The Invisible Wall

The impact of informal institutions in a Chinese business context

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Abstract

The increased activity in the emerging market China has created opportunities for Western internationalised companies. Previous research has focused on changes in formal institutions in China, mostly related to MNCs operating within the market. Besides, informal institutional challenges directly affect the formal institutions and are therefore of significant importance. However, it has become vital for companies to address informal institutions as possible barriers for success. Moreover, informal institutions pose a threat since they may be unforeseen by Swedish SMEs due to institutional distance. Swedish SMEs would, therefore, benefit from a more extensive knowledge about how the challenges related to informal institutional in China, furthermore, how to manage those.

To create a deeper awareness of the informal institution's impact, the following research question has been made facilitating the understanding of this matter; “How do informal institutions affect the internationalisation process of Swedish SMEs in China”. The purpose of this paper was to provide Swedish SMEs with tools and knowledge of how to manage informal institutional challenges within the Chinese market. Subjective empirical data were gathered by conducting semi-structured interviews with four Swedish manufacturing SMEs operating in China. The empirical data helped to answer the research question and furthermore contributed to the field of academia. The empirical findings unveiled how informal institutional challenges regarding country culture and business mores did aggravate Swedish SMEs internationalisation process to China. Furthermore, using incremental steps and utilising the existing network is a key for success in the Chinese market. However, the largest challenge for Swedish SMEs was to manage obstacles regarding; language, traditions & time, relationships & trust, hierarchy & corruption, copying, negotiations, guanxi & mianzi. Each institution got its own solution for success. Guanxi & mianzi are however affecting all these informal institutions to some extent.

Keywords

Informal institutions, Internationalisation, Swedish SMEs, Network, Language, Relationship, Guanxi, Mianzi.
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1. Introduction

The first chapter will introduce relevant information related to the growing interest of internationalisation and the impact on SMEs. Furthermore, describing the importance of the Chinese market and institutions in an international context. Thereafter, information related to institutions and the impact on emerging economies such as China will be outlined. This will be followed by a problem discussion, a research question and then, the purpose of the study. Finally, the delimitation with the paper will be displayed, and the outline for the rest of the paper will be presented.

1.1 Background

1.1.1 Internationalisation of SMEs

The interests for internationalisation started to increase during the middle of the twentieth century as a result of that more markets, firms and industries began to become more internationalised (Olejnik & Swoboda, 2012). To understand the phenomena internationalisation it can easily be described as the activities by firms related to crossing national borders (Wright & Ricks, 1994). However, even though internationalisation has expanded the research related to areas such as international marketing and global entrepreneurship, internationalisation imposes difficulties and challenges for small and medium-sized enterprises (SMEs) (Olejnik & Swoboda, 2012). The European Commission (2017) define SMEs as firms with less than 250 employees or with a balance sheet with maximum €43 million or a turnover under €50 million. Likewise, the importance of SMEs is confirmed by the fact that it stands for 99% of the total amount of firms in the EU (European Commission, 2017). Besides, O’cass and Weerawardena (2009) argue for that SMEs are not a smaller version of a multinational corporation (MNC), they behave differently and deal with conquering size-related issues.

Olmos and Diez-Vial (2015) claim that the number of firms expanding into a new international market is increasing, hence increasing the interest in internationalisation performance. It is, however, important to know that when a firm internationalises, it does not always improve the performance of the company due to lack of resources, global reputation or insufficient funds (Olmos & Diez-Vial, 2015). However, the authors explain that several empirical studies have found a relationship between internationalisation and increased performance of the firm. Besides, many companies
are willing to take a higher risk by targeting emerging markets since they offer a potential growth according to Olmos and Diez-Vial (2015). However, these markets carry a danger of being turbulent, have less efficient distributional systems and further cultural differences (Sakarya et al. 2007). The authors indicate that market analysis is traditionally made with the focus on macroeconomics and political factors, neglecting opportunities that arise with a market that is rapidly changing.

Markets like Russia, India and China as well as several nations in Europe have created business opportunities for SMEs from countries such as Sweden and have changed the global market remarkably during the last years (Sandberg, 2013). Regarding China, the capital invested in foreign direct investments (FDI) raised from approximately $42 billion to almost $250 billion between the years 2000 and 2015 (The World Bank, 2017). Moreover, China is the most frequent trading partner of all the BRICS countries (Brazil, Russia, India, China and South Africa) for European SMEs according to EU SME Centre (2013). Furthermore, China was also ranked highest among the BRICS countries in the IMD World Competitiveness yearbook 2016 where the range of competencies to facilitate long-term value are being measured (Preuss, 2016). The tests are based on the economic performance, efficiency of businesses, the infrastructure and the government efficiency in countries. However, this enables Chinese businesses to reach global markets and facilitate to the entrance for FDIs to the Chinese market (Preuss, 2016).

1.1.2 A growing China

China accounts for the largest population in the entire world and the Chinese economy give rise to both opportunities and challenges as a transition economy when it transforms from planned to a market economy (Grosse & Ling, 2015). However, the Chinese market became attractive first in the 1990s when regional and sectoral foreign investment barriers decreased, and agreements between China and the US were made as a result of more decentralised authorities (Jiang et al. 2013). As a consequence of the agreement, China could protect their property rights which also opened up the Chinese market (Jiang et al. 2013). In addition to this, China faced increased competition, lower entry and exit barriers, privatisation of firms and a growing productivity in the manufacturing sector (Zhu, 2012). Moreover, lower taxes lead to that China became a member of the World Trade Organization (WTO) in 2001 (Jiang et al. 2013). As a result
of this membership, the Chinese market became easier to predict due to configurations in the legal system, allowing additional international firms to be present on the market (Cremer & Ramasamy, 2009).

According to Hedley (2017), the interest of the Chinese market has increased tremendously among firms within several industries from The US and Europe, mainly because of a more pleasant business environment in China. The increased income among the Chinese customers has increased the buying power. Furthermore, the country has faced rapid demographic changes with an increased middle class along the inland of China, and in the second and third tier cities (Hedley, 2017; EU SME Centre, 2015). Furthermore, China plays an increasing role in Western firm’s long terms success and is vital for their international strategies because of the lower sales rates in their home market (Hedley, 2017). Moreover, the European companies are said to stay within the Chinese market even in the future because the Chinese economy has the potential to grow vigorously in the long-term perspective, hence continue to be an important market for European businesses (Harborn, 2015). Besides, China expects to be the world's largest economy by the year 2050 and experts believe that many firms’ successes will be determined by their decision to enter the Chinese market or not (Johnson & Tellis, 2008).

SMEs from countries such as Sweden tends to be interested in the Chinese market, and reports made by Business Sweden (2015) indicate that Swedish SMEs can face several success factors but also challenges when doing businesses in China. By looking at the report produced by Business Sweden (2015), interviews with 12 Swedish SMEs from different industries determined some significant challenges when doing business in China. Factors such as difficulties in finding enough competent and qualified personnel, legislation, differences in business cultures and the value of having relationships and a strong network in China were determined as most challenging for Swedish SMEs (Business Sweden, 2015). Moreover, Chinese people speak limited English, at the same time as the Chinese language is difficult to learn for foreigners (EU SME Centre, 2013). Western companies are therefore unlikely to succeed in China without a Chinese member of staff since the English language is not sufficient as a language for negotiations (Chung, 2011). Insufficient English and Chinese language skills can lead to confusion. It is, therefore, vital for companies from the West to acquire competent
interpreters with advanced Chinese and English language proficiency as well as an understanding of the culture (Chung, 2011). In addition, language challenges, relationships and respect are elements that broadly characterise the Chinese culture today according to SME Centre (2013), concepts that are categorised as informal institutions according to Jansson (2007b) and North (1991). Institutions, however, could also be formal which relates to property rights, laws and constitutions (North, 1991). However, informal institutions are uncodified, socially shared rules such as traditions and norms and can be viewed as sanctioned social norms of behaviours (Jütting et al. 2007; North, 1990; North, 1991; Waylen, 2014).

1.1.3 Institutions in an international context

Institutional factors such as increased legislation, the difference in business culture and unexpected institutional change are, according to Jansson (2007b), limiting the firm's ability to understand, analyse and conduct business within the Chinese market. Moreover, Jansson (2007a) argues for the fact that emerging country markets are very growth oriented with a high local demand for products, however, at the same time uncertain, complex and turbulent. These markets are therefore considered to be relationship-oriented and institutional building (Jansson, 2007a). Furthermore, Jansson (2007b) states that it is important to possess knowledge about the emerging country markets as well as the environment, creating a possibility of understanding and analysing, hence execute business operations in that particular market. Moreover, the context in which the firm works in is said to consist of different units of institutions (Jansson, 2007b). However, institutions within emerging country markets tend to have more issues related to politics, legal and governments, technologies, social and cultural aspects and are, therefore, lacking in the institutional quality, hence considered weak (Gama et.al, 2016). As a result of this, the writers argue that internationalised firms are influenced by institutional differences between a host country and a domestic market, and the institutions may, therefore, have an impact on the company's objectives.

Institutions in other markets can also be viewed as institutional distance according to Sandberg (2012), an external factor that affects the business, and does tend to behave differently in mature and emerging markets due to distinctions in the institutional settings (Sandberg, 2012). Moreover, institutions are according to Jansson (2007b) the different international context in which the global firm operates. A view that Estrin et.al
(2007) share and further emphasise as the ability to adapt to institutions as the way to attain a competitive advantage in an international market. However, the adjustment necessary is increasing when the difference between host and the targeted market is bigger. The ability to acquire knowledge about weak and unstable institutions in emerging markets is a determining factor when a company is in the process of an emerging market entry (Johanson & Kao, 2015). Kao (2013) supports this argument by who claiming that China is an attractive market for firms, however, with very dominant institutions which force the companies to adapt. These institutions have changed relatively fast during China's economic transition hence forcing businesses to keep track of what is happening (Kao, 2013). This statement is followed by Johanson and Kao (2015) who state that China has during their economic transition experienced a lot of changes in their laws and regulations, an institutional factor that affects companies by increasing the accessibility for foreign entrants. However, regulations could also block previously available markets. Furthermore, Johanson and Kao (2015) argue for the fact that institutions and institutional change influence the behaviour of a firm.

It has been more important during the last years to separate and distinguish formal institutions such as rules and codes from informal institutions as norms and understood conventions (Waylen, 2014). However, Leković (2011) argue that informal institutions are vital for economies, mainly because all interaction between humans and business activities are to some extent grounded on informal institutions. Therefore, informal institutions have major impacts on formal institutions and play a significant role in the decision making. Furthermore, the importance of informal institutions is confirmed as it facilitates a better understanding of the correlation between the informal and the formal rules (Leković, 2011).

1.2 Problem discussion
1.2.1 Previous research
The impact of institutions has been discussed in recent studies conducted by Liou et.al (2016) where the authors distinguish between informal and formal institutions to measure the impact on emerging market multinational corporations. In addition to Liou et al. (2016), previous research done by Kao (2013) has focused on how changes in Chinese regulative institutions affect the market entry behaviour of a firm. Kao’s (2013)
paper uses a case company approach where three Swedish MNCs has been interviewed. In addition, the knowledge of how to deal with institutional distance has further been studied from the perspective of MNCs by several researchers (Estrin et al. 2007; Harzing & Pudelko, 2016; Johanson & Kao, 2015; O’cass & Weerawardena, 2009). Moreover, Scheela and Jittrapanuns (2012) studies add more research about institutions when they examined how business angels can survive when they invest in Thailand with less developed institutions. With institutions, the authors include the ones who can have a significant supportive role for informal and formal venture capital investment. As a result of the study, it can be concluded that investments in new ventures within a competitive market with weak financial support, inefficient government for SMEs and a politically unstable environment can be challenging for business angels (Scheela & Jittrapanun, 2012).

Johanson and Kao (2015) studied institutional change within China from a Swedish SMEs perspective but did only focus on the change of formal institutions, hence neglected informal institutions such as business and country culture. Furthermore, Johanson and Kao (2015) argue for how those informal institutions have become more important during the years. Additional studies have been made by Hernández and Nieto (2015) who have studied how institutions have affected firms in their choice of entry mode based upon a database of European SMEs. Hernández and Nieto (2015) found that depending on the institutional difference between the home market and host market, firms tend to choose different entry modes. However, the writers focus solely on regulatory institutions, hence neglecting culture from the research. Johanson and Kao (2015) argue for the fact that it is important for foreign firms to understand informal institutions to use the company's market knowledge for interpreting institutional change.

Tungs (2016) research aims towards explaining how the Chinese economy stagnated during the third quarter of 2015 and faced changes which had led to new challenges and opportunities within the Chinese market. Moreover, the impact of institutions on SMEs in China has been examined by Zhu et.al (2012) in the context of innovation. The empirical data is based on interviews with 82 different managers of SMEs. The authors present five different institutional barriers that firms may experience when dealing with innovation. Zhu et.al (2012) concludes that the obstacles related to an institution for this purpose is related to laws and regulations, taxes, support systems, competition fairness
and access to financing. However, Zhu et.al (2012) has conducted this research on formal institutions based upon managers from Chinese companies.

1.2.2 Research gap

Tung’s (2016) research on how a Chinese stagnated economy creates new business opportunities and challenges, made him encourage future researchers to study these changes and how it affects factors such as the relationship between the institutional environment in China and firm’s performance. Tung (2016) states that further studies could focus on how the changes within the Chinese market are affecting companies operating and doing business in China. Furthermore, the level of difficulty when outsiders negotiate with Chinese people (Tung, 2016). China attracts a lot of foreign investments and is interesting for managers all across the globe and has been a target for the most attractive location for FDI among firms since 2014 (Carlsson et.al, 2005; Tung, 2016). The majority of investing businesses are from regions around China such as Singapore, Hong Kong or Taiwan (Carlsson et.al, 2005). According to Carlsson et.al (2005), they possess a huge advantage over the Western companies since they got cultural competence in forms of business contacts and language skills, in other words, institutional knowledge (Carlsson et.al, 2005). The ability to deal with institutional distance is, therefore, a key factor for SMEs since they traditionally are known for lacking resources and knowledge, hence, allocating the right resources is crucial for the firms (Olejnik & Swoboda, 2012; Child et.al, 2009).

Kao (2013) found through his research that escalation of institutional changes influenced firm’s relationship commitment towards local actors. Moreover, continuous institutional change forces firms to understand the market in a long term perspective. Taking a short-term view of the market might help during the choice of entry mode discussion. However, it would increase the risk of failure if the market changes. Hence, Kao (2013) suggests that more research should focus on the long-term perspective that is the internationalisation process, instead of solely focusing on the entry mode perspective. In addition, Liou et.al (2016) claim that future research related to informal and formal institutions should be concentrated on institutional distances. Furthermore, language distance and other institutional differences such as religious needs to be examined deeper, together with regulatory quality differences between provinces, regions or countries (Liou et.al, 2016). Based on previous research conducted by
Leković (2011), who states that the informal institutions are forming the formal institutions and are therefore essential for the economy, this paper choose to focus on informal institutions. The importance of research regarding the informal institutions is also confirmed by the fact that previous researchers have focused on formal institutions and their impact (Kao, 2013; Scheela & Jittrapanun, 2012; Johanson & Kao, 2015; Hernández & Nieto, 2015; Zhu et.al, 2012).

