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A comparative exploration into firms' hardship of
overcoming Liability of Outsidership in China

Department of Business Administration

International Business

Bachelor thesis

Spring 2015

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We would like to sincerely thank all the companies and participants that were involved in our study. The information and knowledge that has been provided to us has enabled us to reach a conclusion and for that we are grateful. Moreover, we appreciate their interest in the subject. Without their time and contribution, this thesis would not have been possible to conduct. Finally, we would like to extend a big thank you to our supervisor Richard Nakamura for mentoring us throughout the whole time and providing us with insightful comments on our work.

Gothenburg 2015-06-06

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ABSTRACT

Problem and Purpose: Firms that internationalize foreign markets are often faced with the hazard of becoming outsiders. This thesis explores the possible differences that service firms compared to manufacturing firms can encounter and how the hazard can be overcome.

Method: The concepts included in the theoretical framework are the Uppsala Model, the Network Model and Dunning's OLI paradigm. Moreover, liability of foreignness and outsidership is explained which contributes to a broader comprehension of why firms become outsiders.

Results: Results showed that service and manufacturing firms are similar in their approach but time, company size and management approach are significant variables.

Abbreviations

RDT = Rock Drilling Tools

Key words

Internationalization, Network, Liability of Outsidership, Service Industry, Manufacturing Industry, Business in China

Definitions

Liability of Foreignness: describes the additional costs that companies operating outside their home countries can experience above those experienced by local companies. Those costs are often related to limited knowledge and management problems.

Liability of Outsidership: describes difficulties related with the entrance to a new foreign market where the firm does not have any position in business-relevant networks (Johanson & Vahlne 2009)

Outsider: A firm that has not yet found its place within a relevant network and can therefore not benefit from the advantage brought from being a network insider (Johanson & Vahlne 2009).

Insider: A firm that has found its place within relevant networks and has managed to create long-lasting relationships that offer potential for learning, building trust and commitment. The firm can then benefit from the advantages of what insidership brings (Johanson & Vahlne 2009).

WFOE: Wholly Foreign Owned Enterprises, were after China's entrance in the WTO no longer only to encourage manufacturing investments, but more often used by service businesses. WFOE are most commonly used within consulting and management services. With a WFOE the enterprise is 100% owned by the foreign counterpart. (WFOE Organization 2015)

Gray Area: Described by the interviewed participants from Edward Lynx, Swedbank and Handelsbanken as those regulations that are not necessarily followed by local firms, since they have local knowledge of what regulations that are not essential to apply and that do not have any penalty.

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1. INTRODUCTION

The purpose of this chapter is to acquaint the reader with the background and the purpose of this paper. In addition, the authors show the problem discussion.

1.1. Background and overview

The world is growing into a more global business environment. Firms see potential away from their home market and take chances on foreign grounds. Czinkota et al. (1995) describe the globalization of firms as the key to success since organizations can no longer solely rely on their home market in order to survive. Lazer (1993) notes that one of the most outstanding aspect of international business is that countries continuously find themselves larger intrinsic parts of the global economy which forces every corporation no matter size to participate in the global business changes. Turnbull (1985) adds that when firms internationalize they move their operations outward and increase the international involvement and trading activities which evidently benefits the world economy. The aim is to find market share outside the home market in order to expand the firm's activity and growth and to succeed there are many paths that corporations can take (Welch & Luostarinen, 1988).

Johanson and Vahlne originally published their Uppsala model in 1977 where they introduced the reader to a term called Liability of Foreignness (Johanson & Vahlne, 1977). Edman (2009) states that the notion of foreignness has been a vital feature of international business for quite some time, mostly because it plays an important role for the internationalization of firms. One can, for example, imagine the difficulty of being a tourist or a newly arrived immigrant in a new country and then apply this to a firm. These enterprises will be treated and looked upon differently than national enterprises which will engender certain cost (Edman, 2009). To clarify further, a firm experiencing liability of foreignness has brought knowledge, structure, routine and, norms with them from the home market or if present their parent company. These characteristics have been created and molded to fit the home country's

institutional setting and then strengthened by the firm's administrative heritage and management (Bartlett & Ghoshal, 1989). However, in 2009, Johanson and Vahlne revised their initial model and stressed the importance of networks, which transformed their initial point of view on Liability of Foreignness into a term called Liability of Outsidership. Their core argument is based on the fact that markets are networks of relationships where firms can enjoy a tight connection to each other. The advantage of being within the network of relationships is that knowledge, trust and commitment is shared easily between the members. Johanson and Vahlne (2009) stress that *insidership* within relevant networks is crucial for the success of a firm's internationalization. Consequently, when a firm is placed outside the network's invisible patterns it is faced with *Liability of Outsidership* (Ibid).

China is a country that has opened up tremendously since 1978 and has, since the reform, experienced a high economic growth (Chow & Li 2002). Due to this, foreign firms allocated themselves in China in order to explore the market which quickly transformed the country into the second largest destination for FDI in the world (Alvstam & Ivarsson, 2010). Motives for establishing in China usually involve the ambition to provide goods or services to China's domestic market through local production or local sales organizational (Alvstam & Ivarsson, 2010). Many of the firms establish within China's Free Trade Zones where foreign-exchange procedures are simplified (Kazer, 2015). These Free Trade Zones are meant to pave the way for liberalization (Ibid). In addition, as a result of China's accession to the World Trade Organization in 2001, China is today Sweden's largest trading partner in Asia (Swedish Institute 2015). Moreover there is a large number of Swedish businesses within the Chinese market since Swedish firms are not only exporting to China but many of them have also established themselves there (Swedish Chamber of Commerce in China 2015). The main well-established Swedish service companies are mainly active within the banking consulting industry and the Swedish manufacturing companies are mainly active within the steel industry (Swedish Chamber of Commerce in China, 2015). An increasingly amount of firms have established in China within both

the service and manufacturing sector, making it interesting to create an understanding of the challenges these sector possibly experienced (Ibid).

The Swedish culture greatly differs from the Chinese, where relationships and trust have a major impact. In order to become part of the network, foreign companies have to engage and create those networks with suppliers, customers, authorities and so on (Johanson & Vahlne, 2009). Consequently, we found it interesting to compare Swedish and Chinese service and manufacturing companies to see if they tackle liability of outsidership differently. We chose a market where the Swedish firms have been doing business for a few years, mainly because we wanted both early and late movers in our data in order to see if timing is a factor. Also, the differences between the Swedish and Chinese Business environment is described further down.

1.2. Problem Discussion

Many studies have been done regarding firms' internationalization and a multitude of those have been inspired by the work of Scandinavian researchers: e.g. Johanson and Vahlne, (1977) and; Johanson and Wiedersheim-Paul, (1975). The Uppsala model of 1977 explains the rationale of the process and explains the disadvantages and advantages a firm can go through (Ibid). Hence, they introduce the liability of foreignness where firms experience difficulties because of their lack of firm-specific advantages, resources, knowledge and experience (Edman, 2009; Welch and Luostarinen, 1988). After a couple of years, Johanson and Vahlne realized that hindrances faced by companies when internalizing are less and less related to the country in itself but more about relationships and networks. Hence, they revised the Uppsala model and explain that firms will be faced with the liability of outsidership rather than foreignness (Johanson and Vahlne, 2009). According to Welch and Luostarinen (1988) the liability can be overcome through the formation of well-defined network circles where the firm has a close connection to suppliers and customers.

Networking, has since then, been an essential step for the internationalization process of the firm (Forsgren et al. 2005; Johanson & Mattsson, 1988; Blankenburg & Johanson, 1991).

Coviello and Munro (1995) stress how networking can influence the speed of the internationalization. By choosing the correct entry mode and the correct market the firm can reduce time and price. Ergo reduce the risk for the firms (Ibid). Research has also described networking as an advantage where firms obtain credibility which helps them with their future expansions (Coviello and Munro, 1995; Mort and Weerawardena 2006). But above all, firms can, by networking, gain access to other relationships and networks which ties their resources together (Coviello and Munro, 1995; Forsgren et al. 2005; Mort and Weerawardena, 2006). Evidently, one must bear in mind that all markets have their own specific characteristics. One firm's internationalization will not be the same for every firm or every new country it internalizes (Zaheer, 1995). There are formal and informal institutions that will either help or throw spanners in the works of these businesses (Ibid). Regulative frameworks, unexpected bureaucracy and corruption, are some of the challenges a firm can face when not well prepared or acquainted with a country's different institutions (Ibid).

Björkstén and Hägglund (2011) describe the barriers of being a foreign firm in China and their ability of managing liability of outsidership. They also explain the different cultural differences that foreign firms are most probable to be faced with when doing business in China. Terms such as losing face and *guanxi* are brought up to show how different the Chinese business way is from the Swedish business culture. Our intention is to provide the reader with distinctions and similarities between service firms and manufacturing firms when they try to internalize the Chinese market. Therefore, we have compared different Swedish companies and analyzed how they tackle the hazard of being outsiders on the Chinese market. In light of these difficulties we would like to see if there are any differences within these business types; service and

manufacturing, while establishing in China. To the best of our knowledge, there are none or few studies made where a comparison of manufacturing and service companies is in focus. By creating a discussion during interviews with adequate companies we will see if manufacturing and service companies adopt different strategies when entering the Chinese market and if that is due to their characteristic differences.

1.3. Purpose of study

In our report we would like to investigate how Swedish firms within the manufacturing industry and within the service industry deal with the issue of liability of outsidership. Concerning the theoretical framework there is today lack of studies of what impact a company's industry have on a successful establishment in China. By collecting and analyzing empirical findings we aim to provide Swedish companies with information regarding potential differences and challenges experienced as a manufacturing or service industry.

1.4. Research questions

Does the hazard of being outsiders affect Swedish service and manufacturing firms differently?

How can Swedish firms overcome such hazard?

1.5. Chinese culture

In order to understand the specific way of making business and creating relations when entering the Chinese market it is of high importance to understand the cultural differences. In contrary to Sweden and other Western countries the history of China is still having a large effect on, not only the life of a Chinese, but also the way they do business (Yeung & Tung, 1996). For instance, as a result of the Confucian history, the Chinese business culture is considered as very hierarchical and rather strict compared to Western business culture (Verstappen, 2008).

- *The concept of guanxi*

As a result of China's history, relations and networking have a big impact on the Chinese business environment. With the lack of an English similar word, *guanxi* is usually defined as creating personal connections, relationship and helping each other out as a favor (Yi & Ellis, 2000).

