the whole truth. Therefore, to handle these challenges as good as possible, it is important to make many and detailed interviews because what one person does not

<sup>9</sup> For interview guide design discussion see chapter 3.3.2

remember another one might. Furthermore, by using additional sources, such as internal documents, published reports and news reports we try to reduce longitudinal uncertainty further.

On top of that, it happened on a few occasions that arguments of the interviewees seemed to be contradicting. In these cases we followed up each argument to validate if this really was the case. However, it turned out that the arguments were actually not contradicting but just had a different perspective because the interviewees were in different roles and therefore make different interpretations of events and actions. This was very valuable because it led to more impartial overall data that reflect the actual happening more accurately, since the different interpretations reveal different truths.

#### 3.4.1 Interview format

Out of the 19 interviews, eight were made in person and eleven were conducted over the phone. All of the interviews except one were recorded on tape. For the interview which was not recorded on tape, detailed notes were taken. However, notes were also taken for all interviews which were recorded on tape as a source of backup. For the data collection of the thesis, adjustments similar as those described by Bryman (2006) above were frequently made. In addition to cancelling and modifying questions on occasion, deeper probing follow-up questions were commonly made. We also encouraged the interviewee to go beyond the posted questions and add other information that might be relevant.

The duration of the interviews ranged from 45 minutes to 2 hours. All interviewees had the choice whether or not to receive the written questions in the interview guide prior to the interview. 9 out of the 19 interviewees took opportunity of this and received the interview guide prior to the interviews. All interviews were held in either Swedish or English, depending on the interviewees' choice and interviewees were encouraged to speak rather freely about their areas in focus. Important to add here is that in four cases we had frequent interaction with the interviewees after the interviews for additional and following-up questions. We did this in order to ensure that the data was collected as accurately as possible and reflects what actually happened in the case of the organization.

In general, linguistic difficulties were considered not to be an issue. Only in one case it was difficult to understand the interviewee's answers. The problem however was resolved to a satisfactory extent by following up using written communication. Furthermore, in order to be able to compare responses from the interviewees, the same question was asked to at least 3 interviewees.

According to Eisenhardt (1989), it is important that researchers stay away from thinking about specific relationships between variables and theories which might bias and limit their findings. The researchers should not have predetermined opinions but rather need to have an open mindset. During the initial interviews, it was not difficult to have an open mindset. We did not

know what to expect. However, as the interview process continued and success factors started to emerge it became more difficult. Still, we have done our utmost to challenge our findings and carefully considered each question in the interview guide to allow for diverse and unique answers.

### 3.4.2 Interview guide design

For our thesis, an interview guide generally containing 10-20 questions was used. The interview guide with all the posed questions to the different interviewees can be found in the appendix D. All interviewees were first asked to explain their background and role within the organization and their thoughts about the organizations success in the market entry process. Hereby a better understanding of the interviewees function and his evaluation of the market entry process could be gained. This helped to put the interviewees' answers into context before moving into more specific aspects of the questionnaire.

The reliability of the interview format increase by basing the questions on academic sources (Bryman & Bell, 2007). Therefore, we designed the questions in a way that the aspects discovered in our pre study of theory are covered. The questions about *Partners Interaction* for example are based on a study of Yang (2010). However, this was only a starting point since there are no clear cut success factors for the market entry in China and we did not want to limit us to these factors.

## 3.5 Data analysis

In a first step of data processing all interviews were transcribed. In a second step, the recorded interviews were re-listened and the transcripts re-examined. In a third step, based on the information provided in all the interviews we reconstructed how events played out and sequentially constructed a case with detailed information covering all four phases of the organization's international expansion to China. The reconstructed case contained dates for important events, information about the duration of the events, information about which people and partners were involved, and what the outcome was in both a short and long term perspective. On occasion, the empirical data is highly detailed with quotes about particular matters to bring out nuances. Additionally, each phase of our case was structure around the three categories: partner interaction, control and protection, and product and management in order to give a clear structure to the case. The empirical data is presented separately for each category within each phase. This process allows unique patterns of each area to emerge, as suggested by Eisenhardt (1989).

During the process of reconstructing the case, new questions sometimes emerged and sometimes clarifications were needed. As a result, we had extensive phone conversations and written conversation with several of the interviewees in order to follow up. By going back to the interviewees, issues where questions remained could be explored in great depth. Additionally, extensive review of annual reports, internal documents, public reports, news articles and video recordings has been done to compliment the information provided in the

interviews and complete the case. For example, all annual reports since 1981, and some selected reports prior to that, have been reviewed. The information provided by the non-interview sources contributed to reconstructing the case as accurately as possible, especially when interviewees were not sure anymore about specific dates.

In a next step, findings in our case were grouped into three categories: (i) findings supporting existing literary findings; (ii) findings contradicting literary findings; and (iii) novel findings not at all or not much discussed in current literature. Particularly findings from category two and three were then discussed and the most interesting points were analyzed in depth by comparing existing literature and empirical data. The most important aspects coming out of the analysis of each category in each phase was then reflected upon. By linking important aspects under each category under each phase success factors spanning multiple phases were identified. Finally, all the success factors identified were then considered and overarching conclusions were drawn.

### 3.6 Validity

Validity is in many ways the most important criterion for proper research (Bryman & Bell, 2007). Validity is concerned with “the integrity of the conclusions that are generated from a piece of research” (Bryman & Bell, 2007, p. 41). Even though there has been some discussion about the relevance of validity and whether or not the concept needs to be altered for qualitative research, we will discuss our research in terms of *internal* and *external validity* as proposed by Bryman and Bell (2007). According to the two authors “measurement validity” almost by definition looks at measurement aspects and is therefore not relevant in qualitative studies, especially not single case-based and we therefore will not discuss it here.

#### 3.6.1 Internal validity

Internal validity is concerned with how believable the findings are (Bryman & Bell, 2007). We see how this affects the discussion in this master thesis in three ways. First, it concerns how well the developed models fit the researched concept. In order to reach as good of a fit as possible, we have tried to obtain what Bryman and Bell (2007, p.165) refer to as *face validity*. Face validity is obtained by having other experts in the field approve the models and theories used. We focus on face validity for two reasons: (i) it is arguably the most important determinant of internal validity (ibid.); and (ii) it suits the design of our case. In our case, we have presented our theoretical foundation of the topic that we investigate. Having received their approval, we believe that our models and theories contain face validity. Additionally, are the theoretical models constructed based on current literature. The authors of that literature are also considered to be experts. We believe that this further gives our models and theoretical framework face validity.

Second, internal validity also refers to the aspect that the researcher understands the perspective of the interviewees and is able to present a complete interpretation of the observations (Merriam 1994). In order to achieve that objective, it is important that the

interviewees are allowed to speak without fear of negative consequences. As a result, we offered all interviewees that they could be quoted anonymously if desired. Although there is still a risk that some interviewees might hide controversial opinions, we believe that being able to appear anonymously increased the likelihood of truthful responses. Moreover, according to Luo (2001) much research suffers from oversimplified cause and effect logic. Since cause and effect related matters can be complex, we recognize it might apply to our case as well. In order to reduce the risk of incorrectly mixing up what is the cause and what is the effect, we tried to challenge our findings by investigating whether or not there might be alternative explanations. This also involved taking a step back to look at how elements tie together, not only within each phase but also, and maybe more importantly, across the four phases. In the discussed case, few issues are clear-cut but rather they tend to be inter-related. For that reason, we found it particularly important to investigate alternative causal relationships. By constantly challenging our findings and by not taking anything for certain, we believe we have been able to reduce the risk of mixing up cause and effect.

Third, in order for us to confirm statements made during the interviews, we tried to use methodological triangulation and verification, meaning we included at least two types of data relating to each phenomenon. For example, whenever possible we tried to verify information provided through interviews by looking at sources containing secondary data such as press releases, news articles, annual reports and some internal reports given to us by interviewees. Furthermore, we made sure to cover each topic with interviews from multiple people at different levels within the organization. In addition we had the organization to review the empirical findings (the case) to ensure that the facts are correctly stated. All this allowed us to reduce individual interpretations and see investigate issues from multiple angles resulting in findings closer to the actual truth.

### 3.6.2 External validity

External validity refers to whether or not the findings apply to other contexts as well, meaning the degree to which the findings of the study can be generalized to the entire population (Yin, 2003). This question has received much attention since there is an ongoing argument concerning whether or not one can obtain external validity or generalizability in case study research. There are those (e.g. Bryan & Bell, 2007) who argue that findings from case studies cannot be generalized, and others (e.g. Alvesson & Sköldbberg, 2009) who argue that case studies can provide a certain degree of generalizability. As far as we can see, the reason for the diverging opinions concerning generalizability has to do with the definition of the term itself. If one means with the term generalizability that a particular finding will *always* hold true under *identical* circumstances one must agree with Bryman and Bell since the circumstances can never be exactly the same. However, if one defines generalizability, as we believe Alvesson and Sköldbberg (2009) do, to mean that a particular finding from one case is *likely* to hold true for a *similar* case, Alvesson and Sköldbberg's interpretation of the word makes sense. However, we recognize that generalizability, or the lack thereof, is a problem for our thesis as well.

Yin (2003) on the other hand provides a solution for the difficulty of generalizability. He also acknowledges that single case studies cannot generalize to whole populations or universes (*statistical generalization*) but are generalizable to theoretical propositions. According to his thought the analyst of a case study should generalize findings to theory with what he defines as *analytical generalization*. This means that the empirical results of the case study are compared with a previously developed theory that is used as a template. This type of generalization is then an appropriate method for gathering theory from a case study (Yin, 2003).

Following the reasoning of Alvesson and Sköldbberg (2009) and Yin (2003), we believe that several of our findings are likely to hold true for similar cases and that they hence can provide important learning points for companies trying to enter the Chinese market under similar situations.

### 3.7 Reliability

Reliability is concerned with whether findings are repeatable or not (Bryman & Bell, 2007; Yin, 2003; Eisenhardt, 1989). Although particularly important for quantitative research, it is still non-negligible for qualitative research (ibid.). For qualitative studies, Bryman & Bell (2007) mention *internal* and *external reliability* as the two forms of reliability that are of importance. We therefore discuss our research according to these two forms.

#### 3.7.1 Internal reliability

Internal reliability refers to whether or not, in a multi-person research team, agree about what they see and hear (ibid.). In the case of this master thesis, there are two authors. Hence, internal reliability could be an issue. In our case there were instances where we, the two authors, did not agree about a particular issue. When that happened we would always have a detailed discussion, and sometimes review recordings and notes, to try to figure out what had actually been meant by the interviewee. However, we recognize that should our study be repeated by a single researcher without discussing complex thoughts and statements with someone else, findings could on occasion differ from our findings.

#### 3.7.2 External reliability

According to LeCompte and Goetz (1982), external reliability refers to what degree a study can be replicated by others. They argue that since it is impossible to freeze a social setting and the circumstances of an initial study, the external reliability criterion is difficult to meet for case research. One solution suggested by LeCompte and Goetz (1982) is for later researchers to try to adopt a similar social role by replicating ethnographic research needs. Because of the diverse nature of Swedish firms trying to establish themselves in China, because of differing social settings in different parts of China, and because of the fast developments in China, this thesis might suffer from somewhat low external reliability. What this means is that the findings in this thesis are mostly relevant under similar circumstances as they were when the study was made. The findings might not be very reliable for Swedish companies operating under different

premises than Atlas Copco or for Swedish Companies trying to enter other parts of China. Also, given the long timeframe of this study combined with the rapid changes in China findings are likely to differ much depending on the time studied. That is also why the dynamic aspects of our findings are more important because they can be applied independently of time and place. As a result we go behind the success factors of every phase to find the dynamic capabilities of the success.

On the other hand, what can be done to improve external reliability is to make sure the empirical data reflects the chosen sample as a whole. As a result, what we have done is to interview employees with different backgrounds, at different locations, at different positions and with different specializations to obtain as good of a sample of the sample as possible. We expect this to contribute somewhat to improving external reliability although, to a large extent, the problem potentially will still exist.



## 4 Empirical Data

*In this chapter background information about China and Atlas Copco is given. Moreover, the empirical data is presented in form of a case which illustrates the organization's development in China.*

### 4.1 Background information China

To give the reader an overview of China we will start this section by discussing the history and legal development of China followed by a discussion about China's importance for global companies. Finally, we conclude the section by summarizing the main reasons for expanding to China.

#### 4.1.1 History and legal development of China

China is the world's oldest living civilization with more than 3500 years of written history (American Historical Association, 2011). At least since the Tang dynasty (618-906 A.D.), a distinctive feature of China's legal tradition has been that the legal system is not separated from, or independent of, the administrative system (Jones, 2003). There has also been little formal development in civil liability and procedural law (Chen, 2003). To a large degree, that still holds true today (Lubman, 2010). Also, many judges are not trained lawyers, especially in less developed provinces, but are former military officers without formal legal training (Chen, 2003; Lubman, 2010). Still, in 1978, a substantial legal framework was put in place, with institutions that together resemble a western legal infrastructure. And in 1979, The Law on Joint Ventures using Chinese and Foreign Investment was passed. This was another land-mark piece of legislation and the official opening to foreign investment.

Initially, only Chinese-foreign joint ventures were allowed to operate in an attempt to enable the Chinese to learn from the more advanced foreign firms. In 1984, China set up, for the first time, four Special Economic Zones (SEZs) in the southeast coastal areas. The SEZs enjoyed both privileged political and fiscal status. In the SEZs organizations received tax benefits, had access to well-developed infrastructure and facilities at low costs. Although the SEZs received attention from foreign investors, it was not until 1985 when the Foreign Economic Contract Law (FECL) was passed that the SEZs started to become popular. The FECL was the first law to govern contracts in China. In 1986, the Law on Wholly-owned Foreign-owned Enterprises was passed. This allowed for the first time foreign organization to wholly own subsidiaries in China. Initially, however, uncertainty existed about the law and at first it was very restrictive. It was not until China's WTO accession in 2001 that foreign organizations in large numbers started to organize themselves as WOFEs (Yueh, 2010).

Despite the progress in the legal system and its enforcement, running a business in China is not easy for legal reasons; particularly the areas involving government bureaucracy, business dispute resolutions, and intellectual property protection are difficult to manage (Yang 2010). The regulatory environment is still unstable and the substantial power of government bureaucracy means that relatively few powerful figures control a substantial amount of

resources. Regulations are also interpreted inconsistently. The country is large and suffers from substantial “internal variance” (ibid., p. 6).

Despite challenges in the Chinese legal system, thanks to the legal developments over the last 30 years and to the communist government’s desire to fight local corruption, the business climate in China has improved for foreign companies. To a large extent, this also explains the rapid economic growth of China and why the country has become so important for foreign companies.

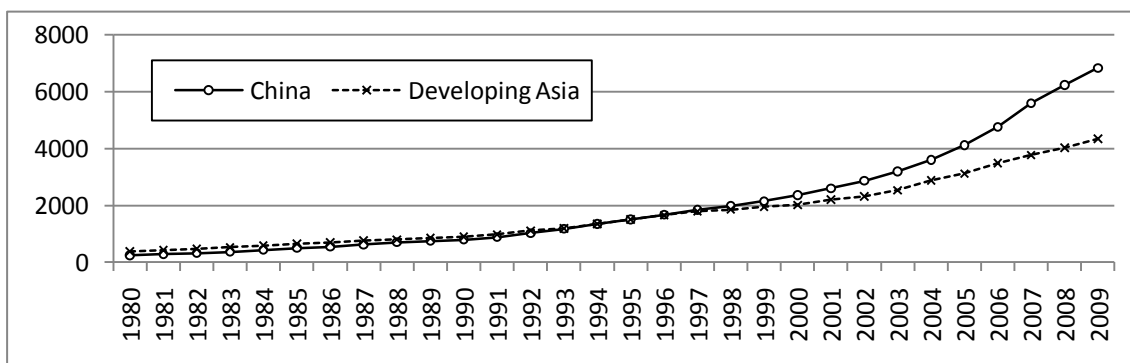
#### 4.1.2 China’s importance for global companies

China is not just another country on the world map for global companies. It is one of the biggest and most important markets world-wide and is growing fast. Gao (2008) even believes that China can be “an oasis for profit generation” for MNEs.

##### 4.1.2.1 China’s economy growth in the past years

After China first opened up for foreign companies the country’s economy grew only slowly. After a second round of reforms in the nineties the growth accelerated and continued on a very high level. The growth of the real gross domestic product (GDP) has averaged 10% over the last five years while the growth rates for the US and European countries averaged around 2-3% annually (IMF, 2011). This market development is even higher than what scholars estimated in 2004. Harold and West (2005) for example developed three possible scenarios for the Chinese economy by 2010. All scenarios claimed that the growth rate at the time of the GDP would decrease. The best scenario would see an average GDP growth of 8%-9%, the realistic equivalent growth of 6%-8% and a worst case of 4%-6% respectively. In 2011, still the best case scenario is true for China (9%). Therefore, any company that just grew with the market had an exceptionally high growth rate.

One can argue that China is a developing country and high growth rates should be expected. But China’s GDP grew considerably faster than the rest of developing Asia<sup>10</sup> in the last ten years as illustrated by graph 1 below. Moreover, the growth was also higher than other developing economies in the rest of the world (Schwab, 2008).



Graph 1. GDP per capita (purchasing power parity adjusted, US\$). Source: Schwab (2010).

<sup>10</sup> India, Indonesia, South Korea, Malaysia, Taiwan, Vietnam, Thailand

#### 4.1.2.2 Market size of China

China is a massive market. There are more than 1.3 billion people in China (OECD, 2011), and even if it is certain that not all of them will want to buy your offering, some will. The GDP in 2008 was almost USD 5.000 billion. Adjusted for purchasing power parity (PPP) it is even USD 8.000 billion (OECD, 2011). In the same year, Germany, as the biggest European market, had an adjusted GDP of USD 3.000 billion (OECD, 2011). The following table 4 gives an overview of the most relevant economic data of China compared to the USA and Germany.

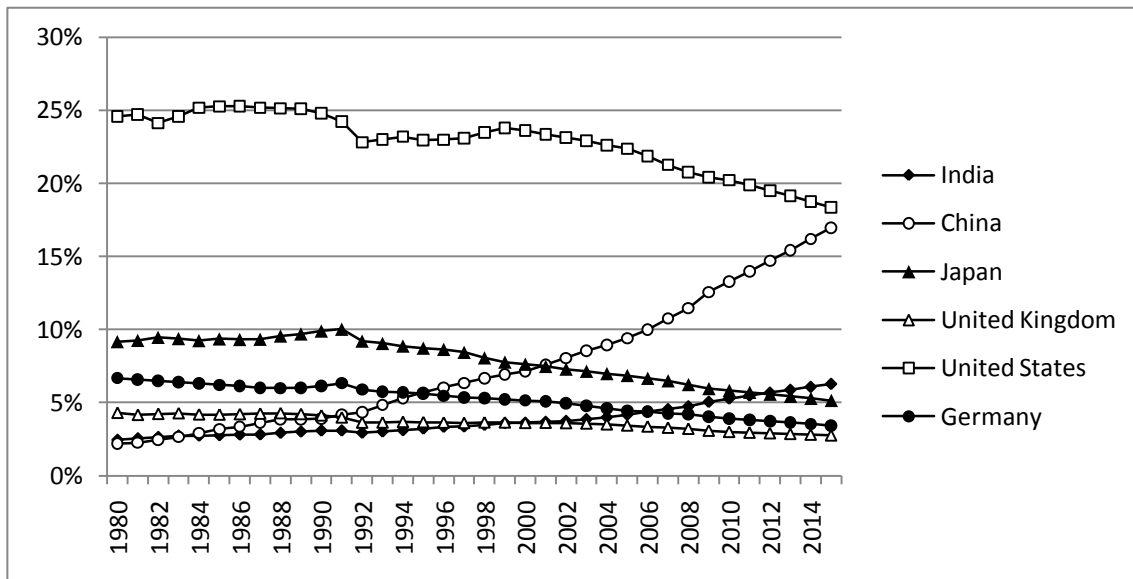
Comparison between China, USA and Germany			
	China	USA	Germany
<b>Population</b> (2010, billions)	1,346	314.7	82.2
<b>GDP</b> (2008, US \$ billions, PPP adjusted)	7,926.5	14,369.4	2,909.7
<b>GDP per capita</b> (2008, US \$, PPP adjusted)	6,234	47,209	36,922
<b>GDP as % of world total</b> (2009, PPP adjusted)	12.52	20.46	4.03

Table 4. Comparison of selected data between China, USA and Germany. Source: OECD (2011); The World Bank (2011b); Schwab (2010).