The interest in Chinese market challenges is confirmed in reports conducted by Business Sweden (2015) where they emphasise on this issue. However, it does not explain how it looks in practice for Swedish SMEs. Besides, O´cass and Weerawardena (2009) among others claim that most of the research has focused on MNCs, which also is the case for Kao (2013) and Johanson and Kao (2015). Hence, does this paper want to examine this topic further from a Swedish SMEs perspective. Additionally, to provide further studies related to institutional distances as encouraged by Liou et.al (2016), this paper do want to create knowledge of how the informal institutional distance affects Swedish SMEs internationalisation process in China. A greater knowledge of how previous Swedish companies have dealt with informal institutional distance would be beneficial for other SMEs that is about to internationalise. Enhancing their ability to understand what issues they are facing, furthermore how to manage those.

1.3 Research question
Considering the previous research the following research question has been created to generate data and knowledge to fill the existing research gap:

**How do informal institutions affect the internationalisation process of Swedish SMEs in China?**

1.4 Purpose
The purpose of this thesis is to gain knowledge of how and to what extent informal institutions affect Swedish SMEs. Furthermore, facilitate a better understanding of how companies can manage those difficulties in an international environment. Moreover, this paper seeks to contribute to the existing body of research

1.5 Delimitations
This study will contribute to new knowledge regarding informal institutions and how Swedish SMEs can deal with them. However, this paper has certain delimitations. At first, the decision was made to focus on the entire internationalisation process and not on a specific stage of it as for instance the entry mode. Moreover, the research will concentrate on the challenges with the informal institutions and its impact on the internationalisation process, hence not consider formal institutions.

1.6 Thesis outline

After the introduction of this thesis, the Literature review facilitates knowledge about the internationalisation process and different informal institutions, along with a conceptual framework of the theory. This chapter is followed by the Methodology chapter where the chosen research approach and method is described. In the Empirical findings, the data gathered is presented which facilitates the following chapter, Analysis. The final chapter, Conclusion, contains the answer to the research question, together with theoretical implications and managerial implications. Furthermore, suggestions for further research.

Figure 1. Thesis outline
Source: Own figure
2. Literature review

This chapter will present the theories for this paper, containing three main topics; Internationalisation, Informal institutions and the phenomena Guanxi & Mianzi. Furthermore, facilitate the creation of an interview guide moreover contribute to a deeper understanding of this study. Finally, a conceptual framework will be presented to demonstrate how the theories are interlinked, aiming towards providing an answer to the research question.

2.1 Internationalisation

According to Sandberg (2013), there are several stereotypical internationalisation patterns that SMEs traditionally use when internationalising. Hollensen (2016) explains that internationalisation takes place when a firm chose to start selling, producing or conduction other business activities on an international market. For SMEs, Hollensen (2016) explains that internationalisation is done with great caution and with an individual market focus. This can be compared with MNCs who typically internationalise continuously with incremental steps over time on several markets simultaneously (Hollensen, 2016). Johanson and Vahlne (1977) have created a model called Uppsala internationalisation model where they explain how firms take incremental steps towards internationalisation. Another common way for SMEs to internationalise according to Sandberg (2013) is utilising existing relationships to help initiate and maintain an internationalisation process. The author argues that the fundamental reason behind these international ventures is to make money. There are however four specific motives behind internationalisation according to Hollensen (2016). These reasons are either; Market-seeking companies that search for new customers, efficiency-seeking companies that search for lower costs of production, resource-seeking firms that want to access resources that are not yet available on the home market and strategic asset-seeking firms. These companies want to obtain assets either tangible or intangible that may become valuable in the long-term perspective (Hollensen, 2016).

2.1.1 The Uppsala internationalisation model

According to Johanson and Vahlne (1977), prior studies have shown that internationalisation of firms is a process where companies increase their international involvement gradually. Johanson and Vahlne (1977) have developed a model where
they describe the internationalisation process of a company with the focus on its gradual acquisition, foreign market knowledge and its successively increasing market commitment. Lack of market knowledge is an important obstacle to overcome when doing international operations. The necessary knowledge needed can, however, be acquired through international experience (Johanson & Vahlne, 1977). The original Uppsala model has since 1977 been revised twice by Johanson and Vahlne (1990; 2009) since the regulatory and economic environment has changed a lot. Whitelock (2002) states that the Uppsala model is well-known because it describes how firms develop their activities abroad over time and in an incremental fashion. Johanson and Vahlne (1977) created a model where they create two aspects, state and change aspects of internationalisation variables (Johanson & Vahlne, 1977). Furthermore, Johanson and Vahlne (1977) presume that companies do strive for long-term profit as well as a low-risk approach.

Market commitment is regarded as the amount of resources that are located in a particular market area, hence a commitment to that market (Johanson & Vahlne, 1977). Besides, market knowledge, the amount of knowledge firms got regarding opportunities or problems are assumed to initiate decisions. The relation between market commitment and market knowledge is direct. The greater the understanding of a market is, the more valuable are the resources obtained in that market, hence a stronger commitment to that market according to Johanson and Vahlne (1977). However, current activities are the primary source of experience, either by hiring people or through advice from experts in the field. Furthermore, Johanson and Vahlne (1977) regard commitment decisions to be made based upon the perceived problems or opportunities in the market.

Johanson and Vahlne (2009) explain that since the original model was created, the behaviour of companies has changed. Some companies do leapfrog certain stages. They do for example start to internationalise very early. Furthermore, in what order firms chose to internationalise does no longer correlate with psychic distance as it did in 1977 (Johanson & Vahlne, 2009). Johanson and Vahlne (2009) did due to changes in the business environment revise their model and developed a business network model of the internationalisation process. Nowadays, internationalisation is viewed as a firm's actions towards maintaining a network position, and since networks are borderless, expansion and entry into a foreign market are less relevant. Johanson and Vahlne (2009) further
explain that network relationships do have a significant impact on the choice of an international market since it gives the firm the possibility to identify and exploit opportunities. The different actors within the network are the ones that possess the knowledge. Hence, a strong commitment towards these actors would grant the firm knowledge, enabling them to find business opportunities (Johanson & Vahlne, 2009). Due to these changes in the business environment, Johanson and Vahlne (2009) added recognition of opportunities to the market knowledge since opportunities are an essential element of knowledge. Furthermore, adding relationships to the decision phase since it is important to commit to relationships and networks. Moreover, market commitment has been changed to network position since Johanson and Vahlne (2009) believe that internationalisation is done through networks. The term current activities were changed to learning, creating and trust-building to make it more explicit.

2.1.2 The Network model
Hollensen (2016) explains that the business network is built on several actors that exchange capabilities and interact through relationships and these networks often emerge in markets where conditions are changing rapidly. In addition, Chetty and Holm (2000) define business networks as one or several relationships between companies which exchange information and could be competitors, suppliers, customers or distributors. Hollensen (2016) further explains that a firm could utilise its domestic network as an internationalisation tool where new possibilities are made by getting introduced to new networks in other countries. Furthermore, SMEs in high-tech industries tend to have an extensive network and do with the help of their relationships go directly towards more distant markets. According to Jansson (2007b), networks should be viewed at the organisational level and not from an individual level. The organisational network is built upon clusters of people connected through a variety of links in which they exchange information, socialise or exchange goods and services (Jansson, 2007b).

According to Chetty and Holm (2000), the activities in the network are the factors that allow a firm to create relationships which provide access to the network's resources. The network model builds upon the assumption that each firm got resources controlled by other companies, which can be used through the network. Johanson and Mattsson
(1988) explain that there are four different categories of firms related to this: The Early Starter, the Lonely International, the Late Starter and the International Among Others. The Early Starter is the firm that possesses a very limited amount of international relationships and got suppliers and competitors that are in the same position, hence does the Early Starter have minor knowledge about foreign markets and even less opportunity to acquire that from its domestic relationships (Johanson & Mattsson, 1988). It is, therefore, common for these companies to use agents when entering a foreign market. By using an agent, the firm can lower the uncertainty and cost since the agent got prior knowledge of the targeted market (Johanson & Mattsson, 1988). The second category is the Lonely International, a firm within this category is very internationalised but with a market environment which is focused on the domestic market. The firm does alone already possess the knowledge and experience needed, hence the capabilities necessary (Johanson & Mattsson, 1988). However, this knowledge is limited to a particular production type, the firm does, therefore, have an advantage over its domestic competitors as they already got a position within the business network (Johanson & Mattsson, 1988).

The Late Starter is the third category. This is a firm that got indirect business network relationships through its customers, suppliers and competitors. They are already internationalised in the market environment (Johanson & Mattsson, 1988). These firms start by internationalising towards more distanced market since their competitors control the close markets since it is hard for new entrants to enter existing networks (Johanson & Mattsson, 1988). The last category is the International Among Others, a firm within this category do already operate in an international environment hence highly internationalised. A firm within the International Among Others got an extensive global network with a great deal of international knowledge, and a vast international network gives these companies the opportunity to obtain external resources (Johanson & Mattsson, 1988). Furthermore, these companies are known for being quick in setting up sales subsidiaries since they need to coordinate business activities in different markets according to Johanson and Mattsson (1988).

2.1.3 Transaction cost analysis
Williamson (2010) describes the transaction cost analysis (TCA) as a tool for determining when a company choose to outsource its production of goods or services
rather than producing it themselves. North (1992) describes that when the transaction cost is extensive, institutions are determined factors, if the economic and political institutions got the possibility to provide low-cost transacting it boosts economic growth, hence attracting new investors. The transaction cost can be viewed as the expense of all actions necessary when operating in an economic system. However, if these costs are less elsewhere, companies may choose to allocate production of goods and services in another country or outsource the activities. There are three different clusters in which you can describe TCA, the key conceptual moves, key operational moves, and applications. Williamson (2010) describes the key conceptual moves to be when a company choose to outsource its manufacturing or services due to human actors and the management's willingness to always improve the business and act upon new opportunities. Another factor is changes in regulations on the domestic market that makes it more expensive to produce, or at the targeted market causing lower entry barriers (Williamson, 2010). The key operational moves are factors such as the assets (human, capital, site specific) and the efficiency of those resources. These factors encourage outsourcing if they are better than the host market (Williamson, 2010). The application factor is when companies realise changes due to empirical predictions.

2.2 Informal institutions

North (1991) describes institutions as either formal or informal, where laws, property rights and constitutions are typical examples of formal institutions. Moreover, several theorists agree that rules, norms and cultural-cognitive beliefs are central components within institutions and can, therefore, be divided into three main pillars, the regulative, normative and the cultural-cognitive pillar which is either are supporting or construct the institutions (Scott, 2008). Kostova and Roth (2002) call these three pillars for the institutional profile of a country where the three elements are utilised to investigate the impacts of the institutional environment more systematically. In addition, North (1991) defines institutions as constraints, formulated by a human being that structure social, economic and political interaction. However, institutions can be explained by external and internal aspects, where the former one can be seen as mutual behavioural regularities within a society (Mantzavinos et.al, 2004). Besides, the internal aspect of institutions can be defined and related to mental modes that are being shared among people and how problems related to social interaction should be dealt with.
Furthermore, Mantzavinos et al. (2004) argue that in addition to institutions, organisations can be seen as players where institutions, are defining the game rules.

In our daily interaction with our family, business activities and other external socially constructed relationships, we are affected by informal institutions and constraints such as traditions, norms, different sanctions and codes of conduct (North 1990; North 1991). Informal institutions can be defined as unwritten socially shared rules and can be seen as both complementary, competing and as a substitute to formal institutions (Waylen, 2014). North (1990) add arguments to the topic and explains that these informal constraints influence the formal rules in our daily life which arise from socially transferred information and is part of what we are calling culture. Furthermore, informal institutions are something that changes gradually and takes time since they exist of attitudes and characteristics arise from earlier generations (Leković, 2011). However, informal institutions are built on moral and social norms that influence human behaviour where the social norms deal with the human demand of being socially accepted within a collective, and not originate from the own interests (Leković, 2011).

Informal institutions are often not codified and can be described as sanctioned social norms of behaviours, which to a large extent are connected to obligations for the individual's trough, for example, clan networks or patron-client relationships (Jütting et.al, 2007). Other typical characteristics of the informal institutional enforcement are the use of violence, internalised norm adherence and expectations related to reciprocity according to Jütting et.al (2007). Informal institutions are essential for the efficiency of the economy and do often include cultural, religious and social norms of behaviour. Informal institutions, however, can minimise uncertainty and can look different depending on nations (Jütting et.al, 2007).

### 2.2.1 Institutional distance

Institutional distance relates to similarities and dissimilarities between different countries institutions and can be measured to be able to compare how socio-economic institutions in the various regions and countries can contribute to different business practices (Hilmersson, 2011). However, since institutional distance is a broad concept, it has been studied on three separate levels, at micro, meso and the macro level. While the first level of institutions relates to the firm, the meso level is related to a company's
organisational field (Hilmersson, 2011; Jansson, 2007b). Moreover, the macro level is measure institutions within societies. According to Hilmersson (2011), this institutional approach is necessary to study within emerging country markets where the institutional development of the market economy contribute to that networks are being organised in different ways. Moreover, an institutional distance can be described as dissimilarities between international business environments which also affect how business networks are being characterised (Hilmersson, 2011).

According to Jansson (2007b), societies in emerging country markets can be divided into social groupings with different rules on different societal levels. The groupings form own institutions but are at the same time affected by the other social gatherings. However, Jansson (2007b) states that this is the reality for many firms within emerging country markets where the firm is influenced by the social groupings outside the company but also the rules of the enterprise. Moreover, the way society is organised have an impact on other separate parts of the societies. Jansson's (2007b) “basic institutional model” looks at the world as one institution where the firm are placed in the middle. The centred firm is being affected by two different segments of institutions, the organisational and the societal, where the previous section is divided into two levels, the micro and the meso level (Jansson, 2007b). This means that organisational institutions are looked at individually or as an entity and involve some major fields, products/service market, government, financial market and the labour market (Jansson, 2007b).

