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The Importance of Relationships to become a Business Network Insider

Foreign micro-enterprises entering Shanghai

Helena Bengtsson and Rebecca Skogsén

Supervisor: Harald Dolles
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Abstract

In a world that is shrinking with distant markets becoming more accessible and at a lower cost, this enables even smaller businesses such as micro-enterprises the opportunity to invest and establish abroad. In recent years there has been a rise in interest of business networking as a major part of the internationalization process regarding how a new business is to establish itself as a newcomer in a foreign market. Although both internationalization and business networking has been studied thoroughly during many years, there has been only limited attention given to the study of micro-enterprises and their internationalization processes. This thesis intends to investigate how foreign micro-enterprises become business network insiders when they enter Shanghai. The purpose of this study is therefore to understand micro-enterprises internationalization process in terms of how they reach their business network insider positions.

The study is based on interviews with the founders of eight individual foreign micro-enterprises who have all established themselves in Shanghai, China. The conclusion is that in order to become business network insiders the foreign micro-enterprises need to spend significant amount of effort in informal and formal forms of networking. The result of this thesis suggests that the business network position as suggested by the revisited Uppsala model is highly relevant when foreign micro-enterprises are establishing in Shanghai. We argue that a network insider position is reached when other actors are recommending the company further to other contacts and therefore developing personal relationships and strong connections are key aspects.

Keywords: *Internationalization, Uppsala model, business network insider, business network position, relationships, social bonding, micro-enterprise, guanxi*

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1 INTRODUCTION

This chapter provides a short background of the chosen topic for this thesis followed by a presentation of the purpose of the study. Subsequently, the main research question in this thesis is presented as well as the four research sub-questions. Lastly, this chapter is presenting the delimitations and research outline of this thesis.

1.1 Background

What has been traditional when firms establish themselves abroad are the various aspects such as which entry mode strategy to choose (Anderson & Gatignon, 1986; Hill, et.al., 1990; Barkema, Bell & Pennings, 1996), the level of commitment (Johanson & Vahlne, 1977), how to control and coordinate an international expansion (Anderson & Gatignon, 1986) and cultural aspects related to the foreign market entry (Barkema, Bell & Pennings, 1996; Cicic, Patterson & Shoham, 1999). Regarding internationalization of firms the most well-known and cited model is the Uppsala model (Palgrave MacMillan, 2014). However, in recent years there has been a rise in the interest of business networking as a major part of the internationalization process instead of these traditional views on internationalization (Johanson & Vahlne, 2009). There is also research that suggests that networking is especially appropriate for smaller sized companies since it involves time and effort and is therefore a cheap strategy to use (Fillis, 2008).

In combination with substantial criticism towards the original Uppsala model (Johanson & Vahlne, 1990; Barkema, Bell & Pennings, 1996; Forsgren, 2002; Moen & Servais, 2002) and that this view is still argued to be of importance (Barkema & Grogendijk, 2007), the revisited Uppsala model emphasizing business networking was developed (Johanson & Vahlne, 2009). The relevant question in this revisited Uppsala model is how firms become insiders in foreign market business networks, where markets symbolize different relationships structured in networks. In the phase of establishing a network position and integrating in a foreign market it is preferable to reduce uncertainties. By focusing on becoming a networking insider mainly by identifying opportunities,

developing relationships, building trust, learning and lastly establishing a good network position, uncertainties are lowered. The revisited Uppsala model explains in general the internationalization process a firm goes through and the model is suggested to be applicable on all sorts of firms (Johanson & Vahlne, 2009) and in the Uppsala model update version 2013 the subsidiary is given more attention respectively entrepreneurship which further motivate the use of the Uppsala model on smaller firms (Johansson & Vahlne, 2013). Current research within the field has commonly used the revisited Uppsala model on small and medium sized (SMEs) or large companies. Seldom are the smaller firms, such as those on an entrepreneurial size and micro-size (1-9 people) within the scope of interest in such research. However, due to a world that is increasingly becoming more and more global, the access of key market information needed in order to enter a new market is more accessible and is able to be efficiently gathered at a lower cost (Oviatt & McDougall, 2004). Since all firms start their businesses somewhere and the fact that it is important to understand the complex process for firms to start up, it is crucial to understand how firms with limited overall resources are managing their international entries, especially since these micro-sized firms, as some cases has shown, are very successful.

Due to this development it is therefore essential that literature pay more attention to the entrepreneurial and micro-sized firms in their process of internationalizing. With this in mind, the purpose in this thesis is to empirically understand how business network insider positions, as suggested by the revisited Uppsala model, are reached by foreign (non-Chinese) micro-enterprises in their international entries in Shanghai. Current literature on business networks describes a network position as when customer relations are developed (Blankenburg, 1995; Johanson & Vahlne, 2009), however, this is a definition on a very general level and therefore we intend to investigate such condition to get a notion of what characterizes a network position in specific. The micro-enterprises included in this thesis is therefore offering a fill of the identified gap in the current research on the networking view of internationalization.

1.2 Purpose

The purpose of this thesis is to understand how foreign micro-enterprises reach their business network positions, as suggested by the revisited Uppsala model, in their international entries in Shanghai. This thesis will investigate how the entrepreneurs are coping with challenges in relationships, identifying opportunities and building relationships in the Chinese context. The results of this study could hopefully contribute to the understanding of how an internationalization process could be performed by micro-enterprises in this market context.

1.3 Research questions

This thesis is investigating how foreign entrepreneurs and their micro-enterprises are reaching business network insider positions in Shanghai and the chosen research question for this study is:

How are foreign micro-enterprises becoming business network insiders?

In order to answer our research question, we also have four sub-questions, which are expressed as:

In terms of establishing a business network insider position, how do micro-enterprises:

- develop relationships?
- build trust and guanxi¹?
- identify opportunities?
- manage challenges?

¹ Guanxi is a Chinese cultural attribute and refers to the use of strong connections within relationships (Tong, 2014).

1.4 Delimitations

In this thesis the central focus is to understand how foreign micro-enterprises are reaching their business network insider positions when internationalizing in Shanghai. Therefore, there is no attention on other necessities related to the establishment of their businesses that might be of importance (such as company registration, marketing strategy, administrative costs, employing people, finding investors, establishing office, company logo etcetera) in this thesis. This thesis is therefore delimiting itself from discussing other determining factors that impact the internationalization process of the micro-enterprises. Furthermore, we will not investigate how the characteristic of a lack of resources of micro-enterprises affects their internationalization process. We delimit ourselves to apply the newest Uppsala model version of 2013 on the micro-enterprises in this thesis due to the fact we consider the revisited Uppsala model from 2009 as appropriate on the enterprises of this thesis.

1.5 Research outline

This section will provide a short overview of the upcoming chapters in this thesis, from the theoretical framework, the methodology, empirical findings, analysis and finally the conclusion.

Theoretical framework

The literature review firstly provides with an introduction of micro-enterprises and international entrepreneurs as well as an overview to micro-enterprises in China. Subsequently follows the theory of internationalization such as the Uppsala model, as well as introducing further networks and networking, the motivations behind relationships, trust and finally the Chinese concept of guanxi will be explored.

Methodology

This section presents the methodology used for the research by explaining the preparation and execution of the data gathering as well as the methodology for analyzing our empirical findings.

Empirical Findings

In this section we outline the empirical findings gathered during the interviews performed in this study. The section provides a presentation of each micro-enterprise as well as a giving an in depth description of the information relevant for this thesis.

Analysis

This section consists of the analysis of our empirical findings presented together with a discussion of our theoretical framework in order to create a deeper understanding of the topic.

Conclusion

This section will present the final answer to the research questions of the study and will also provide recommendations and suggestions for future research.

2 THEORETICAL FRAMEWORK

This chapter is divided in three parts and each one provides an outline of the literature chosen for this study. The first part focuses on micro-enterprises and entrepreneurs. The second part focuses on the internationalization process according to the Uppsala Model. This section will, aside from the model, in greater detail present networks and relationships and the importance of trust and commitment. The third part focuses on introducing two Chinese concepts. Lastly, a final conceptualization of the chapter is provided.

2.1 Micro-Enterprises

Due to complexities in the world market regarding factors such as technological enhancement, globalization and frequent unexpected market events a need to understand the patterns of how smaller scale i.e. micro-enterprises (Fillis, 2002). Such need has developed since the international atmosphere has changed where entrepreneurs operating in micro-organizations have become increasingly common. The increase of international entrepreneurs is deriving from a rise of international activities in general in the past few decades (Oviatt & McDougall, 1994).

A definition of a micro-enterprise is an organization that has between 1 and 9 employees. Following this the next size category is the small enterprise with 10-49 employees, followed by the medium sized enterprise with 50-249 employees (WB, 2010a). The standards that identify the different sizes of companies might differ among countries due to different definitions (WB, 2010a), however, the definition of micro-enterprises applied in this thesis is the one presented above. If the informal sector in a society is large there will exist more micro and small enterprises. The demand to register as a company in such economy is not as strong, which results in a more fragmented structure of smaller companies' operations (WB, 2010a). One of the most common problems for micro-enterprises and SMEs is the inability to finance the business in order for operational activities to be carried out (WB, 2010a). However, nowadays there are several micro-finance deals, where institutions such as the United Nations offer financial support (UN,

2005). Other supportive actors are the socially operating entrepreneurs aiming to facilitate micro-enterprises and their entrepreneurial activities (Prahalad, 2005:64). Indeed, the global development highlights the relevance to understand what is important when micro-enterprises internationalize (Fillis, 2002). Recent research argues that substantial effort is required for all organizations in the current global economic climate in order for them to continue being competitive. Hagen and Denicolai (2014) argue that organizations need to become more offensive in their innovative and entrepreneurial activities as well as in operations abroad because they believe that.

Fillis (2008) argues that it is not mainly about organizations becoming more offensive but rather that micro-enterprises are entitled with networking activities. Networking activities should be carried out to a great extent since it is a relatively cheap strategy as these small companies often have limited resources. As networking activities provides opportunities for the micro-enterprises to market themselves at a low cost and they can spend more time and effort to interact with the other actors (Fillis, 2008).

In micro-enterprises during the establishment phase, the company consists of, at the beginning, only the individual entrepreneur. As the entrepreneur is the main actor within the micro-enterprise, it is thus important to emphasize that the personality, quality and behavior of that individual has a direct effect on the outcome of the actual micro-enterprise due to the previous experience and preferable actions of the entrepreneur (Cunningham & Lischeron, 1991). The relevance of the notion of entrepreneurship for this thesis is therefore to lift forward the individual person with the argument that he or she is heavily impacting with his or her own experiences and acting as the main force within the micro-enterprise.

International Entrepreneurship

Oviatt and McDougall (1994) explain international entrepreneurship as a phenomenon developed from larger corporations, which had gathered significant experience from an international setting. In these large corporations there were naturally a large number of people with such relevant experiences, gathered from earlier international operations. Individuals with the right experience could independently act on their own with just

enough financial means, which was how smaller sized actors such as international entrepreneurs and international new ventures grew in numbers. An international new venture is defined as a business, which initially in its start-up phase strives to act on several markets abroad in order to reap the maximum benefit (Oviatt & McDougall, 1994). Hagen and Denicolai (2014) argue that the knowledge about international entrepreneurship needs to be complemented in terms of its characteristics, how it is affected by changes and how it develops in the world today, which is a gap in research. Wright and Ricks (1994) suggested that international entrepreneurship is firm level activities crossing national borders and also centered on the relationships existing between the business and the international environments in which it is operating within. This international entrepreneurship definition is similar but not identical to the concept of new ventures, which are born global. The concept of a born global firm is that its business activities are characterized as being international from inception as well as an entrepreneurial feature in it, with many similarities to both international entrepreneurs and the smallest organizations. However, the focus of a born global firm is that it originates from the international context, which in contrast from the other international actors or organizations previously mentioned, is not always the case (Oviatt & McDougall, 1999).

Furthermore, Johansson and Vahlne (2013) also emphasize entrepreneurship as highly important in the international setting, further focusing on identifying and developing opportunities. There are many different definitions on entrepreneurship and in parallel to this there is a lack of concrete knowledge with regards to entrepreneurship and hence international entrepreneurship in the literature. Prominent individuals frequently hesitate to call themselves entrepreneurs and instead refer to themselves as micro-organization owners (Cunningham & Lischeron, 1991). Other protruding features of an entrepreneur is suggested by Cunningham and Lischeron (1991) are found distinguishing several aspects covered under the entrepreneurship phenomenon which are related to Personal Attributes, Finding opportunities, Acting and Managing, and Reevaluating and Adapting.

It is suggested by Fillis (2008) that entrepreneurs in their early operating stage in life with less experience and financing abilities should internationalize quickly to gain the

maximum benefit. What is crucial for their survival is the fact that they are relying on their creativeness. Indeed, the creative skills of entrepreneurs are due to this fundamentality in order for them to carry out their small-scale operational activities (Fillis 2002). Being idealistic as an entrepreneur in the process of internationalizing is argued to be a significant quality and refers to the creativity, which is the driving force of the business. Being idealistic also includes risk-taking and involving substantially in different relationships (Fillis 2008). Overall, entrepreneurs are often privileged with the ability of socializing in network settings, which in turn facilitate the grasping of opportunities when receiving relevant information exchanges from other actors. For entrepreneurs are hence social networking of critical importance since that leads to an increase of knowledge, learning activities and facilitates for innovative solutions to develop (Hagen & Denicolai, 2014).

2.2 Conceptualizing the literature I

The aforementioned ideas regarding the behavior of entrepreneurs suggested by Fillis (2008) and Hagen and Denicolai (2014) are applied in this thesis, with regards to being idealistic and respecting the idea that socializing in networks result in numerous gains such as opportunities and learning. We assume that the entrepreneurs investigated in this thesis act innovatively and spend substantial efforts into networking activities. We also treat the individual entrepreneur and the micro-enterprise as one unit as recommended by Cunningham and Lischeron (1991). The presented literature above, is in turn crucial in the goal of answering the main research question of how micro-enterprises are becoming business network insiders. The objective is to explain entrepreneurs and their micro-enterprises' (1-9 people) processes of internationalizing by applying the revisited Uppsala model (which will be introduced in the next section) and hopefully contributing to the research.

2.3 Internationalization

The notion of firm internationalization can be described as increases of operational activities abroad (Johanson & Vahlne, 1977; Barkema & Grogendijk, 2007). The research

within the topic of internationalization of an organization's operations historically highlights a large number of factors which are important to consider such as entry mode strategies (Anderson & Gatignon, 1986; Hill, et.al., 1990; Barkema, Bell & Pennings, 1996), the control issue (Anderson & Gatignon, 1986), level of commitment (Johanson & Vahlne, 1977) and cultural barriers (Barkema, Bell & Pennings, 1996; Cicic, Patterson & Shoham, 1999). There exist several different approaches among researchers in the attempt to describe firms' internationalization. For example there are the research-based view (RBV) with financial and human resource motivators for internationalizing (Westhead & Wright, 2001), network approaches with the focus on firms' relations to specific markets (Fletcher, 2008; Johanson & Vahlne, 2009) and entrepreneurship approaches where internationalization represents the path to new opportunities (Oviatt & McDougall, 2005; Schweizer, 2012). In this thesis the focus are on the process of internationalization using the Uppsala model and from the perspective of entrepreneurship.