#### 4.1.2.3 China growth outlook

The outlook for China's economy is still promising. That is because when comparing the GDP per capita of China to the one of Germany or the United States, it becomes obvious that China still has great potential because it is not nearly on a similar level (see table 4 above). Various authors claim, that it is unclear whether China will ever reach similar figures. Chee and West (2004) mention various reasons for this: Bottlenecks, environmental problems, disparities of income, agriculture, availability of talent and overcapacity. Also Yueh (2010) is careful with the long perspective estimation. For the most part it seems to be the banking system with its poor regulation and risk management, widespread corruption and massive bad debts that will hinder China to grow to the same per capita GDP level as the western world (Chee & West, 2004; Yueh, 2010). Nevertheless, it is commonly agreed that the growth will last also in the future – maybe not to the same extent that China currently experiences, but still above the Western average (Plafker, 2007; Yueh, 2010; IMF, 2011). Combined with China's size this means that the country is becoming one of the two major global players. The best way to describe China's economy might be with the words from Ambler et al. (2009, p. 54): "The Chinese economy can be summed up as follows: a) it is big and b) it is getting bigger." One way to illustrate this is by looking at the development of China's GDP (PPP adjusted) as a percentage of world GDP (see graph 2 below). In 1980 China's GDP accounted for about 2% of world GDP while the U.K. accounted for about 4.5%. In 2015, it is estimated that China's part of world GDP will have reached 17%, while the U.K.'s share has shrunk to about 3%. The developments of the U.K. resemble the developments of all Western countries and Japan. Out of the countries displayed in the graph below, it is only India in addition to China who has managed to grow its share of world GDP and who is expected to do so until 2015. Worth noting, however, is that India also held a 2% share of world GDP in 1980. But by 2015, India's

share is expected to have increased to only 6% compared to 17% for China. Finally, by 2015 China is expected to almost reach the same GDP share as the USA. All in all, this illustrates the growing importance of China.



Graph 2. Share of country GDP out of world total GDP (PPP adjusted). Source: IMF, 2011.

Although China is expected to grow in the future, growth is not likely to be evenly distributed over the country. China cannot simply be seen as one homogenous country. The East is very different to the West and people do not even speak the same language (Chee & West, 2004). Moreover, China is different to other developing markets in one particular way. The development status differs more between the regions in China than they do in other developing countries (Stock, 2006). Today, more than 800 million people live in the rural, less developed areas of China. Out of the ones that are in urban areas, only 50% live in cities bigger than 750,000 (Chee & West, 2004). The provinces – basically all areas except the east coast – only slowly move away from the primary and secondary sectors. Other areas like Shanghai or especially Hong Kong are high-technology zones that have an equal or even higher level of development than countries from the European Union (Haour & von Zedtwitz, 2004). This therefore means that some regions experience a considerably higher growth than the 10% average of China, but it also means that reaching all the other areas within China is difficult.

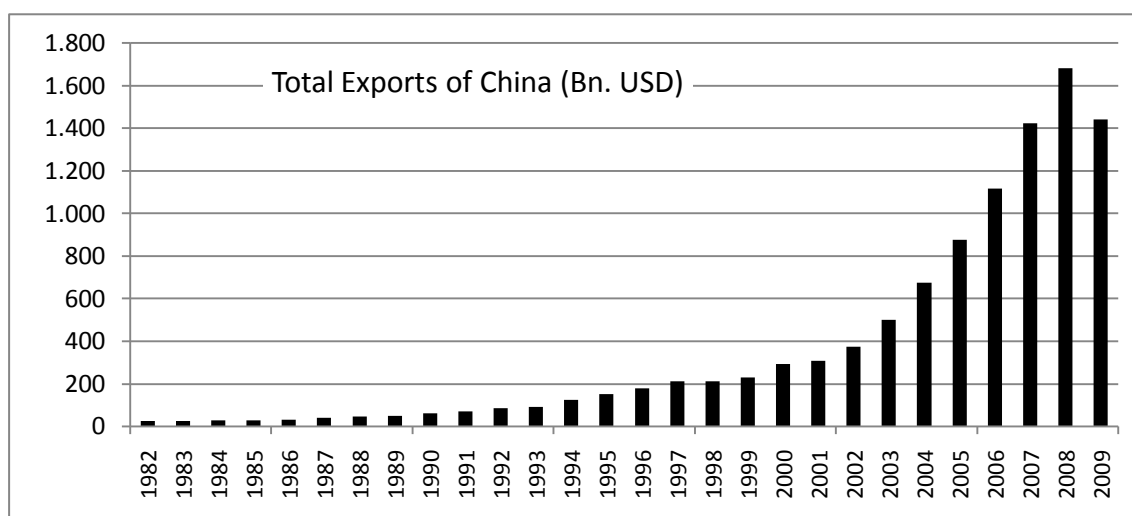
#### 4.1.3 Main reasons for expanding to China

In general there are two main reasons why companies want to expand to China (Ruppel, 2007; Gao, 2008; Plafker, 2007): (i) low-cost production and (ii) sales potential. In recent years, practitioners such as CEOs started to argue, that companies want to be in China in order to prevent competition from the Chinese. This argument has two components. First, by entering the market, a company hinders the Chinese competitor to become a major player before the Chinese company itself expands to the home market of the foreign company. Secondly, by entering China, the foreign company brings the competition into the home market of the Chinese company and away from their own home market. Literature has not taken up this

argument. However, it is highly possible that the prevention of competition is a third factor that is gaining importance and should be further investigated by researchers.

#### 4.1.3.1 Low-cost production

Ruppel (2007), Gao (2008) and Plafker (2007) see low-cost production as one reason for MNEs to expand into China. Naturally, having low-cost manufacturing ensures companies to have competitive prizes around the world and China is a good platform for a low cost production. There is plenty of research about low-cost production in and outsourcing to China. Also when considering the extent and the growth of China's exports in the last thirty years it becomes obvious that the country has a big production platform (graph 3). For 2009 the exports accounted for 24% of the total GDP (The World Bank, 2011c).



Graph 3: Total Chinese Exports (US\$ billion). Source: The World Bank, 2011c.

But China is not the only country where companies can move to for low-cost production, as there are many other developing economies which provide a low-cost base, also in Asia<sup>11</sup>. Moreover, it seems that considering China as a low-cost country for production is a traditional view that was more relevant in the past. Many experts are of the opinion that the cost advantages will disappear in the near future (APEA, 2011). Yueh (2010) for example shows, that the labor costs in the urban areas on the East coast of China (e.g. Shanghai, Beijing) have increase much between 2003 and 2006 and are on a comparable Western level. Moreover, real estate prices in Shanghai for example are already close to what they are in other cities in the West<sup>12</sup>.

Due to the differing development level within China, the costs vary substantially across the country. In Chongqing or Chengdu they are still around 40% lower than in Shanghai or the East coast (APEA, 2009). Therefore companies can still “move West within China” to maintain the

<sup>11</sup> E.g. Vietnam, Philippines, Malaysia, Indonesia, Bangladesh

<sup>12</sup> E.g. [www.replusrealestate.com](http://www.replusrealestate.com)

low-cost base. But the industry clusters with subcontractors and suppliers are not as strong as they are in the East, which is a challenge for companies.

#### **4.1.3.2 Sales potential**

It seems as if the argument of low-cost production, for explaining why companies expand into China, was more relevant in the past. According to Stevenson-Yang and DeWoskin (2005), China is in a transition period. In the past China grew by attracting foreign investment and offering a low cost base for export manufacturing. Today, the focus is on infrastructure investments and (high) technology replication and localization. The Chinese administration offers tax benefits for R&D centers or construction support for local high-tech production that focuses on creating an own market (Stevenson-Yang and DeWoskin, 2005).

With its size and its future growth prospects any company should consider China as a market to sell its products and services in. Lou et al. (2010) believe that a company who wants to be the market leader in the world also has to be the number one in China.

## **4.2 Company Description**

Founded as AB Atlas in 1873 Atlas Copco is a Swedish industrial group that is headquartered in Stockholm. The company is listed and publicly traded at the Stockholm stock exchange. During its history the company underwent various reorganizations and changes in strategy but the core business remained the same: Industrial products.

Atlas Copco had started as a supplier of railway equipment, but had gradually in the early 1900s started to disband the railway equipment market and begun to focus on diesel engines, pneumatic products and compressors. Today, the products and services range from compressed air and gas equipment, generators, construction and mining equipment such as rock drills, industrial tools and assembly systems, to related aftermarket. Atlas Copco sells its products under different brands through a worldwide sales and service network reaching more than 170 countries, half of which are served by wholly or partly owned customer centers.

The Group operates through a number of divisions within three business areas: Compressor Technique, Construction and Mining Technique, and Industrial Technique. Atlas Copco has world-leading positions in all of them and is the world's global leading producer of air compressor.

In 2010, revenues reached SEK 70 billion while the operating margin climbed to almost 20%. The group employs more than 33.000 people and has 68 production sites in 20 countries. At the end of 2010 the company was ranked as the 425<sup>th</sup> largest company by market capitalization in the Financial Times Global 500 ranking. The shares are listed on the NASDAQ OMX Stockholm exchange and there are both 'A' and 'B' shares.

The main global competitors of Atlas Copco are Ingersoll-Rand (US), Siemens, MAN Turbo and Sandvik. On a more regional or divisional basis Atlas Copco has various competitors in the different markets such as Hitachi, Furukawa and Caterpillar, Doosan Infracore and many more.

### 4.3 Atlas Copco in China

The following part is the presentation of the empirical data. It is the description of Atlas Copco's market expansion to China from an early stage up until now. A timeline with the overview of Atlas Copco's involvement can be found under appendix I.

#### 4.3.1 Introduction

Atlas Copco's market entry into China can be considered as an evolution. Including exporting it took place over a time period of 90 years and is still happening today. Even though Atlas Copco is now active in more than 170 countries world-wide and China was one of the last markets it expanded to the organization does not have a standardized approach for establishing itself in a market. Former CEO Michael Treschow<sup>13</sup> reveals:

"Every market is unique and a unique strategy is needed therefore. Everything depends on the time, situation and circumstances. You therefore have to find a unique way about how to do things."

However, the clear vision that Atlas Copco has to take part in the developed of the country has always been there. The company wanted to be physically present and build up a platform to work from. Their idea was not to be in China in order to produce at low cost but to sell to the Chinese market. Former CEO Gunnar Brock highlights this thought:

"You have to be in China. Never before has a market opened up so fast, for so long and at such magnitude. For us [Atlas Copco] it was always clear that we want to be part of it."

Overall, Atlas Copco's engagement in China can be divided in four phases. While the first phase was by far the longest it did not include any organizational involvement in the country itself, due to the political and economic environment that did not allow foreign companies to enter the country but only allowed the company to export to China. After China opened up in 1978, Atlas Copco followed in 1983, by signing licensing agreements with partners in China. This can be regarded as the second phase. Ten years later, in 1993, the first joint venture was established in China, which was the starting point for the third phase. In 1998 the decision to focus on wholly owned foreign enterprises followed. It is this fourth and last phase that has the most dramatic impact in terms of growth and revenue development. Nevertheless, all the phases played a major role in the expansion into China and this is unique for the organization.

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<sup>13</sup> A description of all the persons from Atlas Copco mentioned in the case by name can be found in Appendix E.

For all other market expansions Atlas Copco had the strategy to always fully own the subsidiaries.

The evolution however is in line with what the theory about international expansion suggests and all the phases commenced with a change of the expansion strategy. Accordingly, the case study is presented in these four phases and takes up the categories presented in part 2.2.3. However, some aspects have overlapping elements and therefore it is important to regard the case as a whole and not separated as independent stages. The whole process was long and much effort and endurance was required to eventually establish a significant presence in China. Corporate Counsel Hans Sandberg illustrates this very precisely:

“I could not have imagined how different China would be compared to any other country and how long it took us [Atlas Copco] until we somehow understood how it works”

#### **4.3.2 Phase 1: Exporting (1920-1983)**

Atlas Copco started to export products to China in the 1920s but the exports were always rather low. Overall, Atlas Copco did not consider China as an important market and the sales from the exports were low as Erik Carlius explains:

“Prior to mid 80s China was a very small market without much significance. It was difficult to do much business with China regardless of how you tried to do it.”

Products were sold to China, but the market was not high on any agenda. The country was closed for foreign investment and the transparency was so low, that it did not justify high investments.

##### **4.3.2.1 Partner Interaction**

At the beginning, selling was done mainly from Sweden through negotiations with central government authorities in Beijing. In 1960s, direct selling from Atlas Copco in Sweden was further expanded as several relationships with distributors in Hong Kong were established. This meant that the direct negotiations with the Chinese government could, to some extent, go through the Hong Kong distributors. During the 1970s, relationships with Chinese actors and potential distributors in the Greater China were intensified.

The standard approach was to ship the products to a harbor on the Chinese East coast and the customer would pick it up there. If large orders of goods were for a distributor the products might have to be sent by train or truck after they had reached the harbor. However, almost always the process went through agents or partners and Atlas Copco was therefore not directly involved in the sales. On the other hand Atlas Copco did start to build up relationships to some of the partners and entered ownership agreements at a later stage.



#### ***4.3.2.2 Control and Protection***

One of the biggest challenges with China was the fact that the culture, language, legal system was so different. Since Atlas Copco could not enter the country itself the company could only gather information slowly, especially since there were no modern communication technologies available. As explained by Sandberg, it might be difficult to remember for the younger generations but at the beginning of the 80s neither email nor mobile phones existed. The quality and accessibility of fixed phone lines to China was also poor and the fax had just started to be used.

Moreover, the delivery of goods was challenging and the partners not always reliable. Things could not really be checked and oftentimes goods were stolen or lost. This was not just the case for Atlas Copco but for most companies that exported to China.

#### ***4.3.2.3 Product and Management***

In the 1920s Atlas Copco started selling diesel engines and pneumatic products to China. Later also compressor and pneumatic equipment were among the typical export products. At the end of the exporting phase products from all the three business segments Mining and Construction Equipment, Industrial Technique and Compressors were sold in China. Throughout the exporting phase Atlas Copco's brand was globally well known and the company was considered as a market leader of its product categories in the industry.

To some extent there was incomplete information on behalf of the buyer as they did not know what the market price for a product at the time was. Additionally, Atlas Copco understood that the Chinese liked discounts. The price negotiations were therefore like a wild horse trade as Brock mentions:

“If you wanted to have 100, you set the price at 150, in order to discount it close to a 100”

The prices desired by Atlas Copco were usually reached. And Atlas Copco started to build up relations with their partners in China. However, it was very difficult to get into contact with the end customers in depth. And the modest exports also did not justify further investments in that sense. Therefore, the products sold were not specially designed for the market, but rather the standardized products, oftentimes less sophisticated products, sold in other parts of the world were sold to China. The focus was to get the products into China fast, cheap and without damage.

In some countries Atlas Copco never really passed this stage of expansion. Treschow explains:

“In Russia, we never found any good partners for direct investments so we continued to mainly export.”

### 4.3.3 Phase 2: Licensing (1983-1993)

When China opened its doors for foreign companies in 1978, Atlas Copco was quick to follow. In 1983 Tom Wachtmeister – at that time Atlas Copco’s CEO – wanted the company to enter China in a lasting manner. He decided that the company should stop selling into China from Stockholm and build up a local presence. As a result of his several visits to and meetings in China, he was convinced of China’s growth and sales potential. During the early 1980s, the company therefore started to establish representative offices<sup>14</sup> in Beijing, Shanghai and Guangzhou. Furthermore, in 1983 it established a sales company for China in Hong Kong. However, the management was convinced that for the long term involvement, simple sales and representative offices would not be enough. They were convinced that the production eventually would need to be in China too. During the whole phase, sales remained low (see appendix F for revenue development). But sales were not the main focus during this stage. The idea was to build a solid platform, and learn from the market.

#### 4.3.3.1 Partner Interaction

As a result, between 1983 and 1985, Atlas Copco signed product licensing agreements with six Chinese companies for the local production of selected products as one of the first Western companies. This was a major change for two reasons. First, China did not have a law for licensing until 1985. Atlas Copco therefore negotiated licenses before they actually were regulated by the government. And second, until that point Atlas Copco had never given out licenses anywhere in the world. Arguably the most important license agreement was signed with Wuxi Compressors in 1984. Wuxi’s market position and strategic relevance turned out to develop into the most extensive partnership in Atlas Copco’s engagement in China.

The number of actors to take as a partner was very limited. As a result of communism there were only a few companies in each industry and all of them were State owned<sup>15</sup>. Some approached Atlas Copco themselves as they were seeking technology from the West. Others were approached by Atlas Copco. Nevertheless, all the six licensing agreements that were signed were considered carefully. First, Atlas Copco already knew most of them from the time when they were exporting into China. And second, Wachtmeister and other Atlas Copco representatives spent time meeting and negotiating with them. Goals and expectations were shared and the long-term perspective was important.

One of the people Atlas Copco got to know very early was a Chinese working in Hong Kong called Thomas Kung. Wachtmeister met him while being in Hong Kong in the late 70s, early 80s. At that time Kung was working for the distributor Keller in Hong Kong. Wachtmeister invested time and effort to become friends with him. Eventually, Atlas Copco bought the

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<sup>14</sup> Representative offices are used to conduct market research and other non-transactional operations in foreign countries where a company is not entitled to have a branch or subsidiary. They are mainly used because they are easier to establish since they are not used for actual business and sales and therefore less regulated.

<sup>15</sup> The situation can be compared to the Soviet Union when it first opened up.

distributor and Kung started to work for Atlas Copco in China. Kung had a great network. He knew key people and partners. When there was a problem with authority he was called in and resolved the conflict. He understood the Chinese market, the Chinese culture and more importantly spoke fluent Chinese. But he also understood Atlas Copco and its desires. When negotiating he tried to stay in the middle of the parties, looking for mutual benefits and resolving the issues. Sandberg, still in personal contact with him today, remembers:

“Without Thomas we would not have been so successful (...). Everyone understood that one has to stay with him if you want something. (...) He became Mr. Atlas Copco China. “

Thomas Kung, who is 74 today, is still with Atlas Copco. He is now the Chairman of the Atlas Copco (China) Investment Company.

Another example of building such long-term relationships is Peter Wallenberg's contacts with the political leaders of China. In 1987 Wallenberg, at the time chairman of Atlas Copco, met Jiang Zemin<sup>16</sup> for the first time in China. The later president of PRC was the mayor of Shanghai. Wallenberg got very sick the days before the meeting and had to be hospitalized. Zemin was truly concerned about his health and after the visit a deep friendship emerged. Since then, Wallenberg and Zemin have met many times, both in the west as well as in China. The same is true for Hu Jintao<sup>17</sup>, who Wallenberg met at a later point and despite being retired still interacts with.

In terms of negotiating contracts, Atlas Copco faced a challenge. When the first licensing agreement was signed there was no real legal system. There were almost no courts, no lawyers and no laws. One might think that without laws everything would be allowed. But it was actually the other way around. If not stated in the laws, it would generally be forbidden. China eventually decided to use civil law and not common law. From the start Atlas Copco accepted to use Chinese law governing its contracts<sup>18</sup>. Eventually China decided to use ownership laws similar to those in former Yugoslavia. Hans Sandberg who was involved in China from the beginning and later became the Corporate Counsel was very familiar with these laws, as he was, from Atlas Copco's legal side, responsible for that country at an early stage. He therefore was sent to China and was responsible for all the legal aspects.