The last institutional level relates to societal institutions at the macro level which directly impacts the other two levels of institutions. However, Jansson (2007b) argues that the societal institutions at the macro level can be divided into a country culture, family/clan, religion, business mores, educational/training system, political system, legal system and professional and interest of associations. Furthermore, the link between meso and macro levels are forming a specific environment which firms are operating in and are, therefore, together with the company's internal environment, influence the international business strategy for the businesses operating within that environment (Jansson, 2007b).
2.2.2 Country Culture
Culture consist of system modes and behaviours that depend on unconsciousness and is connected by feelings and ideas accepted by the majority of people in a society (Sapir, 1956; Rocher, 2004). According to North (1990), culture is something that is being transferred from one generation to another via knowledge, values, imitation, teaching and other types of elements influencing behaviour. However, culture is something learned and built on a collective matter where individuals within the same environment most likely share the same culture and are therefore not derived from genes (Hofstede et.al, 2010). The phenomenon culture can be expressed as something in the mind that is collective programming and which distinguish one category of people and a group of members from other people types or groups (Hofstede et.al, 2010). However, due to the mental programme in certain nations, people from the same countries tend to act in a similar way (Jansson, 2007b). Moreover, since values are a component included in most of the mental programmes, norms and values are included in the description of the phenomenon culture according to Jansson, (2007b). However, Jansson (2007b) explains that norms work as a guideline for principles for how something should be organised and constitute regarding how people should act. Moreover, a norm can also be explained as the behaviour that is being normal and accepted within a social group, a convention or praxis (Jansson, 2007b).

Hofstede (2001) has created a framework to distinguish and describe how people from different nations tend to think and behave. The framework is grounded in various aspects of the cognitive system within a country such as beliefs, knowledge and skills, themes, preferences, meanings, attitudes, frames of references and views and is together forming the five dimensions of national culture (Hofstede, 2001). The first dimension distinguishes between individualism and collectivism which concerns the individual's self-concept which measures to what extent I or We are preferred in the sense of a tightly or loosely knit of the social framework. Also, Hofstede's (2001) second dimension separate between small and large power distance which measure the acceptance among people to unequally distributed power in the societies. Moreover, Hofstede (2001) presents a third dimension, which relates to the difference in people's beliefs regarding ambiguity and uncertainty within a nation. This is described as either strong or weak uncertainty avoidance where countries with high uncertainty avoidance
tend to protect the institution conformity and where the beliefs are promising certainty (Hofstede, 2001).

The fourth dimension presented by Hofstede (2001), relates to masculinity versus femininity. A society with more femininity considers relationship important to a larger extent and the quality of life, modesty and caring for the weak as preferable and necessary. In addition, more masculinity societies stand for more material success, heroism, assertiveness and achievement (Hofstede, 2001). The fourth dimension is followed by the fifth cultural dimension presented by Hofstede (2001) which separate between long-term and short-term orientation. This dimension concerns to what extent the individuals within a nation focus on the present or at decide to concentrate more on the future (Hofstede, 2001). As a consequence of research made by the Bulgarian researcher Michael Minkov (2007), Hofstede's cultural dimension has expanded during the last years from five dimensions to six (Hofstede, 2011). The sixth dimension, introduce the concept of indulgence and restraint, where the level of satisfaction related to human desires and needs and the control of it is measured according to the Hofstede (2011).

### 2.2.3 Business mores

Ethics in international business are built on official statements and address right and wrong corporate codes of conducts (Windsor, 2004). One issue that several companies have taken a position against is bribery and are therefore following certain standard statements like OECD Guidelines for Multinational Enterprises and Amnesty International's Human Rights Guidelines for Companies. Furthermore, Windsor (2004) relates business ethics to the practice of ethics for managers involved in markets activities and profit-oriented enterprises. Windsor (2004) further claims that managers within the field of international business have to be aware of variations in practical and theoretical implications of formal and informal standards of business ethics within different countries. Furthermore, the author argues that in particular emerging country markets, problems related to social issues requires political and economic development. These social issues can be things related to corruption, violence or poverty and disease (Windsor, 2004).
In addition to ethics, Jansson (2007b) argue for the fact that it is important to understand that there are differences between individual behaviour and group behaviour, as well as, organisational and individual behaviour. An example of this can be done by comparing traditions and habits according to Jansson (2007b). Traditions and habits vary between different groups of people, hence different depending on country and social position. An example that Jansson (2007b) addresses are how marriage is done and how different countries celebrate Christmas. These examples are considered to be institutions that are different depending on the group and are therefore critical to understand according to the Jansson (2007b).

2.3 Guanxi & Mianzi

Due to the inherited culture in China, Chinese people put lots of value in allegiance to family and kinship, hard working, respect for the authorities and frugality (Krueger, 2009). However, in China, people who are doing business seems to rely more on personal assessment of the trustworthiness of their trading partners and are usually using informal agreements rather than just relying on formal contracts (Ardichvili et.al, 2012). Moreover, it is vital to examine two interrelated concepts when doing research about Chinese ethical business culture, called guanxi and mianzi and it is a risk that people do not understand Chinese managers if these two concepts are not considered (Ardichvili et.al, 2012; Gold et al. 2003). Moreover, Krueger (2009) argues that many international firms can face disadvantages when dealing with businesses in China and are, therefore, utilising a local third-party to facilitate businesses.

The Chinese word guanxi means relations or connections which often includes gift giving because of the importance within the Chinese culture of personal relationships to a larger extent than in western societies (Chang, 2011; Krueger, 2009). Moreover, Chinese business culture seems to separate business life and personal life less where the long-term personal relationships facilitate to trust and are primary focus rather than formal institutions, procedures and rules (Krueger, 2009). Furthermore, guanxi is according to Bradley (2005) governing the exchange of favours in China. Favours are registered almost as insurance that can be used later. Guanxi is building long-term relationships based on customer relations and trust, hence creating a bond between buyers and sellers, and between suppliers and producers (Bradley, 2005). Furthermore, participants tend to rely on personal connections where the government control the
economic resources and where contract rights are undeveloped and legal protection of property is arbitrary, (Chang, 2011).

Since China now are doing reforms towards an open market competition and a more advanced legal structure, social relationships become less important and so will guanxi (Chang, 2011). However, Chang (2011) explains that guanxi helps facilitate social networks and will therefore still be important despite the changing business environment in China. Besides, Ardichvili et.al (2012), argue that guanxi facilitates to something that easily can be expressed as out- and in-groups. Managers within the in-groups enable access to personnel, information and needed resources because of guanxi. In addition, people in the out-group are being discriminated at the same time as people within the in-group's gets the privilege and personal benefits. However, cultural values as paternalism, collectivism and guanxi together, characterise and determine ethical practices in Chinese business organisations (Ardichvili et al. 2012). Carlsson et.al (2005) explains further that guanxi connects millions of Chinese companies into the same business and social network. These networks do play a crucial role within the Chinese community and are therefore argued to be a key determinant of firm performance (Carlsson et.al, 2005). Guanxi is regarded as an inimitable strategic resource that could help companies to gain or maintain a competitive advantage in China. Furthermore, using guanxi as a tool for relationships is according to Su et.al (2017) a task that would increase the business performance of the firm in China.

Another central element of the Chinese culture which is influencing the Chinese's interrelationships is the concept of mianzi or Face (Wang & Xiaohua, 2009). The concept mianzi relates to prestige, success and the achieved reputation in an individual's life. Mianzi is because of this, directly connected to, and affecting a person's social status. Moreover, mianzi is a result of one person's efforts such as things related to power, position and the acquisition of wealth (Wang & Xiaohua, 2009). Due to this, mianzi involves the individual’s prestige and reputation but varies depending on the group the individual is interacting with. In addition, Wang and Xiaohua (2009) states that the concept of mianzi is connected to what status and prestige the individual wants to communicate to others in the person's environment. Furthermore, the image that a person wishes to maintain in front of others (Ardichvili et al. 2012).
2.4 Conceptual framework

This conceptual framework aims towards combining the key concepts within the literature review, demonstrating how these concepts affect the internationalisation process of Swedish SMEs. The internationalisation process is affected by two factors, the country culture and business mores. These two main informal institutions were prevalent in the existing literature. The two factors arise from “the basic institutional model” created by Jansson (2007b) and are facilitating to the internationalisation process of a company, at the same time as Institutional distance affect both country culture and business mores. A Swedish SME internationalisation process is according to this conceptual framework affected by both country culture and business mores before and during they are entering the Chinese market.
3. Methodology

The following chapter presents how the methodology was conducted during the research process. A description for utilisation of an abductive approach will be followed by explanations regarding the choice of research method, research strategy, data collection, operationalisation, a method of analyses and lastly, the quality of the research.

3.1 Research Approach

The most frequent relationship between theory and research in the area of business research can be described and categorised as a deductive or inductive approach (Bryman & Bell, 2015). In addition, a third research approach, abductive, can be applied when scientists relate theories and research in their business research work (Patel & Davidson, 2011). Furthermore, the abductive research approach can according to Patel and Davidson (2011) be viewed as a combination of the deductive and inductive approach. Patel and Davidson (2011) further argue that this combined approach starts with a more inductive approach where a hypothetical pattern is formulated to explain the outcome. Followed by a more deductive approach when this hypothesis is tested within new cases (Patel & Davidson, 2011). Using the abductive research approach allows the researchers to minimise the risk to getting locked into either the deductive or inductive approach according to Patel and Davidson (2011). This also imposes that the researchers utilise and engage the social world back and forth to make use of the empirical data for theoretical ideas (Bryman & Bell, 2015). Additionally, Alvesson and Sköldberg (2008) argue that interchanges between the theories and empirical data are ongoing during the research process and therefore, became reinterpreted along with each other.

According to Patel and Davidson (2011), the application of the abductive approach imposes a risk where the researchers may formulate a theory which excludes other potential interpretations. The subject for academic studies is mainly determined by the researcher’s earlier experience since they tend to work within familiar patterns (Patel & Davidson, 2011). To enhance a good flow and ensuring that the purpose of this scientific study will be answered in the most appropriate way, the decision was made to pursue an abductive approach, despite the awareness of its limitations. A favourable decision since the empirical data will be influenced by recent theories at the same time as the chosen theories in the paper will be reconfigured and directly dependent on the
empirical data. Moreover, due to adjustments during the working process in both the empirical and theoretical parts, the abductive research approach is most applicable to this study and facilitates to a more flexible way of conducting the studies. In the initial stage of the research process, previous researchers and theories were used to determine relevant theories to construct a relevant interview guide for the purpose to answer the research questions of this study. However, due to the empirical findings, several theories and earlier hypothesis were reformulated to fit with the purpose. Furthermore, the subject of the thesis will regard an unexplored topic from the researcher's point of view to prevent the risks related to the utilisation of this approach, moreover to avoid the impact of researcher's previous experiences.

3.2 Research Method

Quantitative research is the more traditional way of doing research where you rely upon data than can be counted in the context where no external influence can contaminate the results (Holliday, 2002). Bryman and Bell (2015) states that the quantitative research is based on numerical data and exhibiting the relationship between the collected data and theory. Holme and Solvang (1997) regard quantitative research as playing a vital role in research since it possesses the ability create answers that are absolute. Furthermore, it is the only method that can be used to determine how different situations correlates, without a doubt (Holme & Solvang, 1997). Bryman and Bell (2015) does argue for the critique against quantitative research. It is hard to distinguish how social institutions and peoples affect the results.

The Qualitative research approach is described by Corbin and Strauss (2008) as when researchers gather information from participants to determine how cultural meanings are formed, rather than doing studies based on variables. Qualitative research allows researchers to learn more about the respondent on a social level which gives the qualitative researcher endless possibilities while using statistics limits the ability to gain answers (Corbin & Strauss, 2008). Holliday (2002) further adds that in the modern complex society it has become apparent that quantitative research tends to give quite different results, depending on who is conducting the research. Qualitative research is, therefore, increasing in popularity among academic and professional areas (Holliday, 2002). Corbin and Strauss (2008) state that the qualitative researchers are interested in individual’s personal experience of certain events. Based upon this, gain information
about what action and interaction that is taking place in those events, and the consequences of these (Corbin & Strauss, 2008). This paper aims towards interviewing individuals to get the empirical data necessary for answering the research question. As mentioned, a quantitative research method is a numeric way of studying a problem hence neglecting people and social institutions (Bryman and Bell, 2015). A quantitative approach is therefore not applicable when solving the current research question.

The qualitative research approach allows the researchers to gain deeper knowledge in this field, since it enhances the ability to communicate with the respondents, hence understanding the context of its answers. By conducting personal interviews with relevant respondents, a more subjective data will be gathered from real life experience of relevant firms and facilitate with a greater insight concerning practical examples related to the field of this study (Corbin & Strauss, 2008). It can be argued that earlier real-life experience can provide better data than statistical numbers since a qualitative method contribute to the possibilities to answer the questions by asking supplementary questions if necessary. Due to this, the ability to gather the necessary empirical data is increasing tremendously (Corbin & Strauss, 2008). The qualitative research approach is, therefore, the method that will be used throughout this paper and the most appropriate way to conduct the research in this academic paper. Furthermore, recorded words are more convenient to utilise when analysing the empirical result of this study rather than impersonal statistics or numbers.

3.3 Research Strategy

According to Yin (2014), there are several methods of doing scientific research, experiment, survey, archival analysis, history and case study. What method to use depends on what type of research question that is studied, the researcher's ability to control behavioural events and whether the focus is on present or historical events (Yin, 2014). According to Merriam and Tisdell (2016), a qualitative case study is relevant when the researchers focus on interpretation, discovery and insight instead of the hypothesis. Yin (2014) argues for the fact that a case study is relevant when the research contains how and why questions. Thomas (2011) describes a case study as useful when understanding the details of what is happening. This paper is studying a limited number of data sources acquired through interviews, furthermore, according to Thomas (2011), a case study allows a deep analysis and the ability to describe a research problem
elaborately. This paper does, therefore, regard a case study to be the most suitable approach. Furthermore, according to Yin (2014), case studies can be divided into a single-case study and a multiple case study, which approach to use is determined by the number of cases used in the research.

3.3.1 Multiple case study
According to Yin (2014), a multiple-case study got very distinct disadvantages as well as advantages in comparison with a single-case study. A multiple-case study is often considered to be more fascinating than a single-case study and is therefore according to Yin (2014) creating more robust studies. This research paper follows a multi-case study since it allows several views of the research topic and it can be assumed that different companies got various issues dealing with China, a single-case study is therefore disregarded since it would create a very biased view.

3.3.2 Purposive sampling
Several companies could be interviewed to gather the necessary data for conducting the research. It is therefore up to the author to determine where, what, when and whom to interview (Merriam & Tisdell, 2016). According to Merriam and Tisdell (2016), there are two ways of sampling. Probability sampling, where the most familiar way is doing random gathering and a nonprobability sampling method, done with a purposive approach which is the most common when doing a qualitative research according to Merriam and Tisdell (2016). A purposive approach is used when the researchers want to discover and understand and gain insight into a certain topic (Merriam & Tisdell, 2016). Qualitative research aims towards understanding something rather than measuring it, Denscombe (2010) states that non-probability with a purposive sampling form is most common. Furthermore, Denscombe (2010) state that using a purposive sampling form allows the researcher to pick its samples utilised in the study based on the relevance or knowledge of the issue. This paper aims towards understanding how informal institutions affect Swedish SMEs in China, hence it is important for the sample firms to be both Swedish and active on the Chinese market. Furthermore, the representatives from these firms have the work in such a position that they can answer the necessary questions. A purposive approach is therefore applicable for this study. The interviews will target the management of the firm since it can be assumed that they possess the
knowledge to explain their process as a whole. However, to ensure that these variables will be representative for the respondents, research about the managerial staff of the companies was conducted. Moreover, the first contact with the current companies was made with the front desk to gain the relevant information regarding contact information beyond the already possessed. The common denominator for the six respondents is that they all have a managerial position with good insight into their company's ongoing operations within China.

