Joint ventures between Swedish & Chinese firms
-How to make the marriage work?

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Preface

This essay is written at Kalmar University during the spring term of 2009 within Business Administration C 76-90 hp at the Baltic Business School.

Hereby I would like to express my gratitude to the five company representatives: Anders Liljegren, Bertil Hedsund, Björn Boström, David Jiang and Bo Kylin.
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Linda Andersson
Summary

Title: Joint ventures between Chinese and Swedish firms
- How to make the marriage work?

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Course: Business Administration C 76-90 hp, VT-09

Background: China has become one of the most attractive destinations for foreign direct investment (FDI) in the world. The Chinese government is still imposing regulations on certain industries in which foreign firms have to establish through a joint venture. Joint ventures with a Chinese partner are considered to be a great risk due to the environment they operate in and also due to cultural aspects and many joint ventures end with a buyout.

Aim & objectives: The aim of this study is to analyze what factors firms need to be aware of when entering into a joint venture and how to avoid or overcome the problems that arise.

Methodology: The essay is written using a qualitative method. The study is partly based on a literature study, partly on primary sources. The primary sources consist of five interviews with representatives from companies who are either currently in a joint venture or have previously been in one. Six interviews with experts within the field have also been carried out.
**Theoretical Framework:** The essay is strongly influenced by the contingency theory which argues that the performance of a company depends on the environment the company is operating in. The problem has therefore been tackled through describing the specific conditions that a foreign firm will meet in China.

**Conclusions:** Joint ventures with a partner from another country involve risks but can also be of great advantage if they are run in a good way. How to run the joint venture might differ between firms but some factors seem to be common for most firms. It is important to be careful which partner to choose and to do a due diligence in the beginning as well as having a letter of intent written down in the initial stages. Operating in China might bring unusual challenges so it is important for the foreign firm to have knowledge about the Chinese culture and the Chinese laws and regulations before establishing in China.

**Key words:** Joint ventures, FDI, China
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1. Introduction

*In this chapter the research question will be presented through a problem discussion that leads up to the essay’s question formulation and aim and objective.*

1.1 Background

China with its emerging economy and huge market potential is for most firms a market that needs to be entered, if they do not exist on the Chinese market, they simply do not exist. During the period of Mao Zedong as party chairman, China was de-linked from the global market system. At that time China was far behind the advanced market economies of the west and also behind the emerging economies like Hong Kong, Singapore, South Korea and Taiwan. It was not until Deng Xiaoping came to power and initiated policy changes that China opened up its doors to the world in 1978. After opening its doors to foreign investors, China has become one of the most attractive destinations for foreign direct investment (FDI) in the world. The Equity Joint Venture Law was issued in 1979 and since then, China has had a rapid economic growth. (Tian 2007)

There are foremost three options for a foreign firm to establish on the Chinese market: representation office, joint venture or wholly foreign owned company. Even though the wholly foreign owned form of establishment is increasing, joint venture is still the most common entry mode. (ibid)

Joint ventures are generally defined as firms from different countries cooperating across national and cultural boundaries. The most common form of joint venture is an equity joint venture which is a legally and economically separate organizational entity created by two or more parent organizations. Both parts collectively invest financial as well as other resources to pursue certain objectives. (Yan & Luo 2001)

The advantage of entering the Chinese market through a joint venture is the knowledge that can be gained from the Chinese partner regarding cultural, political and legal issues.
These are areas that foreign investors often have limited knowledge of. A second advantage of entering the market through a joint venture is the possibility of reducing costs. Joint ventures are supposed to be a win-win situation for both partners. Foreign investors usually provide investment like money, technology or machinery while the Chinese partner offers local knowledge, land, factories and workers. (Tian 2007)

Even though China joined WTO in 2001, the Chinese authorities play a big part in China and control strategically important industrial and/or state-owned assets. (Qiu 2005) Therefore some branches like the telecom and car industry are still regulated by the state and the companies operating on these markets need to enter joint ventures. The Chinese laws and regulations on FDI seem to both encourage foreign business activities and have a desire to maintain state control over them. (Yanni 2000)