The costs of *guanxi* are mainly described as costs and disadvantage of not being an insider of the network, resulting in necessary investments and attempts to overcome outsidership (Fan, 2002). There will also be a risk of investing in relationships or business based on *guanxi* since the border line between *guanxi* and bribery might be difficult to separate to a foreigner who is not used to this way of doing business (Tong, 2014). Björkstén and Hägglund (2010) believe *guanxi* is a relevant part of business practice although they shortly mention it to be less important than before. In the 1980s, not much could be accomplished without the help of networks but today, with a more controlled business environment, *guanxi* is not the only way of getting access to products and services (Björkstén & Hägglund, 2010).

1.6. Swedish culture

The Swedish way of perceiving business and creating new relations, differs from the Chinese way. Despite the importance of networking and good connections, there is nothing that can be compared to *guanxi* in the Swedish business culture (Swedish Institute, 2015). Furthermore the Swedish Institute (2015) also argues that this might be a result of the high amount of Swedish employees belonging to labor unions, since it is usually known that a strong union presence also results in a more equal organizational environment (Swedish Institute, 2015). The Swedish Institute (2015) also describe the way of doing business in Sweden as non-hierarchical, transparent and straightforward where a signed contract means that a deal is made and ought to be followed. In China, even though a contract has been

signed, it does not guarantee the deal will be made. Consequently, it makes it difficult for investors to plan and handle the future costs or revenues (Tong, 2014).

2. THEORETICAL FRAMEWORK

The purpose of this chapter is to acquaint the reader with the theories and notions that we have used as tools to answer the thesis' research question. Firstly, a distinction between service and manufacturing firms is made. Secondly, the Uppsala Model of internationalization and Dunning's OLI paradigm is rendered followed by relevant theories such as the Liability of Outsidership and Foreignness and finally the Network Model is presented.

2.1. Distinction between service and manufacturing firms

Evidently, there are distinctive differences between manufacturing firms and service firms, where one fundamental difference is the tangibility of their output (Kaynak & Hassan, 2013; Bowen and Jones, 1986). A service firm such as consulting and banking institution, provides an intangible good which cannot be touched nor possessed, contrary to a manufacturing firm that sells a tangible good (Ibid). This indicates that customers may have difficulty evaluating the quality and the value of the service compared to the product (Kaynak & Hassan 2013; Bowen & Jones, 1986; Erramilli & Rao). Even after purchase, the customer might find it hard to evaluate the service bought and it is up to the service company to instill trust in order to ease the ambiguity (Bowen & Jones, 1986). In addition, the service is usually tailored to the customer's need, produced and delivered simultaneously, requires less financial investment and is people-intensive (Brouthers & Brouthers, 2003; Erramilli & Rao; Bowen & Jones, 1986). The employees need to possess specialized know-how specific to the service offered which evidently makes employees harder to replace (Erramilli & Rao, 1993). In addition, they argue that a service firm's competitive advantage is derived from how well and how much they invest in training and knowledge (Ibid).

Manufacturing firms are more investment intensive as capital is required in order to set up plant and to acquire equipment (Erramilli & Rao, 1993). They will respond in larger extent to changes in investment and are less sensitive to people-oriented changes (Brouthers & Brouthers, 2003; Erramilli & Rao, 1993). Also, they do not require the same professional skills and are more dependent of the quantity of workers in comparison to the quality (Bowen & Jones, 1986). In addition manufacturing firms usually have inventory which makes it easier to match the customer demand (Brouthers & Brouthers, 2003; Erramilli & Rao, 1993).

2.2. Uppsala Model

The Uppsala model was first introduced by Jan Johanson and Jan-Erik Vahlne in 1977 and states the process taken on by firms when internalizing a new market. The model has been revised in 2009 when Johanson and Vahlne noticed networks were playing a large role in a company's internationalization process. The model of 1977 has been renowned as it contradicted the business literature of the time and has since then been cited in many relevant works. Johanson and Vahlne (1997) emphasize the importance of knowledge and illustrate that firms learn by experience and by objective knowledge. The objective knowledge can easily be transferred from firm to firm or person to person but to learn by experience, the company has to be operational in different environments. Hence, the latter form of knowledge is much beneficial for a firm when entering a foreign market and can be an advantage that others do not have. Another important part of knowledge is the market-specific knowledge compared to a more general knowledge applicable to any market despite the location (Ibid). By having specific knowledge the firm has generated know-how that is specific for that location such as culture, politics, and informal business practices but especially about the location's individual customer (Ibid).

Johanson and Vahlne (1977) brought forth firms' tendency to reach out for markets that were of closer psychic distance to themselves. The term was first defined by Johanson & Wiedersheim-Paul (1975)

as “factors preventing or disturbing the flows of information between firm and market” (p. 308) and was then directly put in connection with liability of foreignness by Johanson and Vahlne (1977). They explained that the greater the psychic distance, the greater the liability of foreignness. This means that it makes it difficult to understand the foreign environments and is directly correlated with the amount of certainty and risk that is connected with the internationalization. Hence when the firm would feel at ease with the closer psychic distance, they would move on to engage in further psychic distance internationalizations (Ibid).

2.3. Business Network View

- *Business relationships*

Doing business is more than just selling or buying a product. A business person ought to know how to create standing relationships with his customers, suppliers and other counterparts exchanges (Forsgren et al. 2005). These relationships will be the foundation for the firms’ future exchanges (Ibid). In addition, the parties involved share intentions, expectations, knowledge and their interpretations with each other which make it impossible for outsiders to comprehend. More often than not, business relationships are born through the exchange of resources or assets and it takes an insider to tell whether or not the relationship will create value in the long run (Ibid). This way, corporations build up a mutual commitment which is the basic characteristic of the business relationship (Blankenberg & Johanson, 2009). By developing these relations, firms can learn and adapt to each other which can help them reduce cost or increase profit together (Forsgren et al. 2005). The figure shows the interaction between Actor A and Actor B and the exchange that is made through a business relationship.

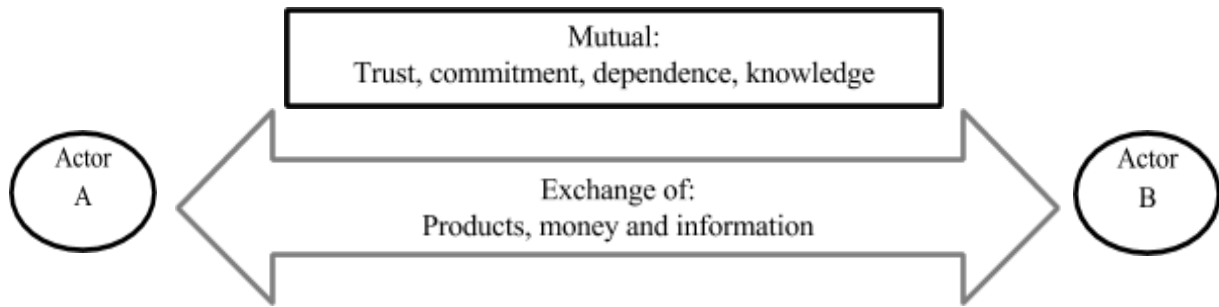


Illustration of the Business Relationship: Coordination between Relationship Partners

Source: Forsgren, M., Holm, U. and Johanson, J. (2005). *Managing the embedded multinational*. Cheltenham: Edward Elgar.

Moreover, firms need to create relationship with its suppliers, but it also needs to think about developing a relationship with governmental agencies which takes time (Blankenburg & Johanson, 1991). Evidently, for the latter it is not a question of exchanging business but rather information about for instance regulations or newly implemented product specifications (Forsgren et al., 2005).

- *Business network*

A firm's counterparts and suppliers have relationships of their own which indirectly will affect the business firm. This way, business firms are intertwined with each other and form a rather large network of relationships. Forsgren et al. (2005) further accentuate this point of view and illustrate it as a business network of connected relationships. Blankenburg and Johanson (1991) mean that it is necessary to evaluate not only the businessmen's own relationship but also the counterparts' way of interacting with other parties.

Since an increasingly number of companies do business outside their industry, market, or country it makes them a part of a larger and wider business network and can be involved in networks that stretch across all five continents making the networks unbounded (Forsgren et al. 2005). Consequently, every corporation has somehow some kind of connection to a network structure (Ibid). Nevertheless, all firms have a certain focal point within its network and create their own boundaries within that network. Companies that are engaged in a business relationship

will most likely also share the same value or boundaries. Clearly, as relationships are discontinued or established, boundaries will change which in turn affects the business network of the firm in question. Thus, by internalizing other markets, firms create relationships that make them a part of a different network than they are used to which strengthen their competitive position both within the old network and the new network. (Forsgren et al. 2005)

- *Firms in an international context*

Forsgren et al. (2006), analyze to what extent a firm is international. A firm that is managing international relationships will have access to information and resources that a company only engaged in domestic relations will not. For instance, international partners might need the company to expand with them abroad and provide the firm with useful foreign market information. Clearly, the more international a firm's partners are, the more the firm will be part of an international context (Forsgren et al. 2006). Consequently, when part of such a network, firms will be internationally oriented and will take initiatives based on those grounds. Johanson and Mattsson (1988) have come up with an illustration of four situations a firm could be involved in:

		Internationalization of the network setting	
		Low	High
Internationalization of the firms	Low		
	High		

Illustration of the internationalization of the firm and the network setting

Source: Johanson, J and L.-G. Mattson (1988) " Internationalization in Industrial systems. A network approach". *Strategies in Global Competition*, New York: Croom Helm

The upper left quadrant shows the early starter; a firm with low international connections that is engaged in domestic relationships. The upper right represents the late starter; a firm that operates in an international network setting but is involved with domestic affairs. This firm is kept from acquiring information and resources that other firms possess. The lower left quadrant shows the lonely international; a firm that operates within an international network setting but where most other firms are domestic. These firms will most likely benefit from international relations in the form of resources and information which creates comparative advantage. The last quadrant represents the international among other; a firm that is both highly internationalized and operates in an international network setting. This firm has international knowledge and can coordinate activities in different markets which give it access to external resources (Johanson & Mattsson, 1988)

Forsgren et al. (2006), stress the fact that internationalization is the process of developing relationships with one's counterparts in other countries. When firms form mutual grounds with their business partners in regards to knowledge development and commitment, they learn how to take on new opportunities outside their comfort zone. Furthermore, since business opportunities mainly emerge within networks and business relationship, it can be devastating for a firm not to be a part of it. That is why it is crucial for companies that internalize a foreign market to be aware of who the business actors are, how they act and how they are associated with each other.