3.4 Data collection

Business researchers have several techniques at their disposal for collecting information for their research questions and to fulfil their purpose (Patel & Davidson, 2011). These techniques can according to Patel and Davidson (2011) be surveys, observations, self-reports, tests and samples, documents, attitude scales and also interviews (Patel & Davidson, 2011). The technique used for gathering data is determined by the choice of research approach, the data gathered can either be from a primary or secondary source (Andersen, 2012).

According to Andersen (2012), data collected personally by the researchers can be explained as primary data. Conducting semi-structured interviews is a common method to use for acquiring primary data according to Blumberg et.al (2011). Researchers within case-studies and have mainly two different purposes. The first objective is to determine how the respondent see and relate to the issue that is being researched and secondly, to what extent the respondent’s perspective can confirm the already known and gathered information and insights that the researchers already possess (Blumberg, et al. 2011). Furthermore, Blumberg et al. (2011) explain that semi-structured interviews usually follows a specific structure with open questions where the respondents are being selected depending on to what extent the individual possess relevant information related to the case-study. However, this sort of interviews is according to Patel and Davidson (2011) usually less structured, the questions are made to facilitate a discussion, allowing the respondent to answer with their own words.

According to Bryman and Bell (2015), researchers usually create an interview guide to cover the specific topics that need to be dealt with during the semi-structured interviews. The outline of the questions does not have to be followed and asked in a
certain order which means that this kind of interviews has a flexible interview process according to Bryman and Bell (2015). Additionally, since the main purpose of qualitative interviews is to examine somebody's perception of the reality of a particular phenomenon, preconfigured answers are always excluded, and this is, therefore, either an inductive or abductive working method (Patel & Davidson, 2011). However, to gather the empirical data for the purpose of this study, semi-structured interviews with open questions will be implemented, together with an own created interview guide that will cover the most relevant topics. The topics will be based on the presented theory, together with relevant information to make sure that enough data will be collected to be able to answer the research question. The semi-structured interviews will be conducted by interviewing two companies at their head office in Kalmar, Sweden. Along with two Skype interviews. The interviews via Skype were an outcome of the geographical location of these two companies. However, the interviews resulted in a total amount of six respondents from four different Swedish SMEs, the data collected through those interviews will be the primary data of this paper. Vartanian (2011) describes secondary data source as data collected by someone else, for example, research institutions, government or agencies. The presence of secondary data has been excluded along the whole paper since no relevant data were found.

3.5 Operationalisation

Allowing the empirical data to be categorised enhances the ability to analyse it according to Patel and Davidson (2011). The operationalisation model facilitates that categorisation, it is made based upon the literature review presented in this research paper. Furthermore, the operationalisation model will be used as a guideline for conducting the interviews, ensuring that all concepts are used in the empirical data gathering. In the first column, the central concept is categorised, which is divided into sub-concepts to easier categorise the collected data, this is followed by which questions that are used to gain information regarding this particular concept. These questions can be found in Appendix 1 at the end of this scientific paper. In the last column, a brief explanation of what the questions aim to reach. This model will further enhance the ability to do a cross-case analysis since the data is categorised in the accordingly.
Method of analysis
Creswell (2013) describes that there are several ways of analysing the collected data, this paper will take a within-case analysis since it is the most common approach when multiple cases are studied. Furthermore, a within-case approach allows the researchers to identify and understand issues from each of the cases and then based on the collected data create common themes between the cases (Creswell, 2013; Merriam & Tisdell, 2016). A cross-case analysis follows a within-case approach, where a thematic analysis is made across the cases (Creswell, 2013). A within-case approach is used throughout this paper, and the collected data were categorised based on the literature review to create a base for analysis. The case data were then compared using a cross-case analysis approach to find differences and similarities between the respondents and the theory.

Research quality
All research involves an ethical consideration and is therefore expected to contribute with valid and reliable knowledge (Merriam & Tisdell, 2016). To measure quality in a qualitative research trustworthiness and authenticity can be applicable criterions to implement for researchers (Bryman & Bell, 2013). However, to ensure validity and
reliability of a qualitative study and to ensure the trustworthiness, several strategies needs to be implemented by the researchers (Merriam & Tisdell, 2016). When conducting qualitative research in an ethical matter, terms as internal validity (credibility), reliability (consistency/dependability) and external validity (transferability) can be discussed according to Merriam and Tisdell (2016).

3.7.1 Internal validity
The concept of validity is built on the weather discoveries are accurate from the researcher’s standpoint and is one of the major strengths of qualitative research (Creswell, 2014). Furthermore, the internal validity considers to what extent the findings of a research match and is consisting with the reality (Merriam & Tisdell, 2016). Moreover, validity is always relative and can never be taken for granted since it has to be evaluated based on the relationship between the research circumstances and the purpose of it (Maxwell, 2013). Additionally, researchers argue that the reality never can be captured since the qualitative research is depending on how the researchers understood the world around them through interviews or observations (Merriam & Tisdell, 2016).

Qualitative researchers have several strategies at their disposal to increase the credibility of their findings (Merriam & Tisdell, 2016). One of the most popular strategies is triangulation, which means that more than one source of method of collection and data are being used to confirm the validity of the analysis, interpretation and the research data (Merriam & Tisdell, 2016; Saunders et.al, 2016). However, to increase the internal validity of the research conducted within the study for this paper, multiple sources of data will be utilised by comparing the data of the four completed interviews. The comparison is made by the two researchers of this paper with the aim of being as less subjective as possible.

3.7.2 Reliability
Reliability considers whether the findings from the research are affected by randomly and temporary conditions, furthermore, if the results would be the same and replicated if the investigation would be conducted once again (Bryman & Bell, 2013; Merriam & Tisdell, 2016). However, since the human behaviour never is static, reliability is
problematic in the social science and because the purpose of the research is to explain the experienced world of those around it with a broad range of interpreters. Qualitative research can never be accurately replicated in the traditional sense (Merriam & Tisdell, 2016). In addition, the consistency between the collected data and the results are important within qualitative results since they determine whether a study is dependable or not (Merriam & Tisdell, 2016). To ensure the reliability (consistency) in this written thesis the strategy related to audit trade was implemented which can be used by qualitative researchers to describe how their data were collected, how they made decisions during the research and how the categories were derived (Merriam & Tisdell, 2016). The four interviews were all recorded with the agreement from the respondents which can be utilised in similar studies to increase the consistency. Moreover, the audit trail can be found in the present chapter were a description of the analyse method is explained.

3.7.3 External validity

External validity relates to in what extent a study's research findings can be generalised to other groups or settings and applied to other situations (Saunders et.al, 2016; Merriam & Tisdell, 2016). To ensure transferability of a study and make it applicable and tested for other similar research, researchers can provide the reader with a summary of their research questions, design, context, interpretations and findings (Saunders et.al, 2016). Within this study, the interview guide in Appendix 1 provides the reader with the open questions that were asked to the respondents allowing researchers to use them in similar studies. Moreover, the company descriptions together with a brief description of the interview persons can be vital and useful for similar studies.
4. Empirical findings

The empirical chapter will present the data gathered during the interviews with the four Swedish SMEs: Lagermetall AB, Norden Machinery AB, Cellwood Machinery AB and Luma Metall AB. The empirical findings will be presented under three headings after a short description of the companies. This data will facilitate the structure and content in the analysis chapter and to the rest of the sections in the thesis.

4.1 Lagermetall AB

The interview with Lagermetall AB was done with Christer Hellström, the CEO of the company. Lagermetall has been a solid partner to the manufacturing industry since Bo V:son Hellström founded the company in January 1979. The firm started with the vision to deliver bronze bearings and semi cast bronze material to the Scandinavian mechanical industry, focusing on service and quality. The company currently has 19 employees and is located in Örebro, Sweden (Lagermetall AB, 2017; Ratsit, 2017b). However, since founded, the product portfolio has increased by a wide range of sliding elements. Furthermore, Lagermetall strives to be an efficient supplier within the area of their business and have today one of the largest stock of slide elements and bronze alloys within Scandinavia (Lagermetall AB, 2017).

4.1.1 Internationalisation

Hellström explains how Lagermetall first started their co-operation with a company in China in December 1997 that is ongoing even today. Moreover, he argues that the Chinese market has changed since they first entered the market as an outcome of the increased industrialisation and wealth being within China during recent years. The decision to enter the Chinese market was taken after a German business partner to Lagermetall was forced to shut down their business. The German trading partner, which was part of a large business group, had been obliged to liquidate their operations which resulted in that Lagermetall lost an important supplier. However, after a business meeting with the former trading partner in Germany, Lagermetall’s managerial staff was told by the German company that a Chinese supplier could provide the necessary material to them. Due to this, Hellström decided to contact the Chinese company and started negotiating. During those negotiations, Lagermetall got the proposal if they wanted to represent the Chinese supplier as an agent on the Scandinavian market. After a time of negotiation, the two parties agreed and signed a partnership. However,
Lagermetall has increased their relationship with their Chinese partner which has contributed to that the two sides never produces any contracts when they are doing businesses with each other. Hellström continues and describes that since the two companies have such strong relationships due to commitment and cultural acceptance from both parties, Lagermetall has never searched for any other potential partners in China. Hellström further explains how his prior knowledge of China and his experience from visiting, do not always matter because obstacles in China can occur rapidly. ”Every time I do think that I can understand how things work in China, things might happen which subvert that theory” - (Hellström, 2017).

An additional reason behind the internationalisation was the increased number of existing customers who moved to China. Lagermetall did, therefore, decide to enter China to reduce the risk of losing their customers to Chinese competitors who could provide lower prices according to Hellström. Furthermore, to secure the quality of the products in China, the decision was made to establish a quality centre where the product quality could be measured. In the initial phase, Lagermetall and the Chinese company owned 50% of the quality centre each. Hellström continues and explains that Lagermetall wanted to maintain a stronger relationship with their Chinese supplier and therefore, gave their part of the quality centre to the Chinese counterpart as a friendly gesture. In addition to the Chinese market, Lagermetall does not operate within any other Asian market according to Hellström. Furthermore, Lagermetall’s networks and contacts have played a major role during their entire internationalisation process. The network has helped Lagermetall to overcome certain language barriers by introducing a fluent Chinese speaker that Hellström later employed. Hellström further states that their Chinese network was a prerequisite for them to start their international operations in China.

4.1.2 Country culture

Hellström does believe that Chinese people have improved their English significantly during recent years in comparison to back in 1997 when it was more common to hire specific person’s or ask the authorities for help to find somebody who could speak fluent English. However, this resulted in other obstacles, since the Chinese firms hired random people who could speak English when foreigners as Lagermetall came for visits. This created difficulties since the interpreters did not have the required technical knowledge.
about the products. Nevertheless, the interpreters did not want to show their inability to understand technicalities and did, therefore, translate wrong, which created misunderstandings. To overcome this obstacle, Hellström and his co-workers observed the interpreters face expressions to figure out if the interpreter understood them or not, reducing misunderstandings. In addition to the language barriers in China, informal institutions such as the perception of time have affecting Lagermetall’s businesses in different types of situations in China according to the CEO. Hellström further explains that some Chinese managers believe that drinking tea is more important during business meetings than closing a deal or agree to a contract. Hellström further explains that they always avoid discussions regarding politics when doing businesses in China.

Hellström clarifies that prior knowledge about the Chinese language is a guarantee to prevent misunderstandings even though the English proficiency among the Chinese inhabitants has improved over the years. Hellström describes further how family, duties and loyalties are vital components in China and that Chinese people do not separate friendship and businesses as individuals in the West tends to do. Hellström continues and describes that the most vital aspect in the initial phase of the internationalisation process for Lagermetall and other similar companies is to establish relationships with the Chinese partners. To ensure this, a good first step could be to show an interest in the Chinese history, talk positive about China but also by giving away gifts.

4.1.3 Business mores
Gifts are very common in China and a clear sign of friendship according to Hellström. Moreover, he also underlines the importance of getting started with the businesses and deliver what has been promised when a decision has been made with the Chinese counterpart or when they have found a new customer or supplier. Hellström does believe that the relationships are essential if any business is to be conducted in China. To be able to execute and succeed with big businesses in China, it requires an established friendship between them and the Chinese. Moreover, trust is equally important for the Chinese as it is for the Swedes and no matter where you come from, it is vital to show that you deserve the trust from the other parties when doing business. Because of trust, the risk of losing a partner to a competitor is diminishing. Moreover, the lack of trust would cost Lagermetall more in the long-run than it does in the short-run, hence not always visible according to the CEO.
Regarding the Chinese business ethics, many Chinese people are characterised by honesty and loyalty. Besides, the price is always negotiable in China and has been handled by Lagermetall through always using fixed prices. It is also necessary to always make sure that the Chinese and the employees of Lagermetall understand each other because Chinese people say yes to everything, even though they do not understand what Hellström and his co-workers are talking about. Therefore, it is better to spend extra time to ensure equal understanding, rather than rush and make quick decisions. Moreover, it is extremely vital when doing businesses in China, to be aware of that corruption is widespread and common. "two out of three buyers do not care about the price of our products as long as we deposit a certain amount of money to their bank account, otherwise, there will be no contract"- (Hellström, 2017).

The CEO continues and describes how Lagermetall has created a regulatory framework to prevent all kinds of involvement with corruption and that Lagermetall rather closing down all their businesses than being involved in any situations related to corruption. Besides, a positive behaviour towards similar businesses with the same size is extremely vital for Lagermetall and other similar SMEs to be able to succeed when conducting businesses in China. Ensuring that their customers do not conduct any businesses with Lagermetall’s competitors which are a major risk with bad relationships according to Hellström. Moreover, Chinese SMEs are more open minded than the larger companies, as long as the Chinese firms do not expand their businesses even further. An expansion could lead to that Lagermetall and other similar Swedish SMEs would be abandoned by the Chinese. Furthermore, the way of doing businesses and negotiations in China are entirely different from the Swedish way according to the CEO.