According to Yanni (2000), the management of joint ventures in China presents some unusual challenges. These are associated with the intervention of the governmental bureaucracy, highly specific legal frameworks, an important local government role, the impact of traditional Chinese ways of doing business, Chinese management practices, the under-developed state of the Chinese market and the problematic availability of raw materials. Most of the Chinese partners are state-owned or collective enterprises, therefore the foreign investors have to ask the Chinese government for help and support. (ibid)

According to Mike Berrell (2007), the success of all business ventures depends on the strength of the relationships underneath them. The problem for foreign firms is how to manage these relationships. Compared to organizations operating under a single ownership structure the life span of a joint venture is limited and therefore its internal and external relationships are naturally unstable and prone to dysfunction. (Berrell 2007)
1.2 Problem discussion

Even though many firms choose joint ventures as entry mode there are not only advantages. In contradiction, joint ventures with a Chinese partner in China are often considered to be a greater risk than not having a partner at all. Almost all joint ventures in China end with the Swedish partner wanting to stop the partnership or with a buyout. (DN, 2005)

Chinese partners often look at foreign firms as outsiders who lack knowledge of doing business in their country and therefore treat them as temporary capital investors with the idea that they sooner or later will be bought out. (Yao 2008)

Several multinational corporations such as Otis, Occidental, AT&T, Bethlehem Steel Group, and Caterpillar closed down their offices and left China because of problems with their partners. (ibid)

According to Hofstede (1980), cultural conflict is a major problem for the management of transnational enterprises. Cross-national interaction is plagued with problems because the foreigners and the Chinese are unable to resolve differences of various sorts. (Chan & Douw 2006)

1.3 Problem formulation

With China joining WTO and increasing deregulations one could argue whether joint venture is the right entry mode for foreign firms wanting to establish on the Chinese market. This essay is not aiming to discuss whether joint venture is a good way to enter China or not, it is merely trying to find the factors behind the success of joint ventures. It focuses on Swedish firms and specifically on the Chinese market with a Chinese partner.

Foreign firms who enter the Chinese market through a joint venture, whether they are forced by law or voluntarily do so, are facing potential risks. These risks might very well threaten the foreign firms’ survival and the chance of gaining market share in China. The questions I am asking myself are therefore:
- What problems do foreign firms need to be aware of when entering into a joint venture with a Chinese partner?
- What do they need to do to avoid or overcome these problems?

1.4 Aim and objectives

The aim of this study is to analyze what factors firms need to be aware of when entering into a joint venture and how to avoid or overcome the problems that arise.
2. Methodology

In this chapter the essay’s course of action will be described. The research design, research strategy and research approach will be discussed and motivated. In conclusion, the essay’s trustworthiness will be discussed along with methodology and criticism of sources.

2.1 Research design

A research design regards the criterias used when evaluating social science studies. Bryman & Bell (2005) describe five different research designs: case studies, survey studies, comparative, longitudinal and experimental studies.

Experimental studies are very rare when it comes to business studies since it is hard to get a high level of control when it comes to organizational behavior. Longitudinal studies are time and cost consuming and are also seldom applied to business research. They will therefore not be explained further. Comparative studies mean that the researcher uses the same method when studying two different cases. Survey studies are often done when a researcher wants to find a pattern regarding the subject studied in order to be able to make general conclusions. Case studies are more frequently used when a researcher wants to study a place or an organization where the emphasis lies on the intensive study of the environment or a situation. Case studies are often connected to qualitative studies. The reason is that it is suitable when doing an intensive and detailed study of a case, but both qualitative and quantitative methods are often used together. (Bryman & Bell 2005)

In my study of joint ventures I have chosen to do case studies. A case study is distinguished from the other research designs by the researcher wanting to throw light on unique features of the studied object, which is called an idiographic approach. The reason for choosing this approach is because I want to gain a deeper understanding for soft factors like culture and consider case studies being the only way to gain that knowledge.
2.2. Research strategy
When talking about research strategy, a distinction between quantitative and qualitative research is often made. Some researchers argue that there is not a big difference between them but Bryman & Bell (2005) mean that there is a clear and important difference. Quantitative research emphasizes the importance of quantifying when it comes to collection of data and that it has an opinion of the social reality consisting of an outside and objective reality. In contradiction to this, qualitative research emphasizes the importance of words and not quantifying when collecting data and that the social reality is considered as a constantly changing characteristic that belongs to individuals’ creating and constructing ability. The qualitative method is more commonly used when a researcher wants to analyze a deeper and more complex problem. (Bryman & Bell 2005)