2.4. Liability of Outsidership

As previously mentioned, Johanson and Vahlne (2009) developed a new concept explaining how firms rely on relationships and networks during an establishment in a new market. Also, Schweizer (2012) argues that business networks can be defined as connected relationships between corporations, which consists of business done between suppliers, customers, distributors and also competitors.

Furthermore Schweizer (2012) focuses on how networks are created during internationalization and explains the process of overcoming liability of outsidership as four interrelated phases. The first phase, is the period of time before the firm realizes that it is suffering from liability of outsidership which resembles the phase of acknowledgment described in Johanson and Vahlne's (2009) theory. Secondly the firm will react as a result of realizing its liability (Schweizer, 2012). Thirdly, the firm will undertake different reactions depending on the impact that liability of outsidership has on the firm's day to day operations. Commonly, the firm will, during this phase, rearrange its resources and revise its way of making relationships and attempt to become an insider. Johanson and Vahlne (2009) add that the firm also needs to gain knowledge of the new market and network, since this is the primary method to become an insider. In the last and fourth phase the firm overcomes liability of outsidership, since it can now gain access to the network and create opportunities within the new network and market (Schweizer, 2012).

2.5. Liability of Foreignness

Historically liability of foreignness has been defined as the lack of knowledge firms have of a foreign market (Johanson & Vahlne 2009). In order to overcome liability of foreignness successfully, when entering a new market, the firm needs to overcome the competition provided from local companies (Björkstén & Hägglund, 2010). This can, according to Björkstén and Hägglund (2010), be organized through different advantages specific to the firm, such as specific managerial or organizational advantages that can contribute to the sub-unit overseas.

Zaheer (1995) explains that liability of foreignness, just like liability of outsidership can be developed from four sources. The first is described as directly connected to geographical distance between the foreign and local firm, such as cost of travel, transportation and coordination over both distance and across time zones. Secondly Zaheer (1995) mentions cost based on unfamiliarity of the foreign market and the lacking of relationships in the local environment. The third source of liability of foreignness is

described as the economic nationalism and costs related to a lack of legitimacy due to the local regulations towards foreign companies. Lastly Zaheer (1995) considers the fourth source of liability of foreignness as the additional costs caused by the home country and its restrictions on, for instance, high technology products to foreign country. Both Zaheer (1995) and Björkstén and Hägglund (2010) stress the importance of a firm having competitive advantages during their establishment abroad. Such competitive advantages might consist of organizational advantages such as skilled management (Zaheer, 1995).

2.6. Establishment advantages and disadvantages

According to Dunning's eclectic paradigm (1988) enterprises need to possess some of the location advantages, ownership advantages and internationalization advantages to be beneficial abroad. For instance locating in already existing clusters or in emerging areas would be location beneficial for the foreign establishment (Ibid). Moreover, Kerin et al., 1992, claim that a firm can achieve first-mover status by for instance being the first firm to produce a new product, use a new process, or enter a new market. In turn, the firm will experience lead time where they can benefit from few or no competitors and gain market share. Hopefully, the firm will have established enough market position to stay dominant when the competitors enter the market (Ibid). In addition, Dunning states (1988) that local skills, trademarks and specialization are part of the theory's ownership advantages. He states back in 1988, that the future manager will need to have the capability of identifying and coordinating a range of core skills and assets and simultaneously manage a variety of cross-cultural- management-related issue (Ibid). Today, in a more globalized economy, that is a fact and a daily challenge for international managers (Dong & Liu, 2010). Lastly, a firm will always weigh the pros and the cons from their internationalization and choose the form of market entry with the greater net profit. However, Dunning (1988) states that all three advantages should have been acquired before a firm tries to be competitive through foreign direct investment. If, the

firm does not possess all of the advantages, it should consider another market entry strategy. The table explains which form of market entry that is best suited for every advantage.

Different Advantages

<i>Dunning's Eclectic Paradigm</i>		Ownership advantages	Internationalization advantages	Location advantages
Form of market Entry	Licensing	YES	NO	NO
	Export	YES	YES	NO
	FDI	YES	YES	YES

Illustration of Dunning's Eclectic Paradigm

Source: Dunning, 1988. "The Eclectic Paradigm of International Production: A Restatement and Some Possible", Palgrave Macmillan Journals Stable, vol. 19, no.1, pp. 1-33.

The eclectic paradigm now explicitly acknowledges that firms internationalize not only to exploit their existing internal resources. Instead firms increasingly develop and augment specific advantages through joint ventures, strategic alliances and other types of international business-network relationships (Dunning & Lundan 2008). In fact, the geographical locations of firms' operations are an important variable affecting their global competitiveness (Alvstam and Ivarsson, 2010).

2.7. Theoretical summary

The focus of this thesis lies within the internationalization of firms which is further explained with the Uppsala Model. In addition, networks and relationships are two major notions when overcoming outsidership which have further been clarified through the Liability of Foreignness and Outsidership theory and the Network Model. Furthermore, the Eclectic Paradigm that Dunning (1988) renders shows the homework a firm ought to do before internalizing a new

market. It is clear that firms need to study their environment and rate of success before proceeding with their entrance into a new market. In addition, the contextual dynamics of the foreign market should not be underestimated since many factors can influence the firm's prosperity within it.

3. METHODOLOGY

This chapter's aim is to provide the reader with a thorough explanation of the methodology used in this thesis. Firstly the research method will be discussed followed by a description of the research approach. In addition, we will enlighten the reader about the methods used to collect the empirical material and explain why every representative was chosen in particular.

3.1. **Research method** - A qualitative research

Many research problems can be investigated both qualitatively and quantitatively, thus the choice of method is an epistemological issue, meaning that the choice depends on how knowledge is acquired (Blumberg et al. 2011). For this thesis, the quantitative method would not provide us with enough in-depth information and was therefore excluded. In order to bring forth conclusions that align with our research question we needed to have data collected through dialogues so we could understand the reasoning behind every answer. Our interest lied in understanding our representatives' point of view and attitudes towards our subject in order to come up with a comparative conclusion.

3.2. **Research approach** - A deductive approach

According to Bryman & Bell (2011), there are two different types of research approaches that can be used when conducting a study; the inductive and the deductive approach. When using the inductive approach, the researcher makes conclusions and brings forth a general rule based on their empirical finding (Ghauri & Gronhaug, 2005). The deductive approach follows a different process where relevant empirical data is gathered based on general theories and then analyzed to create a specific

conclusion about the topic studied. This approach is useful when many theories and studies have been done in the research field in the past, but the researcher believes there is a way to further develop the theories (Ghauri & Gronhaug, 2005). We have chosen a topic that is of interest to us which means that our research will be influenced by our previous knowledge (Ghauri & Gronhaug, 2005). Hence when setting up the research we took our already acquired knowledge related to the study into consideration and realized that in order to answer our research question we would have to use the deductive approach. Consequently, general rules or theories that have been accepted as true have been introduced and from that, we will be able to bring forth an analysis and a conclusion of our findings.

3.3. Method for empirical material collection

Empirical data in this study has been collected through interviews. Participants have been asked questions regarding their opinions, thoughts and feelings of this subject. There are three types of interview methods; structured, semi-structured and unstructured. In all strategies used, interviews can be conducted in groups or individually, using face-to-face contacts with an actual meeting or via video conferencing methods such as Skype (Collins & Hussey, 2009; Backman, 2008). The structured way is similar to a questionnaire where a positivist paradigm is used. This approach was however quickly eliminated as we wanted to have questions open for interpretation and did not want to exclude the opportunity to ask supplementary questions.

Moreover, interviews are considered unstructured if the questions are not prepared in advance but are rather developed during the interview, in order to collect more in depth answers (Collins & Hussey, 2009; Backman, 2008). This approach was later on dismissed since we did not feel comfortable enough having only a few questions prepared. Also we did not believe an open interpretation would give us enough information to answer our research question. Lastly, the semi-structured method of data collection is a combined method of both structured and unstructured method. Collins and Hussey (2009) explain that the questions in a semi-structured

method are often prepared in advance, though there are still possibilities for further questions within the subject during the interview.

Due to the relatively short amount of time with each company representative we figure it essential to prepare a set of questions that were of high relevance to our topic. By doing so, we did not lose time on irrelevant questioning, which gave us enough time for more in depth and reluctant questions instead. Blumberg et al. (2011) advises the researchers to probe the interview participant by asking questions that require them to elaborate on their initial statement. Thus we incorporated sub-questions to that purpose to ensure that the maximum possible information is gained.

- *Potential problem with the chosen type: semi-structured interview*

There are some issues to consider and keep in mind when conducting this kind of data collection. It is considered time consuming and even though more in depth answers might be collected researchers need time to analyze them (Collins & Hussey, 2009; et al., Barriball 1994). Indeed, we contacted companies relatively early in the process but still, we had two participant that we had to cut out due to lack of time. Even though, having more participants would give us more detailed empirical data, we figured that it was best to focus on the interviews we already had.

In addition, questions are said to be answered more in depth but words and expressions could be interpreted differently by different people (Rosenthal 1996; Barriball et al., 1994). Hence during the interviews we have tried to confirm directly with the representative to make sure everything was understood correctly. According to Collins and Hussey (2009) interviewers also need to be aware and consider the potential consequences that sex, race and bias might have. Moreover, Rosenthal (1996) found that there were significant differences in data from their subjects if it was obtained by a female or male researcher. Out of our eight participants we have only one female subject which might be a limitation to our study.

- *Telephone interviewing*

Qualitative interviews can either be conducted through a physical meeting, through e-mail correspondence or through telephone (Collis & Hussey, 2009). The advantage of using the telephone is the cost reduction while still being able to keep an aspect of personal contact (Ibid). In addition, respondents might feel more at ease answering sensitive questions compared to a face-to-face meeting (Bryman & Bell, 2011). We did not have a lot of choice regarding the interview method since most of our respondents were located in China. Thus, the telephone was the most effective way for us to contact our representatives. We offered to either communicate via Skype where we could increase the feeling of face-to-face via webcam or through telephone. The telephone was the most popular alternative. All the telephone interviews were located at the participant's office, which also was the case for the face-to-face interview with the participant from SKF. The duration of all interviews lasted approximately 40 minutes to one hour. All the interviews were recorded except from one of them, whereas notes were taken during the interview and also a transcript was sent to confirm the correct information was gathered.