4.1.4 Guanxi & Mianzi

Hellström recognises the phenomena of guanxi and explains how favours are important not only when they operate in China, but also in Sweden and that the same mentality of services and favours is valid here. However, friendship is a prerequisite to succeed with businesses in China and Hellström claims that if services are given to business partners in China, your company will also get favours in return. Furthermore, mianzi is something that Hellström have acknowledged over the years, and he even regards social status as critical in China. The first thing a Chinese do when he has earned some money is to buy a luxury car just to show the neighbours how successful he is. The next thing
could be to invest in a new apartment or even build a new house. Hellström believes that the Chinese think that the visible impression is very important and they do not want people from the outside to see how their life really looks like. The CEO continues and states that this also includes dinners and food in grocery stores which always should look fancy and classy. Nevertheless, he does not believe that this has affected any business situation for Lagermetall. However, during the first years, the Chinese customers wanted to show that they had made contacts with people from the West in front of other Chinese people. Moreover, during dinners, the Chinese could insist with offering several dishes just to show their status. Hellström continues and clarifies that his major role when he is visiting China, is to act as a CEO who presents Lagermetall. Chinese businessmen do believe it looks good when he as a manager from the West is being present when he visits their company. Hellström argues that he is aware of that the Chinese are not interested in him but rather seeing him as a symbol to show for their social surroundings such as friends or business partners. Hellström claims that he is aware of the importance of the social status for the Chinese, and therefore, accept this.

4.2 Norden Machinery AB

The respondents for Norden Machinery AB are Lars Hammarstedt, Sales Director and Mattias Grahm, Portfolio Manager and Sales support for China. Norden Machinery is a top of the line manufacturer of tube-filling machines and was founded in 1877 in Kalmar and has remained there since (Norden Machinery AB, 2016). The company has 223 employees and is a very international oriented with 98 % of their products exported outside of Sweden (Norden Machinery AB, 2016; Ratsit, 2017d). Norden Machinery has positioned themselves as producing high-end products with the emphasis on performance and quick service and got 1400 active customers in over 60 countries worldwide. Furthermore, Norden Machinery has built a reputation for being a company that supply superior technology and acknowledge after sale service and their machines are a lot more expensive than any other competitors. However, they are the most reliant actor on the market, hence attracting the market leading manufacturers who can afford their machines. To maintain a high quality, the machines are built in Kalmar and then shipped out to the customers around the world (Norden Machinery AB, 2016).
4.2.1 Internationalisation

Norden Machinery sold their first machine to China in 1975 but was not because of any commitment to that specific market. Hammarstedt explains that the new international venture rather had to do with the fact that Norden Machinery had customers who moved their production to the Chinese market, hence requested Norden Machinery’s products on that market as well. After this introduction, Norden Machinery decided to place an agent in China, hence increasing their commitment towards the market. The commitment has increased over the years, resulting in that the firm now got a subsidiary in China that is 100% owned by Norden Machinery. The subsidiary has employed two local sellers in Shanghai and Beijing, responsible for half of the Chinese market each. However, these two local sellers have the closest contact with the Chinese customers. Grahm states that China is considered to be one of the most important markets for Norden Machinery today. Since Norden Machinery provides machines for large MNCs such as P&G and Unilever, they have been asked to deliver machines to markets that otherwise would not be approached by them, such as Sudan according to Grahm. When internationalising, Norden Machinery has utilised agents to be effective at an early stage since market knowledge is essential for them. China is today according to Grahm responsible for 10% of the total sales of Norden Machinery and has increased during the recent years.

4.2.2 Country culture

Grahm states that Japan, China and India are important markets for their company. He does, however, regards those three markets to be very different especially Japan and China. Nevertheless, he states that India is similar to the rest of the Asian countries that Norden Machinery is present on. Furthermore, Grahm does not believe that language imposes any problems since they use local staff during their negotiations and business meetings in China. However, when it goes down to technicalities, translations might not be up to standard hence creating some difficulties, but these are often easily corrected by the Chinese staff members. Grahm does further acknowledge the fact that those businesses that Norden Machinery made in China would be tough to conduct without the Chinese employees since the language still is a major barrier. The business network is critical in China according to Grahm which Hammarstedt also agree on and he adds that it is important everywhere but especially in China since much business is done through relations. Hammarstedt explains that relations created the first opportunity in
China since their customers moved their production there which, however, opened up a new market for Norden Machinery. Due to this, they started so sell a lot more in China, hence creating a subsidiary. Hammarstedt further argues that in order to maintain the business relationships in China, Norden Machinery hired agents from an agency firm since they possessed good relationships.

4.2.3 Business mores

Grahm explains that one major difference between China and Japan is the way of negotiating. In Japan, it is very difficult to get a positive answer right from the start and the Japanese are frightened of losing their face while the Chinese counterparts say yes to everything but do later not acknowledge that. Instead, it is very uncommon that the Chinese answer no to a question or a proposal. However, Grahm and Hammarstedt explain that personal relationships and trust are vital for Chinese businessmen, and affects if businesses will be made. The Sales Director further explains that relationships are key factors in China and therefore, dinners are necessary when doing business. Hammarstedt further explains that it is close to impossible to arrange a business dinner in Sweden since people do not have time. Hammarstedt and Grahm state that their network could perhaps be utilised even more and be larger, however, it is very resource demanding to maintain those relationships. Norden Machinery has been using local employees to conduct a lot of the face to face relationships in China since they find it difficult. Moreover, Hammarstedt argues that the biggest difficulty is to explain to a Chinese customer and their own salesforce, that price is not the most important factor when purchasing a machine, - "the cheapest machine is often the most expensive one" (Hammarstedt, 2017).

Hammarstedt further explains that every deal that is made requires discount in China and is something that you need to consider from the beginning when you are doing businesses. Furthermore, the agents within the network can be utilised to scan how many times you will have to make discounts to close a deal. Hammarstedt and Grahm explain that they had problems with the fact that when they are showing new products or solutions for a potential customer, they take pictures of their ideas and show it to their competitors. The Chinese customers believe that other manufacturers can deliver that solution for a better price, hence copying Norden Machinery's ideas. Due to this, Norden Machinery has been forced to re-configure their presentations in China so that
they do not show any parts that can be stolen, a problem they have never faced in any other market. Hammarstedt thinks that the potential Chinese customers do not care if they copy ideas or not. He explains that he once received a USB from a customer containing a complete deal from a competitor, with all the details and perks described. Grahm describes that it is tough to explain for a Chinese that certain things cannot be done. Norden Machinery did, for example, produce a machine for a Chinese customer that was too heavy for being on the second floor of the factory. The factory owner then explained that they had to make it lighter which was undoable for Norden Machinery. The factory owner could not accept that as an answer so he hired another consultancy firm to calculate the capability of the floor in another way so the machine would fit. Grahm describes this as very difficult to understand as a Swedish businessman, but it is how it works, and you just have to realise it and adapt accordingly. Hammarstedt argues that the best way to understand how the Chinese business system works is to be on site and be in the background supervising.

4.2.4 Guanxi & Mianzi

Hammarstedt describes that hierarchy, and social status is a lot more visible in China, and when Hammarstedt arrives as a Sales Director, he is always treated as superior to his colleagues. In China, the work-title and social status are important. It is therefore very unlikely that a Chinese employee would question his superior. The phenomena guanxi is something that Hammarstedt and Grahm have never heard of, but they are however familiar with the system of exchanging favours within the business networks and they even regard it as crucial. Furthermore, the Sales Director explains that gifts are a lot more common in China and is often expected when they visit customers since it is a sign of a good relationship. Furthermore, they do also state that Chinese businessmen tend to be very judgmental when they are introduced to new people unless you got a fancy work-title or are considered as an important person.

Grahm and Hammarstedt regard the Chinese businessmen to be very disloyal compared to Europeans since they choose to change workplace and suppliers a lot more often. Hence, the relationship is of absolute importance according to Grahm. Moreover, the social status as a part of mianzi is vital in China according to Hammarstedt and Grahm. They describe that the working title and in what networks you are socialising in are also factors that Chinese businessmen consider as important. Hammarstedt believes it has to
do with their hierarchy and Grahm further adds that Chinese employees usually are afraid of saying no to their superiors, which imposes problems when negotiating.

4.3 Cellwood Machinery AB

The interview with Cellwood Machinery AB was done with the CEO Henrik Lefvert. Cellwood Machinery was founded in 1913 and has become a world-leading company for equipment for dispersing of waste paper with more than 500 systems in operation today (Cellwood Machinery AB, 2017). Moreover, they manufacture, supplies and develops systems and machines for the paper and the pulp industry together with the pre-treatment of organic waste were Krima, Algas and Grubbens are popular products. Cellwood Machinery has located their head office in Nässjö, Sweden, but do have offices in Germany, Canada and China and are being represented in the entire world, using employed staff and agents. However, they also have a Research and Technology centre located in Nässjö and a total number of 35 employees (Cellwood Machinery AB, 2017; Ratsit, 2017a).

4.3.1 Internationalisation

Lefvert starts to describe that Cellwood Machinery has been selling their products to China for approximately 20 years as a result of a growing interest in paper and packaging machines, with a central focus on waste paper. In addition to this, all companies in this type of business sector have some connection and establishment within China. Lefvert continues and argues that their first contact with China started when a former sale manager where on an exhibition in Singapore around the year 1997. During the exhibition, Cellwood Machinery’s former sales managers met a Chinese customer who was relatively new at the time. Due to a good connection between the two, it ended with that Cellwood Machinery could establish their first relationship in China and started to sell their machines to the market according to the CEO. Along with that, the sales increased in China and Cellwood Machinery’s staff began to realise that they would benefit from having local support in China. Due to this, Lefvert participated in a seminar held by Business Sweden in the year 2006 where he got informed that it was possible to hire a person through them that could help them in China. Furthermore, the first person was placed in China in 2007, and a new seller was hired shortly after that and located in China.
Lefvert explains how Cellwood Machinery did succeed to acquire some prior knowledge of the Chinese market during the late of the 90s before they sold their first machine even though the market was more closed than it is today. However, they gathered more knowledge during their internationalisation at the same time as their Chinese customer became bigger and bigger. In addition to China, Cellwood Machinery is also selling their products to the rest of the Asian countries excluding North Korea. Moreover, Cellwood Machinery does not have an extensive network established in China besides a local supplier who facilitates service and reparations. What they, however, do have is a good reputation in customers networks and among the customers who are ready to pay a higher price to get a better quality, hence a machine from Cellwood Machinery rather than a copied version from a competitor according to Lefvert.

4.3.2 Country Culture

Cultural differences are not a major obstacle but have affected Cellwood Machinery's businesses in China negatively to some extent. Lefvert argues that the main reason to this is because Chinese businessmen got difficulties with the fact that the Swedes usually are unable to travel during holidays such as Christmas. However, informal institutions that Cellwood Machinery have experienced during the initial phase of their expansion to China and still struggling with today and which limiting Cellwood Machinery's possibility of establishing strong relationships, are challenges related to language. According to the CEO, the majority of their customers in China do not speak English, but just Chinese. Due to this, they have tried to overcome these obstacles by hiring a Chinese agent but who fooled Lefvert and his co-workers and lied about what the Chinese customers were saying.

It is also common that the Chinese agents do not tell the managers of Cellwood Machinery if the customers complain about something. To deal with this obstacle, the directors of Cellwood Machinery must be extra clear and write down information, ensuring that the two parties have understood each other. However, even though Cellwood Machinery has own personnel originally from China today, they still experience this and see it as a big problem since they do not have anybody within the head office in Nässjö, Sweden, who speaks fluent Chinese. Lefvert goes on and explains how Chinese people, especially from the southern mainland of China, tends to care
more about cultural aspects such as not using number 3 at the end of an offer because some people connects this number with the death. A contract should instead contain number 8 since it is a lucky number for many Chinese people according to Lefvert.

4.3.3 Business mores

Lefvert states that the relationship between customer and supplier in China is worse than in the rest of Asia because relationships usually are less developed. "I have never experienced such a bad relationship between the supplier and the customer in any other country even though I have been selling to both South America, Africa, the Middle East and the rest of Asia"- (Lefvert, 2017). Chinese businessmen can, therefore, be quite ignoring, hence let the supplier wait for a business meeting several days. Lefvert further adds that this can even be the case when it is the Chinese who initially have booked the meeting. Moreover, Chinese businessmen tend to press the price in an unethical way in comparison with other Asian countries. Furthermore, they show less respect for Cellwood Machinery managers and their knowledge according to Lefvert. In addition, China is more hierarchical and corrupt which is evident when a contract always has to be signed by the owners, ensuring that no money will disappear. According to Lefvert, Chinese people tend to copy a lot from other firms and are impossible for Cellwood Machinery to avoid. To manage these issues, it is vital to be careful which kinds of technical drawings and papers that they share with the Chinese. Furthermore, they have also experienced occasions where brochures and ads have been copied by competitors. Cellwood Machinery solved one issue by asking for help from Business Sweden, it is, however, very time-consuming. Lefvert continues and explains that Cellwood Machinery’s managers try to have a local market presence to deal with product infringement. Furthermore, making sure that customers are aware of that copies exist, and moreover, give them the possibility to distinguish between an original and a copied version.

Lefvert states that it is very vital to be cautious when dealing with Chinese agents because of the risk of being tricked by them. However, he does believe that Cellwood Machinery’s business negotiations with the Chinese are much stricter, shorter and with more closed dialogues than negotiations with Europeans. Lefvert states that this is a result of the limitations related to the language and because the Chinese like to discuss the price to a larger extent. However, it is important for the managers of Cellwood
Machinery to be aware of this since the Chinese do believe that they have to press the prices to feel that they have contributed to the deal. They, therefore, tend to lose their face if they fail with this. Additionally, it is vital to be aware of the fact that a signed contract is not worth much in China and the Chinese can instead argue that an earlier signed contract is something that was valid earlier but not now. Therefore, Cellwood Machinery can never be sure until they received their money to their bank account.

Lefvert states that during business negotiations, the Chinese invite all suppliers which mean that the managers within Cellwood Machinery usually meet their main competitors. It all starts in a waiting room where all suppliers are gathered, sitting face to face to each other waiting before being called into a room for the negotiations. Lefvert explains that this is ongoing for several days just because the Chinese buyers want to save time and fatigue the suppliers, ensuring the lowest price possible. This traditional way of negotiations is something that Lefvert has not seen anywhere else in the world. Moreover, the Chinese businessmen are fond of using time as a tactic and therefore, usually let suppliers wait which means that it can take up to two days before the managers of Cellwood Machinery get any response. Furthermore, Lefvert does not believe that the informal institutions in China are as strict as other Asian countries. However, it is vital to be aware of their way of doing business related to their tendencies when pressing prices.