In this study, the emphasis lies with the qualitative method of research. Since the aim is to study what Swedish firms need to do to make their joint ventures successful in China this method is most suitable to use. It would not be possible to obtain the information needed in regards to soft factors like culture using only a quantitative research method. I am interested in what every respondent has to say and am not looking to make any generalizations.

2.3 Research approach
Deduction and induction are terms used when choosing research approach. A deductive approach means that the researcher starts with a theory about the subject in focus and then creates research questions that she uses in the empirics to see if the theory holds or not. Inductive approach starts with the empirics to observe a connection that is overall valid. (Bryman & Bell 2005)

In this study my aim is neither to test any theories nor to create a new one. Therefore I have chosen a third research approach, namely abductive research. This could be considered as a combination of the two above mentioned research approaches. This method is often used when making case studies. The abductive method is as well as the
inductive based on empirical facts but is not afraid of theoretical conceptions. (Alvesson & Sköldberg 2008)

2.4 Data collection

Primary data and secondary data are the terms used when discussing data collection.

2.4.1 Primary data

Primary data is data that the researcher has gathered by herself, for example through interviews and surveys. The primary data used in this paper consists of interviews. The advantage of primary data is that the researcher gets access to data that otherwise could be hard or impossible to find. Another advantage is the high degree of reliability. The disadvantage is that it can be costly; both regarding time and money and also that the researcher is dependent on the participants and their willingness to participate. (Bryman & Bell 2005)

Interviews

The primary data consists in the first place of five interviews with correspondents active within companies which are currently in a joint venture or have experience from a joint venture. To get a wider view, another six interviews with experts have also been made to get an objective opinion of joint ventures.

Within qualitative research there are two ways of carrying out an interview, totally unstructured or semi structured, which both enables the respondent to freely give his view of the problem. The interviews in this study were carried out using the semi structured way with help from an interview guide. The reason for using this method was because I was interested in hearing the respondents view on certain aspects and therefore had to partly control the interview with help from the interview guide. There was still room for the respondent to give his interpretation and give his view of the problem. The interview guide is enclosed in the appendix.
2.4.2 Secondary data

Secondary data is information collected by other researchers. The secondary data in this paper consists of books, scientific articles and internet.

*Books and scientific articles*

Most of the secondary data consists of information gathered from the University library in Kalmar. The school internet library has been used to get access to books online through the search engine Ebrary and has also been used to find relevant articles through the search engine ELIN.

*Internet sources*

Internet is a wide place for information and internet has been used in forms of newspapers and articles as well as getting information from the studied companies’ webpage.

2.4.3 Respondents

2.4.3.1 Experts

*Axel Nordegren* has previously been working as a consultant for the Swedish Trade of Commerce in Shanghai. He has many years of experience from helping Swedish companies establish on the Chinese market.

*Ulf Öhrling* is resident partner at the law firm Mannheimer Swartling’s office in Shanghai. He has been working as a Swedish lawyer in Shanghai since 2004. He is also a member of the Swedish Chamber of Commerce. He has a wide knowledge of firms establishing in China, negotiations and contracts and the Chinese legal environment.

*Jay Lian* is a Chinese lawyer working for Shanghai Xinhua law firm. He has experience from working with foreign firms helping them with various legal problems. He has a wide knowledge of the Chinese law and regulations.
Per Lindvall is working in China as Managing Director at Defa Technology Co Ltd. He has previously been working for the French company Bacou-Dallaz who had a joint venture with a Chinese partner.

Sven-Åke Eriksson works for the American company Lear as Executive Director in Shanghai and as General Manager in Shenyang. The company has many joint ventures with Chinese partners. He has a good knowledge of working with Chinese and also experience from the joint venture establishments.

Bengt Ohlsson has a long experience from working in Asia and is now a resident in Shanghai working as a Purchasing Director for Asia, Akzo Nobel Industrial Finishes. Through the years working in Asia, and China specifically, he has learnt how to deal with different business climates and business cultures.