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<sup>16</sup> Zemin was leader of the Communist Party of China, serving as General Secretary of the Communist Party of China from 1989 to 2002, as President of China from 1993 to 2003, and as Chairman of the Central Military Commission from 1989 to 2004.

<sup>17</sup> Jintao succeeded Zemin and is the current leader of China. He has held the titles of General Secretary of the Communist Party of China since 2002, President of the People's Republic of China since 2003, and Chairman of the Central Military Commission since 2004.

<sup>18</sup> It is possible to add the laws of any country into a contract. E.g. “the laws of the State of New Jersey apply”

#### **4.3.3.2 Control and Protection**

Atlas Copco licensed out rather simple technology to its six licensees. On the one hand this had to do with the fact that the company wanted to protect its cutting edge technology from imitation. On the other hand, advanced technology was also not needed. The industrial base at that time was not developed at all. There were no suppliers, hardly any distributors and only simple products were needed. Therefore it made much more sense to license out simple technology that was easy to understand and adopt by the local licensees. Also, Atlas Copco started early to have a multi-brand strategy for the Chinese market (see appendix G for brand strategy in China). The products that were produced by the licensees were sold in China, but not under the Atlas Copco brand. This was mainly because of quality concerns and in an effort to protect the Atlas Copco Brand.

#### **4.3.3.3 Product and Management**

Simple compressors were the most sold items. But the greatest share of what was sold still had to be imported from Europe. And more difficulties were all around. First, the distance between Sweden and China was very large. Bringing the information home was challenging as the modern communication technology was still not available. Second, the language and culture barrier made it difficult to get deep understanding. And third, China was in a major transformation phase and everything was very unclear. This meant that the market was still not very important for Atlas Copco and the combination of that the market was still rather unimportant, that market information was difficult to get and that China was rapidly changing resulted in difficulties to adopt products for local needs.

But Atlas Copco focused on maintaining a good interaction with its licensees. And still today, the relationships with many of the licensees and other partners from the early stage hold as Atlas Copco interacts with them in one way or the other. Sandberg recalls this:

“We made good friends in China in the early 80s. I still interact with many of our first partners in China and when I visit China today I try to meet them. Some even became close friends and we hug when we see each other.”

#### **4.3.4 Phase 3: Joint Ventures (1993-1998)**

In 1993 and 1994 Atlas Copco – by that time already present in more than 100 countries world-wide – signed the first JVs in Nanjing (drill rigs) and Wuxi (compressors) to further grow its business in China. The main reason for going with a JV in the expansion process was the legal restrictions in China. At that time, China had very strict currency and foreign exchange regulations. Buying local currency was basically impossible. Therefore a company couldn't buy spare parts in China, but they had to be exported and then re-imported by the buying party. Moreover, the rules said that the same amount of components that were imported had to be exported. By taking part in the JV, both restrictions could be circumvented.

Overall, Atlas Copco had only in few other countries considered to establish a JV but in most cases it did not materialize<sup>19</sup>. Therefore, in order to get a good learning experience before signing any JVs Atlas Copco interviewed Pharmacia, the first Swedish company<sup>20</sup> that moved to China to establish a JV. Moreover, Volkswagen (VW) was interviewed. Both companies shared their experiences about JVs and pointed out the main challenges for Atlas Copco. However, most of the current and past managers are skeptical about JVs and do not consider this phase as especially successful<sup>21</sup>. Problems with management, partners and standards were the main difficulties that Atlas Copco had to deal with. Gyllö says about the JVs:

“It was good to have some JVs at the beginning. They taught us why it is not good to have JVs in the long run for our core operations.”

At the end of the phase, the company appointed Leif Boll as the General Manager<sup>22</sup> of Atlas Copco China (Atlas Copco Shanghai Trading Co. Ltd) in 1998. Boll remembers how difficult the situation was when he first arrived in China:

“China was not successful at all. Hong Kong was not so interested in selling to China. For them it was still considered to be too difficult and they had a flourishing market on their own. Exporting from there was difficult too.”

Before this engagement Boll worked in other countries for Atlas Copco but had no knowledge about China before his arrival. He also did not speak any Chinese nor had any deeper understanding of the Chinese culture, but he decided to bring the young Swedish graduate Erik Carlus to China in 2000 who spoke Chinese and was an expert about the computer program MapInfo. Moreover, Boll soon met Duck<sup>23</sup>, a local Chinese working for Atlas Copco, who had a good network and contacts with local authorities. Similar to Kung, Duck became a key contact for Boll during his time.

Leif Boll worked with Magnus Gyllö who became the Vice President<sup>24</sup> of the newly founded holding company (Atlas Copco China Investment Co. Ltd). The holding company holds the trading company. Boll worked in this position until his recent retirement while Gyllö is still active in the same position. The legal structure of the holding company had a major impact on the China development. Initially, Atlas Copco had the Atlas Copco Shanghai Trading Co. that was allowed to only have one office which was in Shanghai. The problem was that the trading company was not allowed to have further offices, which hindered it from growing because

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<sup>19</sup> Russia and Iran

<sup>20</sup> Pharmaceutical company

<sup>21</sup> However, still today, there are examples of successful JVs in China and depending on the goals a JV can still be more successful than a WOFE. Even Atlas Copco may look at JV's again in certain acquisition situations in the future.

<sup>22</sup> Exact title is “Managing Director of Atlas Copco Shanghai Trading Co., Ltd”

<sup>23</sup> The name is a pseudonym

<sup>24</sup> Exact title is “Vice President, Atlas Copco China Investment Co., Ltd”

other areas were difficult to reach without any local presence<sup>25</sup>. Atlas Copco then discovered that under Chinese law, a holding company was allowed to hold various offices anywhere in the country and more importantly, was allowed to have sales personnel. In 1997 Atlas Copco therefore invested about SEK 30 million and established a holding company which, from that moment on, was able to spread out into China and grow.

With the appointment of Boll (nickname “identifier”) also a more aggressive plan for the market coverage in China was worked out. In 2000 Boll and Carlus segmented the Chinese market for compressors and industrial tools with Chinese data. All the data was from official authorities, publicly available but in Mandarin. Surprisingly large amount of data was available from the Chinese if one only knew where to look. With the help of its new computer program, Atlas Copco was able to map China into different areas that showed where the company’s products would be needed. Over time, Atlas Copco densified its network and understanding of the market further. Today, the aim is to really understand the consumer’s needs and to be close to the customers.

In a next step Boll started to build up sales units that target the more attractive areas. Boll’s motto at that beginning was:

“Everyone can build a compressor but not everyone can sell it”

Over time, the network of local sales points increased. Today, there are over 120 field offices and 600 contracted resellers spread over the whole country. Gunnar Brock points out the importance of having a local presence:

“Your office can be a garage, but you must be there!”

As opposed to Atlas Copco, the two main competitors for compressors, Ingersoll Rand and Fucheng (Taiwan), did not segment the market and did not use own sales people. They used the very common approach of resellers. Since Atlas Copco knew which where the important geographical areas to be in, it had already approached the best resellers in the key areas before the competitors arrived. Atlas Copco believes in the direct approach.

However, throughout the phase sales remained low (see appendix F), even though it was obvious that the economy was moving. This was in line with what other companies in China experienced and was mainly the result of China’s system with a high degree of bureaucracy, difficult authorities and much regulation. But it also became obvious that it is difficult to do business with Chinese without speaking the local language. In 1998, Atlas Copco Compressor only sold about 100 items per month of its highest sales volume item, a number that would increase by the factor of 10 a few years later. Most of the sales came from other companies

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<sup>25</sup> China is one the second biggest countries in the world by land area and is considered to be the third or fourth largest in respect of total area.

that were also building up a presence in China and needed tools, machinery and compressors for that.

#### 4.3.4.1 Partners Interaction

For Atlas Copco the most important thing for the JV was to find the right partners. Kung was given the responsibility to negotiate and sign the contracts. Since he was Chinese, spoke the language and understood the culture it was possible for him to stay between the parties and act as a broker. In terms of selecting the partners, Atlas Copco favored its licensees and as a result, three of their licenses also became JV partners. The most influential was Wuxi Compressors as one of the two first JVs in 1994.

However, in general it was difficult to find partners for a close collaboration. Most of the local businesses were lacking standards, had bad management styles and were unstructured. Especially in the *Industrial Tool* business areas Atlas Copco never found a good partner and therefore always lagged behind. Bengt Kvarnäck says about this time:

“It would have been best to do everything ourselves”

Nevertheless, Atlas Copco wanted the local JV partners for their market knowledge, their contacts and the learning possibility. On the other hand, the Chinese had a different agenda. They wanted Atlas Copco’s technology and had certain political motives such as power through insights. Here, Kung played a vital role in the difficult process of bringing the parties of the JV together. But despite all the problems, Atlas Copco wanted to stick with the JVs and make them work.

#### 4.3.4.2 Control and Protection

Atlas Copco’s principle from the beginning, after having studied the previous examples of Pharmacia and Volkswagen, was to control the investments,. As a result almost all of the JVs were on a majority ownership base (commonly 60%-40%). Only a few were done on a minority base and this only when Atlas Copco had a very strong interest to be a partner (e.g. for former licensees). However, to ensure majority based ownerships was very challenging. The Chinese wanted to have control in the JVs with a clause where a unanimous decision was needed for conducting organizational change. Atlas Copco tried whenever possible with all means to get rid of such clauses. Furthermore, the Chinese also wanted to run the JV but they were lacking standards and had inefficient management styles.

The basic concept of the JVs was simple. The Chinese partners were allowed to produce what was agreed on. They got the technology for production of various components from Atlas Copco. In order to determine what would be produced locally and what not, Atlas Copco classified elements in terms of quality. Elements that had to be of particularly high standard would be produced by Atlas Copco and not its partners. Moreover, components considered to be key components were not allowed to be produced by someone else. These were generally the most advanced elements. However, about 90% of the components were made locally.

Overall, each individual partner produced only a fraction of the whole, complex Atlas Copco product. Atlas Copco would then assemble all the locally made components with the more advanced and self-produced components. Moreover, by establishing JVs with former licensees, Atlas Copco eliminated the threat of local competition from the former licensees and by so doing was able to protect its technology.

#### 4.3.4.3 Product and Management

The office in Hong Kong considered China a difficult market and was reluctant to invest further. Production was still limited to rather simple and small compressors, while the more complex components were imported and (major) product adaptations were not made for the Chinese market during this period. Boll remembers this time:

“China was still sleeping. We had low sales and we realized that it was difficult to do business with the locals”.

On the other hand, Atlas Copco still focused on its multi-brand strategy. Wuxi Compressor did not sell under Atlas Copco’s name and was in a different price category. Moreover, it became clear that, although a top market for high end products existed in China, there was also a middle market that was bigger than in most other countries (see appendix G).

Atlas Copco faced even more difficulties. The factories in China had to be upgraded to Western standards and had to be adapted by their mother factories in Europe. Both aspects were difficult, partly due to geographical distance but also due to cultural and linguistic differences combined with the strict hierarchy in China. Production was also difficult as the Chinese engineers would only produce according to a predefined plan. They would rarely be innovative, flexible or think much on their own as seen by the Swedish Managers.

To help in the process of signing, designing and managing the Chinese JVs, Atlas Copco acquired Stephan Kuhn<sup>26</sup> who was working for a distributor. He spoke fluent Chinese, had great knowledge about the market and was eager to enter more aggressively. Also other local Chinese were hired that helped the company to navigate through the process. However, the JVs were not really successful, especially in the business area *Industrial Tools*. Some of the established JVs only reached break-even after more than two years and were either sold to the other JV partners or closed down completely.

Overall, Atlas Copco is critical about this phase and highlights the learning aspects. Kvarnbäck for example held the executive committee meetings in China in the early 90s to give the Western managers an understanding of what is happening in the country. However, the circumstances were not easy and growth not easily achievable. Nevertheless, the management was still convinced about China and its potential. Gunnar Brock summarizes this point in a good way:

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<sup>26</sup> Today, Stephan Kuhn is the Business Unit President of Compressor Technique



“We saw the potential in China (...). We could have been faster at starting local production and development.”

#### 4.3.5 Phase 4: Wholly Owned Foreign Enterprise (1998-present)

In 1998, as in the years before, Atlas Copco still mainly sold to foreign companies building up their presence in China. Experts and analysts were still skeptical about the future of China. Many saw only short term possibilities. But Atlas Copco continued to see it as a long-term investment and not a short term opportunity with a huge sales potential as Ronnie Leten emphasizes:

“We have always had – and always will have – a long term strategy for China.”

Moreover, Atlas Copco decided that the growth in China should be based on wholly owned subsidiaries. Historically, the organization had always had the strategy to fully own their subsidiaries but in China this was simply very difficult. When China slowly reduced some of the restrictions because of their interest to gain access to the WTO, Atlas Copco wanted to aggressively take this opportunity. Boll reveals that he always got quick approval for projects and investments from the head office in Sweden. When reporting back, the management team was very supportive, granted capital requests quickly and the standard answer to his request was “Go-Go-Go”. Other Western companies had longer decision processes and Boll knows that he was able to act very freely. Kvarnbäck even said it was ok to only get “half of what you were doing right, but you had to do something”. Furthermore, in 1998 the head office was moved from Hong Kong to Shanghai.

However, it was only from 2000 on that the sales would start to take off and the long built foundation eventually started to pay off. The sales development was closely related to that China opened up under pressure of the international community. Ronnie Leten recalls:

“We developed with the country.”

In 2000 Atlas Copco sold products for SEK 1.2 billion, only ten years later it was almost SEK 8 billion. That is a compound average growth rate of 21% per year (from 2009 to 2010 it was 15%). At the same time in Germany, the total market for compressors only grew by 2%-3% per year. Still, Leten is skeptical about the growth in China. He wonders whether 21% is good enough and particularly believes that during 2002-2005 Atlas Copco did not grow aggressively enough. Other western companies probably grew faster than Atlas Copco during those years. But it is difficult to assess this because the market is not as transparent as most other markets are. As growth rates are dependent on the total market development, it is only possible to determine whether a 20% growth is a success or not in combination with the own market share.

#### 4.3.5.1 Partner Interaction

Atlas Copco maintained the relations that they built up with their partners from their previous phases. The local suppliers and partners were kept and JV partners eventually were integrated in the company (more information under *Control and Protection*). However, since the organization is foreign it does not get the same price for local production components as Chinese competitors get. Furthermore, government contract are difficult to get without a local partner.

Moreover, government interaction still is important, especially in China where there is always a risk that “a signature is missing<sup>27</sup>”. Simple things as paying taxes and following local laws turned out to be beneficial for Atlas Copco when land leases were given out. Atlas Copco was appreciated for not playing political games and for staying despite political turbulence. Its credibility as a good citizen will also likely continue in the new five year plan of China because the twelfth five year plan (2011-2015) for China includes for the first time environmental regulations. Emission of carbon dioxide and waste water is now regulated and health standards are put into place. For Atlas Copco this is a development to a normal market as it always tries to follow international and local law and will therefore meet the requirements even before they are in place. This line of reasoning was summarized by Leten:

“The stricter the environmental policies are, the more difficult it will be for our competitors to compete with us.”

#### 4.3.5.2 Control and Protection

On the one hand, ownership came in a natural way. As the JV grew bigger, capital had to be increased. This was not a problem for Atlas Copco, but the smaller local partners struggled. As a result of the one-sided capital increase the ownership shifted more towards Atlas Copco until at one point the whole JV partner would be taken over. Wuxi Compressor is the best example: The JV first enjoyed two extensions in 1999 and 2001, involving renegotiations of the contracts and new capital infusions. Then in 2003 Atlas Copco acquired the majority of Wuxi Compressor and in 2007, all the remaining shares were bought at a high price.

On the other hand, Atlas Copco did also acquire Chinese companies directly<sup>28</sup> or acquired companies outside of China who had subsidiaries in China. Some of these acquired companies tried to take short-cuts and Atlas Copco took efforts to align them into its standard. In total, twelve of the total eighteen companies in China were bought either naturally by increasing the capital or by directly acquiring the company or the mother company outside China.

<sup>27</sup> This saying is commonly used to illustrate the bureaucratic approval process in China where many authorities have their say and you are never sure if you fulfilled all the requirements

<sup>28</sup> These are: Liutech Machinery (2002), Shenyang Construction & Mining Equipment (2003); Tooltec Qingdao Tool (2004); Pneumatech Air/Gas Purity (2005); Shanghai Bolaite Compressors (2006); Shenyang Ruifeng Machinery (2007); Dynapac Compaction & Paving Equipment (2007) and Kunshan Q-Tech Air System (2010)

For the acquisitions, the selection was done very carefully. First, initial meetings and screenings took place at the premises of the local target. Second, the top management was involved in the negotiations that included both lawyers and local people. And third, the strategic fit was very important. The production facilities and the reputation had to be good, the market share in China high, and the people had to be loyal and have the relevant knowledge. Nevertheless, there are cases where the companies that were bought had to be closed down. Moreover, in one situation, the owner's son started up a new competing company. In another case the government did not approve the acquisition. Today, it is more difficult to acquire local companies as the Chinese government has become more reluctant to approve acquisitions because they want to stop the "selling out of local enterprises". Therefore, further growth in China will largely be mostly organic. In 2009, Atlas Copco established three companies<sup>29</sup> and in 2010 one more<sup>30</sup>.

Protection of its products and knowledge is important for Atlas Copco. To tackle the main concern of IP/copyright protection Atlas Copco takes various efforts. First, in parallel to the sales force, Atlas Copco also established a service unit for China<sup>31</sup>. While doing service on its products Atlas Copco now also checks whether all components are original. If the service people notice that this is not the case they report it immediately to the internal legal department of the holding company.

Second, for practical execution, Atlas Copco works together with several external law firms that handle these cases. Once they have tracked down the suspected supplier of fake parts, they sometimes plant a worker inside the company that takes pictures etc. Together with the police the production facility is then closed down. Generally, no court case is filed since it tends to be difficult to obtain the support for that from the local government once the production facility has been closed. But in severe cases a court case is filed despite the challenge of having all evidence approved to be used in court. In total there have been about 30-40 IPR related investigation and only a handful of court cases every year. However, that trend is decreasing.

And third, of the average product sold by Atlas Copco, the company itself only produces around 35% of the components. The remaining parts are bought from suppliers and competitors. Generally, Atlas Copco only produces the key components or the most advanced components themselves. The Chinese competitors often produce as much as 65-70% of the components of the products they sell. Atlas Copco focuses on and is good at having "system knowledge", while the Chinese competitors aim at and are successful at producing

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<sup>29</sup> Atlas Copco Shanghai Equipment Rental; Shanghai Tooltec Pneumatic Tool and Atlas Copco Research and Development Center

<sup>30</sup> Atlas Copco Shanghai Process Equipment

<sup>31</sup> Atlas Copco is world-wide known for its service organization and service is internally considered as a key strength of the company. In fact the company not only built a service unit but combined it with the sales organization. Historically, the company separated the two units from each other.

components at a low cost. The service structure helped in this sense too as it became an additional hurdle for others as Atlas Copco was not simply a product company anymore and therefore more difficult to copy. Together, the three aspects mentioned aid Atlas Copco in protecting its products, brand and knowledge. Erik Carlus sums it up in a good way:

“You can copy a product but it is difficult to copy an organization”

#### **4.3.5.3 Product and Management**

By having a sales organization, Atlas Copco wanted to eliminate the partners in the middle. The direct contact to the customers was important for the company to develop the market understanding. Besides the benefit of product protection, the service and sales structure has the further benefit that it allows to better understand the customer's needs. This applies in two ways. First when repairing or maintaining products the typical problems and desires could be noted. Secondly, the sales force could also interact with the costumers on a relationship basis and just check on them. Together Atlas Copco not only assured support but also delivered it which created trust. The important part was to be able to keep the promise. To help the sales and service function a distribution center outside Shanghai was established.