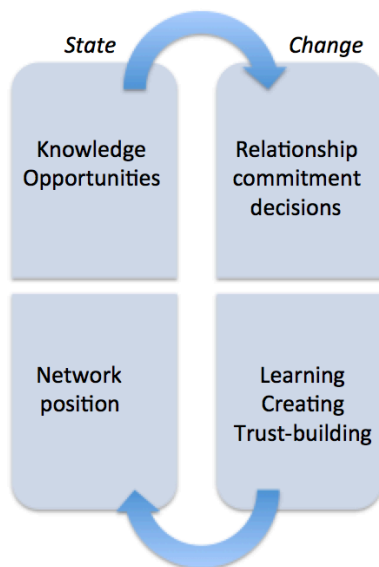
2.4 The Uppsala model

The original version of the Uppsala model from 1977 focused on the internationalization process in terms of the levels of commitment in the foreign market. The common pattern this model was concerned with at that point was firstly to become familiar with the new market followed by attending activities by committing more to be able to increase learning. The typical behavior for the Swedish firms presented and investigated for the old model was the first step of exporting to a chosen foreign market by using an agent in order to reduce the initial risks. The next step was to set up subsidiary performing sales activities in the foreign market followed by a possible extension towards producing activities (Johanson & Vahlne, 1977). Since the original version of the Uppsala model from 1977 was brought forward, two updated versions have been presented, in 2009 and 2013. The revisited Uppsala model from 2009 differs from the original version by emphasizing the importance of networking and introducing the concept of establishing an insider role in a network at the foreign market when internationalizing as a firm (Johanson & Vahlne, 2009). The newest updated Uppsala model from 2013 further highlights some components of the 2009 model and it additionally stresses the

importance of “dynamic capabilities” for a multinational business enterprise (MBE). The first dynamic capability is the identification and development of opportunities followed by the capability to establish operations in different markets. A third capability within the Uppsala model version 2013 is to again stress the significance of relationships in internationalization as the revisited model had introduced (Johansson and Vahlne, 2013).

The revisited Uppsala model (version 2009) is illustrated in Figure 1, with the left side representing the “state” category (also known as the stock category) and the right side representing the “change” category (also known as the flow category). The components included within the state category are the long run perspectives and involves knowledge and opportunities respectively the network position. The components included in the change category represent the short-term perspective in, for example, the everyday business of the company and involves relationships and commitments respectively learning, creating and trust-building. The state and change categories affect each other where the idea is that the short-term change components are supporting the state components in a long run perspective.

Figure 1. The revisited Uppsala model



Source: Johanson & Vahlne (2009), p. 1424

2.4.1 Knowledge and opportunities

In the top left of the model the opportunities are a sub-category of the knowledge component, representing one of the state components. Opportunities are central in the model and it is considered to be the most crucial aspect of the knowledge component. The reason for this is because the overall relevance of recognizing and identifying opportunities in order to contribute to the knowledge stock (Johanson & Vahlne, 2009). According to the Uppsala model version of 2013, the opportunity component mainly includes to identify and develop opportunities within the company and in other companies (Johansson and Vahlne, 2013). However, Johanson and Vahlne (2009) state that the opportunities are likely to be acknowledged simultaneously to the business activities and hence that the opportunities are to be triggered by such earlier initiated activities.

The experiences gathered are also an important aspect since that is what has accumulated before and eventually results in the current knowledge. The augmentation and development of opportunities are impacted by the connection to the other actors and opportunities and are compiled by exploitation and recognition. According to Johanson and Vahlne (2009), the exploitation of opportunities is equal to commitment and the recognition of opportunities is equal to learning and together they are both increasing in a stepwise manner. Trust is an important component here as well since it can facilitate the procedure of developing opportunities. Identifying opportunities by networking in an international market in order to interact and exchange knowledge, which finally leads to learning, is evident in recent studies (Hagen & Denicolai, 2014). There are similarities of how the relationships are developing when internationalizing and how the opportunities are developing when networking (Johanson & Vahlne, 2009). We treat knowledge as something that started when the company started.

2.4.2 Relationships and commitments

The relationship component is in the top right of the model and is also interconnected to knowledge (illustrated by the arrow). This part is one of the change categories, which is related to the degree of commitment in a relationship. Relevant here is therefore the level

and degree of commitment decisions in a relationship. The discussion about relationships is highly related to trust due to the nature of being the pre-condition for commitments, whose function is to further extend relationships. Moreover, it is important to distinguish that actors have different degrees of knowledge, commitment and trust among each other. It is however unclear in the model how relationships in detail can be used as methods to understand the norms, cultural dimensions or institutional framework at the market place (Johanson & Vahlne, 2009). In the Uppsala model version 2013, Johansson and Vahlne (2013) further emphasize the importance of relationships and as an especially important tool in the aim of establishing a good business network position.

Other authors' view on relationships and commitments

Morgan and Hunt (1994) define commitment as exchanges between partners who believe their ongoing relationship is so important that it is worth spending an exhaustive amount of energy on it in order for the relationship to continue. Other researchers share this definition as well, where for example Moorman, Zaltman & Deshpande (1992) emphasize that commitment is present in a relationship when it is considered important and when the committed partners want to maintain the relationship in order for it to survive. Literature on relationships has shown the fundamentality of starting relationships with other actors since it results in increased business activities (Fletcher, 1996). In the viewpoint of the famous ARA-model including the variables of actors, resources and activities, indicate that the network context is a complex and multifunctional environment. In this view a network is embedded in a complex web of different interconnected relationships. Individual relationships are important to understand since they are changing rapidly as a result of a sequence of acts and counteracts (Holmlund & Törnroos, 1997). Johanson and Mattsson (1988) describe relationships, as being part of a “net” existing within a network. The interdependency between the parties in a net is stronger than outside of the net in a network. The network will quickly increase in complexity as the number of individual relationships increases among the actors (Johanson & Mattsson 1988).

Another view regarding a relationship and its functions is the Social Exchange Theory (SET), which highlights the typical relational exchange on a social level that occurs

between two parties. The SET explains the motivation behind an engagement in a business relationship by the use of socializing. Within the marketing field a focus has also been the social exchanges and non-contractual appearances in social and business relationships. However, the social exchange has been criticized since it is argued that in order for business relationships to continue it is not possible to exclude other arrangements than those on a social level (Gundlach & Murphy, 1993).

2.4.3 Trust, creating and learning

Trust, creating and learning are located in the bottom of the model and this component is the second part of the change category. They occur on an everyday basis within the company by the fluctuations, different levels of trust, knowledge increase or an increase in learning. The trust aspect implies to what extent one actor is capable of reading how the other actor will behave. A low level of trust between actors indicates a high level of unpredictability and vice versa. It is important for a company to build trust with other actors and construct relationships based on trust in order to be positioned in a way where other actors will offer a higher level of commitment. As mentioned in previous sections, trust is a major influence on the model affecting both the development of opportunities as well as the commitment decisions. The characteristics of trust also influence the networking component as stated above. Furthermore, trust has a considerable impact on learning specifically since it affects the opportunities and subsequently boosts in adding knowledge. Learning can be effectuated by experiences and consists of a significant part in the perspective of business networking, especially in the phase of internationalization (Johanson & Vahlne, 2009). Building relationships, achieving higher degrees of commitments, increase of trust, increase of learning and identifying opportunities are not constant once maximized; therefore there is a need for constant maintenance. The general view of the model regarding actors is that they are in the position to affect knowledge, commitment, trust and relations within their network (Johanson & Vahlne, 2009).

The revisited Uppsala model argues for the essence of developing and maintaining business relationships in order to succeed internationally. The different actors are connected to each other in a more or less hidden structure, which can be seen as a difficult situation for a foreign newcomer to establish itself in a stable network position

(Johanson & Vahlne, 2009). It is however crucial to learn from other actors and to avoid becoming a networking outsider in the phase of internationalizing. The authors are referring to this situation as overcoming the liability of outsidership (Johanson & Vahlne, 2009).

Other authors' view on trust

According to Rotter (1967) the most important factor for the successfulness and effectiveness in an organization depends on individuals' willingness to trust one another. Rotter claims that the survival of any social group is dependent on trust between the individuals. A definition of trust by Moorman, Deshpandé and Zaltman (1993, p 82) is: "the willingness to rely on an exchange partner, in whom one has confidence". Additionally, Morgan and Hunt (1994) stress the importance of reliability and a confidence that the other party will be trustworthy. Other qualifications related to trust among parties in a relationship is that it should include a high integrity, honesty, be fair, responsible and consistent (Rotter, 1967; Altman & Taylor, 1973).

The presence of commitment and trust between the parties in a business relationship are key factors, which contribute to the potential success or failure of such relationship, according to Morgan and Hunt (1994). Both commitment and trust are significantly correlated since they encourage the continuation and preservation of a relationship. When both commitment and trust are present, the result is promotion of efficiency, productivity and effectiveness within an existing relationship. However, if a business relationship is lacking commitment or trust it is crucial to locate the problem, communicate and solve the situation in order to continue with the relationship (Awuah et al., 2011; Humphrey & Schmitz, 1998; Halinen & Tähtinen, 2002). An additional finding made by Awuah et al., (2011) was that if such trust and commitment problem occurs and is subsequently solved by the parties, the relationship could actually be strengthened, which then could have a spinoff effect on business activities.

2.4.4 Network insider position

Network position is located in the left bottom corner of the model and is the second state category. In such context, different actors have different network positions and according

to the model the internationalization process is executed within a network. In this network, the distribution of knowledge among actors differs which is the case with commitment and trust as well within a network. This translates into different internationalizing results and hence could lead to either good or poor implementations when entering in a new market. Depending on how well the internationalization process was executed, the internationalizing firm receives a certain network position (Johanson & Vahlne, 2009).

If a firm does not reach a business network position it is instead positioned as an outsider of the network. For a firm such position result in uncertainties and a lack of recognizing business network opportunities. In order to reach the network position it is important to engage in various collaborations with partners and to develop opportunities. This is important since the main goals for a firm is to receive a market insight and increase of knowledge by finding opportunities through customer relationships. By increasing knowledge, the network position of the firm might improve which results in further boosting opportunities. It is valuable for the firm to engage in commitments, trust building, creating knowledge and learning for succeeding with these goals (Johanson & Vahlne, 2009). In the Uppsala model version 2013, Johansson and Vahlne (2013) stress the network position in the light of relationships and power, where such position is the potential beginning of new commitments and a state where the MBE can make influential changes affecting its whole network and reduce uncertainties.

Another view suggested by Blankenburg (1995) on what characterizes a business network insider position is the development of business network relationships with clients. There are also views on positions within a business network as something that other network members perceive as good in terms of opportunities or bad when a position of another member is perceived as a threat (Anderson, et al., 1998). The definition by Blankenburg (1995) which is that a network position is reached when customer relationships are developed, which is also in line with the opinion of Johanson and Vahlne (2009), is applied in this thesis.

Other authors' view on networks and networking

In terms of firms' internationalization, the network approach is indeed highly relevant (Fletcher, 2008). Network is described differently among authors, where some argue that firms manage their networks consciously (Larson & Starr, 1993), some authors argue the opposite and other authors argue that both conscious and unconscious networking occur during different time phases (Hite & Hesterly, 2001).

Dickey and Kleiner (1990) define networking as the planned acquisition of contacts, which functions as mutual benefits for all parties involved. An additional finding is that the degree of intentionally created networks and the number of actual planned activities varies significantly among SMEs (Schweizer, 2012), which bring this discussion to a firm level. According to Awuah et al., (2011) it is certainly a winning strategy to create relationships with actors outside of the current network in order to develop as a firm. When finding a potential partner, it is furthermore important to spend significant effort in fully understanding also the relevant partner's own network (Awuah et al., 2011).

Larson and Starr (1993) argue that most SMEs manage their network intentionally, even from the very earliest stage in their business life cycle. These SMEs intentionally nurtured their networks from the very start due to a strong reliance upon social ties (Larson & Starr, 1993). It is possible to identify different types of networks a firm might come across in an international market, such as infrastructural networks, market networks, social networks, regional networks, technological networks and institutional networks. Business network is defined as a group of actors linked to one another by interaction with each other resulting in various business actions. Social network is part of the business network focusing on relationships and consists of various aspects such as commitment, trust, attraction, social bonds and atmosphere. The social aspect in creating relationships occurs when different parties are socializing and this belongs to the inactive and unconscious form of networking (Holmlund & Törnroos, 1997). The outcome of social networks on a micro level has also proven to influence other business activities. This means that when individuals are socializing, exchanging and interacting with each other, a platform for gaining something even larger in the long run evolves (Granovetter, 1973). Another common view used in explaining and understanding a network is the

previously mentioned ARA-model with three variables described as closely linked together (Håkansson & Johansson, 1992). The three variables in the ARA-model used in industrial networks are actors, resources and activities. The actors control the resources and perform the activities. The resources are defined as means utilized by the actors during the activities and during these there are resources as tools for actors to develop new resources (Lenney & Easton, 2009; Håkansson & Johansson, 1992).

It is important to grasp the entire context of a network, which should be understood as several relationships connected to each other. Relationships are enabled through networking in a network (Holmlund & Törnroos, 1997; Johanson & Mattsson, 1988). When actors have large networks, including significant number of individual relationships, the changes that occur within each relationship create movements in the overall network (Hertz, 1998). These successive changes of relationships within a network are referred to as “domino effects”.

Hite and Hesterly (2001) distinguished that conscious networking only occurs during the later stages of the business development and not in the earliest stage. These different views on networks outlined in the literature leads to an overall difficulty in understanding it and particularly whether networking is intentionally planned and strategically executed or if it is simply results of business actions when actors strive to develop. Most researchers have however agreed upon that there are no general pattern that clearly explains the logical truth of how networks evolves and develops or why (Hite & Hesterly, 2001).

The view proposed by Holmlund and Törnroos (1997) of social networks in business networks are applied in this thesis. Additionally, the notion that networks are managed consciously presented by Larson and Starr (1993) and the planned acquisition of contacts presented by Dickey & Kleiner (1990) are also taken into account in this thesis.

2.4.5 Liability of outsidership

The old model brings up the concept of liability of foreignness, which emphasizes the various hinders of entering into a new foreign market as a newcomer (Johanson &

Vahlne, 1977). The revisited Uppsala model instead emphasizes the liability of outsidership as a crucial barrier that a firm has to overcome in order to successfully internationalize (Johanson & Vahlne, 2009). According to the Uppsala model the firm needs to cope with the various components of identifying opportunities, developing relationships, trust-building and learning and lastly receive a network position in order to overcome the liability of outsidership (Johanson & Vahlne, 2009). In order to avoid outsidership a firm needs to understand the institutional framework in a foreign market and be updated in changes in regulations that might occur. The formal rules need to be understood, how they are translated in reality and the existing norms among the actors (Eriksson, et al., 1997). The liability of outsidership is not only impacted by country-specific factors, but is also affected by regional aspects and by practices among firms (Rugman & Verbeke, 2007). Johanson and Vahlne (2009) disregard the country-focus and focus on discussing the importance of overcoming challenges and involve in new opportunities. Their main idea to overcome the liability of outsidership is not selecting the right entry modes but to engage in valuable relationships and networks and to become an insider. It is however not specified at what point in time for a firm the liability of outsidership is the most critical to tackle at its peak and therefore the question of when internationalization is the most difficult handle remains unanswered (Johanson & Vahlne, 2009).

2.4.6 Psychic distance

In cohesion with the aforementioned idea of liability of outsidership, there is an additional component discussed within the old Uppsala model of the idea of psychic distance. This concept involves various dissimilar cultural behaviors that occur when people from different countries clashes together. Due to psychic distance the model explains the process of establishing a company abroad as complicated, where there are several aspects to consider such as different attributes of language, national culture, business culture, education, development of the industry and social behavior and norms. According to the model the higher psychic distance between the firm and the host market indicate a less likely place for the firm to enter. The lower psychic distance the greater potential is there for a company to succeed in internationalize to that particular location

(Johanson & Vahlne, 1977). Regarding the psychic distance, Brewer (2007) argues that it is the manager's knowledge that is already accumulated or will be accumulated regarding the foreign market that is the core aspect rather than the cultural differences among home and host countries. In other words, it is the personality and ability of the manager that is of relevance with regards to the way differences are dealt with in the internationalization process. In smaller sized firms the personalities of the managers are suggested to have a greater impact in the organizations since managers are assumed to have more influence in these situations (Dolles & Babo, 2003). In their study, Dolles and Babo (2003) furthermore found that the cultural origin impacts the entrepreneurial behaviors in terms of strategies used in contact with various stakeholders.

Li and Guidinger (1992) found that the consequences of cultural distance is at the highest in the beginning of the internationalization procedure for a firm, which decreases further on in later phases. Cicic, Patterson and Shoham (1999) support this suggestion and emphasize that the psychic distance is a more prominent factor to consider at the start of an international entry since it is affecting the early business activities. What is more, the authors highlight the psychic distance phenomenon as especially important for smaller companies.