2.4.3.2 Company representatives

Bo Kylin is working for Electrolux in China as Vice President, Strategic Alliances Officer. It was when Electrolux started a joint venture with a local Chinese partner that Bo Kylin was first asked to travel to China and build up the strategic product assortment. He was later asked to move to China.

Bertil Hedsund came to China in 2004 and has been working as Managing Director for Shanghai Tetra Pak Hoyer JV until March 2009 when the company went into the sister company Tetra Pak Food Machinery.

Anders Liljegren is working for Arenco in China. He first came to China in 1999 and became the Managing Director in Shanghai a few years later. He went back home to Sweden in 2004 but was once again located in China in 2006.

Björn Boström is working for Ericsson in China as Vice President for R&D and supply. He is currently located in China but helped setting up the operations in Nanjing and has
many years of experience working in China. He was the President of Nanjing Ericsson Panda Communications Ltd 2003-2008.

David Jiang is working for Scania in China since 2007 as a Sourcing Manager.

2.5 Choice of companies for the study

Five companies have been chosen for this study. The companies chosen are either currently in a joint venture or have previously been in one. One company, Scania, has also been included in this study because of its particular situation, being the only Swedish company in the car industry who has decided not to start production in China because of the law and regulations imposed on this industry.

2.6 Trustworthiness of essay

Bryman & Bell (2005) argues that reliability and validity only are relevant when it comes to quantitative research and therefore different criterias should be used when it comes to qualitative research. According to Guba & Lincoln the reason for this is that the reliability and validity criterias presume it is possible to reach one and absolute picture of the social reality. They continue their argument by saying that there can be more than one and possibly several more solid descriptions of this reality. Instead of these criterias they purpose the following criterias: credibility, transferability, dependability and confirm ability. (Bryman & Bell 2005)

2.6.1 Credibility

For a report to be considered credible, the researcher should guarantee that the research has been followed out in accordance with the existing rules and that the correspondents of the study should be informed of the result of the study to be able to confirm that the researcher’s description of reality corresponds with theirs. This is called respondent validity. (Bryman & Bell 2005)
The respondents have been offered to take part of the study to be able to control his/her participation.

2.6.2 Transferability

According to Guba & Lincoln, qualitative researchers should produce full statements of the details a culture consists of. They mean that a full statement or description provide other persons with something they call a database which can be used to evaluate how transmittable the results are to a different environment. (Bryman & Bell 2005)

Since the study focuses on Swedish firms on the Chinese market it does not focus on firms from other origins. That fact does not mean the factors analyzed can not be applied to other firms due to different origin. It might very well be so that the factors that Swedish firms need to consider are the same factors that firms from other origins need to concentrate on. There might be a difference due to the difference in culture, but that is not something that this study aims at analyzing. No general conclusions that can be applied to all firms entering joint ventures in China can be made. Since only a few firms have been interviewed no general conclusions can be made of Swedish firms either.

2.6.3 Dependability

As an equivalent term for reliability within quantitative research, Guba & Lincoln suggest the term dependability to be used and mean that the researchers, in order to evaluate a study in terms of this part criterion, should take on an auditing view. This means that the researcher makes sure a total and available statement of all phases of the research process, problem formulation, choice of research persons, interviews etc are secured. The dependability of a study mostly depends on the sources that have been used. (Bryman & Bell 2005)

In this report I have tried to use as reliable sources as possible. Sources that have been used, if not primary data, have been books and scientific articles. I have tried to avoid
using internet sources as much as possible but it is true that internet sources do give the latest information. Therefore newspapers have sometimes been used to provide data. The credibility is strengthened by the constant referral to sources throughout the study.

2.6.4 Confirm ability

To be able to prove and confirm means that the researcher, from the insight that there is no total objectivity in societal research, tries to guarantee that he/she has acted in good faith. It should in other words be obvious that the researcher has not deliberately let his/her personal views or theoretical approach influence the execution of and the conclusions from a study. (Bryman & Bell 2005)

Since I have lived in China for more than five years it is inevitable for me not to have certain opinions about factors like culture. I have tried not to let these opinions affect the outcome of the study. To be able to keep an as objective view as possible I have chosen not to only do interviews in form of case studies but also do expert interviews with people who are objective.