All of the products have one aspect in common: They are tailor-made for the Chinese market based on the inputs of the sales and service units. In 2008, Atlas Copco's first R&D center opened in Wuxi. And earlier this year the planning of a second R&D facility was announced. The R&D program in China mostly focuses on innovating tailor-made solutions for the Chinese market. The most advanced R&D is still taking place in the Western world. However, also in China is the strategy to sell the latest technology, eventually with fewer features and options or as Ronnie Leten puts it:

“Selling top of the bill products, maybe with fewer bells and whistles”

But there is an extraordinarily big market for products that are in the medium segment. The result is that Atlas Copco also sells products for the lower market under other brands. These are for example “Liuhou Tech Machinery” and “Shanghai Bolaite Compressor”.

Most of Atlas Copco's products that are sold in China are also designed and manufactured in the country using local material. The company did produced in China already before 1998, but only had one factory for compressors. This changed dramatically. Since 2000 the factory doubled three times. Moreover, with time Atlas Copco also decided to produce more high-technology components, e.g. drill heads, in China. Today turbines, the very high end products that need highly expensive machines for their production, are also produced locally. Overall, of the products sold in China, almost 70% are produced in one of the twelve production sites in China. The remaining 30% are imported. However, Atlas Copco China also produces products which are exported to sister companies throughout Asia and overseas. Besides the possibility to adapt to local needs quickly, the local manufacturing gives credibility for the company as the customers perceive it as a local company. Moreover, it has allowed costs to be reduced

due to less shipment and lower labor costs and it offered the opportunity to train local Chinese employees.

However, building up any sort of organizational structure in China was difficult, especially as the company wanted to hire local people. This became especially evident for the sales and service unit. First, the people did not know anything about the products or how to service them. Second, there was no support structure for it. Sending spare parts around the country was very difficult as there was no fast and well functioning parcel service ten years ago. And third, few of the local people had driving licenses. As a result, Atlas Copco created the “Atlas Copco ACademy” where people were trained and the company paid for their driving licenses. The service organization grew and Atlas Copco would fly in specialists for customers when needed.

For Atlas Copco to find enough of the right people in China that could run the company has always been a concern, despite being able to choose from a pool of over one billion. As Atlas Copco believes in localization, it was always clear that local people should run the business in China. Gyllö emphasizes:

“It is the Chinese people that run our companies in China”

And this is true today. Only about 40 of the people employed in China are foreign, and besides Kung there are more than 350 Chinese managers. The proportion of expatriates has remained at around 1%-2% throughout Atlas Copco’s involvement in China. Thomas Kung said about Atlas Copco in China:

“We have Chinese engineers to design products that are suitable to the Chinese market and situations. We always have our people around speaking your language, committing to offer a solution to your production and technical issues.”

In 1998 Atlas Copco only had 350 people in China. Today, there are over 4200 (see appendix H for employee development). Only Sweden still has a bigger workforce. All people were hired and developed in the Atlas Copco ACademy in China. In a market where many companies struggle with high turnover rates of 15%-25% Atlas Copco only has 6.5%, a figure similar to most other developed markets. Moreover, the organization is very young with over 40% of the people being under 30 and 80% being under 40.

The salaries are competitive but not the highest in the industry. As one employee said:

“We don’t pay the most but we are the nicest to work for”

Overall, Atlas Copco provides some of the best benefits in the industry. Still there are those within Atlas Copco that feel that some of the benefits should be converted to cash since cash is the most sought-after form of payment for young Chinese. In any event, salaries and benefits

are closely monitored as they are important to management. The career paths are very transparent and vacant positions are primarily internally advertised. Employees also promote these vacant positions among their friends and family and have a little monetary incentive for every qualified referral. Since 2003 more than 50% of the vacant positions are filled through an internal appointment. Additionally, the culture is perceived as being fun and challenging. Every employee is encouraged to take responsibility for their own career path. Swedish guidelines on the other hand are used for the HR practices. This mixture of the Chinese and Swedish management style has resulted in a unique workplace, and especially the work-life balance that the Swedish culture entails is highly appreciated. The company not offers opportunities to do sports after work or during breaks like football, hiking or badminton, but also organizes family and sports days for the employees and their families. One of the employees says about her work:

“I have a lot of fun here. I have very nice team members, the company offers many benefits and I’m lucky to have such a good and nice boss”

#### 4.3.6 Current Situation

Since, 1998 Kung and Gyllö have run and developed Atlas Copco in China but still the same strategic decision and approach for China applies as in 1983: Building a sustainable involvement with a long-term perspective. And Sandberg adds:

“(…) and this before the word ‘sustainable’ became abused.”

As of 2010, Atlas Copco is one of the most successful Swedish companies in China. 11.2% of the group’s total revenues were created in China. As a comparison, Ericsson only generated 7% of its revenues in China. Moreover, the EBIT margin is estimated to be 26.7% while the group average is only 19.9%. Especially the service function became highly profitable and Atlas Copco's sister companies in Hong Kong and Taiwan collaborate to service its customers in Greater China to achieve highest possible level of customer service. Claims that Chinese customers don’t want such a service are not believe to be true as Leten describes:

“Guys who say that Chinese firms don’t want service have never visited China”

As of December, 2010 China represented 12% of the workforce. This means that in 2010 Atlas Copco had more employees in China than in the United States and similar revenues. Furthermore, since 1998, the company is working towards incorporating its companies as WOFEs – both for new companies and for old ones. The goal is to reach a 100% ownership structure also in China which is fully implemented today for the core operating companies.

The management of Atlas Copco now considers China as one of the company’s two biggest markets and generally the most important market. In total Atlas Copco has 18 wholly-owned companies in China, out of which 13 are production sites, located in Liuzhou, Nanjing, Qingdao, Shanghai, Shenyang, Tianjin, Wuxi and Zhangjiakou. The others are trading companies. In

addition there are 120 sales and service offices (field offices) throughout the Mainland and over 600 contracted distributors, representing the different brands marketed. But China is not considered as something special as Boll concludes:

“China is nothing else than another country – it was just more difficult.”

## 5 Analysis and Results

*In this chapter a summary of the results for the success factors developed in part 2.2.3.5 is given. Furthermore, the empirical data from the company case-study will be analyzed phase-by-phase for the three categories and the most interesting findings are discussed. In order to answer the research question also the overall and underlining findings will be discussed.*

### 5.1 Summary of Results

Overall it is evident that Atlas Copco followed the standard model of internationalization in China. Initially, in the exporting phase the Chinese market was not considered as important since the country was closed for foreign investments. This changed in the licensing phase when the objective was to build up a presence in the market. Avoiding transportation costs or avoiding trade barriers was less so of a goal but a nice effect. Moreover, the licensing partners were not used to make product adaptations but to build up networks and a platform for the market expansion. In the joint venture phase Atlas Copco then started to build up own production sites with local partners. However, just as introduced by Geringer and Herbert (1991) Atlas Copco was also affected by performance problems with their JVs. The JV for Industrial Tools only reached break-even after four years and even had to be closed. Others were sold to the other JV partner. Furthermore, when looking at profitability or return on investment it is obvious that the exporting and licensing phase were better because the company made much fewer and smaller investments and sales were about the same. However, Atlas Copco analyzed the situation carefully before entering any JV. Finally, Atlas Copco's decision to use the WOFE structure in China came in 1998. It reflects the phase with the most growth and where the success in Atlas Copco's China history is most obvious.

Table 5 is an overview of Atlas Copco's actions during its whole China involvement, categorized according to the success factors introduced in part 2.2.3.5.

Exporting		
Partner Interaction	Control and Protection	Product and Management
<b>Agent/Partner selection</b> <ul style="list-style-type: none"> <li>- Few alternatives,</li> <li>- Get in contact with partners (trying to establish network)</li> </ul> <b>Distribution</b> <ul style="list-style-type: none"> <li>- Distribution network from Hong Kong</li> </ul>	<b>Understand Environment</b> <ul style="list-style-type: none"> <li>- Challenging, poor communication</li> <li>- Unreliable partners (goods stolen and lost)</li> </ul> <b>Managing of cultural hurdles</b> <ul style="list-style-type: none"> <li>- Difficult to do business with China</li> </ul>	<b>Adaptations</b> <ul style="list-style-type: none"> <li>- No adaptations</li> <li>- Focus on speed and no damage</li> </ul> <b>Brand Image</b> <ul style="list-style-type: none"> <li>- No particular effort</li> <li>- Western image strong</li> </ul> <b>Price negotiations</b> <ul style="list-style-type: none"> <li>- "Horse trade style"</li> </ul>
Licensing		
Partner Interaction	Control and Protection	Product and Management
<b>Licensee selection</b> <ul style="list-style-type: none"> <li>- Few alternatives</li> <li>- Careful considerations</li> </ul> <b>Negotiation of elements of contract</b> <ul style="list-style-type: none"> <li>- Time consuming,</li> <li>- Kung acted for mutual benefits</li> <li>- Understanding laws (Sandberg)</li> </ul>	<b>Technology protection</b> <ul style="list-style-type: none"> <li>- Licensed out only simple technology</li> </ul> <b>Brand protection</b> <ul style="list-style-type: none"> <li>- Products not sold under Atlas Copco brand</li> </ul>	<b>Adaptations</b> <ul style="list-style-type: none"> <li>- Difficult, most items still imported</li> </ul> <b>Local management skills</b> <ul style="list-style-type: none"> <li>- Frequent and close interaction with licensees</li> </ul>



JV		
Partner Interaction	Control and Protection	Product and Management
<b>Partner selection</b> <ul style="list-style-type: none"> <li>- Most important aspect</li> <li>- Local partner required (law)</li> <li>- 3 former licensees (favored)</li> <li>- Difficult (lacking standards)</li> </ul> <b>Conflict handling</b> <ul style="list-style-type: none"> <li>- T. Kung as project champion</li> </ul> <b>High Commitment</b> <ul style="list-style-type: none"> <li>- Continuity (but frustration)</li> </ul>	<b>Strategic control</b> <ul style="list-style-type: none"> <li>- Majority ownership (60-40)</li> <li>- No clauses in contract</li> </ul> <b>Technology protection</b> <ul style="list-style-type: none"> <li>- Simple technology</li> <li>- Clear rules</li> </ul>	<b>Gaining of market information</b> <ul style="list-style-type: none"> <li>- Lesson learnt from JV</li> <li>- Acquisition of knowledge (T. Kuhn, local Chinese)</li> </ul> <b>Product adaptations</b> <ul style="list-style-type: none"> <li>- No, but multi-brand</li> </ul>
WOFE		
Partner Interaction	Control and Protection	Product and Management
<b>Overcoming foreignness</b> <ul style="list-style-type: none"> <li>- Difficult (not same prices and challenges with gov. contracts)</li> <li>- Local aspects</li> </ul> <b>International experience</b> <ul style="list-style-type: none"> <li>- Active in over 100 countries</li> </ul> <b>Interaction with officials</b> <ul style="list-style-type: none"> <li>- Good citizen</li> </ul>	<b>Effective acquisition strategy</b> <ul style="list-style-type: none"> <li>- Natural way (capital increase)</li> <li>- Strategic acquisition</li> </ul> <b>Defend core assets</b> <ul style="list-style-type: none"> <li>- Fight against piracy</li> <li>- System/Network knowledge</li> </ul>	<b>Local production</b> <ul style="list-style-type: none"> <li>- Product adaptations (local brands)</li> <li>- Local design, local materials</li> </ul> <b>Local HR strategy</b> <ul style="list-style-type: none"> <li>- Innovative HR strategy</li> <li>- 1%-2% expatriates since beginning</li> <li>- Swedish-Chinese culture</li> </ul>

Table 5. Summary of results of Atlas Copco's market expansion to China.

## 5.2 Discussion of success factors in phases

In the summary table above it becomes obvious that Atlas Copco in general did follow what literature suggests as key success factors for each phase as there are no obvious controversial aspects. However, the empirical data from the company case study does provide interesting aspects worth considering more in depth. Therefore, the categories of each phase and their key success factors will be discussed below to provide a base for the discussion of the overall success factors of the market entry process of Atlas Copco in China. At the end of each phase, a table is provided with the key success factors of that phase.

### 5.2.1 Phase 1: Exporting

During the exporting phase, China was closed for foreign investments. The only way to sell products in China was to export them to the country. However, due to the restrictions and underdeveloped economy the sales from exports to China only accounted for a small fraction of the organizations overall sales and Atlas Copco did not consider the market as important. Nevertheless, the involvement in the market has some interesting aspects when compared to what literature suggests and, given the gradually increased involvement with the later stages, it is interesting to discuss the initial phase to see how the organization started to build its presence.

#### 5.2.1.1 Partner Interaction

Root (1987) describes that picking the right partner is crucial for overcoming distribution difficulties and for making sure that the physical delivery of the goods is done as efficiently as possible. However, in Atlas Copco's case that was not so easy. As mentioned in the discussion about partner selection during the licensing phase, few potential licensing partners were

available to choose from. The same can probably be said to be true about the availability of agents for aiding with the distribution of goods. This is supported by Yueh's (2010) argument that as a totalitarian country, China only had a few large state owned actors in each business area. So what did Atlas Copco do to overcome the problem about finding suitable distribution agents? In a first step in the 60s, the company set up a distribution center in Hong Kong, at that time belonging to Great Britain, to get closer to China. That allowed Atlas Copco to have more frequent interactions with suitable agents in China because for one there is no time difference between Hong Kong and Beijing allowing for easier phone conversation. Second, it is easier to schedule in-person meetings since the distance is closer and the trips hence take shorter time. From a cultural and linguistic point of view approaching distribution agents from Hong Kong was beneficial as well. Not only were there many people in Hong Kong that understood both Mandarin and English, there were also many people that understood both the western and eastern culture since Hong Kong was influenced largely by Great Britain. So people could always be found to aid in negotiations (Vickers, 2007). In the 1970s, as mentioned by Atlas Copco, the relationships with distributing agents in China intensified, implying that Atlas Copco started to learn more about how to distribute its goods better to China. By establishing a distribution hub outside China in Hong Kong and by continuously trying to improve relationships with distribution agents, Atlas Copco did the best of a difficult situation and positioned it well for the future. Yet, the fundamental problem still existed. China was still a closed country to Western companies in the 1970s. And although some contacts had been made there were not many alternative how to distribute the goods to China. Atlas Copco simply had to accept this way of operating for the time being.

Also, it was difficult for Atlas Copco to control agents that did not deliver goods in the manner that was agreed upon. For example, annual reports from Atlas Copco in the early 80s reveal payment problems relating to this matter. Literature does not explicitly point out control of distribution agents as a key factor for securely exporting goods, although it could implicitly be seen as important given that it is a key to select an appropriate partner according to literature. But as stated before, it was difficult for Atlas Copco to do much except to try to work as closely as possible with its partners from Hong Kong. Another point is that goods were stolen or lost rather frequently. According to Brock, there was little reliable data about how much was lost or stolen, but it was not "insignificant" indicating that it was a real problem.

#### **5.2.1.2 Control and Protection**

According to literature (Root 1987), in the exporting phase, it is important to collect valuable data, in particular to learn about legal requirements for operating efficiently in the country. And in line with literature, this was a challenge for Atlas Copco. The interviews with Atlas Copco employees reveal four primary reasons for that. First, the legal requirements were difficult to understand. That is not strange given that China was without a legal framework until 1978. And even after 1978, the legal development and implementation was slow (Yueh, 2010) implying that confusion about legal aspects still existed thereafter. Because the legal

aspects were unclear, it must not have been easy to understand what to collect information about. Second, linguistic difficulties existed. As is well-known, the Chinese language is vastly different from Swedish and other Western languages. Given that none of the key people of Atlas Copco spoke Chinese at the time, a translator was always needed. In combination with the third challenge, that telecommunication possibilities were limited, one can imagine how difficult it must have been to learn and collect information over a poorly functioning phone line with an interpreter on the side. And even when it was possible for Atlas Copco representatives to meet with their Chinese counterparts, the fourth challenge, the large cultural differences as described by Björkstén (2006), must have made it difficult to learn about what was happening in China. In China, for example, one should first get to know the other person before talking about business. Violating this code of conduct could negatively influence one's discussion with the Chinese counterpart. Former CEO Wachtmeister understood at an early stage that relationships were important to overcome cultural hurdles, as stated by literature. As a result, Wachtmeister made early attempts to overcome the cultural differences by visiting China frequently. Wachtmeister's attempts to deepen relationships was a first effort to bridge the cultural gap. However, despite Wachtmeister's efforts, the four points mentioned above made it difficult for Atlas Copco to collect valuable data, as suggested by literature, and that is probably why the organization did not collect it in an extensive manner.

#### *5.2.1.3 Product and Management*

As described by Lee and Griffith (2004), products and prices should be adapted to meet the preferences and tastes in the foreign market. In Atlas Copco's case however, no product adaptations were made for the Chinese market at this stage. This is on the one hand a clear departure from literature. On the other hand, although not adapting the products for the Chinese market, Atlas Copco only sent simpler versions of its products to China, which, to some extent, had the same impact as it would have had to adapt the products because they were just simpler with a lower price. Of course there are benefits of making a full product adaptation because by making a full adaptation, the result would be that truly unique aspects of the target market would be considered, which would be appreciated by the customers in the target market. However, a full product adaptation also has negative consequences because it is more time consuming and resource demanding (Horska et al. 2007). These considerations also played a role in Atlas Copco's case as statements from Atlas Copco reveal saying that the company focused on keeping the price low while delivering the goods fast and without being damaged. Overall, this can illustrate that the benefits of full product adaptations were secondary in this case.

Doole et al. (2006) also mention the need to disseminate important information across the organization. Given the theoretical importance of product adaptations, this means that information about product adaptations should be disseminated across the organization as well, since it is important. However, the process of information dissemination is resource

demanding (Köksal, 2008). By avoiding adapting the products to the Chinese market, Atlas Copco did not have the same need to spread information internally about particular Chinese preferences and adaptation requirements and therefore were able to avoid some resource consuming activities.

Moreover, according to literature it is a prerequisite to have a strong brand to be able to succeed as an exporter (Köksal and Özgul, 2009). This prerequisite was also fulfilled by Atlas Copco who had a brand and products that were well known in its industry and considered as being of high quality. Following the argument by Köksal and Özgul, this meant that Atlas Copco was well-positioned to export because the product awareness must have created what Dubs et al. (2004) label a product-pull factor: The well know quality products creates demand from the consumers, even if it is not advertised on the market.

But literature also points out the importance of pricing the products right. During the time Atlas Copco exported to China the local buyers were very price sensitive due to the overall economical situation (Buckley Ebrey, 2010). In 1970 China's GDP per capita was only 2.5% of Sweden's (The World Bank, 2011b) and products from the West were comparatively very expensive. Therefore the price needed to be affordable for the local buyer. By selling simple, standardized products and avoiding adaptation costs this was able to be ensured. Moreover, in the Chinese culture bargaining and discounting is very important (Ambler et al., 2009). Given the price information asymmetry that existed on behalf of the buyers, Atlas Copco was able to set the initial price rather high and then generously discount the price substantially as described in the empirical data. Combined this was an excellent approach. The Chinese buyers were content because they were able to discount the product and Atlas Copco was able to reach their desired price.

#### **5.2.1.4 Overall aspects**

Given all the difficulties in China with obtaining information, restrictive legislation and unreliable agents/partners it is interesting to see that Atlas Copco decided to continue to export for so many years to China. For one it could be that the company thought that China would eventually open up a more market based economy governed by laws similar to the west. That would have allowed Atlas Copco to better grasp legal aspects since such a system would have been more familiar to the company. A market based system might also offer more distribution agents to choose from as such systems generally offer more alternatives (Cudahy, 2010). An alternative explanation is that Atlas Copco thought it could learn to control the distribution agents better. With better control of the agents, it would have been possible to see exactly what the problem in the distribution chain was. However, the agents were to a large extent controlled by the Chinese government and little pointed in the direction that this would change in the near future (Björkstén, 2006). A third explanation could be that despite the mentioned challenges exporting to China was profitable. First, because investments such

as for product adaptations, gaining market knowledge and legal understanding were very limited and second, because the desired prices were reached.