It is argued that the cultural distance is an aspect more critical to firms providing services in the foreign market integration than manufacturing firms due to the higher degree of interactivity that is needed with the customers for service firms (Li & Guidinger, 1992). This is explained by the fact that firms providing services are more entitled with adaptation in for instance language and culture and hence the psychic distance have more impact on such firms (Cicic, Patterson & Shoham, 1999; Li & Guidinger, 1992).

2.4.7 Criticism towards the Uppsala model

Literature within the internationalization field has pointed out the fact that it has become easier for all kinds of firms to easily gather key information about international markets and hence that this means that the "process" of internationalization does not always occur (Oviatt & McDougall, 2004). Moreover, another argument is that in some cases the phases included in the internationalization process are not relevant and necessary to

conceptualize anymore. The suggestion is then that the overall literature on internationalization processes are not as representative in reality due to multiple changes such as technological ones or cultures becoming unified and more similar to each other resulting in insufficient theoretical explanations in general when trying to model the process of internationalization (Oviatt & McDougall, 2004).

Furthermore, the old Uppsala model from 1977 and the revisited Uppsala model from 2009 are criticized of merely to focus on a firm's increase of its activities in its foreign operations after it assembled experiences, in other words, the models exclude firms which are born global. Additionally, the old model did not bring up the value of networking and the new network position model is extremely simplified. Moreover, none of the Uppsala models are taking other relevant aspects into considerations such as explaining the situation when firms are forced to exit a market or when firms rapidly internationalize etcetera (Hadjikhani, et al., 2014; Verbeke & Zargarzadeh, 2014). Verbeke and Zargarzadeh (2014) criticize the Uppsala models since it applies for organizations with substantial experience of operations abroad, which could leave out smaller firms with little or no international experience. We therefore intend to test to include micro-enterprises when we apply the revisited Uppsala model in this thesis.

Johanson and Vahlne (2009) argue that the model is not by any means an attempt to describe the reality of specific firms neither regarding their particular situations and stages nor explaining the location specific effects on the model. The prominent idea of the revisited Uppsala model is conveniently explained by the criticism it has received of being a general model. In the general structure of the model, it is meant to serve as a vehicle in the aim of understanding the core elements in the internationalization process (Johanson & Vahlne, 2009). Since we intend to apply the revisited Uppsala model in the Chinese context, this thesis will also test to include the idea of psychic distance as a component.

2.5 Conceptualizing the literature II

The guidance of the internationalization process in the mindset of the revisited Uppsala networking model is highly relevant for the purpose of this study. The purpose is to

understand how foreign micro-enterprises reach their business network insider positions where it is expected that the research questions can be answered by looking at the components included in the model (thereby following Johanson & Vahlne, 2009) and to by looking at relevant literature suggested in relation to it to complement the model.

The psychic distance is important in this thesis (thereby following Johanson & Vahlne, 1977) since it includes central barriers we assume actors face within relationships. The liability of outsidership is important to consider in this thesis since actors have to overcome the liability of outsidership in order to reach their network positions. The issue that the model is applicable on firms with adequate international experience is also taken into consideration, indicating that the model is more applicable for larger firms (as suggested by Verbeke & Zargarzadeh, 2014).

2.6 Guanxi

Foreign companies internationalizing in China face challenges connected to cultural barriers and in contact with people these are strongly influenced by something called “guanxi” (Ai, 2006). Guanxi exists in relationships and connections (ECOVIS, 2014) and it is something all business actors have to manage in China since it is a tool used to succeed (Ai, 2006). Guanxi is a Chinese concept and it therefore also occurs among people in social relationships (Tong, 2014). A person characterized as having good guanxi is someone who is well connected and who could hence succeed in accomplishing a great deal of things by using his or her connections (Ai, 2006). Having a well-developed guanxi with another party could for instance be useful in business when a short notice change in a delivery is necessary or if other urgent requests occur, which would not otherwise always be a possibility to maneuver (Tong, 2014). Another feature of guanxi is that it is time-consuming to develop (Ai, 2006), although there are shortcuts. When doing business with foreign firms in China, it is evident that some Chinese companies are offering their guanxi network in forms of valuable connections they have in exchange for new technology or expertise from foreign firms (Ewing et al., 2000).

Guanxi is rather quiet in its normal state of mind and can be activated in business, where it can make situations easier among parties, as previously mentioned. However, it is important to consider the fact that guanxi is not itself determining the business exchange and the value of it. Although, it is evident in research that in terms of relationships and guanxi, the social life affects the business world since it is influencing what happens there (Tong, 2014). As the matter of fact, maintaining guanxi networks can result in direct business gains and then the relationship between the parties must be going well (Ewing et al., 2000). It is however necessary to develop and maintain guanxi in order to conduct successful business and be involved in valuable business exchange in China according to Tong and Yong (1998).

When developing guanxi, the first step should be to develop a guanxi base, which requires two parties to identify themselves with each other (Tong, 2014). To uphold guanxi, a lot of effort is required including both parties getting something out of the relationship, helping each other out with various matters, trusting each other, advising each other on opportunities and having an overall contact to be maintained (Ewing et al., 2000). If not upholding the guanxi relationship with a party, things might change and that could affect the conditions in the relationship (Tong & Yong, 1998).

Apart from the guanxi base there are five kinds of guanxi categories in business considerations in China; dialect and locality, fictive kinship, kinship, friends, workplace and trade associations (Tong, 2014; Tong & Yong, 1998). Under the dialect and locality people are similar to each other including habits of the region such as the dialect spoken. It is easier to understand each other and hence easier to trust each other if coming from the same geographical area. Under the fictive kinship the people with the same name associate themselves with one and another, which is enhancing the bond between the parties involved. The kinship includes the relatives. Friends are representing the current contacts in one's personal life. Workplace refers to the contacts one have in a current or past work place. The trade association type of guanxi revolves around the bodies organizing events for the actors within a network to facilitate their guanxi among each other. It is important to highlight that the various guanxi types such as kinship is not by itself assuring a static good guanxi; it also need to be nursed (Tong & Yong, 1998).

Due to this tradition of creating long-lasting social relationships with possible spillover effects on business transactions it has been normal to perform gift-giving activities among parties (Tong, 2014). However, a recent development in the Chinese society has had some implications on guanxi in today's China, namely the anti-corruption laws, which are prohibiting gift-giving activities of any kind (BACP, 2015) affecting one part of the guanxi phenomenon. The way guanxi is performed could be somewhat different coming from a Chinese and from a Westerner (Ai, 2006). According to Ai (2006), a Westerner's core focus of a relationship is on the outcome whereas a Chinese's core focus in a relationship is centered on the respecting of others.

Xinyong

Xinyong is another concept in China that any actor needs to be aware of and is connected to the concept of guanxi in relationships, since if the guanxi is good then the platform for xinyong is benefited. The parties in a good guanxi relationship could therefore improve their xinyong, which is very beneficial in terms of trust in private and business situations (Tong & Yong, 1998). Xinyong is treated as trust and it is often needed in China in order to initiate and do business with other actors (ECOVIS, 2014). Having xinyong can accelerate business too since itself has an important function in a relationship. It is not possible to develop xinyong without having a guanxi first. Moreover, xinyong can be useful if a party feels insecure about getting involved in a situation since the xinyong then could supply with trust for the party to actually dare to get involved in the unreliable context due to the amount of existing xinyong in the relationship with another party (Tong & Yong, 1998).

2.7 Conceptualizing the literature III

The understanding of guanxi and xinyong are important on both a personal level and a business level for firms internationalizing to China (as suggested by Ai, 2006) and therefore both of them are considered in this thesis. We assume that actors will face such cultural barriers when they internationalize to China, which in turn can assist us in understanding the research questions provided in this thesis.

2.8 Final conceptualization of the literature

We expect that the literature suggested by the revisited Uppsala model as well as the complementing literature can provide us with an in depth understanding of the micro-enterprises' realities of building and developing relationships when networking. It is necessary to sharpen the model and add location specific information in order for the model to fit our study better which is demanded since the model is very generalized (as pointed out by Hadjikhani, et al., 2014 and Verbeke & Zargarzadeh, 2014). Specific information in terms of location specific characteristics is added in the last part of the chapter and these are guanxi and xinyong (as highlighted by Ai, 2006) and with these we hope to be able to grasp the way business relationships are performed.

Our aim is therefore to create our own model in the approach of understanding the situation of the entrepreneurs and micro-enterprises in this thesis. The overall objective with the theoretical chapter is for it to be used as a tool to answer the research questions in the final chapters of this thesis.

3 METHODOLOGY

This section describes in detail the research methodology used in this study. This includes two parts, firstly, the research strategy of this thesis and secondly, the method used for gathering the relevant data. Additionally, there is an outline of the research process as a whole and lastly a presentation on how the research data has been analyzed.

3.1 Qualitative Research Approach

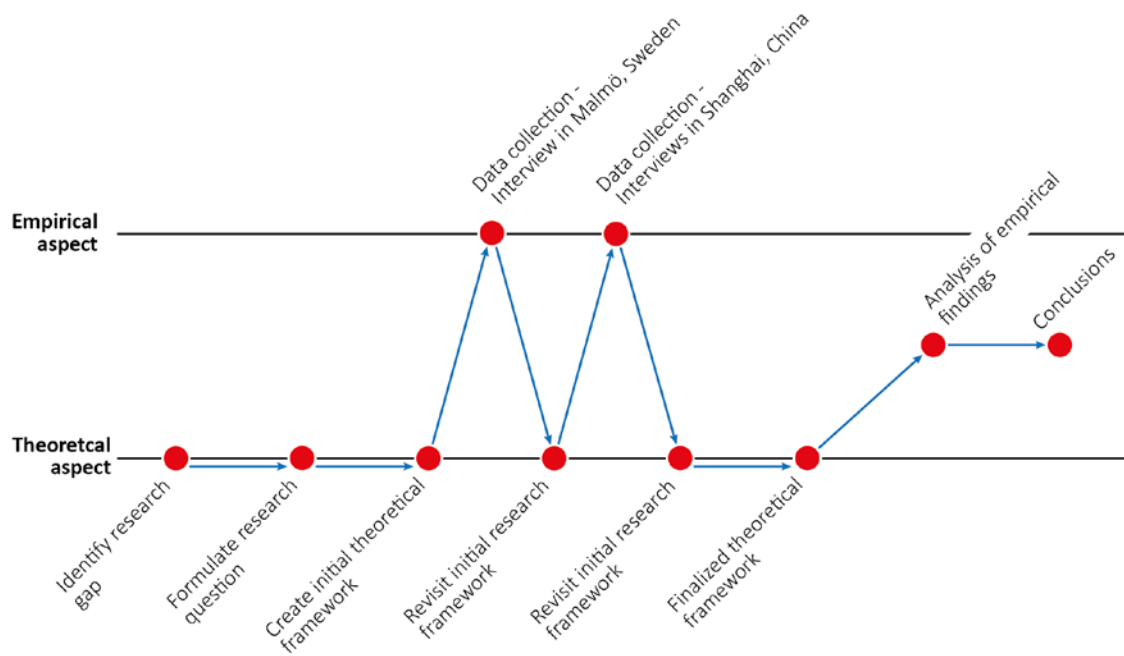
The applied research approach of this study is a qualitative strategy in order for us to be able to comprehensively capture what occurs in reality in a certain context (Yin, 2010). In this thesis the aim is to understand how foreign micro-enterprises reach their business network insider positions, as suggested by the revisited Uppsala model, when internationalizing in Shanghai. The choice of using a qualitative research approach enables to hopefully be able to answer the why, how and who questions in this study (Doz, 2011). Moreover, with a qualitative approach it is possible to explain the reality in a more detailed and in depth manner (Yin, 2010), which is our main motivation for using such approach in this study. This thesis has a character of being both inductively and deductively structured in terms of a continuously revising of the theoretical chapter as the empirical data was gathered. This structure is more commonly known as having an iterative approach throughout the research process (Bryman & Bell, 2011; Eisenhardt, 1989), which is also referred to as the use of an abductive approach (Ghauri, 2004). This approach is good when matching the theory during the data collection (Eisenhardt, 1989). By following this type of approach compare our data with the literature and design the theoretical chapter accordingly (Eisenhardt, 1989; Ghauri, 2004).

3.1.1 Research process

As stated above, we have used an abductive approach for this thesis, which includes several steps and phases during the research process by continuously revising the theoretical framework (see Figure 2). The first step in the process of this thesis was to identify the research gap regarding micro-enterprises and their internationalization

process. The next step was to formulate research questions and then match the upcoming study with a suitable theoretical framework. The theoretical framework was created and structured accordingly to enable a pre-understanding of the research questions and it was later used when performing the interviews. During and after the construction of the data collection in both Sweden and China, which resulted in the empirical findings of the study, we returned to the theoretical framework and revisited the literature review and made necessary adjustments.

Figure 2. The abductive research process of this thesis



Own model of the research process

3.1.2 Case study

The general idea of using a case study strategy is to observe one or several cases and to explain the gathered data (Dul & Hak, 2008). The research design of using multiple cases to study with a qualitative analytical angle is the selected approach for this thesis, which indicates that the objective is not to receive a proof of a phenomenon but to use an exploratory approach. When using only one case, the end result is provided as a whole-picture-overview and substantial data can be included in the investigation. However, this thesis will use a comparative case study with several cases included where certain

important information using will be selected. A multiple case study can provide with an idiographic approach to be able to create a pattern among the chosen cases (Bryman & Bell, 2011). There is a risk that a multiple case approach could therefore disadvantageously disregard other important factors to explain the reality, which can be avoided by using a high degree of consciousness when selecting and analyzing the cases (Bryman & Bell, 2011). The multiple case study approach is also useful when it comes to building theories (Eisenhardt, 1989). We believe the use of a multiple case study opens up a larger spectrum since we can compare the realities of these cases and create a general understanding. In sum, this thesis will examine and analyze each company and analyze if any generalized patterns are distinguished among the represented micro-enterprises.

3.1.3 Sample units

When selecting the representative micro-enterprises for this thesis, we retained an open mind when selecting which companies to include, i.e. the choice of companies has been independent upon for example regarding which industry they are operating in. We use four main criteria for the selection of the cases for this study. The first and the main criteria is that the micro-sized companies need to consist of 1-9 people at the time of the start-up phase of the company. Secondly, the micro-enterprises must have started an internationalization process in Shanghai, China. Thirdly, the micro-enterprises need to be foreign owned, thus run by a foreigner/ someone who was not raised in China.

An important condition for the interviews to be conducted was the company availability, thus that the micro-enterprises were able to commit time to us. Despite an active purposeful sampling on the basis of the above criteria, another aspect of the collection of the data was the use of a so-called snowball sampling method (Bryman & Bell, 2011). This method indicates that the respondents from the first interviews provided us with suggestions of other candidates for us to interview and thus include into our empirical findings. This is how we received the majority of our interviews once we were present in Shanghai, by gaining information about potential candidates suitable for our study. According to Bryman & Bell (2011), this method is however somewhat risky since it

might result in irrelevant candidates, a situation we also experienced. We did perform in total 10 interviews, but after the particular interviews, eventually two micro-enterprises were excluded from the study and the research sample thus constitutes of eight micro-enterprises. Generally speaking, this type of sampling can however still be an appreciated addition, which in fact also was the case for this thesis in terms of finally additional data which resulted in the final empirical findings.

All interviews for this study were performed with the manager of the company, i.e. the business manager being the one who started and run the company at the beginning of the establishment. Additionally, all eight companies relevant for this thesis were in line according to the above-described criteria of micro-size, internationalization to Shanghai, originating from a non-Chinese background and an independent company. Seven of the interviews were executed in Shanghai in mid-March and one interview was held in Malmö, Sweden, in February. The interviews were held in English or Swedish, and in the case of Swedish interviews, the data used in this study is our own translations. All interviews were held with the business manager/founder of the company, and only one interview for each company. A detailed schedule over the performed interviews can be found in Appendix B.