2.7 Methodology and criticism of the sources

Freedom of speech is limited in China and therefore I have chosen not to include any information found in newspapers in China. All the newspapers in China are being observed and the information is therefore restricted. Since my paper has only partly been focused on the government I do not think the purpose of the study has been affected by the limited freedom of speech as my questions have not been that sensitive.

Ten of the eleven respondents in this study are Swedish and one could argue that this study only shows one side of the problem. This is partly true because the relationship in the joint venture is based on both the Swedish and the Chinese partner. My aim was to study the Swedish view of the problem and therefore I do not see this as a problem.
Joint ventures can be a sensitive subject especially for companies who are currently in a joint venture with a Chinese partner. I have not felt that any of the respondents have been holding back and not wanting to disclose some parts. They have all been speaking freely about both the advantages and disadvantages of being in a joint venture. One of the reasons for this might be that most of the studied companies have or are in the process of buying out the Chinese partner and therefore do not consider it a sensitive matter.
3. Theoretical framework

In this chapter joint ventures will be described from existing literature and the motives for joint venture establishment will be explained. Partner selection will be described by using Carl Svernlöv’s 7 questions. (Carl Svernlöv 2007) Management control will be discussed using existing theories as well as partner, culture and environmental aspects will be discussed with support from the contingency theory.

3.1 Choice of theoretical framework

To be able to understand joint ventures it is important to understand the reasons behind it. Therefore an internationalization theory will be explaining why firms choose joint ventures when establishing on a foreign market. The internationalization theory does explain the motives for joint ventures but does not explain the actual circumstances when firms are finally in one. In existing articles and books regarding joint ventures on the Chinese market much emphasis lies in partner selection, management, cultural and legal aspects. Partner selection will be described using the 7 most common questions about partner selection that have been summarized by Carl Svernlöv (Svernlöv 2007). Management will be discussed using management control theories while external, internal and inter-partner conditions will be discussed with support from the contingency theory. To gain an understanding for the unique circumstances firms meet when entering the Chinese market this chapter will start by describing the foreign direct investment and joint ventures specifically in China.

3.2 Foreign direct investment in China

When it comes to foreign direct investment (FDI) in China, there are three main forms: equity joint venture, co-operative or contractual joint venture and the wholly foreign-owned enterprise. These must all be approved by the Ministry of Foreign Trade and Economic Co-operation (Moftec). Equity joint venture is a foreign company and a local company who together establish a new enterprise that operates as a limited liability
company and has a separate legal personality. Profits, risks and losses are shared among the parties of the joint venture in proportion to the value of their capital contributions. Co-operative or contractual joint venture is a foreign company and a local company who together establish a new enterprise. Profits, risks and losses are shared among the parties of the joint venture on the basis of contractual agreements. Wholly foreign-owned enterprise is a foreign company who establishes a new enterprise in China and holds the capital of the new enterprise. The company has to be of assistance to the development of China’s national economy and yield remarkable economic benefits. (The China Business Handbook, 2003)

3.3 Joint ventures in China

3.3.1 Laws and regulations

When China opened its doors to the world and started allowing foreign direct investment, the Law of the People’s Republic of China on Sino-Foreign Equity Joint ventures was issued. The government was encouraging equity joint ventures. In 1986, the law on wholly foreign-owned enterprises was issued and soon to follow also the law on Sino-Foreign Cooperative joint ventures. These three forms of foreign direct investment accounted for 98% of the total FDI in China. The Chinese government prefers joint ventures to wholly foreign-owned enterprises. The reason for this is mainly to gain access to advanced technology through FDI and also keep the control over the national economy. This is easier done in joint ventures where China can maintain considerable control over FDI in the strategically important industries, called the “pillar” industries. The government has therefore in the past set restrictions on wholly-owned enterprises through policies on industry entry and preferential tax treatment to encourage joint ventures and keep control. Since China’s membership in the WTO, regulations have slowly been removed. (Tian 2007)