Overall, it seems as Atlas Copco found ways to effectively export the products to China, without much effort. The products were not adapted and the overall involvement of the organization was low. Given the long time period the company must have found ways to manage and handle the challenges of unreliable agents and the stealing and loosing of products, especially because of the distribution center in Hong Kong.

Success Factors during Exporting phase			
Partner Interaction	Control and Protection	Product and Management	Phase Overall
<b>Effective distribution</b> - Distribution center in Hong Kong - Attempts to be closer to end market	<b>Experience Accumulation</b> - Early visits to China - Effort to overcome cultural barriers	<b>Price Negotiations</b> - Smart tactics - Reaching desired price <b>Smart product adaptation</b> - Avoided full adaptations - Kept costs low <b>Strong brand</b> - Brand as a pull-factor - Strong brand in China	<b>Profitable</b> - Effective exporting <b>Learning</b> - Managing the challenges

Table 6. Summary of success factors during exporting phase.

### 5.2.2 Phase 2: Licensing

After China decided to start opening up its economy to the outside world in 1978, Atlas Copco had two options. The company could either have continued to export its goods to China or it could take a more aggressive approach and deepen its involvement in the country. Since the exports were profitable and the challenges still high due to the development status of China it appears strange that Atlas Copco favored the later alternative. However, the growth and sales potential obviously outweighed the difficulties and the company decided to use licensing as the form for market expansion to build up a local presence.

#### 5.2.2.1 Partner Interaction

Literature suggests that it is highly important to focus on finding a suitable and reliable licensing partner in order to maximize profitability and to avoid problems (Root, 1987). Finding the suitable partners was important for Atlas Copco too and the fact that in Russia the organization continued to export because it did not find suitable partners proves that it was not willing to accept unsuitable partners. Atlas Copco selected mostly licensees from whom the company had previously interacted with and therefore knew from its own experience about the partner's reliability and working habits. The story of Wuxi – which is the largest compressor manufacturer in China today – is the best example to illustrate the success of careful selection of partners, reaching over and beyond the licensing phase. However, there were not many potential partners to choose from which made the choice of a partner more risky since when there are few partners there is a lower probability of finding exactly the right

partner, especially since the partners were all similar and highly state-influenced. Furthermore, Atlas Copco has never given out licenses before and had therefore no experience what so ever with this sort of market entry. Given that the laws for JV were passed in 1979 it appears strange that Atlas Copco actually continued with this form of market entry at all. However, there are interesting twists to it. First, there were no regulations about licensing at that time in China. This initially seems to be even more of a factor that would argue against this form of market expansion. However, since it was not regulated by the government Atlas Copco was able to influence the design of the agreements. No clear rules said what to do and what not to do, which is in favor of the experienced market player that already established itself in more than 100 countries world-wide by that time because it can draw upon many market entry process all over the world and knows what potentially can be dangerous in contracts. Therefore, being able to design the rules was a clear advantage despite the fact that Atlas Copco had no previous experience with licensing. Surely, there was a high risk that a (mis)use of the lack of clear restrictions would result in a government reaction and strong enforcement. To counteract this threat Atlas Copco accepted Chinese laws in all of its contracts. This is interesting because it goes against the thinking that a company always should use a legal framework that it is familiar with (August et al. 2008). Consequently Atlas Copco's decision can be seen as risky. However, by including Chinese law in all of the contracts a calming clause existed providing security to both the licensees as well as to authorities because it ensured that Atlas Copco was interested in local solutions and had no interest to circumvent the Chinese legislation. According to Sandberg, by using local laws, Atlas Copco successfully signaled that the company trusted the Chinese partners and was willing to do business with them in the long term based on mutual understanding. Second, licensing also requires smaller investment, as pointed out by Hill (1990), than JVs and WOFEs do. The resource commitment is much lower and therefore it is easier to abort the process. And even if the dissemination risk of the technology is high, the licensee cannot obtain any other pieces of technology than what has been licensed out. In a JV on the other hand where the partners work together there is a substantial risk that the partner could get hold of more information and other key assets such as client lists or key employees. In sum, using the licensing was a careful way to further learn and expand in China and what Treschow referred to as "building a solid platform".

In relations to partner selection, literature also states that negotiations are important, since early agreements lay the foundations for future collaboration (Root, 1987). In the case of Atlas Copco, negotiations about the contracts had a subordinated role, however the negotiations and interaction with partners were highly important. Naturally, the more different the partners are the more difficult is the task to ensure effective interactions because of cultural differences, language barriers and interaction practices. In 1983 in China this must have been highly difficult, because only very little was known about the culture, its practice and forms of interaction. Therefore, being able to overcome such hurdles and successfully interact with partners can be seen as a key success factor. Wachtmeister and Wallenberg both succeeded to

interact with influential local partners and gained their trust which was crucial for the company. One example is Thomas Kung who turned out to be highly valuable for solving problems with the Chinese authorities and for brokering deals with partners in all stages of the expansion. He was even referred to as “Mr. Atlas Copco China” as a sign of his importance. Another example is Wallenberg’s effort to interact with political leaders such as Zemin and Jintao. For one, Atlas Copco seems to have understood early on that the blessing of political leaders would be a big advantage in setting up agreements with the Chinese partners, given the control the Chinese government had over the state owned licensees. And second this is an effective way to prove the long-term intentions because it included much effort over a long time to build up such relations. For Wallenberg for example, despite being from his influential family, it must have taken much effort to arrange meetings of this magnitude, in a country where the family did not have any previous foundation. The fact that building up relationships in China, especially before 2000, took a long time (Ambler et al., 2009) counteracts the argument that meeting Kung, Zemin and later Jintao was luck, because it is difficult to imagine how such close relations could have emerged without frequent visits to China and continuous interactions. It therefore seems more logical that Wachtmeister’s and Wallenberg’s determination made such relations possible.

In this negotiation process Wang’s (2009) factor of having knowledgeable lawyers for contracts underlines the fact that the actions taken by Atlas Copco were thought through. As indicated in the empirical data, choosing Sandberg as the person responsible for all legal aspects was done on purpose because he possessed the knowledge about the relevant laws. So the right person was at the right place at the right time not because of luck but because of a careful consideration of the overall situation.

#### **5.2.2.2 Control and Protection**

Roy and Dugal’s (1999) suggested conditions when licensing makes most sense is also reflected in the case of Atlas Copco. First, there were low barriers for imitation because the Chinese government pushed for a technical “catch-up” and wanted local companies to learn from the West and internalize their knowledge. Second, the risk for diffusion was high since China still was not highly developed and on a low technological level that requested simple forms of technology and there must have been many companies that could have supplied such forms of technology. Together, it meant that the licensed technology would have spread rapidly in any case and by being the partner to license the technology, Atlas Copco could generate some cash-flow but also have a first foot in China and learn.

As mentioned by Hill et al. (1990), by licensing its technology to another firm, the company takes the risk of creating a competitor. For that reason, the licensor should carefully consider what technological know-how to license out. Just like literature suggests, Atlas Copco did not license out the most advanced and valuable technology. However, the reason for that was not primarily to avoid creating a competitor but more because the know-how of the Chinese

companies was far inferior to the know-how of Atlas Copco at that stage and therefore there was no need to license out the most advanced technology.

As argued by Root (1987), an organization must protect its brand when licensing its technology to an external partner. The biggest reason for that is that if the partner is perceived as questionable from a quality perspective or from an ethical perspective, the licensors brand can be “contaminated.” In line with literature, Atlas Copco did not allow licensees to brand their products with the Atlas Copco name because of such quality concerns.

#### *5.2.2.3 Product and Management*

As described in the empirical data, it was still difficult to get a good understanding about what was happening in the Chinese market during the licensing phase. Moreover, the market was still relatively small and neither the products that were exported to China nor the licensed products were especially adapted for the local market. However, according to Roy & Dugal (1999), local adaption by the licensee is important and the licensor should try to find a licensee whom it could control to make the necessary adaptations. However, since Atlas Copco did not possess market relevant information it also did not push the licensees to make adaptations. Instead the company focused on gaining learning insights as supported by Sandberg’s comment about making friends.

#### *5.2.2.4 Overall Aspects*

Looking at the licensing phase overall, it becomes obvious that to some extent Atlas Copco was taking a risk because it had not used licensing agreements before. However, the strong focus was clearly on learning and not so much on clear cut (financial) results. The entire phase is about deepening relationships and understanding the Chinese culture which was achieved rather successfully. The influential relationships are still obvious today, even though it was luck that Wallenberg’s interaction with Zemin ended up to be a relationship to the political leader of the whole PRC, because at that time the initial meetings took place this development could not have been foreseen. But the determination to get to build the relations is very obvious. It is very logical that the more people one meets the easier it is to understand if they are the right for a certain task. However, this includes spending and investing a lot of time.

Furthermore, an analytical approach can be seen through the actions taken. First, getting to know a person like Thomas Kung is one thing, understanding its influence and potential is another. Wachtmeister clearly saw the potential in Kung and invested time and effort to become friends with him. When Atlas Copco then acquired the distributor that Kung was working for, he did not leave but started to work for Atlas Copco. Moreover, also for the selection of partners Atlas Copco early on discovered the potential Wuxi has and started to build up a foundation.



Success Factors during Licensing phase			
Partner Interaction	Control and Protection	Product and Management	Phase Overall
<b>Partner Selection</b> - Careful analysis - Chose the right among few <b>Effective Negotiation</b> - Frequent interaction - Building relations - Overcome cultural barriers - Meeting Kung and Zemin <b>Legal expert</b> - Sandberg	<b>Protection of Technology</b> - Simple technology licensed <b>Protection of Brand</b> - Non-Atlas Copco brand	<b>Relationship Building</b> - Focus on relations with partners	<b>Determination</b> - Spent time - Learning with licensees <b>Analytical approach</b> - Close investigation of partners - Understanding importance of partners

Table 7. Summary of success factors during licensing phase.

### 5.2.3 Phase 3: Joint Venture

Overall, the JV phase seems to be the phase with the least success during the expansion to China because of the closure and selling of relevant JVs and the high investments. This is also in line with what Nippa et al. (2007) indicate about JVs in China in general. The fact that Atlas Copco had no previous knowledge about JVs probably did not matter so much in this context as the authors (p.293) reveal that “previous knowledge about JV only has a marginal effect on JV success”. However, there are some interesting aspects within the three categories of the analysis that legitimize further discussion.

#### 5.2.3.1 Partner Interaction

Within *Partner Interaction* Atlas Copco acted in line with what literature (i.e. Root, 1987; Nippa et al., 2007) suggests and prioritized finding the right partner as the most important aspect. By giving Kung the responsibility to establish the JVs the organization underlined that they are interested in local solutions. In Atlas Copco’s case finding a suitable partner was definitely not to ensure local (monetary) capital or skills in production and marketing that Hill (2011b) suggest because Atlas Copco did possess this better than any potential partner. However, the knowledge about the country, contacts and local prestige that Hill mentions did have an influence according to the empirical data. Furthermore, Atlas Copco selected – just as Root (1987) and Hill (2011b) suggest – a local partner. However, the reason and design of this selection differs in important ways. Not only was the selection of a local partner required by Chinese law for JVs but Atlas Copco did also choose from partners that it already was in contact with from the previous phase: The first choice for a JV partner was a licensee. First, one can argue that since there were not many potential partners available in the first phases, Atlas Copco already chose the best ones there and they would still be the best ones now. Since the development within the country at that time was still slow and the key input for development was foreign technology (Stark, 2006), this is likely to be true because Atlas Copco provided this technology to its partners in the previous phases. Second, by using licensees as JV partners, the initial phase of the JV (when expectation and tasks are clarified, the partners

get to know each other and the sides slowly adapt to each other) was quicker. This is mainly because the partners already knew each other. They had worked together and therefore knew to a reasonable degree of certainty what was to expect, both work related and socially. And third, by using the licensees, Atlas Copco ensured that its technology would not spread since it still worked together with its JV partner. Moreover, it also secured that no local competition would suddenly emerge from the former licensees because they were kept in a partnership. This point is highly interesting because it is not discussed in literature at all and also ties into the category of *Control and Protection*. The idea to “upgrade” a licensee to a JV partner seems to make sense. However, one does need to acknowledge that there is a difference between a licensing agreement and a JV. The first is a simple form of sharing technological know-how while receiving some sort of royalties. The latter on the other hand includes joint work which means that both parties share the responsibilities. While the licensor with a good contract does not need to care too much how its technology is processed as the end product is sold by the licensee (under a different brand) it does matter for a JV. Here the parties have to work together and management styles and quality standards need to be aligned. This is a very different form of interaction and it is not easy to just make the jump from one form of collaboration to the next. The quote from Kvarnäck (“it would have been best to do everything ourselves”) illustrates this well.

However, for the *partner selection* it is not so clear whether the screening before the partnerships was so thorough and accurate that they turned out to be of high value for the organization for such a long time or if the partnership turned out well and successful because it was made to work. In a retro-perspective this is difficult to evaluate since the tendency is to rationalize actions (Bryman & Bell, 2007).

Having Kung, as a broker between the parties not only ensured a clearer contract, but it also ensured that the local parties gained trust since they were interacting within their cultural comfort (e.g. language, way of communication). In that sense Kung acted as what Bhaskaran and Gligorovska (2009) define as a project champion. However, he was more than a support structure that ensured commitment, he ensured the whole cooperation. As pointed out in the empirical data, he understood both sides and took a stand in the middle to ensure both sides got, step-by-step, closer to each other. According to Ambler et al. (2009) this is crucial for the interaction with local Chinese. However, there is clear evidence that aligning the partners’ interest was not easy. Many interviewees still remembered the frustration experienced and some of the JVs also failed because of their different attitudes, goals and working styles.

#### 5.2.3.2 *Control and Protection*

For *Control and Protection* Atlas Copco followed what literature suggest about controlling the JVs since (besides the exception of one former licensee) all the JV’s were on a majority ownership basis. However, it is interesting that Atlas Copco so strictly followed a majority strategy because the literature about controlling JV’s in China only started to emerge in the

early 90s and hence was in its infancy. So when the company decided to enter JVs and when the decision about the majority ownership was taken not much literature existed supporting the importance of JV control in China. The interesting aspect is how Atlas Copco came to this conclusion. Here, the company's analytical approach helped because through the study of VW and Pharmacia it found what literature would later reveal. Moreover, the company was also quick to understand the effect of the unanimous decision and it put its utmost effort to get rid of clauses in the JV contract demanding unanimous decisions. How these negotiations exactly took place is difficult to reconstruct, but there are two elements that certainly played an important role. First, Atlas Copco was enduring during the contract negotiations. Often meetings ended without any agreement and only after a considerable time period of 2-3 weeks a second attempt was taken. Second, Kung, Duck, Kuhn and other locals helped to bring the negotiation to a more local level because they understood the culture, knew the language and were therefore not considered as typical foreigners (further discussed under *Product and Management*). This is especially important in an *agent cultural interaction context* (Trajkovski & Collins, 2009) which the JV partner interaction without doubt is, as Kung and the others represent Atlas Copco and are therefore what Trajkovski and Collins consider as one form of agent. Also Nippa et al. (2007) point out the importance of these people variables that centre upon interaction, trust and cooperative behavior for the overall success of a JV. In Atlas Copco's case it is difficult to speak of success. However, as Katsioloudes and Isichenko (2007) point out there are different definitions of success. And in Atlas Copco's case the success obviously has not come in the form of simple cash inflows, but more in gaining important insights, contacts and knowledge as pointed out by Treschow, Brock, Boll and Gyllö. Kvarnäck even describes this as the first step of being perceived as a local company that would become a major advantage. A second step in this process was surely that almost all components (90%) of the overall product were locally produced. However, technology and quality protection considerations played a major role and a careful analysis was first conducted about what to share and what not to share. Moreover, by having various JV partners for the production of the individual elements, the risk for the overall product was further spread out because every partner only had knowledge of a fraction of the whole product. The most advanced technology – just as literature suggests – was self-produced and imported.

#### 5.2.3.3 *Product and Management*

In terms of *Product and Management* there is an obvious discrepancy between what literature suggests that an MNE should do in order to succeed and what Atlas Copco did, since clear product adaptations were not made. However, Atlas Copco did adapt the production since the factories were aligned to Western standards. Moreover, in an indirect way even the products were adapted because the products produced by the partners (e.g. Wuxi) were not sold under Atlas Copco's name. On the one hand this had to do with branding and quality protection considerations. On the other hand however, this was a way to allow for cheaper products (with lower quality) that were sold in the market under a local brand. Even if this is not a direct

product adaptation it can be considered as an indirect adaptation where the lower quality and price created an adapted product that was sold under a local name. Furthermore, the interaction between Kung, Duck and Kuhn on one side and the Chinese parties on the other, helped in the learning process both in terms of management and in terms of client needs because of their ability, coming from their language ability and understanding of the Chinese culture, to interact on a more “non-foreign” level. By “standing between the parties” as Kung describes it, he mediated between the parties. Especially, since the Chinese parties wanted to manage and control the JVs as well, it was important to have Kung who ensured that the requests from the Chinese parties were accounted for. Since the expatriates of Atlas Copco did not speak Chinese having Kung, Duck and Kuhn who were also the only ones who were capable of effectively interacting with the partners because the partner’s English was very limited at that time as Kung indicated.

#### **5.2.3.4 Overall Aspects**

On top of the aspects discussed in literature and in the categories there are three crucial events that had a big impact on the phase and Atlas Copco’s development in China. First, by discovering that a holding company could have sales personnel, and subsequently starting it up, the company ensured the possibility to expand, because without local offices at various points it would have been difficult to serve a country that is geographically as big as the United States. The local offices allowed building up a regional presence also away from the cities on the east coast. Second, by segmenting the market into areas based on sales potential, Atlas Copco ensured the crucial advantage of knowing where to go to. Here, the local element again played an important role because the information was not hidden or difficult to get, it simply was in Mandarin. To process the information it therefore was important to speak the language. So bringing Erik Carlus to China was a crucial factor. He not only was able to process the information because he simply understood it. And third, tying all the aspects together and looking over the whole phase it becomes obvious that Atlas Copco acted very analytically. Before entering the JVs, the company conducted research to understand what would be important. Naturally, not being among the first to enter a JV was beneficial in that sense, because they could reach back on the others experience. Furthermore, for expanding more aggressively Atlas Copco first found out that data is readily available and then carefully segmented the market to identify the growth centers. Therefore also the best local resellers could be signed because the company was the first to come to these parts of China.

Success Factors during JV phase			
Partner Interaction	Control and Protection	Product and Management	Phase Overall
<b>Partner selection</b> - Licensees to prevent technology outflow - Careful analysis <b>Commitment created</b> - Endurance - Kung as a project Champion	<b>Control</b> - Majority ownership based on case learning - No clauses in contract - Enduring negotiations through "local" inputs <b>Protection</b> - Kept system knowledge - Self-producing of crucial technology	<b>Adaptations</b> - Local brands <b>Local Management</b> - Using locals (knowledge and experience)	<b>Analysis</b> - Found holding company - Learning from others - Segmentation of market - Very analytical - Found best resellers

Table 8. Summary of success factors during JV phase.

#### 5.2.4 Phase 4: Wholly Owned Foreign Enterprise (WOFE)

Overall, the WOFE phase entails the biggest obvious success for Atlas Copco in China. The sales increased from around half a billion SEK to almost 8 billion SEK between 1998 and 2010, the local organization grew to considerable size (4000 employees) and the market became one of the two biggest for Atlas Copco overall. What is interesting is that the most relevant actions and decision that Atlas Copco made during this phase are close to what literature suggests for this phase. However, some elements have interesting twists that allow for further discussion, especially in terms of the overall success for the market entry process.