The Chinese businessmen have issues to accept no for an answer and during this situations, it is common that Cellwood Machinery has to solve the problem by taking a detour which is not always the most legal way of solving it. Lefvert also explains that Chinese businessmen do not care about small details such as hand over a business card with two hands or dressing in a certain way but is something that is more common in South Korea for example. The same goes for gifts which are not considered to be important except during the period of the Chinese New years' celebration. Instead, the Chinese are more interested in technical details and things related to the price. Moreover, Lefvert claims that as long as you have a good product and efficient sellers, Swedish SMEs can succeed in China. The obstacles related to the informal institutions such as business ethics or cultures can be overcome by utilising agents or similar organisations as Business Sweden according to the CEO.
4.3.4 Guanxi & Mianzi

Lefvert is aware of the phenomena guanxi but claims that it has made little impact on Cellwood Machinery’s businesses in China. However, since Cellwood Machinery has been present on the Chinese market for 20 years, the network is not most vital for them. Nevertheless, Lefvert explains that a good relationship with their contacts in China facilitates to their businesses there. However, it is not necessary to any larger extent since Cellwood Machinery is acting within the machinery sector and already is established on the Chinese market. In addition, it is sometimes hard to establish a good relationship because the managers of Cellwood Machinery are denied to meet up with the Chinese customers because of restrictions from their managers.

Lefvert believes that his social status plays a greater role in other Asian countries than it does in China which he argues is a result of China’s short history as a market economy. Nevertheless, he does believe that the social status in general among the Chinese population matters. He explains that the Chinese who have money also want to show it to others. Furthermore, because of the hierarchy of the Chinese managers, it is very common that Lefvert and his co-workers have to wait for the right person to sign a contract. In addition, it is very hard for them to adjust an already signed contract because it has to be done by a specific person who might not be present at the meetings. Lefvert explains that due to this hierarchy, some Chinese managers are afraid to negotiate without the owner of the firm because they do not have any rights to do that and which result in a long negotiation process in China.

4.4 Luma Metall AB

The interview with Luma Metall AB was done with two respondents, Thomas Adolfsson, the Sales Director, and with Mats Holmqvist who is responsible for Finance and Purchasing. Luma Metall is a Swedish producer of tungsten wire products that are used for very specific high-tech machines. Luma Metall was founded 1935 in Kalmar, Sweden, where they still have their production located, employing a total of 20 people (Luma Metall AB, 2017; Ratsit, 2017c). Holmqvist and Adolfsson explain how the company started making light bulbs with major success which made Luma Metall create their own tungsten wire used in the light bulb. Since then, the company has shifted from doing light bulbs to producing gold plated and polished wire used in satellites, antennas, automotive industry as well as wires used during surgeries.
**4.4.1 Internationalisation**

Luma Metall entered China due to a coincidence according to Adolfsson, because their customers moved their manufacturing to China. Adolfsson explains that they tried to get into the market earlier by using Business Sweden, but it did not evolve to anything major. This has changed and just until recently, China stood for one-third of their export. Furthermore, Holmqvist states that China is important especially since they import a majority of their material from China, however, he predicts that the Chinese market will continue to develop. Adolfsson further explains that the internationalisation strategy was to commit with incremental steps towards the market, not taking significant risks in the beginning and later using Business Sweden to lower the risk even further. Holmqvist goes on and claims that they did not have any prior knowledge of China before they entered and explains that they relied on the services that Business Sweden could contribute with as well as travel there as many times as they could. Moreover, Adolfsson describes that the internationalisation had to take time and was crucial to their success, hence acquiring the necessary knowledge over time.

Holmqvist and Adolfsson explain that they are working with very particular products and because of that, Luma Metall is known within the industry and which is how they acquire new customers. Luma Metall is doing business with the majority of the large economies in Asia but do regard China as interesting since it is still growing a lot. Adolfsson explains that the market they sell to is not as important as you may think since they often sell rather small quantities and the setbacks are therefore less devastating if they occur. Holmqvist describes that there has been a major change in how it is to do business with China since they started doing business with them. Nowadays, it is a lot easier to negotiate deals as well as determine credit terms which were impossible in the initial phase.

**4.4.2 Country Culture**

When doing business in China, Luma Metall is still using Business Sweden in order to navigate on the Chinese market since language is still a major barrier, especially when discussing technicalities according to Holmqvist. Adolfsson further adds that even when they are using an interpreter, mistakes happen since they might not be familiar with their products portfolio and do not know how to explain the products in English. Adolfsson further states that since the Chinese market will continue to evolve, their
products will have a larger market together with the fact that their English proficiency is increasing which have been noticed by both respondents over the years. Adolfsson agrees upon the fact that an increased knowledge about the Chinese informal institutions would be beneficial for Swedish SMEs. The major difficulties when dealing with Chinese customers have according to Holmqvist been the language barriers. It is therefore crucial that no misunderstandings occur. Luma Metall has solved this issue by always using an interpreter that is aware of their business. Adolfsson continues and explains that during mail correspondence, the use of Google Translate is obvious so the language barrier does still exist. However, the Chinese English proficiency is increasing.

4.4.3 Business mores

An issue that has emerged when dealing with China is the amount of trust you can have, and Holmqvist explains that they sometimes get the feeling that their Chinese suppliers are using different suppliers without noticing, hence delivering products with different quality. This is something that Holmqvist regards as very dishonest while he states that the Chinese counterparts probably do not feel the same about the situation but instead thinks that this is how problems should be solved. Holmqvist goes on and describes business relations as imperative when doing business in China since they especially build trust. When purchasing materials in China, it is vital for Luma Metall to know with whom they are dealing, a trader in a skyscraper or the actual manufacturer. “It is the worst thing that can happen to us, suddenly we receive material that behaves differently and no one knows why. It turns out that the supplier delivered material with less quality, which is hard for us to measure in advance” - Adolfsson (2017). Holmqvist further explains that they use Business Sweden to ensure that the supplier is a manufacturer who can guarantee quality since an inquiry towards the seller cannot be trusted.

Adolfsson also states that networks and business relations are important during negotiations. Luma Metall has experienced negotiations where the contract has been signed and agreed upon, and during the following days the Chinese have brought it up for discussion again and stated that the old one is not valid anymore and then started to re-negotiating. Holmqvist adds that in Sweden, a signed contract or a handshake is a confirmed deal. However, that is not the case in China, hence trusting the counterpart
and having well-developed business relations is essential during negotiations. Holmqvist describes an occasion where they asked a customer what they did and demanded a certificate of that. Holmqvist and Adolfsson later understood that those certificates meant nothing for the Chinese and were falsified. According to Holmqvist, this is a sign of an entirely different view of legal papers and how negotiations are done.

Adolfsson explains that Luma Metall is dependent on good communication between them and their customer to be able to deliver a custom product that fulfils the requirements. However, Adolfsson is of the impression that their Chinese customers do not have the same willingness in this matter as their European counterparts. Moreover, Holmqvist states that the cultural differences between Sweden and China are huge and which is very obvious during negotiations where the focus is put on different things. Holmqvist explains that they want to ensure payments and product details while the Chinese mainly concentrate on cutting cost and the actual delivery time. It is, however, important to realise that Chinese business culture is different from the rest of Asia during negotiations, says Adolfsson. Furthermore, both respondents explain how they have witnessed several cases where almost ten employees have disappeared from the company they are negotiating with. They later realised that these individuals were producing the exact same product, with the same technique, right next door. Holmqvist further explains that this is probably the reason why Luma Metall never is invited to any plant itself since the Chinese are afraid of any copying. Holmqvist does also add the fact that during negotiations, Chinese customers do often answer yes to questions they do not understand. Adolfsson further adds that this is something they are used to since it happens throughout the whole Asia but is still an issue for Luma Metall.

Despite difficulties in understanding each other without an interpreter, Holmqvist explains that the Chinese businessmen are very open minded and welcoming. They always try to communicate with Luma Metall by using a translator, hence not ignoring Adolfsson and Holmqvist during their visits. Adolfsson explains that he had experienced difficulties in explaining that increased quality of their product costs more money, something that the Chinese customers do not agree on. Price negotiation has been challenging and is still in China compared with any other markets. Chinese always want it as cheap as possible with the highest quality and when that is reached, they start
bargain over the price once again. Adolfsson also states that price discussions are more extensive in China than anywhere else, especially regarding discounts.

4.4.4 Guanxi & Mianzi

Holmqvist argues that the Chinese businessmen are very determined on not losing their face and is something that needs to be considered as a foreigner during negotiations since it can have devastating consequences. Holmqvist and Adolfsson do however not believe that hierarchy play a major role in China, especially if you compare with Japan for example. Social norms in China are something that Holmqvist regards as very different from what he is used too. It is, therefore, important to have an open mindset and to supervise to limiting the risk of doing anything wrong. Holmqvist further explains that their contact at Business Sweden have helped them a lot in explaining the reason behind many norms, allowing Luma Metall to understand the reason behind those norms. Adolfsson adds that they would never have succeeded in China if it was not for the help they got from Business Sweden. Luma Metall did even have a Swedish speaking Chinese who helped them throughout their business trips in China, helping them to negotiate and communicate.

Guanxi is something that they do not believe have affected any business they have made, however, Holmqvist is familiar with the phenomena. The importance of knowing the right people is important and something both Holmqvist and Adolfsson have encountered during their visits. The business meeting and dinners are also something that is very different from what Adolfsson and Holmqvist are used too. The dinners are always very time-consuming and several dishes need to be served. Holmqvist believes it has to do with the fact that they want to show their wealth and appreciation. Adolfsson adds that the importance of showing wealth by having a fancy car or live in the major cities is something they have realised during their visits to China. Both Adolfsson and Holmqvist do however neglect the fact that they should have been treated differently depending on their work-title. However, if the CEO at Luma Metall would have visited the Chinese, they are convinced that the customers would have behaved differently.
5. Analysis

The following chapter will concentrate on the essential empirical findings in correlation to earlier research. To emphasise the main findings, subheadings about: Language, Traditions and Time, Relationships and Trust, Hierarchy and Corruption, Copying, Negotiations, Guanxi and Mianzi have been added at particular parts under the main headings. The analysed material will facilitate to answer the research question in the concluded chapter.

5.1 Internationalisation

The theory of this thesis is based on the assumption that the respondent companies would internationalise using one or several of the concepts presented in the literature review. The four businesses that serve as respondents in this thesis do all have different internationalisation processes. What is evident and a correlation between all the respondents is the fact that none of the companies was determined to enter China. The opportunity arose, and they took it, hence realising that they could earn money on the Chinese market and just as Sandberg (2013) states, the most fundamental reason behind any international venture is to make money.

Norden Machinery described the reason behind their Chinese internationalisation to be that a customer moved its production to the Chinese market, hence requesting Norden Machinery’s products. Adolfsson at Luma Metall shared the same story. They had a customer who moved their production to China and requested their products on the market. These two companies have both taken incremental steps towards the market to reduce the risk taken. However, the measure used is different and Norden Machinery hired an agent on the market acquiring market and customer knowledge. In addition, Luma Metall took another approach and hired services from Business Sweden who helped them with negotiations and market knowledge. These two different approaches have resulted in two companies with different market commitment. Norden Machinery does today have a subsidiary on the market while Luma Metall got contacts within the market but still use Business Sweden when doing new ventures. As explained in the Uppsala model, market knowledge is of great importance and both companies have taken incremental steps to gain market knowledge by hiring different kind of experts (Johanson & Vahlne, 2009; Whitelock, 2002).
Johanson and Vahlne (2009) further argue that while the market knowledge increases, the value of the market increases, hence the commitment by the company. Norden Machinery is a company that have gone from using an agent to a fully own subsidiary. Luma Metall has increased their commitment but not in the same pace. It may be because their market is a lot more explicit since their products are used within the very high-tech market. Moreover, Luma Metall may have had success in other markets hence not committing to the same extent as Norden Machinery did. Business Sweden did perhaps not produce as good market knowledge as Norden Machinery’s agents, therefore putting Luma Metall in a position where they lacked market knowledge. As Johanson and Vahlne (2009) argue, when a company lack market knowledge, they do not increase their commitment towards that specific market. Lefvert at Cellwood Machinery found a potential customer through a convention, that customer happens to be located in China. There are some similarities between Cellwood Machinery and Norden Machinery and Luma Metall, all three companies acted on opportunities. Cellwood Machinery did start their internationalisation process by selling products to customers who asked for their products, hence no real market commitment. However, Cellwood Machinery did also realise the potential of the market after they had sold a couple of machines to China and consulted Business Sweden, hiring an agent through them. This once again correlates with what Johanson and Vahlne (2009) state, an increased market knowledge boost market commitment. Cellwood Machinery did also take incremental steps towards the market, resulting in employing the Business Sweden agent themselves.

The empirical data show three companies that all took incremental steps towards the Chinese market. However, they all had different solutions. It is hard to determine what the most appropriate way of internationalising in China is but, however, what is visible is the fact that where customers have been found, the commitment has increased. This might have to do with the product sold or the market knowledge and if they were right in time. The fourth company, Lagermetall, have not taken the same path as the other three companies. They had an immediate problem to solve since they suddenly lacked an important supplier. Hellström described that they were caught by surprise and had to act quickly, so they used their business network in Germany to get hold of a new supplier. As Chetty and Holm (2000) also state, there are companies within the business network that got resources that could be used by other parts of the network, which is
what Lagermetall utilised. Lagermetall did therefore not take any incremental steps towards the market. Instead, they went from having no business in China to being dependent on it and saved their business just by using their network. Hellström did, however, argue that they later increased their commitment since customers moved their production to China, in the same manner as all the other respondents. However, internationalising using patterns described in the transaction cost analysis by Williamson (2010) and North (1992) was not done by any of the respondents.

The four companies could further be classified in agreement with Johanson and Mattsson’s (1988) categorisation. Lagermetall, Cellwood Machinery and Luma Metall can all be classified as Early starters since they all got a limited amount of international relationships with minor knowledge about foreign markets. It is typical for these companies to use agents to gain market knowledge which was the case for Cellwood Machinery and Luma Metall. However, Johanson and Mattsson’s (1988) categorisation as an Early starter is not applicable in the case of Lagermetall since they chose to internationalise through their network instead of an agent. Moreover, Norden Machinery can be categorised as an International Among Others since they are a global company who are familiar in an international environment. Furthermore, these companies are according to Johanson and Mattsson (1988) known for setting up subsidiaries, a step that has been taken by Norden Machinery. However, Johanson and Mattsson (1988) argue that a company categorised as International Among Others use their network to gain external resources. This is not applicable in the case of Norden Machinery since they used agents in the Chinese market. Johanson and Mattsson’s (1988) theory regarding International Among others do however correlate with Cellwood Machinery and Luma Metall who both utilise their network to gain external resources. It can, therefore, be said that it is difficult to place the responding firms into one classification.

5.2 Country culture

Language
It can be argued based on the empirical findings that the informal institutional challenges due to the institutional distance between China and Sweden are acknowledged. These challenges do to a large extent involve problems related to
language proficiency. All interviewed managers for the Swedish SMEs have experienced how language to some extent has caused problems during their Chinese internationalisation process. To overcome this obstacle, the utilisation of an interpreter has been a popular tool. It has however created additional difficulties for the firms. Graham and Hammarstedt at Norden Machinery explained how the translations of technicalities are not always reaching a high enough standard during negotiations. However, Norden Machinery has managed those challenges by utilising an employed Chinese native speaker who corrects the translation. Besides, Hellström at Lagermetall explained that they hired an interpreter in the initial phase of their Chinese internationalisation process. However, the interpreter did not have the required technical competence of Lagermetall’s products. In order to solve this issue, Lagermetall took advantage of their established network and employed a native Chinese speaker with industry knowledge. This can be interrelated with Krueger (2009) who states that international firms can utilise local third parties to overcome disadvantages when handling with businesses in China. Besides, this displays how a Swedish SME can face several challenges related to informal institutions but also how they can manage rapidly arising obstacles in a flexible way when entering emerging market such as China. Moreover, this supports the argument by Jansson (2007a) who states that emerging country markets are turbulent and uncertain.