The Chinese government issued two catalogues in 1985, “Regulations on Guiding the Direction of Foreign Investment” and the “Guidance catalog of Industries with Foreign Investment”. In these catalogs foreign direct investment projects and Chinese industries
are classified into three categories: encouraged, restricted and prohibited. Everything not included in these catalogs is permitted. (Tian 2007)

3.3.2 The protection of intellectual property rights (IPR)

China’s laws and regulations concerning intellectual property rights (IPR) are still ineffective in China, even after joining the WTO. When China opened its doors and foreign brands moved into China, private local firms wanted to make quick profits and therefore started counterfeiting famous international brands. China is considered number one in the world when it comes to IPR infringement. The total cost to foreign companies in China from the various form of IPR infringement is according to William Lash, US Assistant Secretary of Commerce, about twenty to twenty-five billion dollars annually. (Tian 2007)

At the strategic economic dialogue that was held between China and the United States Dec. 14-15 2006, the Chinese Vice Premier Wu Yi stated: "China will insist on reform and open policy, which is one of the most important characteristics of modern China, and China will continue to enforce IPR protection with a responsible attitude. China will continue to fulfill its responsibility in IPR protection in the international system, to closely cooperate with international organizations and other countries so as to promote the establishment of PR protection system and improve business environment in China”.

(www.i pr.gov.cn)

3.3.3 China joining the WTO

China became a member of the World Trade Organization (WTO) in September 2001 and has as a result agreed to open up and liberalize its politics and offer a more conventional environment for trade and foreign investment. When it comes to protection of intellectual property rights (IPR), China has implemented the TRIPS (Trade-related Aspects of Intellectual Property Rights). For foreign companies wanting to establish on the Chinese market, as well as the already established companies, the membership in the WTO should mean improving conditions. (www.wto.org)
The WTO package was negotiated by the top pro-reform leaders in the national government. These leaders stepped down from power in March 2003 and other leaders have since then decided how to implement the agreement. The problem with the implementation is that few localities in China have been fully prepared to take on the obligations that were negotiated in the WTO agreement. (Lieberthal & Lieberthal 2004) Chinas government is gradually opening up and relaxing its policy on FDI in the restricted industries but there are a few industries where foreign majority share will not be allowed even after membership, or at least within a certain period of WTO entry: telecommunications, insurance, securities and transportation. (Tian 2007)

3.4 Internationalization theory

Internationalization theories try to explain why foreign firms go abroad and in what way they do it. Researchers are often talking about three kinds of entry modes possible for a foreign firm to choose from when entering a foreign market: the hierarchical mode, the intermediary mode and the export mode. (Hollensen 2007)

3.4.1 Choice of entry mode

When deciding on the appropriate market entry mode many factors need to be considered. The hierarchical mode usually means that the foreign firm establishes a wholly foreign-owned company on the market they want to enter. The hierarchical mode of entry distinguishes high risk and high control. The export mode distinguishes low risk and low control and is often used by smaller firms who just want to concentrate on export. The intermediary mode lies in between these entry modes when it comes to risk and control. (ibid) Since this paper focuses on joint ventures this is the entry mode that will be further explained.

3.4.2 Motives for joint ventures

There can be a number of reasons for a firm wanting to create a joint venture with a partner on a foreign market. The most common reasons are:
• Technology –one or both firms might need technical expertise in developing products.

• Restrictions on foreign ownership –in many less developed countries governments try to restrict foreign ownership. Joint ventures might be the only possible way to establish on a foreign market.

• Enter new markets –firms might want to gain a quick access to a new market. It can be difficult for firms to enter a new market, especially in countries where the cultural differences can create big problems to firms without any prior knowledge.

• Reducing R&D and production costs –global operations are necessary to reach competitive advantage. The problem is that they are often very expensive so firms might want to reach economies of scale by pooling capital or facilities or increase the use of facilities and in that way reduce manufacturing costs. (Hollensen 2007)

3.4.3 Advantages and disadvantages of joint ventures

There are both advantages and disadvantages in forming an international business alliance with a foreign partner. Advantages of joint ventures can be reduced market and political risk, access to the partner’s resources, knowledge of the local market, shared risk of failure and cost advantages. Some markets can be more difficult than others to enter and it can therefore be a good option to have a business partner who can help you.