3.4. Selection of cases and representatives

Blumberg et al (2011) emphasize that representatives should be selected meticulously so that they are well informed and educated about the subject to provide the researchers with accurate information. This is in contrast to the structured approach where representatives' rank is less significant since they are often given a complete questionnaire to fill out (Blumberg et al. 2011). In order to collect a sample that would serve our purpose, we looked up which manufacturing and service companies are or were present in China through the Swedish Chambers of Commerce. Instead of sending out one mass mail to all companies, the companies were contacted one by one. Consequently, we were able to send out more personalized mails. In our correspondence we briefly explained our research question asked to

get in touch with the person most suited for the task which created a snowball effect within some of the companies. If further explanation was demanded we sent a new email with more details.

It was important for us to speak with someone who had experience from the Chinese market. In addition, we needed representatives that were not ethnic Chinese since they would most probably not feel the same kind of outsidership as a foreign representative. We contacted a total of thirty firms of which sixteen showed interest. From those sixteen we booked interviews with four manufacturing firms and four service firms and the rest declined mostly because of time issues. We decided not to exclude any company due to size, location or year of entry in order to get a broader spectrum of answers. However we have stayed aware of this when analyzing and concluding the different interviews. We could have asked more firms to participate but time would not have sufficed and we thus narrowed it down to four firms in each sector.

Firms represented:

Total interviewed companies: 8

Amount of service companies: 4

Amount of manufacturing companies: 4

Manufacturing firms	Industry type	Year of Chinese entry	Representative's position in China
Sandvik	Steel industry	1993	Unit manager
Atlas Copco	Steel industry	1981	Divisional manager RDT
SKF	Bearing industry	1912	Regional manager
Allgon	Antenna manufacturing	1999	R&D manager
Service firms	Industry type	Year of Chinese entry	Representative's position in China
FKAB	Ship building consulting	2000	Managing director
Edward Lynx	Consulting services	2012	Managing director

Handelsbanken	Banking services	1982	Branch manager
Swedbank	Banking services	2001	Deputy general manager

3.5. Data characteristics

- *Primary and Secondary Data*

Primary empirical data is data that has been gathered from an original source such as surveys or interviews (Collins & Hussey, 2009). While doing a deductive study, researcher should review and identify theories which are usually done by collecting information about different variables that have observable characteristics. Subsequently, researcher collect primary data related to those variables (Collin & Hussey, 2009). The collection of primary data is a timely process and ought to be carefully planned. In this study the primary data needed to be collected through in depth interviews in order for us to understand the participants' behavior. Hence, we have used primary data as foundation for our study. Bryman and Bell (2011) emphasize the advantages of using secondary data and explain that it is a way to collect large amount of data quickly. In addition, secondary data is often reliable and of high quality. Nonetheless, there is still a lack of familiarity and the data is often complex. We would not however been able to find secondary data that would help us with our purpose the entire way. Consequently, the secondary data has been used as supplementary information to define the context for the reader and has always been referenced back to the initial owner.

- *Validity and Reliability*

Golafshani (2003) stress the importance of keeping validity and reliability differentiated from each other especially within the qualitative report. The former is the question of whether the results of the study conducted actually measures what the researchers aim to measure. The latter, reliability, is the concept of testing, measuring and evaluating a study. In order for the research to be reliable, it should

produce the same results when replicated. The context within a qualitative study is hard to replicate, which makes the notion of reliability impractical (Collins & Hussey, 2009; Backman, 2008). According to Bryman and Bell (2011) trustworthiness and authenticity are the key elements and emphasis is placed on whether the observation made can be understood and explained (Golafshani, 2003). Consequently, qualitative researchers have used the term dependability instead of reliability which makes up for the study's context and surroundings where the researchers are due to explicate and account for the changes affecting their study approach (Bryman & Bell, 2011).

Moreover, many researchers doubt the effectiveness of validity within a qualitative research since the results are not definite. Therefore, once more, the usual quantitative terms have been replaced to fit the qualitative way of assessing a study. The internal validity parallels with credibility and the external validity parallels with transferability. Credibility measures whether researcher have carried out the study in regard to good practice from their' point of view while the transferability measures how much of the study can be transferred to other situations or to another group of people (Bryman & Bell, 2011). By describing thoroughly the research context and assumptions, chances of future transferability is increased.

Furthermore, objectivity is a constant struggle when conducting a qualitative study as it is merely a criterion impossible to fulfill. According to Bryman and Bell (2011) researchers can use conformability to prove that they have acted in good faith and that the study has not been marked by their personal values or theoretical point of views. By doing so, the researchers assure the reader that subjectivity is avoided to a maximum (Ibid).

To the contrary, Merriam (2009) points out the advantages of working with human resources as researchers can respond directly and adapt to new situations. Yet, the human resource perspective is also a disadvantage, since it might influence the result of the research and lead to biases,

misleading and irrelevant results (Bryman & Bell, 2011). Merriam (2009) argues that rather than eliminating these biases it is of high importance to identify and attempt to manage them and also monitor the impact of these subjectivities in the research.

It was crucial for us, to keep a high level of descriptive data where we accounted for the accuracy of our findings. We wanted to provide the reader with a detailed description in order to create an adequate contextual background. By using semi-structured interviews, candidates could elaborate on their answer without having us deviate too much from our purpose. However, we had to bear in mind the problems of interpretation. In that regard, we asked every candidate for their permission to record the interview. For the one participant who did not want to be recorded, we sent our transcript to revise. In that way we reduced uncertainty to a minimum. Moreover, we are aware of the fact that all the representatives will answer questions differently which could create biases but we have kept that issue in mind and stayed as objective as possible.

3.6. Limitations and ethical issues

Overcoming a liability of outsidership can mean different things to various people and organizations. Additionally, past experiences, relationships, management style can affect the way a firm or person sees upon the liability. Consequently, answers on how to overcome such hazard will greatly differ. The conclusions we have drawn have been generalized from the data assembled from a limited amount of service and manufacturing companies. Due to the limited amount of time, eight companies with one representative from each could be interviewed for this study. Every participant has given their opinion and thoughts which can vary greatly from one employee to another. Consequently, the conclusions drawn could be different if a greater collection of data would be made.

In regard to ethical issues we believe it crucial to always stay honest with our correspondents and treat them correctly. Collin and Hussey (2009) explain the importance of transparency when contacting participants. When sending out our requests we introduced our subject and let the

participants know the time frame. Additionally, Collin and Hussey (2009) emphasize the importance of voluntary participation and that any financial or other material awards could impede the results and make them biased. We have not forced anyone to participate nor have we paid them financially or materialistically. Hence in regard to ethics our results have not been impeded. In addition, we have offered anonymity and confidentiality to all of our participants which usually leads to more honest response and greater freedom of expression (Collin & Hussey, 2009). However we do believe that in our study the position of the participant is of relevance and all participants have given us consent for using their position and the company name. Bryman and Bell (2011) explains the difficulties arisen from privacy invasion and we have not pushed participants to answer any question that they did not feel were justified or out of scope. Moreover, if they have asked to see our transcript we have sent them as soon as possible and for the participants wanting our final report; we have sent it by e-mail at the end of the writing period. We have always tried to stay as courteous as possible not to impede our own reputation or the one of our fellow students and university.

4. EMPIRICAL DATA

This chapter's aim is to provide the reader with an overview of the primary data that was collected through interviews with four manufacturing companies and four service companies; Allgon, Atlas Copco, Sandvik and SKF compared to Edward Lynx, FKAB, Handelsbanken, and Swedbank. In addition, a summary has been done to provide an overview of the empirical data which can be found in Appendix 8.3.

4.1. Allgon Mobile Communications

Allgon Mobile Communication is a Swedish public company that during 2000 was the biggest producer and provider of telecom antennas in the world. The representative was present when Allgon established themselves in Beijing and was the R&D manager on site.

4.1.1. Establishment

It is described by the R&D Manager that a greenfield investment was used as an establishment strategy when allocating in Beijing's Free Trade Zone in 1999 (pers.com., 27 April 2015). Also he explains that foreign companies could only establish within these Free Trade Zones during this time in China (pers.comm., 27 April 2015). Allgon's core internationalization strategy consists of allocating close to the main customers to enable both global presence and local support (R&D Manager Allgon 2015, pers.comm., 27 April).

Following their biggest customers; Nokia and Motorola to Beijing is described as the main motive for establishing in China. Moreover other motives are described as a decrease of distance to main customers in Asia in combination with a decreased time difference. The establishment is presented as necessary to respond to the increased demand, gain market shares and develop their global strategy further. In order to prepare for their Chinese entrance, Allgon firstly made market research but did also

focus on finding the key employees, both local and within the Allgon group. The R&D Manager describes the latter as being one of the main challenges with their establishment in China. Moreover, he argues that their strategy of involving local management in combination with their well-prepared entrance was the key for a successful establishment in China (pers.comm., 27 April 2015).

Also Allgon benefited from being an early mover within their industry (R&D Manager Allgon 2015, pers.comm, 27 April). The advantage was the trust they were able to create with different counterpart before competitor got the chance, and when trust is created it is according the R&D Manager continuous (pers.comm., 27 April 2015).

4.1.2. Networking

One of the main challenges to overcome liability of outsidership for Allgon was the cultural differences and the lack of local knowledge and experience (R&D manager Allgon 2015, pers.comm., 27 April). Also the R&D Manager stresses that the main method practiced to overcome these challenges was to hire local and skilled people, with experience from the market (pers.comm., 27 April 2015). The strategy consisted of foreign employees providing the technology skills and local employees providing Allgon with local knowledge and connections to overcome the cultural differences (R&D Manager Allgon 2015, pers.comm., 27 April). The participant considered Allgon as an insider on the Chinese market after two or three years, which is a relatively short period of time (R&D Manager Allgon 2015, pers.comm., 27 April). According to the R&D Manager it was important to remain humble and get accustomed to the traditions to increase their motivation and loyalty (pers.comm., 27 April 2015). By networking relationships were gained and trust was created with the local actors, such as the government. In regard to *guanxi*, Allgon did not believe it to be of great importance since they are mostly doing business with international customers (pers.comm., 27 April 2015). Although some activities such as dinners were conducted with customers it is explained that

guanxi is losing its former impact on business in China (R&D Manager Allgon 2015, pers.comm., 27 April).

4.2. Atlas Copco

The corporate group of Atlas Copco provides its customers with industrial tools and equipment solutions (AtlasCopco, 2015 [A]). The interview participant was during her time in China the Divisional Manager of Rock Drilling Tools (RDT), divisions within mining and rock excavation.