Lefvert at Cellwood Machinery described how the systematic use of written symbols and signs for communication as explained by Crystal (1992), have been an obstacle for them even since the initial phase of their internationalisation process to China. Also, and in line with Lagermetall, Cellwood Machinery did use a Chinese agent to act as an interpreter which led to new problems since Lefvert and his co-workers got deceived by the Chinese agent. Due to this, relationships are hard to establish and is dealt by Lefvert and his co-workers by being extra clear and write down as much information as possible. Moreover, Luma Metall has experienced problems related to language barriers especially related to technical manners as the managers at Norden Machinery also did. This correlates with Waylen’s (2014) statement where he explains how informal institutions can compete with visible factors such as explaining technicalities.

Luma Metall utilises interpreters who are aware of their business to deal with the language difficulties but, Holmqvist did explain that it does not guarantee that
misunderstandings will not occur. The empirical findings show tendencies of that a hired Chinese casual interpreter is not the best way to handle the language challenges within China. Instead, employing a fluent Chinese speaker with the appropriate business knowledge is limiting the risk of misunderstanding or being deceived. This is strengthened by Grahm at Norden Machinery who claimed that the businesses in China would be much more difficult without the Chinese employees. Nevertheless, the English proficiency has increased during the last years among the Chinese (Hellström; Holmqvist & Adolfsson). These findings verify that informal institutions change gradually and take time as Lekovic (2011) describes. Furthermore, Jütting et.al (2007) explain that the use of informal institutions could lower uncertainty among companies. This correlates with Holmqvist’s co-worker Adolfsson who believed that a prior knowledge about informal institutions in China would be beneficial for Luma Metall and other Swedish SMEs.

**Traditions & Time**

Aside from language, culture is not a major obstacle for Cellwood Machinery, but Lefvert explained how their Chinese business partners usually do not accept that Swedes cannot travel to China during traditional holidays such as Christmas. Lefvert's explanation correlates to Jansson (2007b) who argues that institutional factors such as Christmas are vital to understand because they may differ between different nations. Additionally, Lefvert's statement supports North's (1991) theory on how informal institutions such as traditions can affect business activities. This can be understood as that business people in China do have limited understanding about the Swedish culture and this might impose additional issues and a lack of mutual understanding between the two parties. A personal relationship is therefore even more crucial in China, since they may reduce misunderstandings (Chang, 2011; Krueger, 2009).

The CEO at Cellwood Machinery further described how the impact of culture on businesses in China differ between the south and north part of the country. Due to this, the behavioural regularities can look different within the same market which confirms the importance of separating different societies within the same countries as Mantzavinos et al. (2004) argue. Besides, these findings do also confirm Jansson’s (2007b) theory which claims that societies within emerging country markets can be separated into different social groupings with diverse rules. The perception of time is
also different among the Chinese and the Swedes according to Hellström at Lagermetall. However, even though Jansson (2007b) argues that people originally from the same country tends to act in a similar way, neither of the managers at Luma Metall or Norden Machinery, discussed cultural aspects related to time or traditions when they discussed their businesses in China. Hilmersson’s (2011) theory regarding how institutions in different regions and countries can result in different business practices are strengthened since the specific companies within this study apparently have experienced similar and dissimilar barriers related to informal institutions during their internationalisation process to China. Besides, Jansson's (2007b) different institutional levels can be compared with the empirical result related to traditions and norms to understand how firms within the same societal institutions can distinguish due to different rules on different societal levels on a macro, meso and micro level. Due to this, it can be argued that the interviewed Swedish SMEs for this particular study, are being influenced by rules inside their company as Jansson (2007b) describes.

5.3 Business mores

Relationships & Trust
People origin from the same country tend to act in a similar way since they share the same culture. The feelings and ideas are system modes that transfer the behaviour in a culture (Jansson, 2007b; Hofstede et.al, 2010; North 1990; Sapir, 1956; Rocher, 2004). Hellström described how family, loyalty and duties are vital components in the Chinese society. Furthermore, Hellström stated that these components are often brought into business relationships, hence do Chinese businessmen have issues with separating friendship from business. Hellström’s argument goes in line with Krueger (2009) who argues that businessmen in China do not separate personal and business life to any large extent. The relation between Chinese businessmen and their counterparts are therefore facilitated by relations.

Hellström at Lagermetall explained how relationships are an important factor to succeed in China and furthermore, how this is built on friendship. The statement correlates with Jütting et.al (2007) description of informal institutions which to a large extent are correlated with an individual's obligations to things such as patron-client relationships. A statement that correlates with Grahm and Hammarstedt at Norden Machinery who
further described the importance of business dinners when operating in China. However, the managers at Norden Machinery also explained that the relationships are difficult to maintain due to resource demands. Also, the relationship between suppliers and customers in China was something that Lefvert at Cellwood Machinery experienced as less developed and worse than in any other Asian country where the Chinese people tends to be ignored against the Swedes. These tendencies indicate that a good relationship is vital when doing businesses in China and confirms earlier arguments made by Hellström at Lagermetall. However, Bradley’s (2005) and Hollensen’s (2016) explanations of how customer relations and trust can facilitate to a better relationship between a seller and a buyer's facilitate with even more connections to the CEO at Lagermetall. Hellström's explained how relationships and trust are important and argued that a gift, together with deliver what has been promised, are strong signs of friendship in China. In addition, this creates connections to what Holmqvist and Adolfsson at Luma Metall discussed regarding trust and its importance during the establishment of business relations. However, since the empirical findings indicate that relationships and to some extent trust, are interrelated and vital components in China, it can be argued that the Chinese society relates to femininity as described in the fourth dimension of Hofstedes (2001) framework.

Hierarchy & Corruption

Lefvert at Cellwood Machinery insists that China is more hierarchical than Sweden and besides, China is more corrupt. Hierarchy and Corruption have resulted in that the Chinese owners always sign contracts to show their authority and to avoid bribery, resulting in extensive negotiations processes. Due to this, the research findings indicate that China is a society with large power distance as described by Hofstede (2001). The presence of corruption within China can be related to the interview with Hellström at Lagermetall who believed that it is vital when doing businesses in China, to be aware of the widespread corruption. To measure this, Lagermetall did create a regulatory framework to avoid all business situations related to corruption. These statements can be compared with North (1990) who regards informal institutions as influencing the formal rules in our daily life. Furthermore, Windsor (2004) argues that corruption is a widespread social issue within emerging country market which further strengthen the experience Lagermetall had within the Chinese market. Nevertheless, Holmqvist and Adolfsson at Luma Metall, as well as the managers at Norden Machinery, did not argue
about corruption or hierarchy as an issue. It can, therefore, be argued that these two informal aspects are not of major concern for certain companies in the Chinese market.

**Copying**

The empirical findings indicate that Norden Machinery, Cellwood Machinery and Luma Metall have experienced unethical actions regarding copying, which is an informal institutional challenge related to the Chinese internationalisation process. Due to this, Windsor’s (2004) theories about how managers within international business need to be aware of informal institutional business ethics within different nations can be confirmed. Besides, Hammarstedt and Grahm described how their potential Chinese customers took pictures during the presentation of Norden Machinery's products. These pictures were used to take ideas from Norden Machinery and feeding it to their competitors who could produce the machine cheaper. However, Hammarstedt described how they have decided not to exhibit any information’s in their presentations of their products that have a risk of being copied by the Chinese.

Lefvert at Cellwood Machinery declared that it is impossible for them to avoid copying when dealing with China. An argument that can be correlated to Mantzavinos et al. (2004) who believe that institutions are setting the game rules while organisations can be seen as players within the institution. Furthermore, the solution that has been applied by Lefvert has been similar to how Norden Machinery faced the problem. Cellwood Machinery tends to be very cautious with what technical drawings and papers that they share with the potential Chinese customer. Moreover, Cellwood Machinery tried to utilise Business Sweden to overcome this but which was revealed to be very time-consuming. Besides, they have tried to reduce the impact of copying by having a local market presence in China to ensure the awareness of the difference between a copied and original version of their products among their customers.

Luma Metall has also experienced unethical behaviour regarding copying. It has however not affected their business. The result of the interviews indicates that this behaviour tends to be quite common in China among social groups and is, therefore, something that Jansson (2007b) would describe as a norm. Holmqvist and Adolfsson explain that they have during business trips witnessed how people from a Chinese company suddenly resigned and started their own business right next door creating
copied versions of their old employer’s products. These actions have so far not affected Luma Metall according to Holmqvist and Adolfsson and they have therefore not taken any precautions. Lagermetall’s view contradicts the other three respondents since they do not regard copying as an immediate issue. This might have to do with the fact that Lagermetall got better relationships with their customers hence not experience this as any issue. Hence, determine the challenges with copying during businesses in China, a circumstance that needs to be noticed and considered.

**Negotiations**

Hellström at Lagermetall explained the total difference in the way of conducting businesses and how different negotiations in China are in comparison to Sweden. The CEO’s first argument for this was the tendencies from the Chinese to answer yes to questions no matter if they understood it or not. Besides, equal understanding between the counterparts is vital rather than doing rush decisions. In correlation to this, Grahm’s statement about their Chinese counterparties who rather says yes to everything and later on deny it indicates that also their Chinese business partners are not always aware of why they answer yes to proposals. By implementing the theories of Windsor (2004), it could be assumed that this is the correct codes of conduct in China as a part of the ethics in international business for certain companies within this study. However, the statements made by the CEO at Lagermetall and the two managers at Norden Machinery can be correlated with Holmqvist and Adolfsson at Luma Metall statements about how their Chinese counterparts do answer yes to questions they do not comprehend. These findings confirm the issue related to language barriers for the certain companies for this particular study.

The interview with Lefvert at Cellwood Machinery further add arguments to the topic when he claimed how they need to use multiple methods to manage the tendencies of the Chinese to not accept no as an answer. This statement is also being shared by the managers of Norden Machinery who believed that it is important to stay in the background, supervising the Chinese to understand their business system. However, the findings gathered from the interviewed Swedish SMEs could be understood as that negotiation within China are affected by cultural aspects, where they rather answer no than the opposite, at the same time as their limited understanding of the English language have a significant impact. This can further be understood using Wang and
Xiaohua’s (2009) explanation of mianzi. They state that it is important for Chinese businessmen to maintain their social status and prestige. Hence rather say yes to a question they do not understand than look bad and damaging their reputation. The interview with the CEO at Cellwood Machinery revealed that his experience of negotiations with Chinese businessmen distinguishes from similar situations in other nations around the world. Lefvert explained how a signed contract does not have the same value in China as in West hence, resulting in that the Chinese counterparts neglect the validity of an already signed contract. Lefvert's description is indirectly supported by Adolfsson and Holmqvist at Luma Metall who have experienced how the Chinese have started to re-negotiate about an already signed contract. Due to this, Holmqvist argues that negotiations in China distinguish from Western companies and the manager at Luma Metall emphasised the importance of trusting the other party and establish a good business relation when negotiate. Furthermore, assumptions can be made that the shorter and stricter dialogues is an outcome of the limited prior knowledge of the English language as described by the CEO at Cellwood Machinery but also, a part of the business ethics within profit oriented enterprises as explained by Windsor (2004).

Chinese businessmen's approach towards price negotiations is something that all respondents mentioned that they have encountered. Jütting et.al (2007) explain that certain informal institutions are based upon norms and expectations and price negotiations are, therefore, based on the empirical data, gathered such an informal institution and an institutional distance. Hammarstedt at Norden Machinery described that discussions regarding price are the most difficult task when dealing with China, he further argued that he spend a lot of time convincing customers that the cheapest machine is not the best. Lefvert at Cellwood Machinery and Luma Metall did both explain that the price is always a discussion with the Chinese and Holmström does regard it as more difficult compared to the rest of Asia. Norden Machinery and Cellwood Machinery do both state that they are aware of the importance of discounts and are therefore calculating with discounts in their initial offer. Jansson (2007b) argues that due to the mental programme in certain nations, people from the same countries tends to act in a similar way and the focus on price could, therefore, be explained by Jansson’s (2007b) definition. Lefvert further explains that the focus on discount and price might have to do with the fact that the superiors want to be a part of every deal, therefore contributing by negotiating discounts which further strengthen the power
distance in China described by Hofstede (2001). Lagermetall does also acknowledge the fact that price always is discussed. Hellström at Lagermetall do however approach this differently, he stated that they work with fixed prices hence disallowing any discounts and negotiations.

5.4 Guanxi & Mianzi

_Guanxi_

When the respondents were asked about the phenomenon guanxi, all respondents except Norden Machinery stated that they were familiar with the concept. However, they did not agree on its importance in a business environment. Hellström at Lagermetall addressed the fact that favours and friendships are prerequisites for successful business in China. However, when discussing the phenomenon and its effects with Holmqvist at Luma Metall, he stated that they do not consider guanxi to be important in any business they have done. This contradicts the theory of Chang (2011) who regards guanxi to be an important factor. Moreover, Holmqvist’s statement does also disagree with Carlsson et.al (2005) and Su et.al (2017), arguing that guanxi is an inimitable resource and a key determinant of performance and the competitive advantage in China.

Lefvert at Cellwood Machinery shared Holmqvist’s view and stated that guanxi got a minor impact on their business. What however is interesting, is the fact that both Holmqvist and Lefvert argued that personal relationships are important since a lot of business is done through those relationships. Guanxi is considered to facilitate long-term relationships according to Bradley (2005). An interesting aspects which can be related to Hofstede's (2001) fifth dimension, where he is distinguishing societies between short and long-term orientation. Ardichvili et al. (2012) further describe two different guanxi categories, where the in-group companies got access to personnel, information and needed resources through guanxi. Hence, it can be argued based on the empirical data that both Cellwood Machinery and Luma Metall are using guanxi when doing business in China, since they got access to such resources described by Ardichvili et.al (2012) and emphasis on long-term relationships as Bradley (2005) argues for. Cellwood Machinery and Luma Metall are however not aware of guanxi’s effect on their business.
Mianzi
As Wang and Xiaohua (2009) explain, the concept of mianzi relates to prestige, success and reputation. Social status is, therefore, playing a significant role within the Chinese business environment, Lagermetall, Cellwood Machinery and Luma Metall did all state that the presence of social status is obvious in China. These findings reveal how the Chinese business culture are characterised by achievements and things related to material success which indicates that China could also be defined as a masculinity society as described by Hofstede (2001). Due to this, the Chinese society has shown aspects of both factors of Hofstede’s (2001) fourth dimension. However, it can be assumed that the different societal institutions in China, affects to what extent this fourth dimension tends to be more related to femininity, or masculinity depending on the social groupings as Jansson (2007b) describes within the specific business environments. Furthermore, both Luma Metall and Cellwood Machinery addressed the fact that losing face is not popular among Chinese businessmen. Furthermore, Holmqvist at Luma Metall and Lefvert at Cellwood Machinery did argue for the importance of considering this during negotiations to prevent a situation where they put the Chinese in a position where he might lose their face.