The eight analyzed companies within the scope of this study are Floorball Centre Pro, Julian Communication, JD3A Consultants, Omega Rock & Co, YueHan Trading Company, Fresh Finland, Eurolector and Sip 'n Paint Studio (see Appendix A and B). All these companies operate within different industries. Floorball Centre Pro (FCP) is providing educational programs for promoting the Swedish sport floorball in Shanghai. The floorball practices are combined with learning English and they are targeting both local and international companies and schools (Floorball Centre Pro, 2015). Julian Communication works with different communication solutions for companies of all types and sizes. The company focus is mainly on various web productions and graphic designs (Julian Communication, 2015). JD3A Consulting is offering various sourcing consultancies and purchasing services, including transaction assistance and quality and compliance inspections (JD3A Consultants, 2015).

Omega Rock & Co produces clothes, accessories and products with positive messages particularly in terms of designing words and messages on products (Appendix B, Tan). YueHan Trading Company is providing support for foreign firms to establish their businesses in China and Hong Kong mainly in retailing and e-commerce, including a complete portfolio of services such as imports, logistics, marketing and sales, distribution and financial services (YueHan Trading Company, 2015). Fresh Finland deals with importation of fresh food to the Shanghai market. The company has two other bodies included in the business, which is the café Toast and the Point (Appendix B, Lötjönen). Eurolector is offering training of various kinds including cross-cultural training, corporate finance and consulting services to companies and private customers (Appendix B, Söderberg). Sip 'n Paint Studio is an art studio offering an entertainment concept with art workshops and different social events related to graphics and art. The idea is to provide a relaxed atmosphere and fun painting classes in a social context (Sip 'n Paint Studio, 2014).

3.2 Primary data collection

Within the qualitative research, there are many different methods of collecting the data needed to understand the complex phenomena of a certain situation or context. There are many potential methods for the data collection such as various types of interviewing or observations with different levels of participation (Yin, 2010). In this study, we have selected to mainly use primary data, which we have received by interviewing the eight micro-entrepreneurs. Some secondary data has also been used to complement the primary data.

3.2.1 Interview approach

According to Yin (2010), the most valuable way to collect information is by using interviews. In this thesis we have only focused on collecting material by face-to-face interviews. It is furthermore good to have open-ended questions in order to be able to freely discuss the opinions of the respondent (Yin, 2003). This approach is representing a less structured form of interviewing which are striving for an "easy going" interview, also

known as a semi-structured interview (Bryman & Bell, 2011). The main idea of such an interview is to create a relationship with the respondent and to get access to in-depth information. This is achieved by having a set of interview questions prepared in advance, but instead of keeping the interview limited to these questions, the questioning is allowed to flow outside the interview manual and the researchers may ask follow up questions in order to gain a deeper understanding of the area of research. The method is referred to as semi-structured interviews, where the main characteristics are the prepared questionnaire, which are used as manual for structural purposes (Yin, 2010). In qualitative research, the semi-structured interviews are the most common method of collecting data (Bryman & Bell, 2011). This approach has allowed us to move away from the static interview material by flexibly asking follow-up questions as the interviews developed (see Appendix A).

The detailed outline of the face-to-face interviews first included a moment of “breaking the ice”, followed by introductions of us interviewers, the thesis and the respondent. Thereafter, the questions were discussed in a subsequent order, but could vary randomly according to the development of the received answers and depending on the direction of the discussion. All interviews for this study were recorded in order for us to be able to focus on only listening during the interviews and to enable us to listen to the interviews again. Due to the fact that we were two researchers in most of the interviews, one could focus on writing down the central parts and the other could focus on asking the questions and make the interviews as smooth and comfortable for the respondent as possible. During the interviews where only one researcher held the interview, the data was not written down until after the interview was finished, by listening to the recorded audio. With two people performing the interviews we use the different understandings we might have had and this can further add value to the material according to Eisenhardt (1989).

3.2.2 Research ethics

Within business research there will always be the issue of potential ethical problems when conducting any type of research. There are several concerns about ethics within research, where the primary difficulties is collecting and analyzing the data. Additionally,

an ethical concern is the relations between researchers and the research participants. The majority of apprehensions regarding ethical issues are related to areas such as causing harm to any of the research participants, a shortage of informed consent, assault of privacy or deception of any kind. In order to avoid the potential difficulties concerning ethical dilemmas, professional associations have formulated codes of ethics to reduce the potential ethical implications. It is also suitable to consider general social and personal ethics and morals, which are applicable to the ethical difficulties within business research (Bryman & Bell, 2011). By being honest in all aspects of the phase of collecting information and by clearly stating what is needed and what the information given will be used for, we hope to avoid any potential risk of deception or dishonesty.

The research ethics in regards to the interviews is connected to the structure of the interview questions (Yin, 2003). Due to the constant contact with the respondent and the abductive approach of constructing the theoretical framework, the interview questions were carefully developed. Although, as Yin (2003) emphasizes, it is difficult to avoid the situation where the respondent tries to give the answer the researcher strives to get. However, as researchers we tried to ask different follow up questions frequently in order to make sure that the answers were symbolizing the reality. Another important tool in research ethics is in regards of recording the interviews (Bryman & Bell, 2011), which allowed us to later listen to the interviews and search for any information we might have missed or by confirming any ambiguities.

3.2.3 Analysis of data

When analyzing the collected data, there are several steps which are useful, namely first compiling the data, thereafter disassembling and reassembling the data, interpreting the data and lastly, concluding the data (Yin, 2010). The compiling of data during the interviews consists of the database and the portfolio of data gathered for this study. With the disassembling of the gathered data the database was broken down and divided in different sections in order to facilitate for the reassembling of the relevant material. The interpretation step includes the amount of credibility the researcher has within the field and the amount of value added to the field from the research. The interpretation of data is

an important step in the research process and especially commonly integrated in qualitative studies (Sreejesh et.al., 2014;Williams, 2000), which is the reason why this step is thoroughly emphasized also in this study. When interpreting the data it is important to bear in mind the fact that the collected data does not automatically present an obvious result, as the researcher translates the data into its relevant context (Yin, 2010). The data and material in this thesis is interpreted as objectively as possible, where the fact that the study is independent from any view of one particular company or organization. Another example of the objective interpretation of the data gathered is the use of existing theory to test whether or not the selected models are applicable for our collected data.

From each recorded interview a significant amount of time was spent on listening to the recorded interviews when analyzing the data. Throughout this phase, a detailed and comprehensive analysis of the collected material was established, and the theory used in this study was also matched and compared with the analyzed data. The last step of concluding the material was by challenging the existing research and by analyzing potential generalizations within the topic, i.e. overcoming the liability of outsidership, becoming an insider in the internationalization process into Shanghai.

3.3 Evaluation - Reliability and validity

Reliability refers to whether the findings from the study could be repeated in another research in the same topic (Bryman & Bell, 2011). Validity in a study is a correctly gathered, analyzed and concluded data all representing the studied reality (Yin, 2010). Within the concept of validity there are two parts; the trustworthiness and the authenticity. In trustworthiness the credibility is a main component and it refers to the accurate way of carry out research and furthermore includes triangulation (Lincoln & Guba, 1985).

The validity of this study has been a constant aspect to consider during the entire research process. We are of the beliefs that there is not only one truth or only one accurate approach of validating the findings of our qualitative research, which is also what

Andersen and Skaates (2004) state. In order to increase the validity of this study, we have thus taken several aspects into consideration during the process, ranging from the preparation of the interviews to analyzing the gathered data and drawing conclusions of such data. We have consciously deliberated over which companies to include in the study, and tried to accomplish a wide mix of business activities in order to gain an overall representative sample. As for the reliability we believe that other investigations on micro-enterprises entering Shanghai in regards to their business network insider positions would should the same findings as ours did. Other researchers could therefore find the general pattern in our findings again if investigating the same topic in the same context. For each company, we have also interviewed the one person that took the initiative of the company and which were principally the one responsible and in charge of the company, both during the startup phase and often continuously today.

By interviewing the manager of each company, we made sure to get all the important insights of the companies' actions and purposes, with the goal of increasing the validity of the study. Another aspect that we considered and evaluated were the issue of uncertainty related to the interviews, which was specifically related to the cultural differences (Andersen & Skaates, 2004). By being aware and observant of these potential difficulties, we could both prepare for and deal with any potential cultural problems that occurred, but we could also act in advance in order to avoid them during each interview. One aspect that helped us during these situations was the importance, time and effort spent on the first phase of our interviews, where we tried to develop a mutual trust towards the respondent. This mutual trust later helped us get more truthfully answers and we were also told some very personal and even secret stories, which we promised to keep hidden in order to protect the individual as well as the company.

3.4 Limitations

In this thesis several potential delimitations and limitations exist due to a wide range of reasons. The limitations derive from time restrictions in the execution of the data gathering, reaching out to companies and getting access to the right companies, the selection of the chosen firms and the interviewed individuals together with the execution

of and the practice of the data collection. Apart from the reliability and validity aspects discussed above, there are mainly three potential limitations; a generalization issue, the selected literature and the time aspect of the study. As the study is using a qualitative approach, the findings are tentative and are reflecting the interviewees' personal experiences and interpretations of a certain reality and should thus be considered mainly as a foundation of further investigations and examinations. It is also true that the results and findings from this study might have been different if another sample of companies and interviewees' had been chosen or if the interviews had been executed during another time or within a different context. The entrepreneurs only recounted their personal experiences which could have been influenced by the specific time and context in which the interview took place.

Despite the fact that we had an open mind approach in terms of the chosen literature, we might have included several other factors into the study. The final factor is that there are no outcome measurements, i.e. that the companies are still ongoing projects that has not yet ended, there are no final results or conclusions which can be drawn as the companies have not yet completed their work and operations. Thus, the results and conclusions drawn in this study are based on the actions and experiences of each company until today, indicating that the factors in the analysis might change some time in the future.

4 Empirical Findings

The following chapter consists of the empirical data, which mainly represents the primary data collected in this thesis. Initially, the secondary data introduces micro-enterprises in China followed by the primary data of the eight cases studied, namely Floorball Centre Pro, Julian Communication, JD3A Consultants, Omega Rock & Co, YueHan Trading Company, Fresh Finland, Eurolector and Sip 'n Paint Studio. Each micro-enterprise and its entrepreneur will be shortly presented below, together with the detailed empirical findings collected from the interviews.

4.1 Micro-Enterprises in China

The development of the Chinese economy during the past decades has been impressive since the economy reformation starting in 1978. Today the country boasts the second largest economy in the world. China has developed substantially but it has also met many challenges in terms of heavy pressure from pollution and poverty, among others (WB, 2015). With regards to the informal sector, China is described as rather unique since it has increased along with the liberalization the economy has gone through (ILO, 2015;KTG, 2012). The country is massive in regards to the population size and hence the Chinese market presents several interesting business opportunities (ECOVIS, 2014). According to a study by Dolles and Babo (2003), around 40 percent of the entrepreneurs in privately owned firms in China still experience unfavorable treatment in comparison to the state owned companies.

Publicly owned companies in China are more promoted than privately owned ones, which is mainly due to the structure of the Chinese economy with the regulations and policies that serves them advantageously within the system. China is currently on the move to promote policies concerning privately owned micro- and smaller scale businesses in an attempt to boost the decelerated economy. The smaller actors, which are not exceeding a certain amount of revenue per month, have been promised to receive tax benefits. Another area the government of China wants to improve is the availability to

financially support micro-businesses (Bloomberg, 2014; China Daily, 2014). In Shanghai, the local government wants to facilitate the ability for small business to receive loans (CCTV, 2014) as well as providing several potential tax benefits (Shanghai Daily, 2015). In 2013, the total amount of micro- and smaller enterprises in Shanghai amounted to 370,000 and they are representing 54 percent of the job supply within the city (CCTV, 2014).

The official number of small and medium sized (SMEs) in China are in total 4.3 million in 2012 (MCPRC, 2012). The micro-enterprises and the SMEs are together important, representing for a total of 80 percent of the Chinese jobs offered, which prominently effects the East Asian and the Pacific region to lead in the world in terms of employment from these types of companies (WB, 2010a). China only separates between what defines a small sized company and what defines a medium sized company and hence there is no classification for micro-enterprises within the country. However, the majority of the SMEs in China (70 percent) have five or fewer people working in the company (WB, 2010b). In 2014, China ranks 100 in the CPI out of 175 countries (TI, 2014b). The anti-corruption law was launched in China in 2012, however, the country has according to the Corruption Perceptions Index (CPI) weakened its ranking in the index ever since due to lack of transparency and insufficient business regulations (TI, 2014a).

4.2 Floorball Centre Pro

The entrepreneur Oskar Färnö established Floorball Centre Pro in April 2014. The company offers education and practical sessions within the Swedish sport floorball, together with an opportunity to exercise the English language. The company was single handedly set up by the entrepreneur but today he employs two more people on a part time basis. The entrepreneur is Swedish who first moved to China in 2009 where he worked for a large company before founding his own business.

Establishing in Shanghai

The entrepreneur started the company after he had met another actor who dealt with presenting floorball in Shanghai. However, he thought, with his own experience of the

sport and with different businesses he could start his own company. When he first came to China he did not know many people in Shanghai and it was thus important to join fairs, events and other activities, but also to contact companies and keep networking with everyone. This is an approach he was familiar with when starting FCP where he did similar things in order to screen the actors interesting for the floorball operation. He also believes that he was able to establish a comprehensive network in Shanghai this way, which eventually enabled him to start up his own business. The entrepreneur describes how his previous experiences in Shanghai later impacted his own startup, partly in terms of knowing how to act in the market and also by having relevant contacts. What is more, in recent years he has been involved in activities that accelerated the startup and subsequently the development of his company. The entrepreneur states that: *“As I already had a good network from living in Shanghai and without it the start-up would have been difficult”*.

Opportunities and challenges

The entrepreneur explains that establishing oneself in China involves many paradoxes both personally and professionally. He highlights one particular aspect as the necessity to be in China and learn more about the country before starting your own business. As a foreigner, he explains that many Chinese might try to trick you but he also emphasizes that they can be very helpful, due to sympathetic reasons since they understand that a foreigner is in an unfamiliar and uncomfortable environment. He also believes that China is full of opportunities but in order to best exploit them, it is essential to have both financial funds and knowledge as well as a courage to risk it all. The entrepreneur expresses that: *“Every day offers different challenges or something new and unexpected happens”*. The main challenge, the entrepreneur explains, is to be prepared at all the time and being able to respond and solve any potential problems as fast as possible. Another operational challenge is finding enough venues to utilize for the company events, because the venues in Shanghai are strictly limited in numbers. Another challenge is the fact that the company is dealing with activities that are still considered rare and noticeable by the Shanghai population, which is mainly due to that the company, and its activities still are quite unknown. He continues by explaining that an opportunity is also that a large

number of expatriates steadily are moving to Shanghai, which means that they might want their kids or themselves to engage in any international or Western sport such as floorball.

Networking and relationships

The entrepreneur describes that he is actively contacting Chinese and international people on a daily basis through the Chinese chat platform WeChat, as well as via e-mail and telephone. During his time in Shanghai, he describes that he *“has consciously spent a lot of time in maintaining the relationships he has initiated”*, a strategy used for both personal and professional ties. Regarding maintaining long-term relationships with people who has left the city or even the country, he identifies difficulties in staying in touch due to the city’s fast pace where people are constantly on the move and staying only for a couple of years at most.

According to the entrepreneur, one success factor is that people he knows usually recommend him. He says that: *“Today it is more about that I need to make sure others talk about me and my company so I can be recommended and trusted in an earlier stage”*. It is important to be present in relevant events where for instance international schools are attending since these may be looking for new sports to consider and integrating them into the school. He also attends other networking events where expatriates are present such as events by the Swedish Chamber of Commerce, where the exchange business cards and then later reconnecting with people through various social media are the main objectives. The entrepreneur says it is important to use these situations as a way to raise awareness of his company in an informal way, which he believes is a common procedure in Shanghai. The entrepreneur explains that people are exchanging services with each other and involve with business with each other also in their private time such as when meeting people in parties. He also adds that the company also use formal marketing channels such as informational posters and their website. He stresses that it is indeed valuable to have a certain set of social skills and to be able to handle people in these sorts of settings and contexts.