4.2.1. Establishment

Atlas Copco was established in the Chinese market in 1920, although they reestablished in 1980's due to political interchange (AtlasCopco, 2015 [B]). As explained by the Divisional Manager, Atlas Copco have consolidated and acquired plenty of other companies when entering the Chinese market, thus the growth of Atlas Copco in China is explained as an "organic" growth (pers.comm., 5 May 2015). Furthermore the Divisional Manager of Atlas Copco points out that to facilitate the knowledge regarding the new market continuously research was made in combination with bench branch market studies to structure the existing local competition and enable a good preparation. Due to the results from these market studies, Atlas Copco could clearly notice an increased demand of its products, thus also great opportunities for their goal of becoming market leader within their segment. Moreover it is explained that China's great economic progress has resulted in an increased demand of Atlas Copco's products (Ibid).

When interviewed on 5 May 2015 it is described that the main difference of internationalizing in China compared to former establishment is the rapid economic development and transformation. Due to this, innovation and production development needs to keep up with the rapid growth, which is a hindrance that is specific for China (Divisional Manager RDT, Atlas Copco 2015, pers.comm., 5 May). Also local cultural differences and language barriers are described as major challenges. To overcome these barriers, Swedish employees were sent as expatriates to convey an understanding of

the business strategy but, in the long run, local employees would eventually completely manage the sites (Ibid). This is a strategy to form talented local employees that share Atlas Copco's corporate values (Ibid).

4.2.2. Networking

When interviewed on 5 May 2015, the Divisional Manager explained that trust is an important aspect when doing business in China (pers.comm., 5 May 2015). Creating relations has been rather easy as the firm has been able to imitate successful past establishments, both abroad and in China (Ibid). Being humble and open towards the new culture has facilitated and created opportunities to create long-term relations. In regard to *guanxi*, the respondent was not very familiar with the concept since they had local employees managing the main relations and could therefore not respond to the impact *guanxi* had on their business in China (Ibid).

She believes that maintaining local manager on site, results in a positive relationship with the local government since the company adds value to the region. Moreover Atlas Copco is, according to the Divisional Manager, considered as an insider of the Chinese market within its segment due to the earlier mentioned methods of involving local employees. Also being a Swedish company is described as an advantage since Swedish companies are recognized as trustworthy and high quality companies (pers.comm., 5 May 2015).

4.3. Sandvik

Sandvik Group is an engineering group within tooling, mining and construction and material technology (Sandvik, 2015). Our participant was employed as the Unit Manager of the Sandvik plant in Langfang outside of Beijing, during 2005-2010.

4.3.1. Establishment

When interviewed on 21 April, 2015, the Unit Manager explained that Sandvik was established in the Chinese market in 1980. Their main motive was to satisfy the increased demand for Sandvik's products and to gain market shares in China. Sandvik has, according to the Unit Manager, acquired, merged and also consolidated with already existing companies in China, rather than pursuing a greenfield investment (pers.comm., 21 April 2015). The main reason for this establishment strategy is due to regulation of establishment and the difficulty of establishing a new plant in a foreign market. Moreover it is explained that the knowledge of the Chinese market was rather small, consequently know-how and relationships were developed over time (Ibid). Thus the Unit Manager stresses the challenges of establishing in China as the cultural barrier and governmental integration of their business. Hence creating trustworthy relations were of high importance (Unit Manager Sandvik 2015, pers.comm., 21 April).

4.3.2. Networking

Even though the firm is well-known, it is still necessary for the firm to create new long-term relationships with the firms' counterparts (Unit Manager Sandvik 2015, pers.comm., 21 April). Sandvik had to get help from "agents" that would guide them and help them with the challenges of the Chinese business system. Agents were used mainly to create relationships with important counterparts as a part of *guanxi* (Ibid). According to the Unit Manager a firm is not an insider if help has been required to create and withhold relationships, thus he does not believe that Sandvik is yet an insider on the Chinese market (pers.comm., 21 April 2015). Furthermore, regulation is described as a hindrance when entering the Chinese market. Sandvik has experienced extra costs in the form of tax investments that were not refunded despite the fact that business is conducted within a tax beneficial economic zone (Unit Manager Sandvik 2015, pers.comm., 21 April).

Similarly to the other firms, it is an advantage being a Swedish company. However, cultural clashes are challenging. The Chinese culture is more diverse than the Swedish one resulting in communication difficulties. A strategy used by Sandvik to facilitate these difficulties and challenges was to be present at the different universities and provide details about the company (Unit Manager Sandvik 2015, pers.comm., 21 April).

4.4. SKF

SKF's core business lies within the bearing, seals and lubrication industry (SKF, 2015). The interview participant's position at SKF is Regional Manager. He was at the head activities in China during 2000-2012.

4.4.1. Establishment

SKF's first appearance in China was back in 1912. However the business could not continue due to the political situation in China in 1940's (Regional Manager SKF China 2015, pers.comm., 5 May). Therefore, a second establishment was made, in 1986 when regulations regarding foreign entry were simplified. Although SKF established a joint venture via Hong Kong, due to governmental restrictions (Ibid). SKF's internationalization strategy contains of transferring know-how from the European units, however sensitive knowledge and technology is still located within the European units (Ibid).

To prepare for the establishment SKF took advantage of gained knowledge from earlier establishments. In addition, establishing in China in an early state, was according to him an advantage, since it created local relation and brand awareness (pers.comm., 5 May 2015). Moreover the Regional Manager describes the main challenge of doing business in China as the lack of both transparency and business practice (Ibid).

Similarly to the other firms, the main motives for SKF's establishment in China were the increased demand for SKF's products but also to gain market shares and remain competitive. Although alike

Atlas Copco, the competition remained rather low since competitors were not active within the same price level and were interacting in a different market segment. In addition, there is according to the Regional Manager still potential for further growth within the industry as SKF's technology is highly demanded (pers.comm., 5 May 2015). SKF has a strong technology and corporate culture and will therefore always find potential market shares (Ibid).

4.4.2. Networking

When interviewed the Regional Manager of SKF explained that there were no specific regulation towards only foreign production enterprises in China (pers.com., 5 May 2015). Besides from the lack of transparency there are no barriers in SKF's case, though this might be a result of good reputation and brand recognition in China (Ibid). Moreover this is described as a result of SKF establishing in China in an early state and that they have put a lot of effort in transferring knowledge to local employees (Ibid). Similarly to Atlas Copco and Allgon, the Regional Manager believes that by having local Chinese managers, interaction difficulties are further facilitated (pers.comm., 5 May 2015).

In consideration of *guanxi* the Regional Manager expresses it as important, but believes it to be important in the rest of the world as well. He says that *guanxi* is important for smaller firms as they have a larger interference with governmental institutions than large multinational corporations.

“Relations smooth things up all over the world. However, if you do not have a good product to make business with it is not going to work.”

- Regional Manager of SKF in China, 2015, pers.comm., 5 May.

Despite the fact that China is considered as a more open country towards foreigners compared to other Asian countries, it is most likely not possible to become an insider as long as you are a foreign

company (Ibid). Having local Chinese managers might facilitate becoming an insider but the firm will always be classified with a foreign stamp (Ibid).

4.5. Edward Lynx

Edward Lynx is a management consulting firm specializing in leadership development (Edward Lynx, n.d). Our study representative for Edward Lynx is the Managing Director of the Chinese office and also responsible for the startup and establishment of Edward Lynx in Shanghai (Managing Director, Edward Lynx 2015, pers.comm., 23 April).

4.5.1. Establishment

The company established its first foreign office in Finland then moved on to Czech Republic, Russia and finally in China with a wholly Foreign Owned Enterprise (WFOE) in 2012 (Managing Director, Edward Lynx 2015, pers.comm., 23 April). The main reason why the company moved towards the East is because their customers were moving towards that direction. In addition, there were an increased amount of assignments available in the consulting industry and the firm saw potential for future growth and expansion. The company was one of the first within its industry and got to take part of the advantage of being an early mover (Managing Director, Edward Lynx 2015, pers.comm., 23 April). Also, the company did not have much knowledge of the Chinese market, thus preparation was very difficult to make beside from gained knowledge from earlier establishment (Managing Director, Edward Lynx 2015, pers.comm., 23 April). In addition, the firm had only contacts in form of customers as they entered the market but no contacts in other business area (Ibid).

4.5.2. Networking

The Managing Director states that the firm had underestimated the cultural barriers that could arise from establishing on the Chinese market. For instance, he had overestimated their Chinese counterpart's capability to give good advice without an existing relationship. Sometimes a Chinese

employee, in contrast to a Swedish employee, does not dare to be honest in fear of losing face. Therefore, important information can be withheld (ibid).

In regard to regulations our representative has experienced difficulties. There are a lot of regulations that makes the business environment difficult to work in. Many rules are there to be followed, while some are disposable. There is a large gray zone where managers have to learn which rules to comply to and which ones to ignore. In addition, the Chinese government enforces unfair play. The company has experienced situations where they have had to take on costs that local companies could have avoided (Managing Director, Edward Lynx 2015, pers.comm., 23 April).

Moreover, it is not easy to become an insider on the Chinese market. The key is time and to work with customers, suppliers and other counterparts. The Managing Director does not recognize Edward Lynx as an insider on the Chinese market due to the many barriers. Although Edward Lynx does not need to create relationships with many Chinese counterparts as they mainly have international Chinese or foreigners as customers. Hence, for them, *guanxi* is not that relevant since they do not have the same need of networking within the Chinese network setting (Managing Director, Edward Lynx 2015, pers.comm., 23 April).

4.6. FKAB

FKAB is a Marine technology and design company that has been active for over fifty years within the Marine and Shipbuilding Industry. Our representative for FKAB is the company's Managing Director.

4.6.1. Establishment

FKAB opened up their first Chinese office in Shanghai in 2005 (FKAB, n.d). The office was established through a joint venture where FKAB owned a third of the company. This decision was made in accordance to Chinese law stating that there has to be some part of the company owned by a Chinese company. The motive for establishing in China was the increased amount of ships being built

in China. FKAB saw potential for increasing their market share internationally, since their customers were moving their businesses there. In addition, they wanted to be present physically to overcome any possible cultural differences (Managing Director, FKAB 2015, pers.comm., 28 April).

Evidently, FKAB studied the Chinese market in order to prepare and figure out where to establish their office. The company had no previous knowledge of the market but was able to bring much of its home market knowledge with them. One of the main challenges is explained as the differences in business practice. For instance, a signed contract does not have the same value in China as in Sweden. Relations are of higher importance than a contract (Managing Director FKAB 2015, pers.comm., 28 April). In addition, the industry was more developed in Sweden, which gave FKAB an upper hand when established in China. The Chinese were welcoming technology and knowledge from the West and still today they are learning but to a lesser extent (Ibid).