Hellström at Lagermetall does even state that social status is crucial in China. Hellström explained that the Chinese businessmen buy a fancy car as soon as they get a good job to show their wealth. Wang and Xiaohua (2009) explain that the Chinese businessmen use social status to communicate their wealth within their personal environment, hence gain respect within the hierarchical relationship networks. Luma Metall does also share a story with Lagermetall where they both have been invited to dinners where they were served several dishes by Chinese businessmen, just because they wanted to show their gratitude and wealth. Hellström at Lagermetall even stated that he believes that he has been taken to dinners to be showcased as a European friend to boost his Chinese partner’s social status. This correlates with Ardichvili et al. (2012) who state that images can be made to create a picture of how you want to be perceived. However, Norden Machinery is the only respondent who does not acknowledge social status as a factor in China. This is also the only company who got a subsidiary in China which might limit their ability to perceive social status.
6. Conclusion

This chapter will contain conclusions made upon the analysis chapter, facilitating an answer to the research question of this paper. Furthermore, describing the theoretical implications of this study, resulting in a revised theoretical model. Also, the managerial implications are presented, followed by limitations and suggestions for further research.

6.1 Answering the research question

How do informal institutions affect the internationalisation process of Swedish SMEs in China?

The empirical findings together with earlier theoretical research reveal that certain informal institutions have affected the internationalisation process of Swedish SMEs to China. By analysing the gathered empirical data with earlier research, the following findings were made;

- Language is causing large problems for Swedish SMEs during the internationalisation to China due to the institutional distance between the nations. Limited language proficiency also creates misunderstandings about technicalities. Besides, the language barriers make it harder to establish trustful relationships.

- Traditions and time can differ between different regions in China. A lack of understanding about different traditions can result in unnecessary bad connections between the counterparts. The perception of time increases the risk for more extensive business meetings.

- Relationships and trust are vital components because bad business relations increase the risk of being fooled by the other parties and can contribute to disrespectful and ignorant business partners.
• Hierarchy and corruption increase the uncertainty in China. However, it gives rise to the presence of bribery and creates a more time-consuming negotiation process.

• Copying is a widespread issue within the Chinese business climate and can lead to that the Chinese business partners steal ideas from Swedish SMEs. It is important to prevent the possibility of copying since it will reduce the competitive advantage.

• Negotiations in China create different perceptions of the validity of certificates and signed contracts. Resulting in undesirable price discussions and extended business meetings where the quality of the products is being distrusted.

• Unawareness of the phenomena guanxi prevents the possibility of an equal understanding among businessmen in China and can result in troubled relationships. The ignorance of guanxi decreases the opportunity to establish networks within China. Furthermore, a lack of knowledge regarding the phenomena prevent the firms from understanding their role within the Chinese business climate and contributes to cultural misunderstandings.

• By disregarding the importance of mianzi, relationships can be damaged and result in a destabilised network. Furthermore, it can impact the negotiations negatively and the outcome of a business project if the social status is not considered. Moreover, result in unwanted conflicts due to the significant impact of the phenomena within business ethics.

• Internationalising through incremental steps, utilising the existing network within the market is a key for success in China. Hence it is important to maintain the network connections.
6.2 Recommendations

6.2.1 Theoretical implications

This study has identified how informal institutions affect Swedish SMEs in their international ventures in China. Based on the empirical data gathered, certain similarities and differences were found between the empirical data and theory. It can be confirmed that the internationalisation theories made by Johanson and Vahlne (1997; 1990; 2009) and Jansson (2007b) are suitable for describing the internationalisation process of Swedish SMEs. However, it is evident that even though firms take incremental steps towards a market, the presence of networks and relationships are obvious in the internationalisation process. However, it can be confirmed that Williamson’s (2010) theory regarding transaction cost analysis, is not distinctly suitable for explaining a Swedish SMEs internationalisation process in China. The transaction cost analysis is therefore removed as shown in figure 3 while the focus is maintained on the incremental step approach described by Johanson and Vahlne (1997; 1990; 2009) and the relationship approach which Jansson (2007b) explains.

The empirical findings show that certain informal institutions are more critical for Swedish SMEs than other, hence considered to be vital for Swedish SMEs to overcome. If companies choose to ignore those informal institutions, it would impose a major threat towards their success in China. Furthermore, the theory regarding country culture was found to conform with the findings, however, not to the same extent as initially thought. Language proficiency is shown to be a major issue for Swedish SMEs in their Chinese venture, a factor that was not considered in the literature review. Furthermore, traditions and the conception of time were also informal institutions that imposed issues for Swedish SMEs in China which confirms the theory of Jansson (2007b). Moreover, Hofstede's (2001) different dimensions are facilitating the understanding of those two informal institutions. Furthermore, Jansson (2007b) add information regarding where these institutions originate from and why they are affecting Swedish SMEs.

Business mores showed to be very influential among Swedish SMEs, including several informal institutions there were not considered in the literature review, hence introduced in the revised model 3. Windsor’s (2004) theory regarding unethical behaviour and corruption confirm the empirical findings which impose that hierarchy and corruption are challenging in the Chinese market. However, the empirical data showed three
additional factors that create issues for Swedish SMEs. Copying, relationship & trust, and negotiating, hence added to figure 3 as informal institutions. The explanation of guanxi (Chang, 2011; Krueger, 2009; Bradley, 2005; Ardichvili et al. 2012; Carlsson et.al, 2005) in the literature created the understanding of a phenomenon that affects Swedish SMEs. The empirical data do demonstrate that guanxi plays a vital role within the Chinese business environment. The phenomenon has therefore been extracted from business mores as showed in the revised theoretical framework and placed as an informal institution affecting both country culture and business mores and indirectly the internationalisation process. Issues regarding the social status within China confirms the phenomenon mianzi described by Wang and Xiaohua (2009). Mianzi's impact within the Chinese business climate is obvious in the empirical data. The phenomenon is therefore regarded as an important informal institution affecting both country culture and business mores as demonstrated in the revised conceptual framework (Figure 3). Furthermore, after the analysis, a reversion was made of the theoretical framework (Figure 2) and the influential informal institutions have been categorised as either country culture or business mores. These institutions are constantly affected by guanxi and mianzi. Meanwhile, they continuously affect the internationalisation process of Swedish SMEs.

Figure 3. Revised conceptual framework
Source: Own figure based on theoretical implications
6.2.2 Managerial implications

This study does not only facilitate to academic research but, provide managerial implications to overcome the revealed informal institutional obstacles when Swedish SMEs internationalise to China. It can be argued that the managerial implications resulted from this study will facilitate with significant tools for firms to manage their businesses within China and provoke a better understanding of the culture and business mores within this emerging country. The first and most vital managerial implications arise from how to overcome certain barriers and misunderstandings related to language. The study unveils how this can be managed and prevented by utilising the established network to find and employ a Chinese native speaker with the industrial and technical knowledge of the certain products. Besides, by spending extra time, writing down and being extra thoroughly when presenting information, the possibilities of equal understanding among the counterparts can be increased. Furthermore, prior knowledge regarding informal institutional factors related to aspects such as traditions and time can decrease the uncertainty when operating in China resulting in the second managerial implication. Due to this, market research could prevent cultural collisions and deteriorating business relations. Besides, early market research creates an understanding of the impact of rules on different societal levels and how culture might differ and affect business activities differently. By doing this, Swedish SMEs can easier understand how culture can influence business practises and behaviour differently among Chinese firms even though they operate within the same region or country.

The third managerial implication acknowledges how resource efficient alternatives such as gift and business dinners can be utilised to manage and maintain strong and trustful relationships in China. Additionally, by delivering what have been promised is necessary and an evident sign of friendship. Friendship, however, is even more important in China since the Chinese counterpart do not separate friendship with business to the same extent as firms from the West tends to do. Furthermore, to manage problems related to hierarchy and corruption within China, firms can design a regulatory framework of how to act if undesirable situations would occur. Moreover, the fifth managerial implication relates to how Swedish SMEs can avoid copying by exclude sensitive information about their products in their presentations and to not share the extended technical drawing with the Chinese business partners. Besides, the risk of being copied can be minimised by asking third parties like Business Sweden for help or
by having a local market presence to inform the customers about the difference between an original and a copied version of their products. Nevertheless, firms need to be aware of an increased resource costs and the increased time it will take by doing this.

To manage the widespread challenges related to price negotiations, an option is to always utilise fixed prices. Moreover, to avoid conflicts, always calculate with discount before negotiations. Utilising this allows the Swedish SMEs to know how far they can accept price cutting. Moreover, resources should be concentrated on creating equal understanding and respect for each party, this facilitates flexible negotiations and develops the relationship. Business ethics is different in China, it is, therefore, vital for Swedish SMEs to be prepared for eventual reconfigurations of contracts since Chinese businessmen have a different perception of a signed contract. Relationships are therefore crucial since they increase trust, hence limit the possibility of any reconfigurations of contracts after they are signed. The importance of being flexible and open for further negotiations is therefore crucial.

Chinese managers have a desire to participate in all deals, hence should Swedish managers act in the background preventing any conflicts. Especially in the initial phase since relationships and social status are vital during negotiations. Guanxi does therefore still facilitates a lot of business in China, there is, however, a lack of knowledge among Swedish SMEs regarding this phenomenon. Relationships and social networks are important factors within China and Swedish firms should, therefore, put the effort in relationships. Furthermore, maintaining existing relationships since they facilitate business opportunities for Swedish SMEs. Besides, by creating awareness of the phenomena mianzi and the importance of social status, managers can easier understand why Chinese people act in a certain way during businesses. To avoid situations where the Chinese feel that they lose their face or feel ridiculed, it is important that the Swedish managers have an open mind towards the Chinese way of acting and thinking. The final managerial implication is to create well-reasoned commitments in an incremental matter when internationalising on the Chinese market. Together with utilising the network within China, Swedish SMEs got the possibility to minimise any uncertainties on the market.
6.2.3 Limitations

The research process has involved certain restrictions which have been out of the researchers' control. An increased number of respondents could have made the empirical findings more extensive, hence increasing the reliability of the findings. Furthermore, this study is examining firms from different types of industries which may facilitate to various results.

6.2.4 Further research

Despite this paper's focus on informal institutions in China, several areas are unexplored and could be investigated through further research. China is one of the largest economies in the world and is growing at a fast pace. The informal institutions are therefore constantly changing and evolving and continuous research is therefore important in order to maintain the validity of these findings. It would be interesting to do the same study again after five years and compare the results, determining how much informal institutions change over time. Furthermore, further studies could conduct similar research but base it on a certain industry, hence acquire more market specific data. It would also be interesting to study if the same results are applicable to an SME from another country since the institutional distance differs among countries. Moreover, MNC’s have a lot more resources than SMEs, further studies on how MNC’s are affected by informal institutions would, therefore, be interesting. Determining if resources impose a major difference when dealing with informal institutions. Further research could also include formal institutions in a study to explore if informal and formal institutions influence each other.
List of References


Empirical references

Grahm, Mattias. *Portfolio Manager & Sales Support in China at Norden Machinery AB*.

Hammarstedt, Lars. *Sales Director at Norden Machinery AB*. Personal interview.

Hellström, Christer. *CEO at Lagermetall AB*. Skype interview.

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Appendices

Appendix 1

A. Background information

1. So we know that you currently are operating in China, and your company is doing... and your position is..., is that correct and is there anything else you want to add?

2. Describe institutions briefly: Institutions are either informal or formal. Laws property rights and constitutions are examples of what formal institutions can be. Informal institutions are regarded as traditions, norms that are constructed in a social environment. These can be viewed as both complementary, competing and as a substitute to formal institutions.

B. Internationalisation

1. When did you enter the Chinese Market?
   a. Has the Chinese informal institutional environment changed since you entered? If so, how? And has it become an obstacle?

2. Why did you choose to enter the Chinese market?
   a. Why was China an important market for your company?
   b. How did you enter the Chinese market?
      i. Did you take incremental steps towards the Chinese market?
      ii. Have network relationships been used during the internationalisation?
   c. How did you plan the Chinese internationalisation strategy?
   d. How long did it take from planning the entry to being present on the market?

3. What prior market knowledge did you have before entering China and how was it acquired?
   a. Did you face any challenges when acquiring knowledge about the Chinese markets in terms of institutions?

4. Which markets similar to China are you also present in?
a. In what way are those markets similar?
   i. Are there any similarities/differences in the informal institutions among those markets? (business mores, culture, language, norms etc)

5. How important have business networks been during your Chinese internationalisation?
   a. Who does your business network consist of? (competitors, suppliers, customers)
   b. To what extent are these networks used?
   c. How important do you consider business networks to be? (1-10)
      i. Do you believe that these networks could be used even more?

C. Informal institutions

1. How are informal institutions (country culture-including language barriers, traditions, social norms, and religion) affecting you when doing business and internationalise within China?
   a. Which informal institution has affected you the most and are most challenging?
   b. How are you dealing with informal institutional challenges?
   c. Which informal institutions are most important to learn how to deal with?
   d. Were you aware of any informal institutions prior to entering the market? How did you manage that issue?

2. How strictly do you regard the Chinese informal institutions to be?
   a. How much can you affect them and avoid them if necessary?

3. How is the business ethic in China different from the Swedish?
   a. Has it affected you? How did you handle it?

4. Have you felt that informal institutions have affected any business situation?
5. How do you think a deeper understanding of informal institutions between emerging countries such as China and developed countries such as Sweden can benefit Swedish SMEs?

D. Guanxi & Mianzi

1. Which are the biggest challenges with doing businesses in China according to you?
   a. How have you managed the difficulties of doing business in China?
   b. Did you use any distributors, agents or other local Chinese third-parties to overcome this challenges?

2. How would you describe the difference between the Chinese and the Swedish way of doing business?
   a. What is most important to think about when doing businesses with Chinese companies?

3. Are you aware of the phenomenon Guanxi? (explain if necessary)
   a. Has Guanxi created or opportunities or obstacles for your businesses in China?
   b. Have networks created new opportunities for you to the Chinese market?
   c. Do you believe that networks are necessary on the Chinese market in order to succeed?

4. How important are gifts, personal relationship and trust in China according to you?

5. Are you of the opinion that titles and reputations are a sign of success in China, hence important to know who you are talking to?
   a. How have your social status and working title/position/reputation made any difference when you have been doing businesses in China?