Guanxi and trust

Having a broad network and many connections are often the main determinants of one's work place according to the entrepreneur. Guanxi is important to consider but he believes that "*it might become less relevant due to influences from international actors*". He explains that he never experienced bad guanxi per se, however, there had been cooperative arrangements that never occurred due to lack of interest from the other part.

The building of trust with the Chinese people is a long process, according to the entrepreneur. Especially compared to European people where business ties can be done in a few days, however, he states that these faster relationships might not last as long as the ones where more time and effort has been spent developing it. He believes that one important determinant of trust is to know some Mandarin, which indicates that he is motivated and committed and will be there for the long term. However, the actual business negotiations are still in English for efficiency and accuracy reasons. The entrepreneur states that: "*When discussing business it is better to stay with English because that will be an advantage for your professionalism*". The website is also one factor which increases the entrepreneur's trustworthiness, since consumers can see how the sport is performed and hence approach the company at their own choice.

4.3 Julian Communication

The entrepreneur Jesper Hedner officially established Julian Communication in 2010. The company offers different solutions within communications, with a particular focus on web productions and graphic designs. Today there are in total four people involved in the company with plans of expanding in the near future. The entrepreneur is Swedish and first came to live in China in 2007.

Establishing in Shanghai

The start-up of Julian Communication in Shanghai was time consuming in terms of several bureaucratic barriers it needed to consider. It was also difficult to establish as the company was a newcomer in Shanghai and compared to the entrepreneur's previous experience of establishing a firm in Sweden, the start-up of the business in Shanghai took

a considerable amount of more time. This is due to that in Sweden, information is often easy accessible and a lot of information of how to set up a business can easily be found in the Internet, however in China this is not the case.

The entrepreneur took help from a previous customer of his who supported him with important administrative issues when starting Julian Communication. As the entrepreneur himself had lived and worked in Shanghai for several years before starting Julian Communication Shanghai, he was already aware of some important aspects of the particular market and he also knew some people. The previous knowledge he had gathered before starting the company was of major importance for him, especially in terms of getting to know more people. He emphasizes the importance of knowing the right people if someone wants to start up a business in Shanghai. Especially in the first phase of the business it was especially important to receive support from other people and more experienced actors such as the case of the previous customer, which was of significantly importance for him during his start-up phase. The entrepreneur states: *“It is not easy to start up a company in China, with a lot of bureaucracy, but luckily I had a friend who helped me with many things”*.

The entrepreneur also explains that the exchange between him and his friend/previous customer was a win-win situation where in exchange of the knowledge of starting up a business in Shanghai that he received, he in turn offered his expertise within web solutions. According to the entrepreneur, this is a common procedure, where people are helping each other with favors and receiving favors in return. Help is also commonly offered to friends and customers and includes a variety of services. The entrepreneur states that today when he is looking back, he believes that these exchanges in the beginning were both more valuable and crucial for his business at that time than what it would be today at his current phase. The entrepreneur explains: *“It was important in the beginning to get involved in win-win situations, nowadays, it is more common with simpler exchanges with partners or friends even”*.

Opportunities and challenges

One particular challenge the entrepreneur identifies is that the salaries of employing new and multiple people to his business are constantly increasing, which is a direct barrier of the development and growth of the company. Some of the obvious challenges of establishing in Shanghai were the difficult and time consuming process of the startup phase, but today when looking back he believes that the opportunities was considerably larger than the challenges he encountered. The entrepreneur states that his company has a good position in the Shanghai market and that he has a good level of relevant contacts, both formally via the Swedish Chamber of Commerce and its Young Professionals unit, as well as informally with personal relations. Moreover, he states that he is aware of the possibility to attend workshops and receive important information regarding trends within web solutions respectively identifying opportunities this way, although, that he is not actively engaged in this as before. The entrepreneur emphasizes that Shanghai is a city with a lot of events, which means that it is possible to network at any time during the week, which he believes can result in several advantages opportunities.

Networking and relationships

The entrepreneur is mostly doing business with Western people in Shanghai and it is such events including international people, which he targets. At first, in the earliest stage of the establishment of Julian Communication he believes that networking was important. This the entrepreneur describes has to do with the fact that during the early stage the need of creating a functional and developed network was crucial for the business. The use of social Karaoke TV and dinners was something he engaged himself in, in order to improve his network. By contacting previous customers or other contacts in Shanghai, the entrepreneur was able to reach out to new potential customers, a process he named “a third party communication”. He explains further that: *“Old customers can provide me with new customers, and different contacts can recommend other potential customers to me”*. However, his networking frequency decreased over time when word of mouth worked well for Julian Communication. The word of mouth came from either previous or current customers, friends or acquaintances, which resulted in a boost of the business and remains as one success factor of his operations in Shanghai. The entrepreneur states that

he still maintains the majority of his connections and relationships by attending one or two events each month. The Swedish Chamber of Commerce is his preferred option among the events as it provides him with the opportunity to socialize with interesting and relevant actors and the exchanging of ideas. As the entrepreneur is not meeting all his customers in person, the majority of the communication is handled digitally. He has found several new contacts and even new employees by using LinkedIn. Other channels, which are frequently used, are mostly email and other Internet based programs such as different CRM systems (Customers Relations Management).

Guanxi and trust

The entrepreneur states that it is difficult to create guanxi with Chinese customers specifically in his industry. This is mainly due to the low extent of personal meetings, such as having dinner or joining other social events together. There is also an advantage to speak the local language when trying to create guanxi but most of his business relations are with Westerners of various nationalities and not those of Chinese descent, and that this group of people is particularly easy to do business with in the web solution industry. Also Swedish nationals are easy to relate to and build trust with as they share a common nationality. For example, when doing business with other Swedes, the entrepreneur states that he is rarely using contracts when agreeing upon a business arrangement, despite that signing a contract is normally the standard procedure. In general, he trusts international people since he often do business with them, however sometimes he is hesitant and suspicious regarding local people due to past experiences of issues and therefore in such situations it is often required that written contracts are used. He says: *“It is easy to do business with foreigners here and even easier to do business with Swedish people”*. The entrepreneur also states that customers trust him directly if a common friend has recommended Julian Communication. Also that he has an updated website with his previous works and a local office in Shanghai, are increasing his credibility and professionalism further for potential customers to initiate contact with him. The entrepreneur also believes that it is common in Shanghai to create guanxi and trust with others, this also includes him, since the overall environment is both friendly and social where most people actually want to help others.

4.4 JD3A Consultants

The entrepreneur Janis Donis established JD3A Consultants in 2010 in Shanghai. The company offers a variety of different sourcing consultancies and purchasing services, which includes quality and compliance inspections. JD3A is also running the communication between the suppliers and the clients in different industries with the mission to reduce the risk in the clients' supply chains. Janis alone started the company and currently one more is involved in the company today. The entrepreneur is a man from Latvia, who has lived in China since 2005 and since then he has been working for several companies before launching his own business.

Establishing in Shanghai

The entrepreneur named his company "JD3A", where JD is his initials and 3A stands for: "the highest possible grade of trustworthiness". When first establishing the company in Shanghai, the entrepreneur first had to figure out how to find clients. Since he had lived in China for several years before starting his own company, he already had several contacts, a lot of experience and local knowledge about the Shanghai market, which was a great advantage. Through mutual advantageous exchanges with his existing friends and contacts he managed to find clients. He also contacted previous clients from earlier jobs in order to initiate business with them or receive advice from them regarding new clients. This approach was valuable for JD3A. By utilizing contacts and previous clients, he believes he managed to build up a good reputation of JD3A, which has later resulted in a flow of new incoming clients.

Opportunities and challenges

Janis came to China since he believed that the country had a great potential and bright future ahead with business opportunities. Today, 10 years later, he is happy that he took the chance to move here and establish himself and his company here. One main challenge the entrepreneur mentions is the different regulative difficulties he face, but also that it is quite problematic to hire people. As information is scarce and not completely reliable in

Shanghai, he knows he can solve that particular problem by himself provide information that he discovered to others, mainly in order to increase the credibility to his clients.

The entrepreneur emphasizes that he believes that China provides several opportunities in terms of manufacturing regarding low costs. But since the company works within a particularly niche market, this has caused him several challenges such as specific requirements for unique products, which has not been manufactured before. He has had problems in finding companies, which are dealing with high value added activities, since these companies are rare and hard to find.

Networking and relationships

During the first phase of establishing the company, the entrepreneur did a lot of networking mainly by socializing with old clients or in events where examples were the ones arranged by embassies or different parties. Initially when starting the entrepreneur used both exhibitions and industry events to get in contact with suppliers, but also Internet or with phone or email were efficient ways. However today, he does not need to network as much since he believes his company has a good network and the events he attends are those in which international actors might be present, such as in larger fairs or certain exhibitions. He expressed that: *“In my situation, networking is not as efficient anymore since 80 percent of my clients are recurring clients”*. He explains further that he has realized that repeated business is the most valuable for his company and this is where his effort is spent, in maintaining current clients. JD3A’s network is of “good quality” according to the entrepreneur, and he states that he takes substantially good care of his clients and relationships by nurturing its collaborations.

In order to begin a new relationship the entrepreneur explains that he first tries to understand the client’s business. To approach these clients socializing, having dinners or attending other social events were common ways and the entrepreneur is still using these. Once the first acquaintance has been established, he then re-connected with the interesting contacts for JD3A after some time to ensure the business exchange was followed through and with correct information. It was also important to ensure both

himself and the other party receive their shares of the benefits from the relationship. The entrepreneur states: *“It is important to be fair and clear about all the details and to avoid being even slightly ambiguous about anything”*. He emphasizes that it is important to be patient in this exchange relationship both with the clients and suppliers since the result of the relationship might reveal itself at a later point, especially regarding other people’s favors to him. He states: *“I was impatient before, wanted result now and yesterday, the result often came later on which was a lesson learnt”*. The entrepreneur explains he believes in involving in “give and take” relationships when doing business in Shanghai.

Guanxi and trust

When attending events or other social activities, the entrepreneur is focusing on developing guanxi with different actors. He explains that having guanxi means everything and is hence the main goal. Building guanxi in the current situation for the company is not as essential as in the first phases due to the fact that he has already established his network position here. The entrepreneur points out that he believes that it is crucial to check everything twice when doing business in China. He explains that in his situation: *“It is more important for Chinese actors to find him and his company rather than the other way around”*, which indicates that others need to trust him he thinks. He is therefore in a somewhat safe position, not risking as much as his clients regarding trust and reliability. During his time in China, he believes that the overall importance of trust and accuracy has significantly improved, especially regarding business ethics. One other important aspect regarding trust, is that the entrepreneur is using the Chinese language in the business negotiations with his Chinese suppliers, which increases his reliability with his counterpart.

4.5 Omega Rock & Company

The entrepreneur Linda Tan founded Omega Rock & Co in June 2014. The company is selling clothes and accessories with different positive messages printed on them and with a particular focus on clever and fun designs. The entrepreneur established the company by herself and she is currently only one working in the company covering the making of

her designs as well as the business in Omega Rock & Co. The entrepreneur is a woman from Singapore, who has been living in Shanghai since 2006.

Establishing in Shanghai

The entrepreneur is stressing the need for her to meet people in order to continue developing at her current stage. In the startup of Omega Rock & Co the entrepreneur used a friend's advice on an interesting event as a way to develop. After the success from that event the entrepreneur found other interesting places such as different official bazaars, shopping malls, public conferences and events at her own place all in where she could show her new products and ideas for the local surroundings of Shanghai. These are ongoing networking methods the entrepreneur is using for Omega Rock & Co. Additionally, during these types of events she explains she is able to gain other people's attention and therefore test the market a little. She can also raise awareness of her products in the events as well as exchanging ideas with other entrepreneurs. She believes networking is crucial for her business in the current situation.

Opportunities and challenges

Generally speaking, the entrepreneur believes that Shanghai offers a modern, friendly and forward-thinking environment, which therefore makes a perfect platform for her business concept. She also emphasized that people in Shanghai do speak or at least to some extent understand English, which she thinks is a major advantage when communicating in terms of her products with especially younger generations but it also an advantage in business negotiations to be able to use English, although the entrepreneur knows good Mandarin now after almost 10 years of experience in the city. The entrepreneur explains that: *"There is too much negativity in the world...I think there was a need for everyday people to start focus on positive factors rather than all negative aspects in life"* which according to her was the main motivator for starting Omega Rock & Co. The opportunity became clearer when she did some research and realized that English words or messages were often misspelled in China. There were however also several challenges which she had to overcome when establishing her company, such as finding investors and to increase the overall awareness of her company and products, while simultaneously keeping her own

brand/ideas and not vanish among the bigger brands and companies by selling her products in their stores.

Networking and relationships

The entrepreneur explains that the input she has received from other people has been incredibly valuable, even though it is not always possible to have time to follow up on the advice and suggestions of people that can be valuable to Omega Rock & Co. She also emphasizes that she has received important insights from other people regarding information about suppliers, since she believes that it is important to do some background research in order to avoid deceptions, misunderstandings or other situations, which might harm her company. Such situation she has witnessed before when an order took a long time to be finished and caused a delayed delivery of T-shirts. The entrepreneur explains that the only right thing she could do in that situation was to ask the supplier to be honest with her always, even if the T-shirts could not be delivered for some reason. She explains that: *“There is a lot of pride here, not a national pride but individual, ex. Chinese are afraid of losing face”*. She further says: *“It is important to let people help you, ask people for help and also let people help you come up with ideas and suggestions”* which she highlights is not in the nature among the locals. However, she compares Singapore as a cosmopolitan and expensive but Shanghai as a city that is cheap and becoming more trendy.

The entrepreneur explains that she intends to continue attending a lot of events in order to establish a network she think she needs at this stage and raise awareness of her company. She emphasize that networking is crucial for any business when establishing, but she also states that Shanghai offers a well prepared platform for networking, with a lot of events and activities, despite there are some potential difficulties with reaching out to the Chinese people, due to differences in social and business behaviors as well as cultural differences and values. She explains that: *“It is easy to network in Shanghai, especially as a foreigner. A little more difficult for a Chinese, but if they see a chance to make money from you, they will take the opportunity”*. She continues by stating that: *“ I don ´t not have any specific networking strategy but I try to network wherever I go in order to attract*

interested people". She emphasizes that it is important to create relationships with people, both customers and suppliers in order to gain something extra. She explains that: "*Let them know that you actually care, not only for the exchange they might give you. Keep in touch, even if they are not quite right for you at the moment*". The regularly keep in touch with contacts is performed by using WeChat, Facebook or email, as she explains is important since they might be able to help her in the future.

Guanxi and trust

The entrepreneur stated that for her, guanxi is just another word for relationships and that guanxi thus applies to anybody no matter of culture or nationality. She further explains her interpretation of trust as: "*You have to know what you might lose, but still take the leap of faith in order to start trusting someone*". Trust is important at the current situation of her company, and she points out that she has experienced situations where she has encountered people who did not was honest or trustworthy but tried to trick her. She has now learnt to better identify these situations and as a result taking precautions to avoid such dishonesty again. She also emphasizes that because of differences in cultures and business norms, it is important to understand that people's backgrounds as well as their behaviors might differ when doing business and that the best way of dealing with all different people is by being as honest as possible. Another thing she has learned from her experience in Shanghai is that it is important to be humble in business, which she believes has to do with the cultural aspect of pride in China. Realizing this has been valuable for her during the beginning of her company, and she has also learnt that it is important to have patience when doing business in Shanghai.

4.6 YueHan Trading Company

The entrepreneurs Johan Aledal and Johan Wikander established YueHan Trading Company together in 2010. The company offers support to foreign firms in order for them to establish their business in China, with a particular focus on retailing and e-commerce. In the beginning they were three people in the company but currently there are in total 15 people working in the company. The interviewed entrepreneur Johan

Aledal is a Swedish man who moved to China in 2009 with his at the time current job, but soon decided to develop his own business.