4.6.2. Networking

FKAB's Managing Director stresses the importance that trust and relation plays in the Chinese business setting. Without trust, it is hard to do business and a lot of time is wasted. FKAB did not participate in any activities that would facilitate their entrance to the Chinese market. What they did have, however, and are present globally, are brokers. These brokers help firms find opportunities within the Marine Design industry in exchange for a percentage payment.

The Managing Director mentions some advantages of being an early mover, although he also explains there was start-up costs combined with a rigid bureaucratic process of establishment.

Guanxi is a familiar term for FKAB but it is described by the Managing Director that they have stayed away from that way of creating relationship and accessing networks. However, our representative adds that the industry's brokers facilitates the process and also that the recently appointed Chinese management has helped enormously (Managing Director FKAB 2015, pers.comm., 28

April). FKAB's Managing Director (2015, pers.comm., 28 April) considers it hard but possible to become an insider on the Chinese market. It takes a lot of time and the culture is hard to understand but it is becoming easier as the Chinese market becomes more liberal and Westernized.

4.7. Handelsbanken

Handelsbanken's core business is to provide universal banking within its six home market; the Scandinavian countries, Netherlands and the UK, and company banking services within their remaining nineteen countries where they are present. Our representative is the Branch Manager of the Hong Kong office.

4.7.1. Establishment

Handelsbanken expanded to China in the late 1980th through representative offices in Hong Kong and Shanghai (Branch Manager, Handelsbanken 2015, pers.comm, 24 April). The bank could see a trend for home market firms moving towards China. Subsequently, they set up an operational entity there in 2005. Another motive for establishment were the inclusion of China in WTO 2001, since this facilitated deregulation of financial and banking investments in China (Branch Manager, Handelsbanken 2015, pers.comm, 24 April). At the time, they were quite familiar with the Chinese market since the bank had been present there in a non-operational way for over twenty years through representative offices (Branch Manager, Handelsbanken 2015, pers.comm, 24 April).

In China, it is more about understanding the restrictions within the banking industry according to the Branch Manager. Hence Handelsbanken kept their knowledge from home countries but paid extra attention to regulation in respect to capital control and other China- specific banking regulations.

Regarding preparation of the market it is explained that the representative offices were used to develop market knowledge (pers.comm., 24 April 2015). The Branch Manager stresses that their

internationalization strategy in China consists of only supporting home market customers' and not approach local risk, since there is no familiarity (Ibid).

In addition, Handelsbanken was the first Swedish bank to establish physically in China but according to our representative, the bank had more advantages than disadvantages from being an early mover. They were, for example, the first to obtain certain licenses which benefited them for a couple of years before competitors caught up with them. (Branch Manager, Handelsbanken 2015, pers.comm., 24 April).

4.7.2. Networking

By only approaching home market companies within the Chinese market, Handelsbanken can avoid and control all local risk. The manager's opinion is that a new entrant is not familiar with the new environment which means that the risks are elevated in comparison to the local players (Branch Manager Hong Kong, Handelsbanken 2015, pers.comm, 24 April).

Also, in China rules are not applicable for everybody; there are actions that are allowed and actions that are forbidden but there in between there is a "grey area" (Branch Manager, Handelsbanken 2015, pers.comm, 24 April). The Branch Manager emphasizes the difficulties foreign bank experience with such ambiguous regulation, since they do not want to elevate unnecessary risks. In addition, there are new regulations issued by the week (Ibid). The Chinese market is a networking society where firms have to be plugged in with local decision makers and local authorities (Ibid).

According to the Branch manager *guanxi* is important when firms are selling a good that involves political selling and is therefore not applicable to them (pers.comm, 24 April). Moreover, Handelsbanken could not become an insider of the Chinese market without serving it as a home market. However, if so would be the case, the opinion is that it is a question of human resources; to

become an insider firms should recruit talented local people, train them and teach them the bank's corporate values.

4.8. Swedbank

Swedbank's core business is to provide universal banking within its home markets and banking services to primarily private and small to medium sized enterprises within the Chinese market (Deputy General Manager, Swedbank, 29 April 2015). Our representative is the Deputy General Manager of Swedbank in China, Shanghai and has had this position since 2013.

4.8.1. Establishment

Swedbank opened an office in Shanghai in 2001. To prepare and understand the new market further, plenty of visits to Shanghai combined with discussion and meetings with local officials and government were conducted (Deputy General Manager, Swedbank 2015, pers.comm., 29 April).

Moreover the regulation of foreign banks in China is described as rather astringent and a bureaucratic process. For instance the license system and the permitted cash handling create a non-negotiable situation for foreign banks (Ibid). Evidently, even if Swedbank is only acting as an intermediary for companies from its home market, the Chinese banks are still competitors.

To overcome the above-mentioned difficulties, Swedbank employed, from their previous collaboration, a well- established manager with good local knowledge and connections. Furthermore this is a large advantage when attempting to understand the highly regulated market (Ibid). Moreover the Deputy General Manager emphasizes how essential it is to be both flexible and aware of cultural barriers in order to overcome these hindrances.

4.8.2. Networking

An attempt to become a part of the network in China is made during not only official meetings but also dinners and unofficial meetings, where an exchange of networks is made (Deputy General

Manager, Swedbank 2015, pers.comm., 29 April). Swedbank did not consider *guanxi* as an important factor, meaning that the new generation did not follow or understand this way of doing business as they prefer a more Westernized way. Clearly, good relations are important to have, especially since a Swedish bank cannot make business within the existing “grey area”. However these difficulties can be handled with the right human capital and the company can after that become an insider (Ibid). Furthermore it is explained that the Chinese business practice consists of networks and therefore it is essential to establish a reputation of fair play and high quality (pers.comm. 29 April 2015).

Considering the already established relations and networks, mainly due to Swedbank’s flexibility and ability to adapt to local conduct via local employees the Deputy General Manager considers Swedbank as an insider (pers.comm. 29 April 2015).

4.9. Brief summary of the empirical Data

	Sector	Strategy	Insider	Main Challenge	Main advantage
Allgon	Manufacturing	Greenfield Investment	YES	Find sought labor force	Found sought labor force
Atlas Copco	Manufacturing	Acquisition	YES	Adapt to rapid change	Gained trust
Sandvik	Manufacturing	Merger & Acquisition	NO	Regulations	Gained trust
SKF	Manufacturing	Joint Venture	NO	Lack of transparency	Local Chinese managers
Edward Lynx	Service	Operational Entity	NO	Cultural differences	Early mover
FKAB	Service	Joint Venture	YES	Cultural differences	Industry brokers
Handelsbanken	Service	Operational Entity	NO	Lack of transparency	Early mover
Swedbank	Service	Representative Office	YES	Regulations	Local Chinese manager

5. ANALYSIS

This chapter's aim is to answer our research question by providing the reader with an analysis where empirical data and theoretical framework is put in relation to each other.

5.1. Establishment

According to Johanson and Vahlne (1977), psychic distance is closely correlated with liability of foreignness. By moving gradually closer to China, the psychic distance might not have seemed so large once there (Ibid). Moreover Johanson and Vahlne (1977) stress that firm learn and gain knowledge from every internationalization it does which reduces the psychic distance, hence reduced the liability of foreignness. Our empirical findings are closely related to this theory by Johanson and Vahlne (1977). All of the companies we have interviewed have gone through earlier international establishment before entering China and almost all of those were of closer psychic distance than China was. Edward Lynx was for instance first established in other European countries before moving towards the East and China in order to successive gain knowledge of the Chinese market. This is similar to all other participants. Consequently, for every internationalization step the firm takes, it learns about the market and acknowledges different cultures.

However, even though the firm has learnt from previous establishments, it is clear that every market is different. China's multicultural aspects and variety within the country are highly important for a firm to understand and adapt to (Yeung & Tung, 1996). According to our participants, some regions are extremely regulated and some are open which creates more competition. Knowledge of own country is not applicable to all. Participants have all stated that they have been able to use previous expertise but that they still have to adapt and adjust somehow to the new market every time. In addition, knowledge seems to be a factor that is important in the long run. Even though some of the participants had good knowledge of the Chinese market before and some did not, they all state that a firm learns by doing.

Hence even if some knowledge is acquired beforehand, it is not enough to understand and survive within the Chinese Network setting. Firms need to be more cautious than on more mature markets due to China's complexity in regard to transparency (Björkstén & Hägglund, 2010). Also, as explained by Swedbank, Handelsbanken and Edward Lynx there is currently a grey zone which is nearly impossible for foreign companies to enter. This emphasizes the complexity of the Chinese market and its immaturity in regard to transparency. Thus it is of high importance for the firm to be aware of the market and have knowledge before entering China, in order to avoid basal mistakes (Björkstén & Hägglund, 2010)..

It is important to allocate the business in an already well-known location (Dunning, 1988). Also Dunning (1988) stresses that enterprises need to create location advantages to succeed and avoid failure in the new market. Thus, by establishing in already existing clusters or favorable regions the firm can gain certain advantages from being close to competitors, suppliers and customer (Dunning, 1988). Moreover allocating in Free Trade Zones is as mentioned by Kazer (2015), as a strategy for firms to enter the Chinese market without being subject to duty and customs clearance, which they would have otherwise. This is also the case for the majority of the participating manufacturing firms, whom established within Free Trade Zones of Beijing. The participants have similar arguments as Kazer (2015) mentions. Consequently, this creates a location advantage in comparison to other firms not located there. Although there are according to Dunning (1988) location advantages in form of reduced taxes and tariffs, the participants explained when interviewed that they did not manage to benefit from all advantages. Sandvik mentioned that even though they chased the local government for years in hope to get their free trade tax money back, they never did. This emphasizes that although firms do allocate in advantageous locations in China they do not always manage to benefit from that.