Disadvantages can be the loss of control over foreign operations, cultural differences creating conflicts, incompatible objectives of the respective partners and one partner being more dependant than the other. (ibid)

3.5 Partner selection -Carl Svernlöv’s 7 questions

To choose the right partner is considered among researchers to be the first and most important step towards a successful joint venture. Carl Svernlöv has summarized the 7
most important questions regarding partner selection from Michael Geringer’s extensive study. (Svernlöv 1997)

3.5.1 Ability to contribute knowledge or other resources

It is important that the potential partner has something to offer to the joint venture, foremost for psychological reasons. Both partners need to give something of worth that they are afraid of loosing, either in material assets like capital or building or immaterial rights as know-how or access to work labor. The analysis of the potential partner’s ability to contribute with knowledge, capital or other necessary assets is based on three steps. First the main factors and necessary prerequisites that affect the joint venture’s operations and results are identified. In the second step the parent company is evaluating if it can meet these demands and provide the resources necessary. In the third step the potential partner is evaluated in the same way. (ibid)

3.5.2 Mutual dependency

For the joint venture to be successful both partners need to have a strong interest of keeping it alive and developing. It is therefore important that both parties provide elements necessary for the joint venture’s survival. If the mutual dependency is not strong enough, the joint venture will not survive conflicts between the partners since it would be too easy to abandon the project. There can also be a risk in having a too strong dependency since there might be a fear of loosing the partner making the other party afraid to act which can lead to efficiency loss. If one party feels inferior to the other, it is easy for the other party to run over the weaker part. The mutual dependency can be strengthened contractually, for example by punishing the part who wishes to dissolve the cooperation. (ibid)

3.5.3 Ability to provide capital

The potential partner needs to have adequate economical resources to be able to start the joint venture and also support it during the first years of activity. A difference between
the partners regarding financial strength is often a problem when entering into a joint venture. In this step it is important to evaluate the potential partner’s general financial status and also investigate what resources the partner is willing to engage in the mutual project. An investigation of the potential partner’s balance sheet and sufficient cash flow as well as plans for expansion and future objectives is needed. Potential limitations when it comes to the amount of capital a partner is willing to give to the mutual company can create serious obstacles in the creation and management of the joint venture. (Svernlöv 1997)

3.5.4 The parties’ similarity in size and development

The size and development of the different partners is something that is connected to the financial strength of the companies. A joint venture between two big companies is generally seen as more stable, but a difference in size does not need to be an insurmountable obstacle as long as the parties are aware of the problems that might arise. Big organizations tend to be more bureaucratic and have a slower decision process than smaller organizations. This difference can be a source of frustration and suspiciousness among both parts. A slow process can be considered by the other part as hesitation regarding the deal or that the company is not engaged enough in the mutual project. On the other hand, too fast decisions can be questioned by the other part with arguments that the decisions are not enough thought through. A difference in size can also lead to a felt or real power imbalance. The smaller company might be afraid of loosing the control to the bigger company. (ibid)

3.5.5 Company managements’ compatibility

It is important that the different parties’ company managements will be compatible with each other. An incompatible management philosophy among the owners is the most common reason for joint ventures going under. The joint venture is strongly dependent on the owners’ management staff in the start up of the company. It is therefore common that each owner selects a few highly considered employees who work together with issues regarding the business alliance. The joint venture’s company management will normally
come from one or more of the owners. It is important for the cooperation that these persons will be able to get along. When a functioning combination of people has been found, due to the importance of continuity, one should avoid rotating staff on these positions. (Svernlöv 1997)

3.5.6 Similar strategic goals

The sixth question regards the parties’ strategic aims and goals with the joint venture. For a joint venture to be successful it is important to understand what the other partner wants to get out of the cooperation. There might be a difference in expectation of profit from their invested funds. In the best of cases the parties have similar strategic goals, if not, it is important that the goals at least do not fight against each other since it most likely will be a source of conflict in a later stage. Due to this, both parties should try to identify and describe its own strategic goals for the cooperation. If it is found that the parties have different goals the next step is to decide if the parties can and should work together or look for new partners. (ibid)