Establishing in Shanghai

The entrepreneur moved to China after the financial crisis in 2008, which of course resulted in an overall difficulty and tense environment to be new in. Immediately, when arriving in Shanghai he was aware of the need to interact and socialize with people, both locals and people from different nationalities, in order to develop his network. He attended all events he could find, generally at least two events each week, which lead to the startup of YueHan. It all started when Johan and Johan met at an event arranged by the Swedish Chamber of Commerce in Shanghai. They shortly after decided upon collaborating and did so by combining their expertise and knowledge in YueHan, which they created together.

Opportunities and challenges

The entrepreneur realized when he arrived in China that e-commerce had developed significantly in China and decided to establish the company. Another advantage the company had was the other entrepreneur's experiences in Shanghai, an existing reputation, several important contacts and business know-how. Another opportunity is that there is a modern health trend all around in the world which is also present in China according to the entrepreneur, where the awareness and danger with pollution and other social issues such as food regulations and habits. By socializing with Chinese people, he became aware of the development where Chinese people were tired of their unhealthy situation in China and that there were a desire to change. The last challenge the entrepreneur identifies is the language barrier, which is a hinder of fluently communicating with other actors, which complicates the situation and costs both time and potentially money.

Networking and relationships

The entrepreneur emphasizes that it is very common that he joins breakfast seminars before the day at the office starts. He is aware of the possibility to join other various

network events such as e-commerce fairs, events arranged by associations, fairs and other organized mingle events. During such events, everyone is looking out for meeting new people and to extend one's network in Shanghai. The business climate in China is fast and it is hence important to be active and always make sure being updated and to attend events where information is available. These events and other activities are important and the entrepreneur explains that: *“Events can build bridges with other people different from myself one would not otherwise meet”*. However, in the current situation, the entrepreneur describes that he does not have as much time to join events as he did when arriving in Shanghai and that also his need for attending events is not as of strategic importance as before. Today, he instead believes that people contacts him to a larger extent resulting in that the he does not need to network a much on a regular basis, even though he still consider doing so would be beneficial. He states that the company today has a sufficient network thanks to a considerable effort in networking during the earlier stages of establishing and he is satisfied with his portfolio of customers. He describes that: *“People are talking about us and thus, our network is stable and we have our “bank of contacts...brands and celebrities such as Gina Tricot and Baby Björn are our customers...we have simply become famous here”*. Thanks to the inflow of contacts that sometimes comes to YueHan, the entrepreneur explains YueHan does not have to invest at all in marketing, because this is already taken care of by word of mouth. Since starting the company the business has developed quite well, the entrepreneur emphasized and this has been seen in the turnover of the company, which has been redoubled every year.

Guanxi and trust

The entrepreneur describes that when building guanxi, the key is to be genuine, to listen to others and to be humble. Despite that he emphasizes that while guanxi with governments are not equally as important anymore, contacts and connections with governmental people can still be valuable in the case of receiving information. Personal meetings rather than other means of communication is better when building guanxi, since it is easier to get to know someone while interacting face to face. He also emphasizes that it is easier to build guanxi for smaller organizations such as YueHan, than in larger companies. The fact that it is important to get to know someone before doing business is

clearly emphasized by the entrepreneur. He states that: *“We always talk with clients before they pay for our services in order to make sure they feel we are reliable...this is important especially since there are a lot of fake products”*. The entrepreneur also states: *“There is a trust issue here, where people can be dishonest”*. He further explains the situation where a company specialized in massage had a lot of stores but all of the sudden disappeared after it had tricked other people. He explains that these situations that regularly occurs result in that one is careful and suspicious. He has learnt to check the accuracy of information given to him it is good to always double check with other people before he acts on it. He states that: *“It is important to create an idea of the situation yourself”*. The entrepreneur believes that contracts are not so reliable since people do not respect contracts as in for instance Sweden and he states: *“one has to go on the gut feeling regarding deals”*. The entrepreneur further explains that he thinks that it is important that all relationships are mutually beneficial, because if only one part will benefit from the exchange, the trust and commitment will not last for the long run. It is thus important to always make sure the benefits and potential advantages are somewhat evenly distributed between the parties in the long run.

4.7 Fresh Finland

The entrepreneur Atte Lötjönen established Fresh Finland in the summer of 2014. The company deals with the importation of fresh food and design from Finland and Scandinavian countries into the Shanghai market, and it also has two spin-off businesses, selling some of the products. During the start there were 5 people working in the company and today they are just a few more. The entrepreneur is a Finnish man who moved to China in 2011 as an employee in a company he at that time worked for.

Establishing in Shanghai

With the valuable help from a friend of the entrepreneur, the idea of the company was initiated and it was eventually founded. This friend had crucial knowledge about the local environment and market, which enabled the company to establish. With the assistance from his friend, the entrepreneur was introduced to other people, most Finnish, which opened up opportunities for him to engage in many different projects. These people were

also entrepreneurs and already had some experience in setting up Finnish companies in China. He continued to keep in touch with all these people, and by the time he decided to set up his own business, he already had some of the important local contacts and knowledge he needed. Currently, the entrepreneur is in the early stages of establishing and he states: *“Now is a very demanding time, where we have to reach out to suppliers and gain peoples interest and attract more investors, everything has to be done, and it has to be done now. But it is rewarding and fun, despite of the effort required. There is also the time pressure, and we are always working, it is crucial to do so”*.

Opportunities and challenges

The entrepreneur identifies many opportunities within the industry as well as in the Chinese market, including an increase of activities and awareness within food, design, culture, travel and education. These are industries interesting for the entrepreneur and where he explains he can find people to exchange services. Some challenges are to further spread and raise the awareness about his newly founded company, and as the entrepreneur states: *“It is important to attract the customer in a smooth way”*. He also describes that it is not just local customers he wants to attract although that is the main focus. He states that: *“I want to spread the knowledge about Nordic food and culture in Shanghai”*, which can be done by finding channels to reach out with this information to the Chinese locals. One opportunity he did find is that the health awareness related to food and education is a growing market in China, which he can further utilize by actually being present in Shanghai and by talking to different people he explains.

Networking and relationships

Once the entrepreneur started Fresh Finland, he started his intentional plan to meet new people and in the aim of maybe be introduced to additional people. He states that: *“I need to network substantially this year and perhaps find a partner to collaborate with...to get suppliers, investors and people interested”*. He also explains that Fresh Finland occasionally hosts different events at the company property in Shanghai, where he thinks they are attracting different people that could be interesting to Fresh Finland. During these events the company idea is presented, which according to him functions as

marketing. He further explains that despite that these events may not bring any direct advantages right away, they might present opportunities and benefits in the future. He states that patience is important and says: *“In some situations the actual results from a collaboration with for example Chinese actors might not reveal itself until after 2.5 years, which is very challenging”*. The entrepreneur says: *“You need to be flexible, have an active thinking, creating new contacts and nurse the already existing ones”*.

It is also important to be recommended by others and thus crucial to create relationships and also to keep these contacts and relationships up to date, as which he says: *“Keeping the network intact”*. He continues by stating that it is important to create relations in all directions, i.e. that *“You need to be flexible, and have an active thinking, creating new contacts and nurture the already existing ones”*. Since recommendations are fundamental, he stresses that it is crucial to try to understand who might know whom and how that could be of value for himself and his company. The entrepreneur explained that before Fresh Finland started, someone he knew were looking for a driven entrepreneur on the behalf of another contact and in this way Fresh Finland started with Atte as a manager.

Guanxi and trust

As the entrepreneur already emphasized, the importance of knowing the right people is crucial if an international company is to be successful in Shanghai. It is also important to keep the interpersonal relationships intact and he states: *“Being both professional friends and social friends is so important if aiming to be successful”*. He stresses that he often follows his personal instincts and his own reflections and opinions regarding new people and when deciding to trust or potentially initiate business with someone. He states: *“If it is easy to communicate then it is just to get down to business directly...go eat dinner and drink together to create an informal, social and friendly atmosphere”*. However, he stresses that initiating business is a process, which requires a lot of time, maybe between 1-1.5 years from the first meeting to signing the final contract. He believes that: *“This is the time it takes to really establish trust with someone”*.

4.8 Eurolector

The entrepreneur Natalie Söderberg established Eurolector in the summer of 2013. The company offers a variety of trainings including corporate and cross-cultural training and it is dealing with corporate finance as well as consulting services to both individuals and companies. The entrepreneur started the company herself but currently there is in total two other people working full time in the company together with 11 part time consultants. The entrepreneur is a Swedish woman who has been living in China since the summer of 2012 where she was first occupied with her Chinese studies.

Establishing in Shanghai

Immediately when the entrepreneur arrived in Shanghai, she started networking among entrepreneurs from different nationalities parallel to her other activities she was enrolled in. Although she came to the city to study Chinese, the entrepreneur explains she realized Shanghai was a hub of entrepreneurs and that is what got her into starting up her own business here. She states: *“This early time was an important period in Shanghai since I got to know entrepreneurs through all different events I attended”*. People she met later helped her set up her company, since they possessed local knowledge of how to do business in Shanghai and could provide her with advice of whom to contact for further assistance. She states: *“There is a good crowd in Shanghai”* and explains that a lot of international people are active in business and that they are easy to detect. During the first phase of her company, she continued attending several events each week in order to get more experience and to develop her network further and gain important business contacts.

Opportunities and challenges

Because the company only has been operating in such a short time, the company is still small and still needs to further develop and utilize every opportunity the entrepreneur explains. By networking and attending events, the entrepreneur believes joining a partnership with another company can do this further. The name of the company was initially Ledukant and the entrepreneur states: *“the previous company name did not work*

since Chinese people had issues with pronouncing it so we changed to Eurolector". She emphasizes that one of the main challenges for the company is to hire people, which possess the right knowledge of foreign languages and cultures. Here one potential opportunity is to be very offensive and consciously seize all opportunities and to go after the people she wants, mainly through universities or social medias such as LinkedIn where she actually can hand-pick individuals.

Networking and relationships

During the first couple of months, the entrepreneur attended many events, mainly those directed towards entrepreneurs but also Swedish events however not as much Swedish Chamber of Commerce related events but events arranged by other nations in order to meet different kinds of people. She explains she attended events several times every week. The entrepreneur states: *"I could have been more structured in my networking from start and made a better use of the events arranged by the Swedish Chamber of Commerce especially in terms of legal advice"*.

Today, the entrepreneur believes she and her company possesses a good network placement, where she describes that Eurolector receives valuable information about trends but also because she now know who to contact in various situations. The entrepreneur explains that it has taken her more than a year to establish the most important contacts, which she specifically needed during the startup, but she emphasizes, she is still learning and that there is a continuous need to develop and nurturing her network. Eurolector wants to grow in new industries and in new markets such as Beijing and Guangdong, she explains. After a while the entrepreneur everything became easier and she states that she did not have to attend events as much as she had during the beginning. Nowadays she mainly attends events on a monthly basis when she further wants to develop new ideas and get new inspiration from other entrepreneurs.

The entrepreneur states that: *"It is important to ask for help if I need it from someone and that it is good to be brave enough to actually ask for it"*. For her this approach has been successful since it is difficult to manage everything alone and other people can direct the

right people to you or direct you to the right people she explains. It is also important to create mutually beneficial situations but from her experience it is not always possible that both parties actually gains something. She is using email and WeChat as tools to initiate contact people and to keep contact with others, and the latter is also useful when wanting to exchange business related ideas with other people in a more personal setting. To maintain relations she also goes to dinners and parties with her different business contacts.

Guanxi and trust

Guanxi is important for any company but especially when dealing with Chinese people, according to the entrepreneur. She says that: *“One has to have some guanxi”* and she further adds that it is useful to know personal information about people, such as when peoples’ birthdays are, or by offering gifts to suppliers or other actors or to bring souvenirs to people visiting the office, i.e. showing her appreciation. She believes it is important to show that the actor is important to her by for instance occasionally offering to buy lunch and to develop a personal relationship with people who might be beneficial for her and her company in future situations.

According to the entrepreneur, the business climate in Shanghai is tough, but she highlights that: *“It is important to remember that people sometimes use empty threats and that their words should not always be trusted”*. She explains this as some actors may threaten her and if they see an opportunity to take advantage of the situation, they will seize the chance. She says: *“It is not like in Sweden, where everybody fully trusts each other”*. She describes that she does not really trust anyone when doing business, although, she emphasizes that it is easier for her to trust international people, but that above all, the personality of the particular person is decisive, rather than the nationality. She states that she handles the insecurities of not trusting others by always trying to gather as much information about the other part and the situation as possible, which includes making background research or contacting people she knows to find out more about the situation or actor at hand.

4.9 Sip ‘n Paint Studio

Sip ‘n Paint Studio was established in 2013 by the entrepreneur Shiao Ying. The company is providing an entertainment concept with art workshops mixed with social mingles. During the start there were two people involved in the company and they are currently in total three people working full time within the company, plus five teachers working part time in the company. The entrepreneur is an American woman, who has been living in China since 2011 where she also previously was self-employed.

Establishing in Shanghai

The entrepreneur had a friend who had lived in Shanghai for over a decade and who knew the local environment well which she got help from especially since the two of them together started Sip ‘n Paint. By also using other contacts, mainly a friend’s friend and contacts she had from University in France she was able to find a good location for her studio, which was crucial for the company’s development and establishment. However, the studio also resulted in managing a lot of unknown factors such as signing contracts but also dealing with different insurances of the studio facility. By further utilizing her existing and expanded network, the company grew and developed, which she states owed much thanks to her contacts and acquaintances.

Opportunities and challenges

The main market opportunity the entrepreneur could identify was that her business concept did not exist yet in Shanghai, and thus the opportunity for her was to be the first to introduce it, which gave her an advantage of being the first actor. She states that this was very much needed, because it provided her with a good chance of managing the competition that followed when other actors begun using her business concept. However, she did not only see the presence of other actors as a challenge only and she states: “*The fact that others copied us was a positive sign that the concept was successful*”, and she pointed out that competition pushed Sip ‘n Paint to improve itself and to try to become even better. A clear advantage of establishing in Shanghai for the entrepreneur is that she is fluent in Chinese, which makes communication and information gathering a lot easier.

However, she has found other difficulties, which includes a lot of paperwork when registering the firm and she also states: *“The social mind-set of people are totally different there”*. Today her majority of customers are expatriates, but she sees a clear opportunity in reaching out to both Chinese tourists and to the locals in Shanghai, where she explains there is a new more modern mindset among young girls and this new generation she believes can provide a potential increased demand for her business concept.

Networking and relationships

The entrepreneur states that it was very useful to utilize her already established connections during the beginning of her company. During this phase she also went to a lot of networking events, where she states: *“I joined certain events that could involve interesting people for my company”*. The Shanghai Expat Association and different embassies arranged some of the events, which she attended, and she states that she during the first stage of her establishment participated in events a couple times per week. Today she sees her company as having a good network, with friends, contacts and acquaintances which can help her and she therefore doesn't need to network as much as before, today approximately once a week. She emphasizes the importance of contacts and friends, since they utilize a possibility to mutually beneficial cooperation.

When initiating new business contacts in Shanghai, the entrepreneur explains: *“it is important to have credibility and to always follow through when working together with someone”*. She already had some contacts when establishing in Shanghai, but she has continued to increase and expand her network in order to be introduced to more people, which may bring value to her company in the future. Marketing is not used as much in the firm, she states, instead she relies heavily upon word of mouth, where people recommend her business and hence raising the awareness of the company and the business concept. She explains that the business is going very well at the current state, which she believes has to do with this type of marketing among customers. The entrepreneur also explains Sip 'n Paint is using WeChat as a platform to reach out to customers.

Guanxi and trust

The entrepreneur describes guanxi as “*Being more important than anything, since you only trust people you already know*” and she further adds that both parties have to mutually benefit from each other. She emphasizes that even though it is easy to create new connections in Shanghai she still values her earlier connections, as they are stronger due to that they have known each other for a longer period of time, and thus has developed a higher level of trust. Building guanxi with others is however not easy and also takes a lot of time, and she emphasizes that it is important to offer something back if she receives help or assistance in some form. Also by giving away gifts when appropriate is another way to show that she truly values the relationship.