Furthermore, Johanson and Mattson (1988) introduced the internationalization square where they presented the *international among others*. As an *international among others*, the firm operates in a situation where both the firm and the environment are international and the firm can take advantage of its partner's relationships and knowledge (Ibid). FKAB entered the Chinese market via joint venture and has found many opportunities in regard to networking. Also, they believe that they have almost become insiders on the Chinese market. Hence we would argue that through a joint venture, a firm can internalize a complicated market such as China and enter the network setting quite quickly. Evidently, this establishment strategy is not always the most suited for all companies since 34% to 50% of all acquisition fail in the long run (Kaplan & Weisbach, 1992). SKF also joined the market through a joint venture but was not interacting with Chinese counterparts before the establishment. They did not express the same feeling of insidership as FKAB. However, FKAB is still today a joint venture while SKF is not which could also add to SKF's feeling of foreignness. However, FKAB has had a long time of successful business made with its Chinese counterparts before the joint venture. Hence, they had already started their networking before they moved to China physically. This also emphasizes how Chinese culture values long term relationships and trust (Björkstén & Hägglund, 2010). Since all the participants in our empirical findings agree on trust and long term relations as highly important when entering the Chinese market we can also argue for trust as a barrier to overcome as a part of liability of outsidership.

In addition, Dunning (1988) mentions the importance of ownership advantages that makes firms stand out compared to competitors. The manufacturing companies have all argued that their technology has been something well sought after on the Chinese market. Also, their skilled management has led many Chinese employees to seek jobs within their units. Thus, ownership advantages can result in, not only physically acquiring another company to acknowledge and exploit existing internal resources, but also to develop and increase advantages within the strategic alliance (Ibid). Joint ventures are as earlier

described most likely also a strategic way to gain international business networks, relationships and operations (Johanson & Wiedersheim, 1975). It also speeds the process of internationalization up (Ibid).

Advantages of being an early mover are many since the firm can successfully leverage its brand and gain respect and trust in a wide range of business areas before its competitors can (Kerin et al., 1992). The firm can create relationships with counterparts with whom they will have the first contact (Ibid). Since, relationships are extra significant in China; early movers can have a head start into creating them (Björkstén & Hägglund, 2010). When moving to China, six out of eight of the companies we interviewed were early movers within their industry. The banking firms for instance, had an advantage in form of licenses that would expire earlier than later-arrived competitors. Also, SKF created long-term relationship which facilitated their second establishment later on. This was also the case for many of the other participants, since they all explained their early mover advantages as crucial for their establishment.

5.2. Network

Blankenburg and Mattson (1991) argue that in order to fit into a certain network setting, firms have to value and care for their relationships. When the firm is led by a manager that feels comfortable enough within the Chinese network environment, the uncertainties are fewer and more opportunities are recognized (Ibid). At this stage, the firm has been able to create long lasting relationships with its counterparts and has a legit position within the new market (Blankenburg & Mattson 1991). We have been able to conclude after our interviews that all firms have been surprised by the amount of time and effort that they have had to spend on creating and caring for various relationships. Sandvik was an early mover and did not have any relationships with China before establishing themselves there. They took help from agents that would help them navigate the Chinese system and create relations with

counterparts. Still they are nourishing their relationships with different counterparts through the help of others which, holds them back from becoming insiders.

“If guidance is needed to establish new network and create new relationships a company is most likely an outsider on the market.”

(Unit Manager, Sandvik AB, 2015, pers.comm., 21 April).

However, our representative adds that even though a company has a good product to a good price, they will not be able to sell it without a set of connections to support them. Atlas Copco, on the other hand states that through an acquisition they were able to keep employees with an already well-established set of relationships which helped them within the network. Although as described by the participant from both SKF and Swedbank, it is not possible for a company to survive in the long run if it only has good relations without a good product or service to offer. It seems like there are different ways of creating and establishing the company's' connections but they have been essential for all the companies interviewed. Evidently, if a company has good relationships but a bad product or service, the firm will not be able to compete on the Chinese market. The firm needs to have both factors in order to stay competitive, since it is also clear from the interviews that only having a good product without the relations is not enough.

Forsgren et al. (2005) stress the importance of developing connections with not only the firm's suppliers and customers but also with the public and semi-public agencies. Through our interviews we have noticed that service firms and more importantly the banking firms are confronted with complicated regulations. Swedbank, Handelsbanken and Edward Lynx all make allusion to the gray zone existing within the Chinese network. Regulations are set in place and changed continuously which makes it hard for foreign companies to know which rules are applicable to them. Managers

learned which rules to follow and which to ignore which can put them in a precarious position if they are wrong according to our participants from Swedbank, Handelsbanken and Edward Lynx.

“It is all about local knowledge and if you have local knowledge you know which companies are legit, which ones to avoid and what is good risk”

– Branch Manager HK, Handelsbanken 2015, pers.comm, 24 april

Hence a foreign firm can learn to navigate a little within the gray zone but could never get too comfortable. The Chinese companies feel comfortable acting within the gray zone as they are protected by their regulators, authorities, networks and relationships. Swedish companies will always be at a disadvantage in this sense, since most will play by the rules of their Swedish head office. In addition, Sandvik encountered obstacle in regard to regulations where tax money was not refunded which further emphasize unfair competition. Therefore it is not only important that managers in a foreign market should understand the importance of being part of a network due to the reasons that Forsgren et al. (2005) emphasize, they must not underestimate the value of networks in order to overcome hindrance of regulation as in Swedbank's, Handelsbanken's and Edward Lynx's case. Firms can learn by watching and by sharing resources with other network members. The firm will directly or indirectly benefit from their suppliers, customers, competitors and other firms' successes and innovations.

Johanson and Vahlne (1977; 2009) emphasize the importance of market knowledge and value of relationships during internationalization. Forsgren et al. (2005) also discuss the significance that trust and knowledge play within a business relationship and argue that the relationship can only be understood by those involved within it.

There is an upside of being a Swedish company while establishing in China in regards to trust and created relations. Consequently, their contextual background has been a push towards the right direction in term of their internalization and networking (Björkstén and Hägglund 2010). In addition, if the company succeeds at hiring Chinese employees that can be trained in order to share the same corporate values the company will eventually succeed at becoming an insider. Many of our participants believe expatriates to be too expansive in the long run and are now handing over the company to Chinese management. It is a question of time where companies can teach the local employees to conform to some of their rules and vice versa. However one can argue networking and building trust is a necessary combination and neither of the factors can be excluded during internationalization in China. Hence Johanson and Vahlne (1977; 2009) and Forsgren et al (2005) are correct when stressing the importance of networking, although it seems as in our case that only networking is not enough if a trustful relation is not created. Thus it is necessary to bear in mind the importance of not only creating trustful relations with suppliers, customers and governmental counterparts but also to have trust in local employees and their ability of managing the business. This is not mentioned by Johanson and Vahlne (1977; 2009) or Forsgren et al (2005), although our empirical findings implicate it as an important factor.

Björkstén and Hägglund (2010) describe Chinese employees as receptive to new knowledge and training. They want to be able to distinguish their own progress and perceive training investments done by the company as proof of the company's commitment to their own careers (Ibid). In addition, they value long-term commitment and consistency within the firm's management (Ibid). Björkstén and Hägglund (2010) stress that companies that change their expatriate managers often will lose their best local employees as a result, consequently, in knowledge- based industry such as consulting it can be really tough for a company to recover. According to Björkstén and Hägglund (2010) the high-growth firms are managed by people that have spent many years in China and with their local organizations.

The key is to be patient and send out the right management at startup so they can build the company up and learn enough about the local market to feel comfortable within it.

According to Björkstén and Hägglund (2010) *guanxi* is an important concept when doing business in China but also the most misunderstood. Also, Björkstén and Hägglund (2010) define *guanxi* as a complex and positive term in regards to business practice in China. As the Chinese market economy becomes more developed, the negative *guanxi* which is associated with corrupt practices is disappearing (Ibid). As we interviewed we noticed that not all our participants were familiar with the term and the ones that were did not recognize it to be of any greater importance to their day to day business. Even though the principle has been around for a long time it sometimes carried a negative connotation during interviews. Swedbank emphasizes this by stating that the new generation does not understand the old *guanxi* way and is moving towards a more Westernized way of doing business. Hence, the new generation of managers would not be familiar with the term. Handelsbanken believes that *guanxi* is more important when a firm is selling a good that involves political selling and if the firm is dependent of the local market. Edward Lynx stated that business can sometimes be harder to complete and take longer but once the trust has been established, the Chinese are much faster than for example Swedish counterparts. To sum up, all participants believed relationships to be of importance when doing business in China but do not want to be associated with *guanxi*, a term that is connected to malpractice or corruption. Thus, we argue that in contrary to what Björkstén and Hägglund (2010) stress, *guanxi* is losing ground and is no longer beneficial to companies entering a certain network. *Guanxi* seems to be more negatively associated than Björkstén and Hägglund (2010) emphasize and no longer a part of business practice in China as prospected by Björkstén and Hägglund (2010). Hence we argue for the change of *guanxi* to a more Westernized approach. Moreover *guanxi* is as Björkstén and Hägglund (2010) explain, very complex to define and understand as a foreign firm, thus it might be misunderstood and not completely comprehended. However as mentioned by Swedbank, *guanxi* is

a very traditional approach and way of doing business in China, and the younger generation do not seem to put as high value in *guanxi* as former generation did, thus the term is losing its value. Consequently *guanxi* is of less importance today and in the future, in contrary to what Björkstén and Hägglund (2010) argue for.

“In the end however it is the price and the quality of the service that matters”

-Managing Director FKAB 2015, pers.comm., 28 April

As described by Schweizer (2010) the firm will in the third phase of overcoming liability of outsidership undertake different reactions depending on the impact liability of outsidership has had on the firm's day to day operations. He also explains that the firm will, during this phase, rearrange its resources and revise its way of making relationships and attempt to become an insider. In our case some of our participant did not feel the need to become an insider, hence the last step of Schweizer are not applicable in our case. Those whom considered themselves as insiders had fulfilled the third step by rearranging labor practices.

Johanson and Vahlne (2009) state that becoming an insider on the new market is the main difficulty of internalization. This was something that the majority of our participant recognized since they had experienced these difficulties. Yet all of the firms are afloat and managing their businesses well, despite not overcoming outsidership. This can be explained by the fact that some of the firms we have interviewed have Swedish clients as their main counterparts. They do not have to serve the local market nor the local authorities, thus never really have the need of becoming insiders. They do, however, feel that there is a sense of unfair competition in regard to regulations but that it can be fixed over time when the firm has acquired more knowledge about the local market and its players. It appears the need of becoming insiders is higher for companies such as Sandvik or SKF which serve

the local market on a daily basis. As earlier mentioned, a firm should try to nurture its relationships but to a certain extent. Time and capital is useless if spent on creating relationships with no value-added.