##### 5.2.4.1 Partner Interaction

In terms of *Partner Interaction* overcoming foreignness as mentioned by Dikova and van Witteloostuijn (2007) is not easy (Johanson & Vahlne, 2009). On the one hand, Atlas Copco did build up close relations with suppliers and clients and gained market understanding to a sophisticated extent because most of the production was in China already at the early stages of this phase and local materials were used. The only possibility to do this in an effective manner was by having relationships to the local market players. Moreover, the company used local workers to further eliminate the foreignness. However, without the local partner on its side, Atlas Copco did not get the same prices for production inputs (production components) as locals got. Furthermore, there is a widespread belief that to get governmental contracts a Chinese partner is required, since the Chinese government is considered to favor domestic companies (The US Daily, 2011). One Atlas Copco employee also says the following regarding the Chinese government's favoring of Chinese companies and Chinese-majority JVs: "Sometimes it is apparent; sometimes it is not obvious, but we feel it." Hence, only by partnering up with a local partner also during the WOFE phase could such contracts be won and that is also what Atlas Copco did. This highlights that the "prestige through a domestic partner" is not to underestimate in China and is not easily overcome in this stage even if you have had a long history with a JV. However, it becomes obvious that Atlas Copco overall benefited from its international experience of market entries. By 2000 Atlas Copco had already been active in over 100 countries world-wide and gained experience from many market entry processes, so the company knew what it was doing. Wallenberg for example not only

interacted with politicians in China but also in other countries<sup>32</sup> (Schulz, 2007) to establish a good base. Moreover, the company learned that every market is different and there is not a standardized approach that could be applied because the steps had to be designed specifically for the country at stage as Treschow pointed out. However, the interaction with the government authorities was not only very important as highlighted by Chan (2006) in China but was also executed in a good way by Atlas Copco. Wallenberg's and Kuhn's successful efforts are reflected by the fact that Atlas Copco did not encounter major problems with authorities on any level which is very unusual according to Ambler et al. (2009) and Gao (2008). The fact that the interaction took place on such a high level<sup>33</sup> most likely had a big influence on the effectiveness of this interaction because of the hierarchical structure of China. Tying into the government interaction is the aspect of Guanxi which is highlighted as absolutely crucial for China (e.g. Ambler et al., 2009; Plafker, 2007). However, in the case of Atlas Copco, this does not seem to be the case. Leten, Gyllö and Boll pointed out that relationships are important so are they in other markets as well. Kung, Duck and Kuhn had without doubt an impact on the business development but to what extent this would be different in another country is difficult to see. Overall, it points towards the fact that relations are not as important as they once were which is just what Backman & Butler (2007) state.

#### 5.2.4.2 Control and Protection

For *Control and Protection* Atlas Copco used both greenfield operations as well as acquisitions to get ownership based on the reasons<sup>34</sup> of Dikova and van Witteloostuijn (2007). Since Atlas Copco always had around ten major acquisition per year globally (Atlas Copco, 2011) it definitely could draw upon its experience and knew about difficulties that come with the two classical ways of reaching ownership and knew how to handle them. However, the organization also used what can be seen as a third option to reach ownership. In contrast to the two common ways of ownership, a third way of ownership came naturally through the integration of the JV partners when capital had to be increased. By using this way the tradeoff mentioned by Tan (2009) no longer existed because first, the approach does not take so much time as there is an existing foundation and second, all the post-acquisition difficulties disappear as Atlas Copco had already aligned the standards of the partners to its own in the previous phases. Moreover, the acquisition of the JV partners was also an innovative way to follow the dual protection approach suggested by Anand and Galetovic (2004) because by keeping the existing partner the core technology was protected. Had Atlas Copco acquired another company instead of its JV partner, the JV partner would be a threat of competition. Atlas Copco further followed the protecting aspect of the dual approach by on the one hand focusing on the system knowledge of assembling parts and on the other hand not producing all of the latest technology in China. Additionally, the company has been actively fighting against piracy with its internal legal department and an external law firms. Here an interesting aspect

<sup>32</sup> E.g. Soviet Union

<sup>33</sup> Most influential politicians in China overall and in the most important cities

<sup>34</sup> See chapter 2.3.3.4

comes into play: the service and sales organization. The use of the service and sales organization to trace down piracy as described in the empirical data was effective since the end-user has the information where the pirated components come from. It is also an additional hurdle for others to copy since an effective service function is one of the most difficult elements to implement (Schneider & Bowen, 2010). As Atlas Copco has successfully built service networks in other big countries too it had the advantage to draw upon this experience which ultimately led to a successful design and implementation in China.

#### **5.2.4.3 Product and Management**

For the *Product and Management* category in the WOFE phase Atlas Copco has been following what literature suggests regarding adaptation, production and HR strategy. Firstly, with the inputs from customers, gained through the especially for this purpose built sales force and the local R&D centers, the products are adapted to the market needs which also include what Leten calls “fewer bells and whistles”. Secondly, 70% of the products that are sold in China are also produced locally. Besides, the benefit of gaining local trust this is also interesting from a cost perspective. Producing in China ensures production at lower cost<sup>35</sup>. And thirdly, the company has a very China specific and local HR strategy that covers all the aspects that Ready et al. (2008) and Schmidt (2011) see as important: There are local employees in position of power (350 Chinese managers and Kuhn as the Chairmen of the holding company), the career paths are transparent in order to allow the employees to progress in the hierarchy based on their performance (encouraging to take responsibility of own career path) and the culture is of good nature as it is perceived as fun and challenging. The fact that the turnover rate is extremely low should prove these points. And even the talent gap mentioned by Ready et al. (2008) has been overcome by Atlas Copco to ensure a “quasi-local” company with only 1% expatriates and locals on all the management levels. Moreover, the empirical data reveals, that the Swedish organizational culture with a strong focus on a work-life balance is an advantage for the organization. It is highly appreciated in China and makes it easier to attract and retain talent.

#### **5.2.4.4 Overall Aspects**

In addition to the aspects mentioned above and the fact that Atlas Copco continued to build on the existing elements from the phases before, there are two overall aspects that are worth mentioning about this phase. First, the group management of Atlas Copco was not only highly interested in the entry and expansion of the Chinese market but was also ready to invest and “walked the talk” of the aggressive expansion strategy as required approvals and capital were given quickly. Best example for this is Boll’s quick and simple reporting where his requests were quickly approved and the necessary funding for a new project never the problem. This was important because it ensured that opportunities could be taken when they came along. And second, in many aspects the analytical work style comes through again and is reflected in the successful outcomes. As indicated in the empirical data acquisition targets were very

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<sup>35</sup> For more information about the cost structure of production in China see section 4.1



carefully screened to ensure a strategic fit. This ensured a higher success rate because it was not a simple try and error approach. Moreover, the sales organization was put in place to ensure that customers could be understood and products could be adapted to customer needs. And in the case of the distribution problem with the spare parts, the problem was first identified and then solved by building up the ACadamy that proved to be beneficial for other purposes as well.

Success Factors during WOFE phase			
Partner Interaction	Control and Protection	Product and Management	Phase Overall
<b>Overcome foreignness</b> - Local relations - Continuing to use local partners <b>International experience</b> - Over 100 market entry processes already <b>Government interaction</b> - Wallenberg, Kuhn - Very effective (high level)	<b>Strategic acquisition</b> - Experience with M&A - Overcome tradeoff by keeping partners <b>Protecting/Defending core assets</b> - No technology outflow by keeping partners - Using service and sales organization (integration) - Active actions	<b>Adaptations</b> - Local production - Local products <b>Local HR strategy</b> - Locals in high position - Career opportunities for locals - Unique culture	<b>Group Management</b> - High involvement - Ready to invest - Quick approval <b>Analytical approach</b> - Screening of options - Identifying and solving problems

Table 9. Summary of success factors during WOFE phase.

### 5.3 Overall success factors

The analysis of the phases makes it clear that the organization to a large extent followed what theory suggests. However to find clear cut golden rules is not possible because, firstly, almost every aspect has some sort of a twist and, secondly, it is the combination and interplay of the factors that is important. For instance, carefully protecting the cutting-edge technology would not make sense when the products are perceived as outdated. It is important that the elements play together and build upon each other. Moreover, some of the aspects were relevant in the past but not today (e.g. JV because of legal restrictions). It is therefore important to identify both the overall and underlining key factors of the longitudinal process to understand what enabled the organization to build up the sustainable presence in China. Based on the success factors within the phases and categories five overarching success factors can be observed.

*Experiential learning* and *network* as introduced in chapter 2.2.4 can clearly be identified in the empirical data for China as well. Furthermore, there are three additional overarching factors - *continuity*, *protection of technology* and *becoming local* - that enabled the organization to successfully design the market expansion process in China over time. These factors are especially important, because they are identifiable over time and have therefore a dynamic component. These five success factors will be discussed in the parts below.



### 5.4.1 Learning

Arguably the most important and obvious overarching success factor is what Johanson and Vahlne (2009) defined as *experiential learning*. Based on the theory of internationalization this factor is implicitly the most crucial aspect for a company to move through the phases of internationalization and hence to build up a lasting presence in a foreign country. Already for the individual phases the *learning* aspect was taken up but when considering the organization's overall involvement in China it comes out even clearer. This is also highly important as Ambler et al. (2009, p. 89) state: "In China the idea that one can lay out strategic moves, step by step in some preplanned sequence is even more unlikely than elsewhere". The only way to succeed is therefore to learn by doing and continue to build knowledge. Based on the empirical data there are various examples how and why Atlas Copco learned.

The most apparent example of the "learning by doing" process is how the market expansion was done. Atlas Copco did not use licensing or JVs during the over 100 market expansions before. Gyllö's statement about the JVs ("It was good to have some JVs at the beginning; they taught us why it is not good to have JVs in the long run for our core operations.") is the best example to show the experiential learning process. But also the step-by-step process of market understanding shows how the organization learned over time. In the first two phases the organization (e.g. Wachtmeister and Wallenberg) searched for the right contacts for partnerships. Some of these partnerships ended up being long term relationships while others ended (failed). Through the partners and the experience in China the organization learnt about the larger middle market and the potential to sell under other brands which it also implemented. Then, while searching for a way to expand further in China - but facing the challenge that a trading company could not hold more than one office - the organization discovered that a holding company is allowed to have sales personnel. In a next step the market understanding was further improved with the market mapping (segmentation) of Boll and Carlus. Seeing that there is a need for a sales and service organization, the two functions were not only uniquely integrated but Atlas Copco even built the ACademy because of the lack of skilled talents. Overall, the understanding of the situation increased gradually and solutions were developed once a problem arose. And not everything had to be successful; mistakes could be made ("ok to only get half of what you are doing right...") as long as initiatives were taken ("...but you had to do something.") as Kvarnbäck's statement reveals. The (costly) selling and closing of JVs and WOFEs is one example of failure. Setbacks such as government interference for acquisitions or disapproval of partnerships are another. Moreover, Leten says about the organization's attitude in China: "we solve a problem when it is a problem, but not before". This illustrates well how the organization keeps on doing until it reaches a challenge in China, solves it and consequently learns from it. Putting all these efforts together it is the way that the organization developed the understanding for the whole process of the market expansion.

There are also clear signs that the management was eager to implement the awareness about China into the whole organization which is a further aspect of experiential learning. Kvarnäck held executive management meetings in China in the early 90s to help Western managers to get an understanding of the country. Moreover, the investment of time from Wachtmeister and Wallenberg in the first two phases in China signaled the importance of China for the group management and therefore implicitly branded the organizations culture too. By taking along various employees it was also assured that the feeling for China was distributed throughout the organization. The analytical approach further helped to efficiently learn because the structured alignment of problems and actions allows an easier revision that enables to draw clearer interpretations. The pre-investigation for the JVs is one example because having studied the situation the company could see what actions would be needed and once they were taken it was easy to monitor the outcome.

The best way to illustrate the learning ability within the organization is our experience from the interviews. To a large extent the interviewees mentioned different success factors when asked for reasons for the overall success. Their answers were characterized by the interviewee's personal experience with the topic. Our understanding from these answers is that the interviewees personally learnt within their role of the market expansion and did not just state the obvious that was given out from the top.

Overall we believe that the organization practiced learning by doing throughout its internationalization process to China in an extensive manner and showed the affiliation to gradually increase the knowledge of the market.

#### **5.4.2 Networks building and listening**

The second overall success factor that clearly can be identified is the building and the use of a network as Ellis (2000) brings up in the network theory. Network aspects both had an influence on the movement through the phases (e.g. getting to know agents that then would become licensees) and on the design of the overall process as well (e.g. good government and partner relations due to Wallenbergs, Wachtmeisters and Kungs interaction).

However, the factor of the networks success needs to be broken down in three parts. First, by taking the effort and time to travel to China and setting up meetings with other parties, the organization actually ensured that a network could be built. Similarly, the effort from Wachtmeister to get to know and employ Kung and the endeavors of Wallenberg to become acquainted with Zemin was a much needed element for building the network. Second, Atlas Copco also understood who the right people for the network were. Zemin, Jintao, Kung, Duck and Kuhn are all examples for this. In an early stage Atlas Copco identified their deep insight and potential influence and put its effort to tighten the relations to these parties. Naturally, in the case of Zemin to identify his potential was easy due to his position, but for Wachtmeister and Boll to early on see the value of Kung and Duck, respectively, this was not so obvious. Both these two aspects tie into the experiential learning according Johanson and Vahlne (2009)

because according to the authors it is necessary that invisible, complex patterns are identified when entering a foreign market.

But the third aspect is the most important one. The organization also listened to these people in the network. Kung for example had a large impact on the development of Atlas Copco in China and the organization followed his advice. The same is true for Boll who followed Duck's advice throughout his involvement in China. Building and having the right contacts is important, but it is equally important to understand the importance of the network contacts and understand when to listen to their advice. Alpha<sup>36</sup> in China is a very good example where this point was not followed. The company also identified Kung's deep insights and potential and brought him into the board of Alpha in China. However, after continuously not being listened to he stepped down. Today, the company is struggling in China with decreasing margins and local competition. It would be an oversimplification to just align this with the departure and ignorance of Kung. However, it seems likely that it plays its part since Kung was a major asset for Atlas Copco in building up the good relations with various stakeholders.

Moreover, it is also questionable whether Ellis' (2000) argument for an extensive network holds. In the case of Atlas Copco, all the interviewees deny that they have a very extensive network. What was highlighted by Kung is to know the right people. This also falls into Baker's (2000) argument that it is not about the number of contacts but more about the quality of them. However, we did not find any indication that this was based on extensive Guanxi as literature often would suggest (e.g. Plafker, 2007; Ambler et al., 2009).

#### 5.4.3 Technology protection through integration of partners

A third, and in many ways unique, factor that contributed to the overall success is Atlas Copco's effort to protect its technology. Stock (2006) points out the importance of such efforts and throughout the phases the company followed what literature suggests about technology protection. However, Atlas Copco took the theoretical advice about protecting its technology one step further: Atlas Copco tried to ensure that as little as possible of the technology would diffuse in China by using contacts from the export phase as licensees, taking half of the licensee as JV partners and then gradually create a WOFE through capital increases and buy-outs. Wuxi and Nanjing are the best two examples of the successful design of this process and it is apparent that such a development had benefits. For one, by taking the licensees as JV partners the organization prevented the threat of a local competitor by turning him into a partner. Second, also further knowledge outflows could be prevented and third, the high investment taken to align the partners to Western standards were then compensated by the low investment for building up new WOFEs.

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<sup>36</sup> A pseudonym for an international MNE.

#### 5.4.4 Continuity and endurance

As a fourth factor that was crucial for the overall process we see the *continuity* and *endurance* Atlas Copco had in the market entry process. From a very early stage the company's vision and goal was clear: Being in the Chinese market in a sustainable way. However, this was a long, and at times, painful process. For one, it took almost 20 years before the investments were reflected in the sales figures. And second, there were continuous challenges that arose and needed to be solved. The preferred WOFE structure could not be implemented in the early 1990s because of the foreign exchange control regulations and the organization had to cope with JVs as a new form of market expansion. When the JV for Industrial Tools did not turn out well, it was closed, but a new attempt under a WOFE was taken with both an acquisition and a greenfield approach. Even during the time sales did not take off, the group management was supportive and dedicated as the quick approvals of requests and the efforts of Wachtmeister, Wallenberg, Brock and Kvarnback show. Similarly, the lengthy and patient negotiations with potential partners illustrate Atlas Copco's endurance on a detailed level: When no agreement could be reached, the process was stopped. But after some time had passed the negotiations were taken up again, either with the same partner or with others. And third, just by staying in the market, building up local production, paying all the taxes, having a reliable sales and service function the organization became trustworthy and known, something that is highlighted by Kung today: "We are not a well-known company for the general public in China (...) but because of our long history here, our customers and partners know us very well". The endurance the organization showed is even highlighted as a key strength by the group management.

Another important illustration of the continuity the organization had is the consistency in the leadership. Since the holding company was founded the chairman (Kung) and the Vice-President (Gyllö) stayed the same. Electrolux and Fiat – which both struggle in China – changed their management teams seven respectively nine times over the same time period (APEA, 2011; China Tech News, 2009). Again it would be an oversimplification to only account this fact for the difficulties that the two companies are experiencing, however there are clear indications, that such a frequent change is not beneficial in China. First, because the Chinese base their decisions on past actions and experience with a party (Ambler et al., 2009) and when changing the group management the new one will need to start over again to build up experience also with existing partners. This even ties into Elli's (2000) argument of networks. And second, the trust is broken, since a change of management is correlated with structural changes, within and outside the organization. This creates an uncertainty that has a negative effect on the overall stability of relations even in the West (Pfeffer, 1992). Given that the Chinese are much more sensitive to such happenings (Ambler et al., 2009) it is clear how being constant in leadership is important. Naturally, this is only possible if the leaders are suitable for such a position for a long time.

#### 5.4.5 Becoming a local actor

The final factor that we see as being responsible for the overall success of Atlas Copco in China is linked with some of the factors above because it is the end result of the entire organization's efforts in China. It is the integration (affiliated with the social context) of Atlas Copco within China and Atlas Copco's acceptance as a "local player". This is important because it ensures that the organization is able to attract local talents and customers. Given that the organization was expanding to areas (e.g. West) where boundaries for foreigners are higher because of the higher cultural resistance (Yueh, 2010) this is crucial. Over all the four phases and categories there are two apparent factors that helped towards this end.

First, it had to do with the understanding of the culture and the market that made it possible to localize products, purchasing of materials and production, to create local brands and to interact with local partners, tying into the part about *experiential learning* and *network*. On the other hand with all these efforts, the organization clearly signaled that it had no intention to quickly leave the market again, but to be part of the local business world which ties into the aspect of continuity. A good way to underline the long-term intentions was the building of local production sites and the usage of local resources and suppliers.

Second, the organization hired local talents and built up a local organizational structure which builds into the category of *Product and Management*. The ACademy played a vital role as it developed a complete service and sales function with local people. Over the past ten years, the ratio between expatriates and local Chinese has been 1:99 for the whole organization. This contrasts sharply with other Western companies in China that, in 2005, on average had 31% expatriates working for them (Hewitt Associates, 2008). When talking to employees it seems as if they perceive Atlas Copco in China as a fun, modern Chinese company with a Western name. The element of the Swedish culture that emphasizes the work-life balances is also internally considered as an advantage for the attraction and retention of talent. The low turnover rate of 6.5% underlines this point. Moreover, through the internal job appointment system encouraging promotions of vacant positions among the employees' social network, the organization ensures that localness is created and will continue. However, not only are many locals working for the organization, but they are also involved in the decision making process. Kung together with Gyllö has led the organization over the last 13 years and there are 350 local managers that run the organization in China.

And third, throughout our interviews, the affiliation, admiration and joy all the people have for both China and the organization itself was very obvious. This is very hard to explain or put into an argument but it was obvious that the interviewees were very open to the Chinese market - an argument that ties back to the *experiential learning*.

## 6 Conclusion and Implications

*In this chapter a critical reflection of the case is followed by answers to the research question and by theoretical implications.*

### 6.1 Critical reflection

Without doubt Atlas Copco's market entry process to China is successful in a retro perspective. The profitability in China is considerably higher than the group's average<sup>37</sup> (Lou et al., 2010) and the development of sales is impressive. Moreover, the organization followed to large extent the factors that theory suggests are important and even had some innovative approaches. However, there are aspects about Atlas Copco's business dealings in China that legitimize a critical reflection.