The entrepreneur states that: “*it is important to be careful in the beginning when starting since trusting others is more crucial and more risky during this period of time*”. The risks are necessary to encounter in order establish and to develop according to her, since there is a significant amount of unknown factors that must be managed. Trusting people when hiring is another problem, and therefore she only hires people she either know personally or if someone she knows recommends someone. This has proven to be the most efficient way to ensure the employee actually can be trusted in terms of doing the work and having the right competence. She exemplifies this by stating that: “*The general culture in Shanghai is like ‘anything goes’ and people do what benefit themselves*”, and she explains that this culture affects everyone operating here, not only locals but also people with other nationalities which already has been working or doing business in Shanghai for some time. The trust level is generally low she explains when doing business in Shanghai and the values and business ethics often differs significantly between the locals and other nationalities.

5 ANALYSIS

In this section we return to our literature review and the empirical findings and analyze our data with the support from the theoretical framework and by lastly presenting a model of our own.

5.1 The entrepreneurs and challenges in Shanghai

According to Cunningham & Lischeron (1991) the individual entrepreneur and its micro-enterprise is the same unit. In this thesis, we found evidence for such claim, as each micro-enterprise was equivalent to its operating entrepreneur, especially during the start-up phase. When the entrepreneurs started their micro-enterprises, a vast majority of the activities circulated around them only. The reason is due to the micro size of the enterprise including few people (if not only the entrepreneur him/herself) and the manager roles all entrepreneurs had representing all the business movements.

We found that the overall personalities of the entrepreneurs were that they to a large extent behaved very social and forward going. These are important in the establishing process in terms of networking since the personality of the entrepreneur influences the micro-enterprise as suggested by Dolles and Babo (2003). As we analyzed the personalities of the entrepreneurs together with psychic distance, we perceived that the nationalities (four Swedes, one Singaporean, one American, one Latvian and one Finnish) did not seem to color the entrepreneurs' social behavior used when they established. Even among the four Swedes we could not identify any common social pattern among them that stood out from the other entrepreneurs in their social behavior nor in their personalities. We believe this has to do with the Chinese culture being of a quite extreme character strongly affecting everything and everyone in its presence, which requires adaptation for most foreigners. Even the American entrepreneur with a Chinese background experienced cultural issues to cope with, which she learned from. She exemplified that *“hiring people here are very different from the States. Your employees depend a lot on being told exactly what to do and their mind-set is different...you cannot*

say negative things directly. You have to make an excuse for the situation or they will give excuses to save face”.

The psychic distance literature further highlights cultural attributes as more intense and larger during the beginning of the internationalization process, which later decline during the subsequent phases (Cicic, Patterson & Shoham, 1999; Li & Guidinger, 1992). We could see this with the entrepreneurs who most of them stated that challenges such as language barriers (except from the American entrepreneur), different national and business culture, social norms that all impacts relationships were more troublesome in the beginning, but eventually abbreviated as the entrepreneurs' experiences and knowledge to handle these challenges increased. In general, the challenge of trusting other actors is the most obvious difficulty among the entrepreneurs.

For the entrepreneur in FCP, the lack of trust by venue owners and that people can easily trick the entrepreneur are the main challenges. For the entrepreneur in Julian Communication, trust was a challenge in the beginning of the establishment. In JD3A, the entrepreneur thought that learning to be patient in exchanges of favors in relationships as well as difficulties to trust people were the main challenges in the beginning. In Omega Rock & Co, the entrepreneur perceives that there is a lot of individual pride among people the entrepreneur is collaborating with. Additionally, to deal with the cultural barriers in social norms and trust people are the main challenges in its current startup phase. The entrepreneur in YueHan faced challenges to trusting other people's information and the entrepreneur had to find strategies how to go around this challenge in the beginning of the establishment. The entrepreneur of Fresh Finland is facing challenges in the culture, where the entrepreneur is learning how to be patient and tolerant to the local people. For the entrepreneur in Eurolector, trust was a challenge in the beginning where others took advantage of the situation if they could. The entrepreneur also had to change company name due to cultural clashes. The entrepreneur in Sip 'n Paint met challenges in the beginning, related to relying on other people and to adapt to the unreliable culture that exists in Shanghai.

5.2 Relationship building in Shanghai

The importance of the engaging in relationships is often highlighted in the relationship literature, where the commitments in relationships are central indicators of important relationships (Johanson & Vahlne 2009; Moorman, Zaltman & Deshpande 1992). Our empirical findings support this since the important relationships identified by the entrepreneurs were relationships they engaged in and committed themselves to by the use of informal (social media: WeChat app or other personal contact channels such as e-mail, websites such as LinkedIn or company websites or any relaxed social context such as a party), or formal networking (through official events, fairs or workshops). This engagement could lead to good relationships which in turn can provide with insider information such as advice (especially prominent in the cases of Omega Rock & Co and Eurolector), information about other actors (especially prominent in the cases of Omega Rock & Co, JD3A, YueHan and Eurolector), provide with other valuable contacts (especially prominent in the case of FCP, Fresh Finland and Sip 'n Paint) and interesting innovative ideas (especially prominent in the cases of Julian Communication and YueHan). All micro-enterprises expressed that the cultural barrier in a relationship with a Chinese actor was larger and the entrepreneurs needed to adapt themselves more in terms of cultural understandings compared to relationships with international people.

5.3 Trust and guanxi in Shanghai

As expected from literature within relationships trust is key (Morgan & Hunt, 1994). All eight micro-enterprises pointed out guanxi as an element for them to consider when initiating relationships, which supports the literature by Tong and Yong, (1998) respectively Ewing et al., (2000). All micro-enterprises explained that guanxi is a tool mostly useful in relationships with Chinese people and both on an individual as well as professional level. These two levels are rarely separated in China and rather mixed. This evidence is arguable in line with Ai's (2006) claim of the different ways guanxi is used by Chinese actors and by foreign actors in China. In our empirical findings we did not identify different types of guanxi (such as friend, workplace, trade associations) as Tong (2014) and Tong and Yong (1998) distinguish, which suggests that in the reality of the

foreign entrepreneurs guanxi is used on a general level in all relationships with Chinese actors. According to literature it is important to uphold guanxi and for this a lot of effort is required including both parties getting something out of the relationship, including helping, trusting, advising each other on opportunities and maintaining the contact (Ewing et al., 2000). All entrepreneurs clearly emphasized that the implicit give-and-take culture in Shanghai where they often first give the other party something valuable in the expectation of later receiving something else back. A generalized pattern in this thesis is therefore that all eight cases have been using the method of exchanging favors as a way to build relationships in business interactions, which showed to be the central attribute in a relationship. An additional feature for all micro-enterprises are to uphold personal contact when creating preferable relationships on which to mutually build commitments, which is also supporting the literature we followed regarding the importance in respecting other people on a personal level in China as suggested by Ai (2006).

One significant attribute was the Chinese language skills, which varied among the eight micro-enterprises. In three out of eight micro-enterprises (JD3A, Sip 'n Paint, Omega Rock & Co) the entrepreneurs were managing the business negotiations in Chinese and they perceived this as an important trust factor. In the rest of the five micro-enterprises the Chinese language skills varied from being beginners to being on a conversational level in speaking it. In all micro-enterprises, the entrepreneurs highlighted the importance of knowing the language as very useful in terms of trust in the relationships with Chinese people. Even the showing of very little Chinese language skills was useful in this matter.

In this thesis we also found that the entrepreneurs perceived the non-Chinese group of people as easier to trust in business. If the person the entrepreneurs were doing business with was of the same nationality, the trust was enhanced additionally. We believe this has to do with the level of reliability as Morgan and Hunt (1994) suggested in the literature about trust, where the sharing of the same nationality is correlated with the reliability. This also supports the literature by Tong and Yong (1998) who claim that language is a factor determining the guanxi and the level of trust in a relationship.

One entrepreneur stated that: *“When I first arrived in Shanghai I was used to the Swedish mind-set when trusting others in business but when I came to China I immediately experienced deception and my experience is that it is often Chinese people involved when such situations arise”*. This quote symbolizes an interesting feature where the attitude towards trust in relationships was that people handled it with caution and certain skepticism in general. All of the entrepreneurs explained that they rarely completely trusted anyone, since each one of them had learnt from bad experiences in China. One entrepreneur described: *“Fooling others has been a factor of success here since people have a lot of freedom to do so”*. The claim by Ai (2006), Tong (2014) and Ewing et al., (2000) about the importance of not neglecting the cultural challenges foreigners face in China mainly regarding guanxi and trust in relationships is supported in this thesis. Another clear finding was that guanxi was something all entrepreneurs were well aware of while the concept of xinyong was not considered, which might be due to the characteristics of xinyong of being part of guanxi as suggested by (Tong & Yong, 1998).

Several of the entrepreneurs in our study recognized situations where they in the beginning of the business were overrun and exploited in an unfair manner by others, such as by clients or suppliers. They explained that they did not have enough knowledge regarding certain business culture or norms. In the initial phase of establishing such situation caused damages such as monetary losses or waste of time. However, we argue that it is essential to go through bad situations from a learning process point of view, which supports Johanson and Vahlnes (2009) claim about learning as an important aspect regarding trust. One of the entrepreneurs stated *“I have learnt to never trust anyone and I always double-check details during the whole business exchange process”*. All of the micro-enterprises are still operating, which is a sign that they survived from being “run over”. The entrepreneurs explained their learning as processes that were eventually built up to a solid knowledge base of how to conduct business with Chinese locals and non-Chinese. The knowledge base also included how to behave in social context, adapting to guanxi and improving other important cultural and business understandings. The entrepreneurs described that Shanghai is very complex indicating that a lot of energy has to be spent on figuring out business codes of conduct. This supports the claim by

Johanson & Vahlne (1977) of psychic distance barriers, where the entrepreneurs included in this thesis, perceived that due to cultural differences especially those of language, national culture, business culture social behavior or norms, the internationalization process was complicated. It is also a possibility among the entrepreneurs that the level of trust is enhanced whenever other actors give recommendations and refer to them. This is based on the fact that if someone else already trusts the recommended entrepreneur it is reassuring and therefore increases the credibility and trustworthiness from inception in a new relationship.

5.4 Networking and opportunities in Shanghai

As suggested by Granovetter (1973) and Holmlund and Törnroos (1997) social interaction can lead to business interactions, which also our findings show. Our findings suggest that within networking, social bonding is closely linked with business interaction. Among the micro-enterprises there are various forms of networking and it could be performed informally, through social media (WeChat app or other personal contact channels such as e-mail, websites such as LinkedIn or company websites) or any relaxed social context such as a party, or, formally, through official events, fairs or workshops. All eight micro-enterprises used networking to be able to initiate social bonding with different people/actors. We perceived that the networking goal among all the micro-enterprises was the potential to use these social bonds to also initiate business interactions with. In the Chinese context, social bonding and business interaction we argue are closer linked and more interconnected than in what it is in Western cultures. One finding was that the personal and professional lives of the entrepreneurs in Shanghai were hardly distinguished, where people also do business with friends. An explanation for that could be that the entrepreneurs initiate business with people they like, which also suggests that it is not only business that matters in a relationship but also the social aspect.

Moreover, when social bonding occurs between parties through these informal or formal forms of networking, business interaction could be approached by an oral consensus on collaborating with each other. Social bonding could therefore be used as a tool to engage in business. When the procedure of social bonding followed by business interaction with

other actors is repeated enough times the micro-enterprises are simultaneously building up their business networks with the solid relationship bases included in them. Among the investigated micro-enterprises such business interaction consists of customer exchanges, supplier exchanges and/or in partnerships, which eventually creates a relationship base for a business. These sorts of business interactions the micro-enterprises are searching for in the objective of build up their relationship bases.

Our empirical findings suggest that it is most critical for a micro-enterprise to engage in networking during the beginning of the establishment. Indeed, during the initial phase of establishing a presence in Shanghai the entrepreneurs all focused on networking, which supports the literature by Larson and Starr (1993). The entrepreneurs in FCP, Julian Communication, JD3A, Omega Rock & Co, Fresh Finland and Sip 'n Paint used local contacts that were created before, to be able to receive help to start their micro-enterprises. YueHan instead found an important actor to collaborate with which initiated the YueHan business and this contact became the entrepreneur's partner with access to key information regarding business in Shanghai.

Eurolector used networking and found good contacts that assisted the entrepreneur to start up. Moreover, FCP and Fresh Finland use a high degree of both informal (contacts in socially relaxed contexts, social medias) and formal (official events, fairs) methods of networking in order to interact in business with others. In Julian Communication, the entrepreneur attended events more before and currently not as much informal methods but more formal methods of networking such as workshop events. JD3A was especially networking with old clients as a way to collaborate with them directly or to get in contact with new clients through the old clients. Formal events were occasionally also used in JD3A. Omega Rock & Co use both informal and formal networking such as in shopping malls with a larger focus on the latter type, to raise awareness and build connections. YueHan was active in a lot of formal networking events for international people mainly when establishing. Both Eurolector and Sip 'n Paint used a lot of informal networking of WeChat and parties and a high degree of formal networking in official events.

When entrepreneurs spend effort on relationship building in social exchanges, this might lead to opportunities as suggested by Fillis (2008) and Hagen and Denicolai (2014). We are also supporting the Uppsala model regarding that in internationalization, opportunities are found within the ongoing engagements in relationships (Johansson & Vahlne, 2009; 2013). It is particularly valuable for FCP in its establishment phase, to actively continue with a high pace of networking with expatriates, Chinese actors and other people working in Shanghai since for FCP these are business opportunities to exploit. For Julian Communication, in the establishment phase, good opportunities were exploited when networking in “new-thinking” workshops as well as using the “third party communication”.

The entrepreneur in Julian Communications stated: *“If I want to integrate new innovative ideas I can network more by attending the creative workshops again”*. In the establishment phase, JD3A used old contacts which stood for new opportunities by the receiving of information about actors in different interesting product markets he could initiate contact with. Omega Rock & Co receives good advice on useful contacts for the company from other people, which leads to opportunities. In the establishment phase, YueHan found opportunities by talking to local people and by doing so early understand the trends creating demands in the market. Fresh Finland approaches opportunities by using contacts in new interesting industries to be able to receive insight in them for potential expansion there. In the establishment phase, for Eurolector, opportunities were discovered in entrepreneurship events and when screening what contacts were helpful. In the establishment phase of Sip ‘n Paint, opportunities were proceeded by developing the business concept among friends and their contacts.

5.5 Network position

Three of the micro-enterprises (FCP, Omega Rock & Co and Fresh Finland) have only been operating for a year or less in Shanghai and they are still in the phase of establishing their companies and they have not reached their network positions yet. They stated they are spending substantial efforts in networking and building relationships in order to find opportunities, develop their network and increase their total portfolio of relationships as

suggested by Johanson and Vahlne (2009). The remaining five micro-enterprises (Julian Communication, JD3A, YueHan, Eurolector and Sip 'n Paint) have operated in Shanghai between two to five years and they had in common that they are not engaging as much in networking at their current state compared to the initial establishment phase. Our empirical findings suggest that the latter group of micro-enterprises have reached their network positions and hence their solid relationship base (including customers, suppliers and/or partners).

Another difference between the former and the latter group of micro-enterprises is that the latter explained that in their current states other actors recommend them frequently. When relations with for instance customers are developed the network position is reached as suggested by Blankenburg (1995) and Johanson and Vahlne (2009), however this is very general and we therefore argue that a network position is reached when the relationship base is solid for the size of the business and a specific sign for that in our sample is when new business interactions are mainly initiated via other actors' recommendations of the focal company. Furthermore, it is evident from our empirical findings that the recommendations by other actors equal new business interactions on which the micro-enterprises to some extent can rely on. The explanation is that they are automatically receiving new business interactions through recommendations instead of have to be using social bonding to search for them.