5.3. Comparison - Services and Manufacturing

Alvstam and Ivarsson (2010) mention that the main purposes of establishing in China are the process of having a global shift of production or to follow in their customer's footsteps. One observed difference between the service and manufacturing companies participating in this case is their motives for establishment in China. We have realized that all service companies observed in our thesis have established in China as a result of their customers moving towards that direction. Hence service companies could already enjoy a well- established set of customer network relationships. The manufacturing companies established in China due to the increased demand for their products or because of their competitors already being present there. Consequently, they had a larger urge to get involved in order to gain market share and tie connections with local customers and suppliers.

As mentioned by Johanson and Vahlne in the Uppsala Model (2009) it is important to be well prepared before an international expansion. By following customers or establishing in a market with increased demand firms can decrease the risk of failure. All of the companies we asked had been doing market studies in order to know which location would give them the best advantages. Hence in regard to knowledge there was no clear difference between service and manufacturing companies

Being an early mover seems to be the most beneficial strategy when establishing in China, since it is described by all of the issued participants as the most favorable advantage with an increased opportunity for long-term relationships. As explained by the Regional Managers of SKF, their first establishment in China gave them already existing relations during their second establishment. However, we have understood that knowledge acquired over time from being physically present on the Chinese market is knowledge that will help the firm become part of networks. Hence it is not a question of whether the firm is a service or manufacturing firms but rather how long the firm has been

active on the market. The service economy is growing as China moves towards a more industrialized economy (Fox, 2015). It is however not as mature as the manufacturing economy which means that service firms will most likely not have been there as long, thus will not have been able to forge the same lasting relationships.

A service firm provides an intangible good, often tailor-made, that cannot be counted nor touched (Kaynak & Hassan 2013; Bowen and Jones, 1986). This indicates that customers will have a harder time evaluating the quality and the value of the service compared to the product (Ibid). We believed that such characteristics would be negative for the service firm but since all our service representatives already had existing customers, they did not have to persuade anyone of the quality of their service. Consequently, it might be harder for a service firm with no existing customers.

However, Forsgren et al. (2005) emphasize the importance of tied connections to formal actors such as governmental agencies. This was clearly a problem for the service companies since three out of four mentioned the gray area where managers are left to figure out which regulation to follow. Once again, however, participants added that this difficulty can be managed after a while, when knowledge of the regulation system has been acquired.

Moreover, Björkstén and Hägglund (2010) state that the Chinese employees are reluctant to change and that firms that change their expatriate managers often will lose their best local employees as a result. Employees, hired at manufacturing units are often low- skilled employees and a service company is more dependent on high skilled labor (Bowen & Jones, 1986; Erramilli & Rao, 1993). Hence it is important for manufacturing and service firms to nurture their relationships with employees but the service firm will most likely be affected harder by human capital losses since those employees are harder to replace (Erramilli & Rao, 1993). We have noticed that human capital is a recurrent important factor for firms' internationalization success. Some participants mention that employees can

be the key to success if managed correctly. Consequently, in knowledge- based industry such as consulting or banking it can be really tough for a company to recover if employees quit their jobs.

6. CONCLUSION AND FUTURE STUDIES

Through the conclusion, the reader is provided with an overview of the thesis. Conclusions have been drawn upon the analysis. In addition, implication for practitioners, limitation of the study and future research are included.

6.1. Conclusions

To answer our research question on whether the hazard of being an outsider affect Swedish service and manufacturing firms differently, we can conclude that based on our research there are no differences in how these firms are affected by the hazard of outsidership. The main difficulties that firms have experienced when establishing in China are not dependent of whether they are a service or a manufacturing company since all of the firms covered in this thesis seem to be similarly affected by the hazard of being an outsider. Also they describe the necessity of overcoming similar barriers such as; cultural differences, regulation and labor force. Although these difficulties have different names they are closely related to each other. A foreign company is considered an outsider, no matter the type of business sector. It depends more on other variables such as: size, internationalization strategy and the ability to adapt and become a part of the network, rather than the actual business sector. The impact of relationships in business is significant but producing a product of good quality is equally important. This is also mentioned by the majority of the participants. Consequently we can summarize that Swedish manufacturing and service firms are not differently affected by outsidership.

Furthermore, we were wondering how Swedish firms can overcome the hazard of being outsiders. By analyzing our research, we have clearly seen that there are certain improvements that can be done to a

firm's day to day business. All our participants agree that it is difficult to become an insider, although with these improvements becoming an insider is facilitated. These improvements have been retrieved through analyses of the empirical data.

- *Open-minded and willingness to adapt*

Having an open mind towards new culture and a willingness to adapt seem to be an important quality to have during establishment in China. We can see a distinct pattern of success when firms have adapted and integrated with the new culture. Evidently it is vital to maintain the corporate culture and the company's "way" of doing business. The balance of adapting to the new market without losing the company's identity is a difficulty, though not impossible. The greater the psychic distance the harder it becomes to adapt. The companies that have succeeded in our case are those with a corporate culture that consists of an open mind and humbleness. These firms have also succeeded at getting nearer a state of insidership. Thus being humble and flexible towards new cultures is a critical key to overcome outsidership.

- *Preparation*

With great opportunities also come great pitfalls, thus it is important to be aware and cautious of possible barriers. Most failures of establishment in China are presumably a matter of unawareness and failed management. By taking advantage of earlier internationalization and creating relationships with local players before entrance a firm can create knowledge and prepare for prospected hindrance.

- *Create local knowledge, relationships and trust*

Including local employees in management, is an essential action to overcome liability of outsidership. This is not only an investment to stay competitive in the long run, but it also results in gained trust

from local counterparts. Additionally it facilitates the process of becoming an insider since the firm can take advantage of the employees' local knowledge and of their previously established relations.

6.2. Implications for Practitioners

This study is of value for Swedish firms whose aim is to internationalize within the Chinese market. It shows that even though the culture and the way of doing business differs greatly between China and Sweden, there are no differences in regard to how well a service firm compared to a manufacturing firm can overcome liability of outsidership. In addition, it provides advice based on the theoretical framework and empirical analysis, on how firms can reduce their liability of outsidership. This is done by being well prepared, having a humble approach and engaging in the local counterparts.

6.3. Suggestion for Future Research

As earlier mentioned we have concluded that the sector is not the main affecting factor, since it is rather a question of size, management and the firm's ability to adapt. Thus it would be interesting to, in future research, include and focus on these factors rather than the sector of the company. Also studies regarding the specific impact of being a Swedish company might be possible for future research. Furthermore, we had a small number of female participants in our research, which makes us believe there is a rather small amount of female representatives within the top level of Swedish firms established in China. Therefore this could be interesting to investigate further.

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8. APPENDIX

In this section we provide a brief description of the companies involved in our thesis. Also we have listed our participants and the role they had in China and the questions that were asked to them during the interviews. In addition, a summary has been done to provide an overview of the empirical data

8.1. Participants

Sandvik- Unit manager

Sandvik is a Swedish steel manufacturing company that has been present in China since 1993. Our participant was the unit manager of the plant in Langfang between 2005 and 2010. The interview was held on April 21st, 2015.

Atlas Copco- Divisional Manager RDT

Atlas Copco is a steel manufacturing company that has been present in China since 1981. Our representative is the divisional manager within mining equipment and power tools. The interview was held on May 5th, 2015.

SKF- Regional Manager

SKF's core business is bearing production. The company has been present in China since 1912. Our representative was the Managing Manager of the plant in Shanghai. The interview was held on May 5th, 2015

Allgon- R&D Manager

Åberg & Ali, 2015

Allgon is an antenna production company. The firm was present in China in 1999. Our representative is currently not working at Allgon but was in the past the R&D Manager in Beijing. The interview was held on April 27th, 2015

FKAB- Managing Director

FKAB is a service company active within the shipbuilding industry. The firm has been active in China since 2000. Our representative is the Managing Director and was there at the startup in China. The interview was held on April 28th, 2015

Edward Lynx- Managing Director

Edward Lynx is a management consulting firm specializing in leadership development. They have been present in China since 2012. Our representative is the Managing Director. The interview was held on April 23th, 2015

Handelsbanken- Branch Manager

Handelsbanken is active within the banking service industry. It was the first Swedish bank to be established in China in 1982. Our representative is the Branch Manager of the Hong Kong Office. The interview was held on April 24th, 2015

Swedbank- General Manager

Swedbank is the largest Swedish bank and is active within banking service industry. The bank entered the Chinese market in 2001. The interview was held on April 29th, 2015

8.2. Interview Questions

Introduction-general information

1. Please provide us with some general information about the company?
2. Can you briefly describe your position at the company?
3. What is your core business?
4. Describe the history of earlier international expansions.
5. What have been the differences in doing that expansion and your expansion unto the Chinese market?

Internationalization

6. How did you establish your business in China? (green-field, bringing suppliers, key-advantage, m&a)
7. What were your motives for establishing yourself in China?
8. How did you become aware of the opportunities to internalize the Chinese market?
9. Where and how did you learn about these opportunities?
10. What kind of preparations did you as a company make?
11. How much knowledge did you have of the new market before establishing there?
12. Was much of your knowledge of the home market was of any use when establishing in China?
13. Do you perceive any differences in regard to business practices when doing business in China compared to Sweden?
 - a. How do you handle these differences?
14. What was your internationalization strategy like?
 - a. Global strategy
 - b. Local strategy
15. Where you the first Swedish company within your industry to establish in the Chinese market?

a. If yes, what were the costs of being an early mover? (*research, location, suppliers, customers, connections, market*)

b. If no, did you take advantage of previously established companies?

16. Did you experience any difficulties specific to the Chinese market that you haven't experiences while internalizing the other markets?

Network

17. Have you experienced any barriers in form of regulations or extra costs that you believe local companies would have been excluded from?

a. If yes, how did you overcome these barriers?

18. Have you experienced any difficulties/advantages being a Swedish company?

19. Did you participate in any activities to simplify your entrance in your current network?

20. What was your counterparts' major interest in terms of your products/services? Why did they want to do business with you?

21. Do you think a service company can easier integrate the foreign network than a manufacturing company?

22. Did you have any relations/contacts before entering the new market? If yes, what advantages did they bring?

23. How do you manage to maintain a good relationship with your relations/contacts?

24. Did you get any kind of help or assistance in developing new business relationships?

25. How much impact do you believe that trust has had in your case?

26. How much impact has Guanxi had on your establishment?

27. Do you consider yourself an insider on the new market today?

a. If yes, what do you think made you one? How long time did it take?

b. If no, what needs to be done to become one?

28. Do you consider it easy to become an insider in the new market?

Åberg & Ali, 2015