First, Atlas Copco had the benefit of expanding to China with a set of products that were high in demand in the West. This continued to be the case throughout the involvement in China, where constant product innovation ensured highly demanded products world-wide. The same is true with the strong brand that Atlas Copco without doubt has had over the last thirty years. The strong brand is even in literature considered as an important success factor for the exporting phase, and having a strong product with a high value proposition to reach back to in the expansion process is without doubt an advantage. Therefore one can wonder how much of the success was created by smart decisions and actions by management and how much was created from the strong products, since a product is always more important than the actions of a company. If an organization has a product that is important for its customers, the organization can be successful despite failure in other areas (e.g. marketing or customer relations). A highly demanded product tends to result in what Porter defines as weak power of buyers and helps a company enjoy high margins (Porter, 1998). Up until now, it seems as if Atlas Copco has not been facing intensive price competition since prices could be maintained. There are examples such as Ericsson and Henkel, where over time the organizations were not able to maintain their margins because competing products caught up offering the same value but at lower prices (APEA, 2011). This makes it much harder to successfully operate and Henkel even decided to leave the market (APEA, 2011). We therefore believe that the lower degree of competition has been an advantage for Atlas Copco. Moreover, it would be interesting to see what effect a change in the degree of competition has on the overall success of Atlas Copco in China.

Second, looking at the whole process it seems to be very lengthy and slow at times. Surely, legal restrictions hindered the organization to move through the phases quicker. However, it is questionable if always high enough effort was put forth. For instance, actual learning from the exporting phase was limited which then had to be corrected by building up representative offices during the licensing phase. Also the establishing of JVs was rather slow. By the time the organization signed its first JV there were already over 160'000 Chinese-foreign JVs, corporate

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<sup>37</sup> EBIT margin 26.7% for China vs. 19.9% for group total

enterprises or foreign-owned enterprises (Ying, 1996). Moreover, sales remained low for twenty years, despite having local offices (in Hong Kong) and partners. Even the group management itself questions whether the process was fast enough. For instance, the decision for a more aggressive market expansion and to send Boll to China in 1998 could have been taken earlier. Also, the actual mapping of the market did not start until 2000, two years after Boll was sent to China. On the other hand, it is difficult to imagine the circumstances of China at these early stages and the high degree of uncertainty is for sure a factor that discouraged a quicker approach. However, the fact is that the office in Hong Kong did not regard China as important for a long time, despite the efforts from Wachtmeister and Wallenberg. Only with the move of the Chinese head office to Shanghai (from Hong Kong) in 1998 the prioritization somewhat changed.

Third, it seems as if many decisions and actions were quite conservative. Partners were kept despite occasional disagreement and frustration, authorities were not questioned and the organization built upon the experience of first movers (e.g. in the JV phase). Moreover, several of the interviewees mention that, despite that sales increased fast during the first decade of this millennium, a more aggressive approach with even bigger investments would have yielded even better results. For example, the number of sale and service offices and the number of contracted distributors could have grown faster. Hence, despite many benefits of the conservative approach, such as the avoidance of any serious mistake or failure, the question remains if a more venturesome approach would have resulted in a faster growth and a more advantageous outcome.

## 6.2 Key factors for Swedish MNEs entering China

The aim of this study has been to find the key factors that are crucial for any Swedish MNE wanting to build up a sustainable presence in China. This goal has been kept in mind throughout the entire research.

### 6.2.1 Applicability of study

In order to ensure the applicability of the study to other Swedish companies expanding to China, a single case study of a typical example of the population has been chosen because it allows analyzing the complexity and interrelation of events also over a long time period. Moreover, to ensure a detailed picture of the process interviews were conducted with employees from different organizational levels and from different times both in Sweden and in China.

The study highlighted key success factors for Atlas Copco's expansion to China. Sadly, it did not reveal easily identifiable, clear cut golden rules for the market expansion. To follow the aspects highlighted in the literature for each individual phase was a good guideline, but eventually it is more of a network of aligned actions that makes out the overall success. The five dynamic aspects – experiential learning capability, listening to the right network contact, technology protection, continuity and endurance, and becoming local – seem to be of particular



importance for Atlas Copco. However, there are no indications that these factors would be company specific or different from other Swedish companies. Consequently, the results could arguably be of relevance for other Swedish companies expanding to China.

### 6.2.1 Conclusion and answers to research question

First, *experiential learning*, or learning by doing is vital for building a sustainable market presence in China as it seems unlikely that market expansion to China can be arranged in some pre-planned manner. Our findings give strong support for the importance of this factor. However, it is difficult to give clear answers to how exactly this learning should be practiced. From our findings it includes making personal experiences in China and establishing contacts; learning from failures such as ended partnerships; and getting a market understanding. This can be achieved by interacting with customers, segmenting the market or studying (publicly) available data. Eventually, the important aspect of *experiential learning* is the willingness to understand the market and the openness to the Chinese market, just as the example of Atlas Copco's employees illustrated.

Second, despite that Guanxi did not seem to be as important for Atlas Copco as literature would suggest (e.g. Plafker, 2007; Ambler et al., 2009) it is still important to have good contacts in China – as is true for many other country as well. Especially, since the authorities are somewhat bureaucratic and have to give their approval for actions such as the acquisition of companies or the leasing of land that is need for production sites (Ambler et al., 2009). Already by following the local laws and rules, paying all the taxes and adapting to the culture a large step is taken to ensure good relations. Moreover, *building a network with the relevant contacts* and *listening to key contacts* is crucial. The example of Kung and Duck showed how important especially the listening aspect can be. Having the contacts in China is therefore not an end, it is only a mean.

Third, the protection of intellectual property and patents is still an important factor in China. The situation has become better in the last years. However it is still important for MNEs to *actively protect their technology and assets*. The case of Atlas Copco revealed an interesting form where partners were gradually integrated into the company. This process is unique and has a very interesting side to it that MNEs expanding to China should reflect upon as well. However, given the developments of China in recent years, it might be more difficult to tie Chinese partners to you in this way because they are less dependent on the Western technology and knowledge. Therefore, the willingness to operate with a foreign partner for an extended period of time can be limited from the Chinese side. In that event, the MNE needs to utilize other options to protect its brands, technologies and products.

Fourth, in the case of Atlas Copco, it became clear how important *continuity* is in China. It is needed for building trust. Since relations of any kind are based on past experiences it is only possible to gain trustworthiness if an MNE shows continuity. Consequently, this is closely related to the network aspects mentioned above. The MNE's relationships to the other parties



in its network will be affected by how trustworthy the MNE is perceived to be and having a short term perspective with frequent interferences such as changes in management is counterproductive. Therefore, without having a long-term mindset it will be difficult to succeed over time in China. Additionally, the aspect of continuity plays a further vital role. Atlas Copco faced various difficulties and setbacks during the expansion to China. This is not unusual in an unknown environment with unknown factors. However, this will also be the case for other companies expanding to China. In these situations it is important that the organization shows dedication and *endurance*, because only by investing time, money and effort over time it is possible to succeed. Atlas Copco is a great example. From 1983 until 2000 hardly any result could be seen, but its long term strategy and dedication did not change. Especially the group management showed strong leadership and emphasized the importance of the market expansion despite not seeing any results. Consequently, for sustainable success in China both continuity and endurance are vital aspects.

And fifth, in Atlas Copco's case it proved to be vital that the company became a *local actor*. The core aspect of this is trustworthiness, especially in the local community, which ties into the point about *continuity* for developing trust and into the point about developing the appropriate network, as part of being a local company means to form relationships with other local actors. However it also ties into the *experiential learning* because it entails the openness to the Chinese market. To what extent another company needs to become local is difficult to say because it depends on its products and the importance of the interaction with customers. Our findings on the other hand revealed that a Swedish organizational culture that emphasizes a work-life balance and social activities is highly appreciated in China among the employees. However, a strong element of foreignness should be avoided because it will leave the company out of the social networks.

Overall, our study has shown, that there are several elements that have to be right for succeeding in building a sustainable presence in China, but at the end it is an interplay of elements that create the success or the failure of a company. Having a clear vision which also survives setbacks is the starting point for a long, time-consuming journey into a market that still entails great growth potential, especially in the West.

## 6.3 Theoretical Implications

Our findings have implication for both theories and literature. Therefore, we first present the implications for existing theories and thereafter have a discussion about other literary implications.

### 6.3.1 Implications for theories

Our study gives strong support for the theory of internationalization (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Johanson & Vahlne, 2009). In line with theory, the study indicated phase linearity of the internationalization process, meaning the

company went from exporting, to licensing, to becoming a JV partner, to using a WOFE structure.

The findings in the study strongly support the arguments by the internationalization theory that experiential learning, or learning by doing, is vital for successful international expansion. The organization clearly followed a step-by-step involvement and commitment to the market together with an incremental process of accumulation of knowledge. The frequent trips to China to interact with Chinese counter parts, the management meetings held in China, and the inclusion of regular staff on the trips to China illustrate the emphasis placed on learning by doing or at least by learning by experiencing. This suggests that maybe more important than the current state of knowledge of an organization is its ability to take in and learn from new impressions and experiences in the foreign market in order to succeed in that market. Furthermore, the investment behavior was strongly correlated with the experience the organization had in China. Initially, little was known about the culture, business practices or interactions and a consequently a form of market entry with low investment was chosen, only to be increased slowly as accumulated knowledge improved.

Partial support for the eclectic theory (Hit et al., 1990) could also be observed in the study. The initial limited resource commitment can be explained by three of the four environmental variables from the eclectic theory: low location familiarity, high country risk and uncertain demand conditions. Further findings in the study neither support nor disprove the theoretical conclusions relating to the strategic and transactional variables of the theory.

Furthermore, significant support for the network theory (Blankenburg, 1995; Ellis, 2000) was found in the study. For example, the interaction with the government had an influence on the movement through the phases. Kung was vital in negotiating with the government everything from JV partner rights to acceptance for acquisitions. The results also indicate substantial support for the need to develop strong network relationships as mentioned in the network theory (Blankenburg, 1995). However, only partial support is given to the thought that the networks need to be extensive in order to succeed in the foreign market as described by Ellis (2000). Instead, the study indicates that the people in the network need to be the right people with the relevant knowledge and connections. Hence, the network does not need to be extensive. Additionally, the study adds a dimension to the network theory by suggesting that equally important to having strong relationships with the right people is it to listen to the contacts when they have something important to say.

Finally, support for the time-consuming social activities in China mentioned by Yang (2010) can also be seen in the study. The study clearly shows that the market entry process is more time-consuming in China than in traditional Western markets. Especially the JV phase was long, taking place over eight years, while in the West a JV only lasts for 18 month on average (Ambler et al., 2009). Additionally, the finding in the study that becoming local is vital supports the theoretical addition by Yang (2010) that social activities prolong the internationalization

process as building a local network involves a great degree of social activities in China. More importantly however, the finding that continuity is essential for building trust, which is essential in China, adds to Yang's theoretical addition of social networks in China as continuity to some extent differs from social networking. On the one hand continuity can be seen as social networking for an extended period of time. However, on the other hand, continuity can also be totally separated from social networking. In the latter case, continuity has nothing to do with how you network or how you interact but rather refers to staying in the market even when things are difficult and challenging. Such actions are, by definition, time consuming. Hence, this adds to Yang's theoretical addition by arguing that continuity in itself can be a cause of the prolonged internationalization process in China.

As summarized above, there is substantial support for the theories brought together in the holistic framework. Next, the theoretical implications of the findings from each of the categories will be discussed.

### **6.3.2 Implication for literature**

Our findings have multiple implications for literature. They are discussed below under each of the three categories introduced in part 2.2.3.

#### **6.3.2.1 Implications relating to Partner Interaction**

The findings in this study support in a twofold manner the claims by Root (1987) about partner selection. First, partner selection and partner interaction is important for each phase. Secondly, it is becoming more important throughout the phases, from exporting to licensing to JVs. Moreover, as Dikova and van Witteloostuijn (2007) mention about the WOFE phase, this study indicates that it is important to overcome foreignness. However, to some degree contradicting Root (1987) is the finding in our study that partner continuity is vital for building trust and eventually creating success. In other words, this indicates a more difficult situation than simply selecting from a list of partners. Sometimes it is necessary to continue to work with past partners to achieve the desired level of trust and one cannot simply select a new partner. Moreover, the findings in this thesis confirm the importance of negotiations (Root, 1987). However, the negotiations is not so much about presenting valid arguments as indicated by Root, but rather to be persistent and willing to leave the negotiation table a few times. Furthermore, a point not mentioned in the literature but observed in this study is an innovative way to select partners in order to reduce risk of technology dissemination and piracy. This point will be discussed next under control and protection.

#### **6.3.2.2 Implications relating to Control and Protection**

The results confirm the importance of technology protection as mentioned by Stock (2006), Lukman (2009), Nippa et al. (2007), Hill et al. (1990) and others. This suggests that companies possessing valuable technology and know-how need to put in place accurate protection mechanisms not to lose their competitive advantages. However, our study adds a new aspect not mentioned by theory concerning how technology and know-how can be protected

throughout the phases. By making licensees first JV partner and later fully acquiring the partners to create a WOFE, the risk of diffusion decreases as technology and know-how becomes more and more integrated with the MNE. The step-by-step integration of licensees to JV partners and eventually the purchase of the JV partners to bring them into the WOFE structure also added a new aspect to the trade-off between greenfield operations and acquisitions mentioned by Tan (2009). By integrating existing partners the final acquisition could both be fast while at the same time avoiding integration challenges.

#### ***6.3.2.3 Implications relating to Product and Management***

The analysis partially contradicts statements in the current literature that products need to be adapted to the local market during the exporting, licensing and JV phases (e.g. Nippa et al., 2007; Roy & Dugal, 1999; Root 1987). Only indirect product adaptations were made by selling products of the brands believed to be most suitable for the local market. However, no direct adaptations were made. This indicates that some of the cost of explicit product adaptations can be avoided by while several of the benefits can be maintained by selling the products under the brand believed to best fit the market. It further suggests that benefits of product adaptations are exaggerated.

Moreover, there is strong support for the aspects mentioned by Ready et al. (2008) which claim that MNEs should not just export their domestic talent strategy to China, but try to develop China specific strategies to overcome cultural differences. This highlights the cultural dimension of human resource development and emphasizes the need to understand the culture of the local market. The study indicates that, in line with theory (e.g. Schmidt, 2011), there has been a strong focus on cultural understanding as it is highly important in order to succeed in the Chinese market.

## 7 Limitations and Further Research

*The last chapter deals with the limitations of our thesis and suggests future research.*

### 7.1 Limitations

The goal of this case study has been to provide useful strategic implication for Swedish companies expanding to China and factors that seem to be relevant for the market entry and development process on a broader level were found. However, the complexity and scope of our research admittedly make it necessary to have a more detailed study of the individual aspects that go beyond the possibility of our thesis. For instance, HR in China is an important aspect in itself and would legitimize multiple further case studies alone. Moreover, we chose to look at the generic categories Partner Interaction, Control and Protection and Product and Management, since we believed they are of most relevance. However, we recognize that there are elements of relevance that could be added to those categories as well. Supply chain management is an example of such an extension.

Furthermore, although it has been our intension to examine an organization who has been present in China for an extended period of time to understand elements built up over a long time horizon, this also limits our study. Organizations entering the Chinese market today are likely to face new challenges and hence the findings in our study might not describe the complete picture for organizations entering China today. However, by taking out the dynamic aspects that should hold over time we tried to counteract this.

Finally, although interviews were conducted in a highly detailed manner they were all carried out from Sweden. It was beyond our possibility to travel to China for face-to-face meetings and to investigate facilities and factories in person in China. As personal interactions bring additional insights, the lack of such experiences could to some degree limit our findings.

### 7.2 Further research

Given that the findings in this master thesis are based on a single case study, it would be interesting to see results from more studies with similar objectives to be able to sort out any company specific factors that might distort the generalizability of this study. In order to statistically - as opposed to analytically - generalize a far larger sample would be needed.

Additionally, our study has investigated success factors not only based on current events but also on events from many years ago. In combination with the fast economic developments as well as the cultural changes currently taking place in China, it would add valuable information to have similar studies repeated in the future looking at companies entering the Chinese market today. Such studies would complement our thesis well as they would aid in highlighting factors that might be specific for a particular time frame.

Our study identified five overall success factors: learning, network building, technology protection, continuity and importance of becoming a local company. However, no ranking of

importance or prioritization has been made. Neither has it been studied how the factors interrelate and affect each other. Consequently, a study designed for those purposes would be important as it would shed additional light on which factors might be most important and on whether or not there is a particular order various elements underlying the factors need to be developed and put in place.

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## Appendices

### Appendix A - Advantages and disadvantages market expansion

Below is a summary of the advantages and disadvantages mentioned in the literature about each of the four forms of entry and expansion for foreign markets.

Table 10. Summary of advantages and disadvantages of the four entry and expansion forms in foreign markets.

Phase 1 - Direct Exporting	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Relatively quick and simple</li> <li>• Low degree of foreign market knowledge required</li> <li>• Small investments required</li> <li>• High protection of intangible assets</li> <li>• Possibility to focus on core activities</li> <li>• Immune to expropriation</li> </ul>	<ul style="list-style-type: none"> <li>• High transportation costs</li> <li>• Risk of becoming dependent on foreign distributors and agents</li> <li>• Risk of trade barriers</li> <li>• Poor access to end customer</li> </ul>
Phase 2 – Licensing	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Avoidance of transportation costs</li> <li>• Immune to expropriation</li> <li>• Way around legal requirements</li> <li>• Product and service adaptation costs transferred to licensee</li> <li>• Low commitment and little capital needed</li> <li>• Way to avoid trade barriers and import restrictions</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of control</li> <li>• Risk of creating competitors</li> <li>• Dissemination of trade secrets</li> <li>• Royalties oftentimes limited</li> </ul>
Phase 3 – Joint Ventures	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Way around legal requirements</li> <li>• Access to knowledge about host country</li> <li>• Access to skills (marketing, production etc.)</li> <li>• Access to local capital (human and monetary)</li> <li>• Access to local prestige (brand image)</li> <li>• Access to personal contacts</li> </ul>	<ul style="list-style-type: none"> <li>• Dependent on partner goals</li> <li>• Loss of competitive advantages</li> <li>• High demands on will to collaborate and on access to human resources</li> <li>• Need to collaborate with partner on operational issues (management, production, financing, marketing etc.)</li> </ul>
Phase 4 – Wholly Owned Foreign Enterprises	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Tight control over operations</li> <li>• 100% share of profit</li> <li>• Highest location and experience curve economics</li> <li>• Reduced risk of losing technology to partners</li> </ul>	<ul style="list-style-type: none"> <li>• Liability of foreignness</li> <li>• High costs</li> <li>• High risks</li> </ul>

Source: Root, 1987; Hill, 2011a; Hill, 2011b, Hill et al., 1990 and Johanson & Vahlne, 1990.

## Appendix B - Human resource framework for China

According to Ready et al. (2008), the following framework could be used for understanding how to attract and how to retain talent in China. The brand and purpose of the organization, and the opportunities and culture the organization provides for its employees all affect the ability to attract and retain talent. The four parameters can also be seen to fall into two categories: *promises made* and *promises kept*. The brand for example could give a strong illusion of how it is to work for the organization. That is important. But it is also important to deliver on that promise. The culture is the strongest parameter for keeping promises. By analyzing its brand, purpose and culture by analyzing the opportunities provided, an organization can understand how to best attract talent.