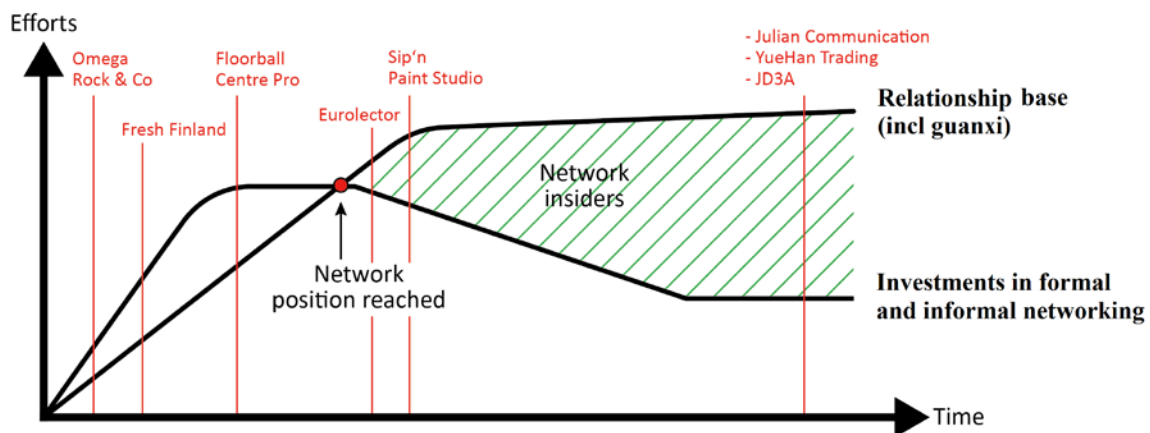
Out of the five micro-enterprises we defined as having successfully established themselves in Shanghai, one, YueHan Trading Company, has grown out of being of micro size, which according to the entrepreneur is a direct result of accomplishing with: "*A redoubling of turnover each year since the start*". The entrepreneur in the micro-enterprise Fresh Finland which on the other hand is in the initial phase of establishing explains the situation as a "*very demanding time*" with time consuming efforts to find suppliers and customers. These two illustrate the very different stages in the internationalization process of being positioned as an insider respectively being in the phase of establishing still. Following, the Business Network Position Model is presented, which will further describe the eight cases' establishment phases.

5.6 The Business Network Position Model

In order to give a visualization of how the micro-enterprises are reaching their network positions, a simple model has been constructed (see Figure 3 below). The model consists of a two-ax figure, where time and efforts are represented on each axle. The time axle is emphasizing the approximate time from inception for each micro-business in Shanghai and continues ambiguously. The time is not specified in the model because the time span varies significantly among the micro-enterprises and a reason for that is that they are all in different industries facing different challenges. However, the initial establishment phase, where the micro-enterprises before reaching their business network insider positions, is for our sample of companies all within the scope of 1-2 years. This means that within this approximate amount of time, we argue that the micro-enterprises are reaching their business network insider positions.

When the micro-enterprises are reaching their business network insider positions their solid relationship base is also on a satisfying level for their businesses. In Figure 3 all eight micro-enterprises are placed differently depending on where in the internationalization process they currently are.

Figure 3. Business Network Position Model



Own model based on empirical findings

The efforts in the model on the other hand represent any effort the entrepreneurs or micro-enterprises might spend on building relationships and developing their respective networks. The types of efforts are the informal and formal forms of networking used differently when socially bonding with others. During the beginning of the establishment, the effort spent on networking is large, while simultaneously the number of relationships are growing and creating a base. The investments are then also larger than the relationships received back and therefore social bonding is important in order to increase the relationship base.

Once the solid relationship base that is convenient to the size of the micro-enterprise business is gained, fewer networking investments are needed and a business network insider position is reached. From this point forward the number of relationships are larger than the efforts spent on networking. The model suggests that the marked area between the decreasing line of investments/efforts and the stabilized relationships line represents a new phase where the micro-enterprises have accomplished to become networking insiders in their respective business networks. Once a business network insider position is reached, other actors within the network are recommending the focal micro-enterprise and this is why the need of networking is decreasing, while business is still prospering and the relationship base is still growing slowly.

FCP, Omega Rock & Co and Fresh Finland

All receive some recommendations, which result in business interaction such as in new partnerships and/or exchanges with customers or suppliers. It is evident that the solid relationship bases that are convenient to the size of the FCP business, the Omega Rock & Co business respectively for the Fresh Finland business are not yet reached. The entrepreneurs are spending large amount of efforts on networking on a weekly basis still, in order to build their bases of relationships. However, since FCP has been operating for 1 year and 2 months, combined with the several recommendations it is receiving we estimate that FCP is soon reaching its business network insider position (see Figure 3). Omega Rock & Co and Fresh Finland, who both have been operating for around 1 year, are also newly founded companies that have not yet stabilized themselves within their

respective markets and they are slowly building up their business networks. The three micro-enterprises are in the beginning of their internationalization process and are all focusing on networking aiming towards reaching their business network insider positions (see Figure 3).

Julian Communication, JD3A, YueHan, Eurolector and Sip 'n Paint

Common for the five of the enterprises is that they have all reached their business network insider position, however they are placed differently in Figure 3. Another common feature was that they all receive frequent recommendations from word of mouth. From the empirical findings this was a visible difference we could distinguish between the previous group of micro-enterprises and this group. This latter group receives recommendations due to their well-established reputation within their respective networks. For the five of them, recommendations have resulted in new business interactions such as exchanges with customers, suppliers and/or partnerships ever since the time where they reached their network positions. Currently, after approximately 5 years, Julian Communication, JD3A and YueHan have their solid relationship bases convenient to the size of their businesses. Common for these three enterprises is that the entrepreneurs in them had all previous jobs in Shanghai before they started their own micro-enterprises. Concerning Eurolector and Sip 'n Paint, both have operated for around 2 years and their businesses have also solid relationship bases but according to our empirical findings these two are in a stage where they are still changing more dramatically compared to the more stabilized stage of Julian Communication, JD3A and YueHan.

For instance, Eurolector recently changed its company name to adjust and is also looking into other Chinese cities and industries to expand to and the concept of Sip 'n Paint is growing more popular with the company in the front edge of this development. What distinguishes Eurolector and Sip 'n Paint is that Since Sip 'n Paint had good contacts before the startup and it therefore reached its solid relationship base quicker than Eurolector (see Figure 3), that needed to start from scratch. Lastly, another common feature is that the five enterprises initiate social bonding (with new actors) by informal or

formal networking a few times per month (1-5 times) and, as explained, for each one of them new business interaction seem to be initiated mainly when customers contact *them*.

When the network position is reached, the liability of outsidership is overcome as expected by Johanson and Vahlne (2009), which except from the goal met of building relationships also means that the cultural barriers that according to the entrepreneurs were problematic in the beginning, is now also overcome. This means that a lot of learning has been gained as well as experience and knowledge of operating in the Shanghai market. Another feature we argue is also that the reputation has been boosted. The entrepreneur in Sip 'n Paint stated that: *"I barely do any marketing because I don't need to, since people are finding me themselves. People hear about Sip 'n Paint from other people and it is mostly through the word of mouth people hear about me"*. The entrepreneur in YueHan also stated something similar: *"We have not invested a single coin in marketing, it is only the contacts, the recommendations and us talking to potential customers now and then. Even competitors have started to send customers to each other if it suits the customer better"*. It seems for us that the entrepreneurs who have reached their business network insider positions have gotten into a stable business flow and they are occupied with the maintaining or expansion of their micro-enterprises and if new ideas are needed they know what networking channels to look for. This supports Hite and Hesterly's (2001) claim that conscious networking only occurred during the later stages of the business development and not during the earliest stage.

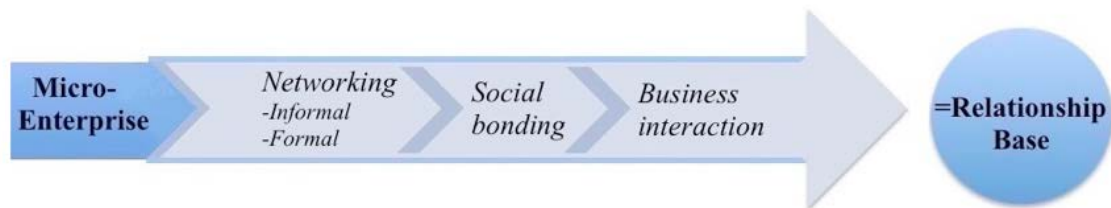
6 Conclusion and future research

In this chapter we will present the conclusions we drew based on the empirical findings and the analysis of the study. We will firstly, provide an answer to our main research question and present a model. Subsequently, the answers to the sub-questions are provided. Finally we will make recommendations to the entrepreneurs and present our suggestions for future research.

How are foreign micro-enterprises becoming business network insiders?

The network positions for the micro-enterprises are reached primarily by the use of informal (social media, parties) and formal (events, fairs etc.) forms of networking performed on a weekly basis during approximately 1-2 years after the business start-up. In the context of networking, social bonding can arguably be used as a tool to engage in business, as illustrated in Figure 4 below. When social bonding occurs through these informal or formal forms of networking, business interaction could be approached by an oral consensus between the parties, of collaborating with each other. When social bonding followed by business interaction with other actors is repeated enough times a micro-enterprise is simultaneously building up its business network, with a solid relationship base (consisting of i.e. customer-, supplier, and/or partnership exchanges) included in it. This networking procedure is demonstrated in Figure 4 below.

Figure 4. Networking Procedure Model



Own model based on empirical findings

From this point forward we claim that the micro-enterprises are mainly initiating new business interactions when actors are approaching *them*, which is enabled through other

peoples recommendations. In sum, the micro-enterprises are becoming network insiders when reaching their network positions. In order to reach a network position, we have shown that firms need to perform informal and formal networking. A network position is characterized by firstly, creating a solid relationship base and secondly, when other actors start to recommend them, which is resulting in new business interactions also per se.

In terms of establishing a business network insider position, how do micro-enterprises:

- develop relationships?

In our thesis we have shown that the effort spent on developing new relationships is larger before a micro-enterprise reach a network position than after. We suggest that it is due to that new relationships are something the network insider is attracting without any new networking efforts, and instead by other actors' recommendations. We have provided new insights into how firms use various forms of networking and social bonding as means to develop new relationships and to in an overall perspective establish themselves in the Shanghai context.

- build trust and guanxi?

We have shown that guanxi is more important in a relationship with a Chinese actor as suggested by literature. We provide with new insights regarding that the entrepreneurs perceived it as difficult to trust other actors in Shanghai indicating that there is a low predictability in relationships, also confirming literature. We show that the entrepreneurs never fully trusted anyone, which resulted in substantial time spent on always double-checking information and facts. A certain level of trust in a relationship is seen as something necessary to be able to conduct business operations, as suggested by literature.

- identify opportunities?

When the entrepreneurs are performing social exchanging activities, opportunities might develop as suggested by literature. In our thesis we provide a new insight connected to that such opportunities is developed through business interactions among actors, which can lead to a building up of a relationship base including customer-, supplier- or and

partnership exchanges. We therefore suggest a new insight in that these business opportunities are activated by the use of informal and/or formal forms of networking. Additionally, we confirm literature in that the entrepreneurs identify new opportunities from the people they are in contact with such as in different events where the entrepreneurs are able to receive insider information such as valuable contacts, innovative ideas or general advice and assistance.

- manage challenges?

We have shown that the main challenge for the entrepreneurs in this thesis is the trusting of other actors and coping with unreliable relationships. All entrepreneurs had experienced problematic situations, which on the other hand taught them how business can be conducted as suggested by literature. We therefore suggest a new insight in that for challenges during the internationalization process, there is a particular link between the trust factor and to the learning, experiences and knowledge.

Recommendations to the entrepreneurs

It remains unclear for how long an entrepreneur can be passive and trust the strategy of relying on recommended customers and the current relationship base. Although nothing is constant, as pointed out by literature and as evidence by the entrepreneurs has shown. We highlight the essence that at some point the entrepreneurs will need to re-engage in spending effort in networking and building new relationships again which support the Uppsala model's claim about the feature of relationship commitments as a change component indicating that it is always an ongoing and changing process that needs to be maintained constantly within business networks. We also advise the entrepreneurs to keep an eye on the local government in Shanghai since they are increasingly spending effort in improving the situation for micro-businesses in regards to the availability to financial support and tax benefits (Bloomberg, 2014; China Daily, 2014; CCTV, 2014).

Future research

In this thesis we have shown how the revisited Uppsala model can be applied on foreign micro-enterprises in Shanghai. To the internationalization literature on networking we suggest that a network position is characterized as when a relationship base is created, which is solid for the size of the business. New business interactions are then mainly initiated via other actors' recommendations of the focal company. This thesis has provided new insights into the essence for micro-enterprises to engage in social bonding in order to establish their business networks. For micro-enterprises, with little or no level of recognition among the public with perhaps only themselves as the business resource there are various challenges to cope with. In China, the cultural aspects can substantially impact on businesses, which requires adaptations. It is hence interesting to add increased knowledge for different geographical markets concerning networking. Therefore for future research we encourage more case studies on micro-entrepreneurial organizations regarding how business network insider positions are reached in other foreign markets.

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Appendices

Appendix A - Interview guide

Introduction and general information:

- What is the name of the micro-enterprise you are working in?
- Could you introduce yourself (your story) and the organization you are working in?
- Can you mention some main events/experiences of your micro-organization?
- When did it start in China?
- How many people work in it?
- What is your title and role?

Opportunities

- Why China? What benefits and disadvantages are there for your organization?
- Can you exemplify any past and current opportunities with your micro-organization?
- Can you exemplify some past and current challenges of your micro-organization?
- How did you tackle them?
- What have you learned since establishing in China?

Networking

- What actors are there in your micro-organization's network?
- Can you give a few examples on how you network with these actors in Shanghai?
- What is your networking strategy?
- What is the aim with your networking?
- Do you consider your micro-enterprise to have a good network position?

Relationships

- What is important when creating new business contacts?
- How are you managing your business contacts concretely?
- How are you maintaining a relation with a customer/partner etc.?

- What do you think is important when trying to develop relationships?
- Could you exemplify how the process looks like from not knowing someone -to do business with a new contact in Shanghai?

Guanxi & Trust

- Elaborate on what trust means for your micro-organization in China.
- How do your micro-enterprise build trust with others?
- How do you think the actors within your specific network think about trust?
- In what way does guanxi come into the picture?
- Could you give an example of when good guanxi is present in a relationship?
- Could you give an example of when bad guanxi is present in a relationship?

Appendix B - Interview details

Appendix B- Interview details

Position of the entrepreneur	Current enterprise of the entrepreneur	Industry and main business of the micro-enterprise	Name of the entrepreneur	Nationality of the entrepreneur	Date of interview	Location of interview	Language of interview	Type of interview	Duration of interview
Founder/Manager	Floorball Centre Pro	Service, sport education	Oskar Fernö	Sweden	19-02-2015	Malmö, Sweden	Swedish	Face-to-face, recorder used	90 min
Founder/Manager	Julian Communication	Service, communication and graphic designs	Jesper Hedner	Sweden	17-03-2015	Shanghai, China	Swedish	Face-to-face, recorder used	70 min
Founder/Manager	JD3A Consultants	Service, sourcing and purchasing consultancies	Janis Donis	Latvia	17-03-2015	Shanghai, China	English	Face-to-face, recorder used	70 min
Founder/Manager	Omega Rock & Co	Product, clothes with designed positive messages	Linda Tan	Singapore	19-03-2015	Shanghai, China	English	Face-to-face, recorder used	70 min
Founder/Manager	YueHan Trading Company	Service, retailing and e-commerce	Johan Aledal	Sweden	19-03-2015	Shanghai, China	Swedish	Face-to-face, recorder used	60 min
Founder/Manager	Fresh Finland	Service and products, food	Atte Lötjönen	Finland	19-03-2015	Shanghai, China	English	Face-to-face, recorder used	80 min
Founder/Manager	Eurolector	Service, cross-cultural education and consulting	Natalie Söderberg	Sweden	20-03-2015	Shanghai, China	Swedish	Face-to-face, recorder used	70 min
Founder/Manager	Sip n' Paint Studio	Service, entertainment with painting and art workshops	Shiao Ying	America	25-03-2015	Shanghai, China	English	Face-to-face, recorder used	90 min