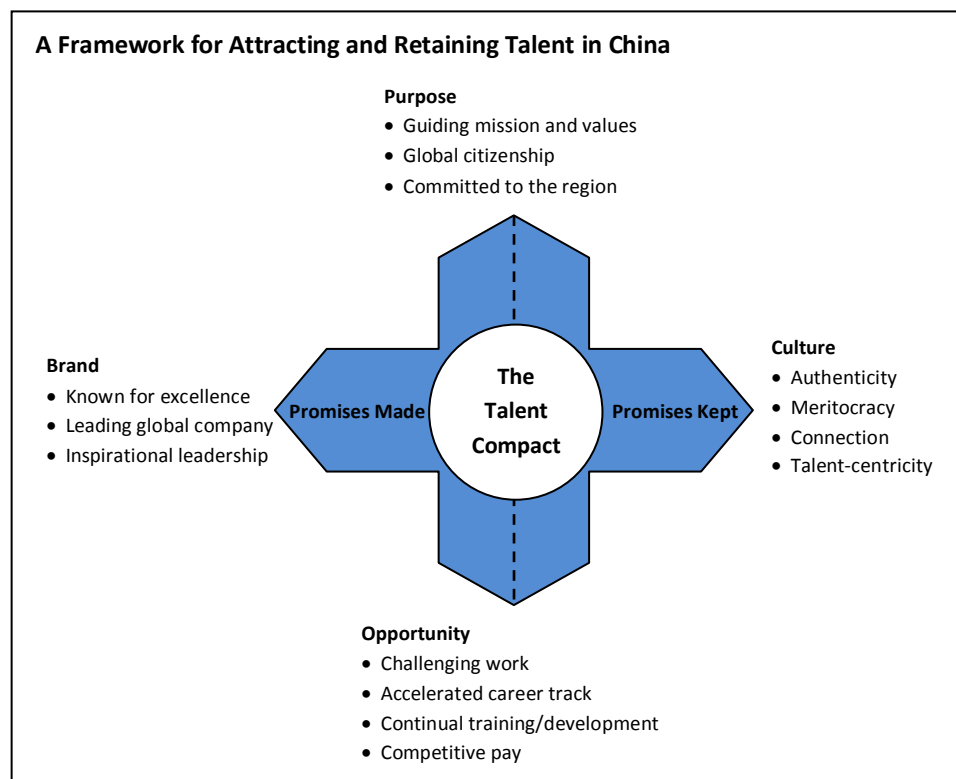


Figure 3. Attraction and retention framework for talents in China. Source: Ready et al. (2008).

## Appendix C - The Talent Gap

China has over 1.3 billion people, but companies struggle to find the right talent. Education still varies greatly among schools and many have poor language skills. In general there is a surplus of entry-level workers but in management positions talents are missing (Ready et al., 2007).

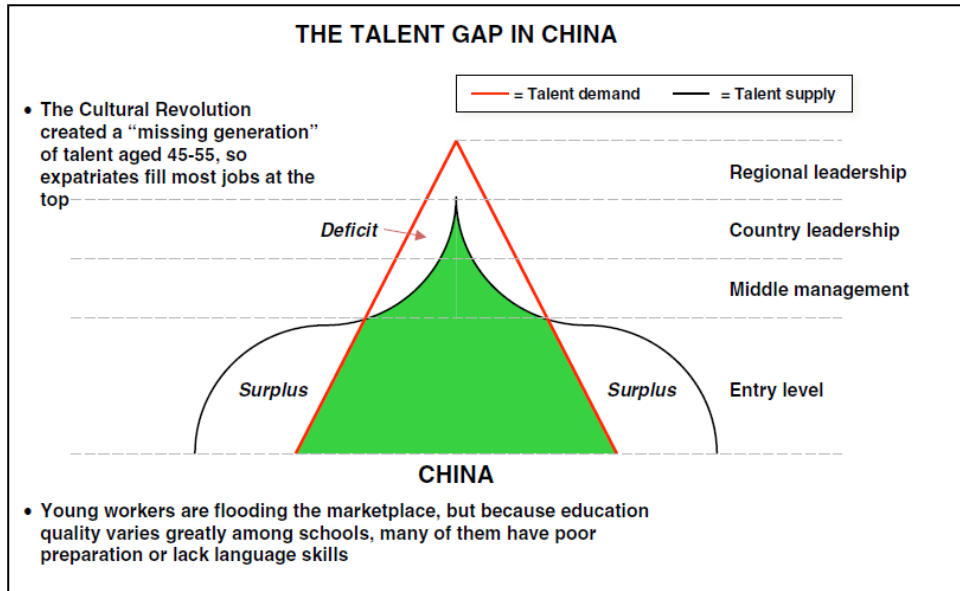


Figure 4. Talent Gap in China. Source: Ready et al., 2007.

## Appendix D - Interview questions for Atlas Copco employees

### Personal Background

1. Could you please briefly describe the positions you have held / are holding within Atlas Copco?
2. Can you please describe your current role within Atlas Copco?
3. What did you do since you started to work for Atlas Copco in China?
4. What do you consider as the biggest challenges in your work that are China specific?

### Partner Interaction

5. Can you illustrate examples where you experienced Guanxi (both positively and negatively)?
6. Could you describe how you overcome cultural challenges and how you build relationships in China?
7. Could you experience ethical or moral problems because of relationships you must nurture?
8. How important do you consider networks/relationships for doing business in China?
9. How did you negotiate with partners (e.g. did you use a Hongniang)?
10. How did you select the licensees and JV partners?
11. Before granting licenses in 1983-1985, how did you obtain legal approvals for your exports?

12. Which were the biggest *challenges* and *successes* in China in regards to the collaboration with your partners when you had: (a) Licensing agreements and (b) Joint Ventures
13. You have been described as having a large network in China. How did you establish your network (also before Atlas Copco)?

#### **Control and Protection**

14. How did you control/monitor the JV partners?
15. Do you consider piracy a major problem for Atlas Copco in China?
16. How does Atlas Copco fight piracy in China?
17. Does Atlas Copco try to fight piracy in a different manner in China than in other countries?
18. How different is Atlas Copco's "system knowledge" compared to the one from other Western companies?

#### **Product and Management**

19. What kind of product adaptations did you do during the licensing and JV phase?
20. Before granting licenses in 1983-1985, how was your pricing and how were goods distributed to China?
21. How did Atlas Copco overcome the difficulties with distribution in China during the different phases?
22. How do you manage and maintain your brand in China?
23. Which have been the key concerns for top management during your presence in China (key concerns on a time scale)?
24. What do you think are the biggest challenges of being a manager in China?
25. Which are the biggest weaknesses and strengths of Atlas Copco's HR policies in China?
26. What kind of HR practices does Atlas Copco follow in China and how have they evolved over time?
27. Please describe briefly the marketing efforts of Atlas Copco in China (since the early stages)!
28. Are the HR practices different compared to other countries? If yes, in what ways?
29. How did/do you recruit staff for the office in China?

#### **The Chinese market**

30. What is most important for a Western company to do right to succeed in China?
31. What have been the biggest challenges/concerns about doing business in China?
32. Do you consider the Chinese market to be unique in any way which might require a unique strategic approach to succeed in China?
33. Which are the biggest challenges with having wholly owned subsidiaries in China and how are they overcome?

34. Which are the biggest challenges and advantages of being a non-Chinese firm operating in China?
35. From an HR perspective, does China offer any unique challenges or opportunities?
36. From a legal perspective, which are the most important aspects to consider for a Western manufacturing company trying to establish itself in China?
37. From a legal perspective, does China offer any unique challenges or opportunities?
38. How are Swedish companies perceived in China compared to other foreign companies? Is it good or bad?
39. What do you consider as the key success factors for Atlas Copco's success in China?

#### **Success Factors for developing the business in China**

40. What is the strategic benefit of having an R&D facility (like the one you are building) in China?
41. Which is the greatest success you have achieved in China?
42. What is the greatest threat to Atlas Copco in China?
43. Do you have any competitive advantage/disadvantage over (both foreign and Chinese) competitors in China?
44. What strategic mistakes have you made in the past in China?
45. Are there things which you have done differently compared to (a) other Western firms and (b) Chinese firms, which have resulted in success or failure?
46. Which have been the most challenging aspects about doing business since Atlas Copco moved to China in 1983? How did Atlas Copco overcome the challenges?
47. How did/does Atlas Copco overcome the difficulties with the unavailability of accurate data?
48. How did/do you deal with the difficulties in the legal system of China (e.g. local vs. federal law)?
49. Which are the biggest differences between how Atlas Copco and other Western firms operate in China and can you think of past decisions where you and other western firms have made different decisions which have resulted in quite different outcomes?

#### **Market Entry**

50. From a sequential point of view could you describe the order that you have expanded in China?
51. What were the anticipated key areas for doing business in China for Atlas Copco (pre results)?
52. What was your strategic approach for expanding into China?
53. How was the expansion into China different to the expansion into other countries (e.g. Soviet Union)?
54. What was the strategic rationale for expanding into China in 1983? Has it changed since and if so how?
55. If you would enter China today, would you use fully owned subsidiaries from the start?



56. What were the planned steps for entering China?

**General Atlas Copco in China**

57. Why did you change from exporting to having licensees to JVs and eventually to WOFEs?

58. How did you collect information/data about China in the early stages? (how did you do it in other markets)

59. What was your experience with Joint Ventures in countries other than China?

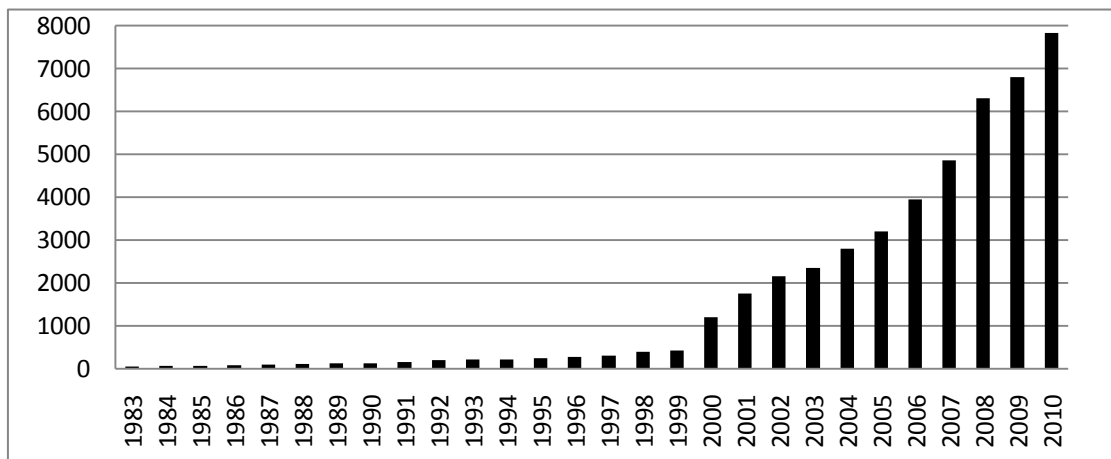
## Appendix E - Description of persons in case

A brief description of the people mentioned by name in the case is given in the table below, indicating the person's role and duration to give an insight of their contribution in the overall market entry process in China. All of the people mentioned besides Wallenberg and Wachtmeister were among our interviewees.

Name	Position	Role
Peter Wallenberg	Chairman	Held various positions within the Atlas Copco Group between 1953–1974 and was Chairman of the Board from 1974–1996
Tom Wachtmeister	CEO	Was employed by the Group in 1959 and held various positions before he was appointed Managing Director (CEO) in 1975. He held this position until 1991
Michael Treschow	CEO	Started his career in Atlas Copco in 1975. He became President and CEO of Atlas Copco in 1991 and left in 1997
Gunnar Brock	CEO	Became CEO and President in 2002, left in 2009
Ronnie Leten	CEO	Held various positions within the Compressor Technique business area between 1985 and 1999. Was the president of various business units and became CEO and President in 2009
Thomas Kung	Chairman China	Managing Director Atlas Copco (Hong Kong) since 1981; Chairman of the Atlas Copco (China) Investment Company since 1997; established Atlas Copco (China) Ltd in Hong Kong and representative offices in Beijing, Shanghai and Guangzhou in 1985; established joint venture in Nanjing; Wuxi
Hans Sandberg	Senior Vice President General Counsel	Employed since 1975 as corporate counsel, became General Counsel in 1980 and was involved in all important legal matters in China
Bengt Kvarnback	Business Area President Compressor Technique	Head of the Industrial Technique business area 1992-1997, head of Compressor Technique business area 1997-2006,
Stephan Kuhn	Business Area President Compressor Technique	Started his career at Atlas Copco as manager of an electric tools joint venture in China, and later held General Manager positions in Belgium and Germany. Became head of Compressor Technique in 2009
Magnus Gyllö	Vice-President China	Financial Manager, Deputy Managing Director and General Manager in Atlas Copco companies in Zambia, Peru, USA, South Africa and Italy from 1972-1997; Vice President of Atlas Copco (China) Investment Company Ltd since 1997
Leif Boll	Managing Director China	Managing Direct of Atlas Copco Shanghai Trading Co., Ltd from 1997-2010
Erik Carlius	Business Development	Responsible for mapping of China with Leif Boll, Marketing and Communication officer in Shanghai from 2000-2010, currently responsible for business development

Table 11: Description of role and position of people in the case.

## Appendix F - Revenue development of Atlas Copco in China, 1983-2010



Graph 4: Revenues of Atlas Copco in China, million SEK. Source: Atlas Copco.

## Appendix G - Atlas Copco's brand strategy for China

Below is an illustration of Atlas Copco's brand strategy for the traditional markets and for China. As can be seen, the top market and bottom markets are small in China while the middle market is very big. Moreover, in China Atlas Copco uniquely sells products (under other brands).

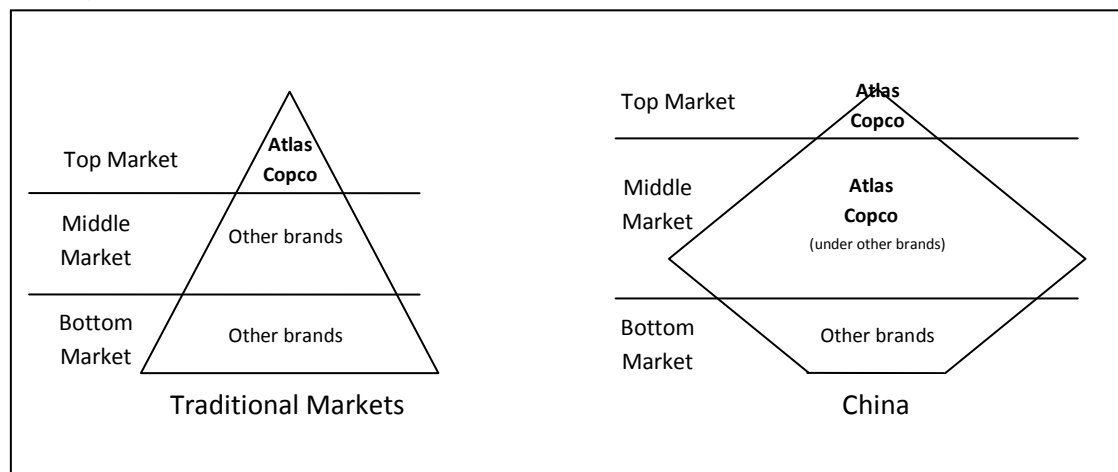
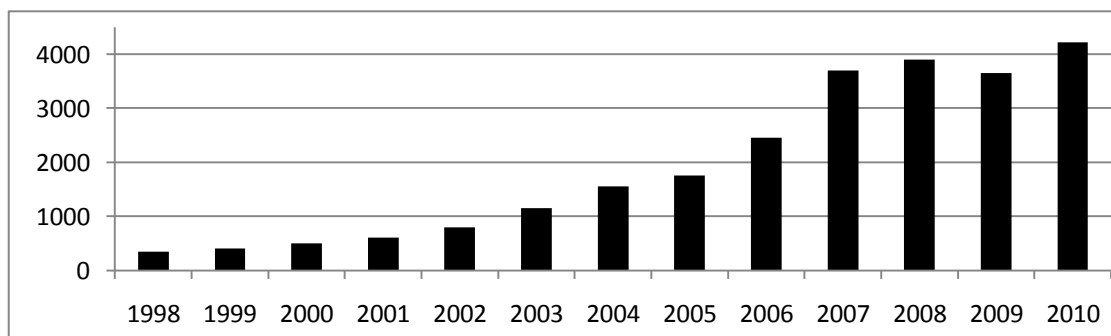


Figure 5. Illustration of the Chinese market compared to traditional markets. Source: Atlas Copco.

## Appendix H - Employee development in China



Graph 5. Number of Atlas Copco full time employee equivalents in China. Source: Atlas Copco.

## Appendix I - Timeline of Atlas Copco's engagement in China

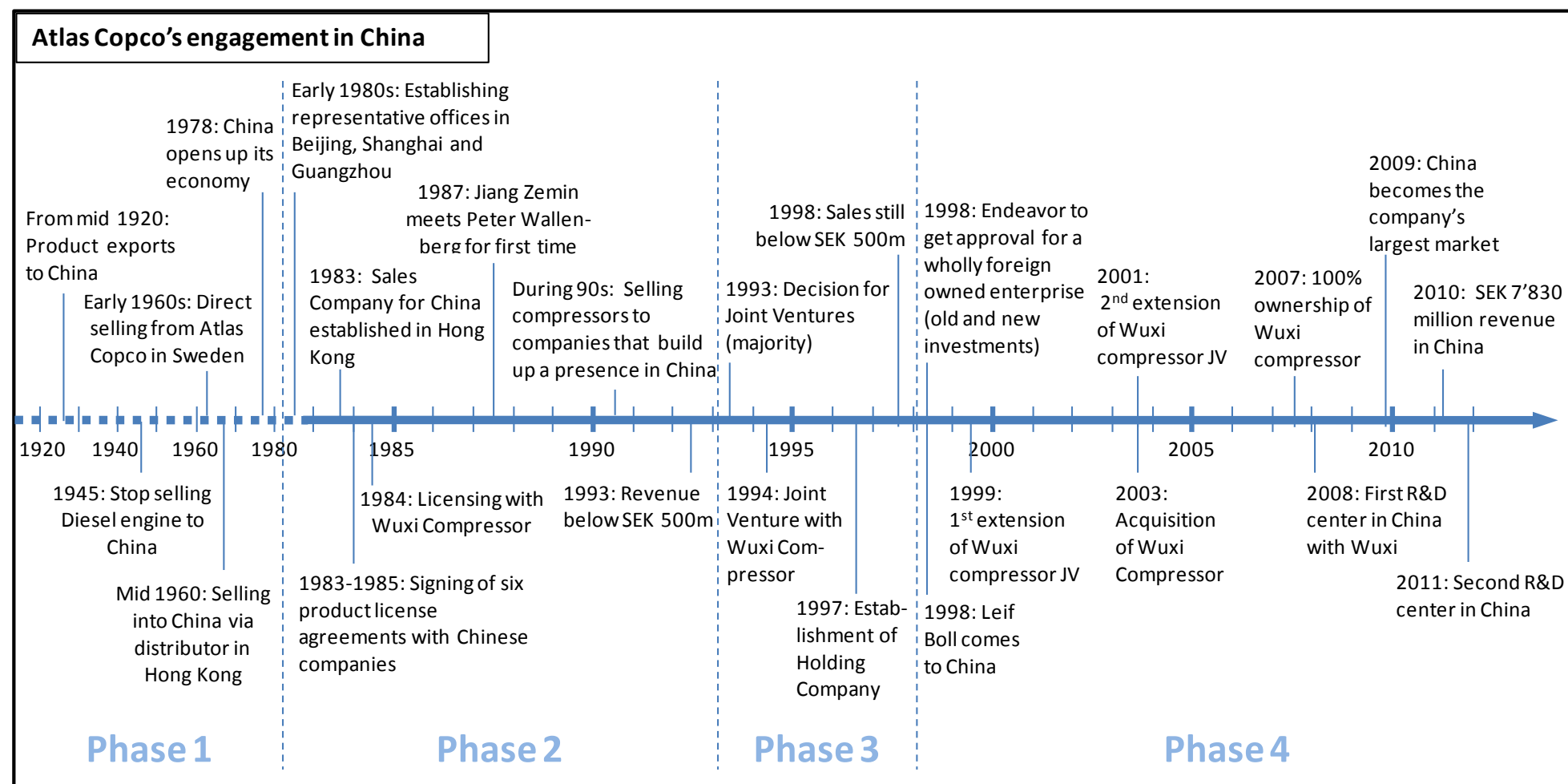


Figure 5. Timeline of Atlas Copco's engagements in China.