3.5.7 Cultural and language differences

The last question the parties should ask is if there exist any language or cultural differences between them, and how these could be overcome. It is difficult enough for companies with the same language and cultural identity to cooperate. The parties can also, due to laws or customs in the different countries have different rules for the company management. Cultural differences can never be totally obliterated, but its effect can be reduced through the parties gaining knowledge about the other party’s culture and way of doing business. If language is a barrier it is important to avoid technical jargon and special expressions. (ibid)

3.6 Control over the alliance

Potential conflicts in a joint venture can arise due to the matter of control. The division of control can be different depending on the ownership structure. If a partner has more than
fifty percent of the equity then the minority partner must inevitably let the majority partner make decisions. (Hollensen, 2007) Alliances with an even split ownership was found by Bleeke and Ernst (1991) to have a higher success rate than ventures that were dominated by one company. Beamish has also come to similar conclusions, performance is enhanced when control is shared between the foreign and the local partner while it suffers when the foreign partner exercise dominant control. In international business alliances, partners often have different strategic objectives and therefore both sides tend to seek control over the alliance in order to run it in a way that best serves their own interests. (Yan & Luo)

### 3.7 Contingency theory

Contingency theory is trying to explain human nature by describing variable or flexible behavior based on situational realities. It suggests that the performance of a company is affected by the circumstances under which a company is operating. This means that what is a correct way for a company to organize in any given situation depends on a large number of contingency factors (Schein 1988)

W. Richard Scott describes the contingency theory as: “The best way to organize depends on the nature of the environment to which the organization must relate”. (Farazmand 2002) The contingency theory emphasizes that there are no simple generalizations about human behavior in organizations but if one knows about the situational conditions and the human actors in the situation as well as the environment one can foresee certain things. (Schein 1988)

Researchers and managers have suggested that joint ventures are unstable organizational forms. The challenge is how to manage the relationship. Unanticipated contingencies can emerge in the external, internal or inter-partner conditions after the establishment of the joint venture. (Beamish & Inkpen 1995)

According to the contingency theory, the firm whose internal features best match the external environmental demands will accomplish superior performance. (Yan & Luo 2001)
3.7.1 Partner related factors

3.7.1.1 Management conflicts

In a joint venture where the different parties are from two widely different cultures, conflicts can arise when it comes to management. The managerial style of a western manager and the one of the Chinese can sometimes be considered antithesis. Western managers are used to make managerial decisions following considerations in the order of legal, logical, situational and lastly personal. In contrast, Chinese managers will try to solve problems following an order of personal, situational, logical and lastly legal considerations. It is important for the foreign firm’s managers to adapt to the Chinese culture and traditions when running their operations in China in order to make sure that their decisions are acceptable to their Chinese counterparts. Many foreign firms want to keep their own cooperative culture but it is important that the managers follow a slow, graduate and step-by step process when implementing their own culture. (Yang & Lee 2002)

3.7.2 Culture related factors

3.7.2.1 Confucianism and Guanxi

China is divided into many regions and the country has over fifty different minorities which all have their own culture –language and traditions. This can mean increasing challenges for foreign firms doing business in China. It is likely that the joint venture has factories in many parts of the country and the foreign manager need to deal with many different cultures even within China. (Yang & Lee 2002)

The Chinese history dates back more than 4000 years and a strong traditional culture has been developed. The most influential Chinese cultural tradition is Confucianism which is based on the ancient Chinese philosopher and educator Confucius (551-479 BC). Confucianism exists in every level of Chinese society, including the daily life of ordinary people. It upholds core values like family and interpersonal relationships, respect for age and hierarchy, harmony, face and moral cultivation. (Tian 2007)
In China, interpersonal relationships are termed as guanxi. According to Pye (1982) it is a special relationship between individuals where each part can make strong and close to unlimited demands on the other part. When it comes to business relationships the term can be translated as networks based on mutual interests. In China it is more important who your friends and connections are than the individual person’s qualities. It takes a long time, especially for foreigners, to build their own guanxi. (Selmer, 1998)

Face plays an important role in China and interpersonal communication is often indirect. This can be a big contrast for foreign companies who come from universalistic cultures like that in Sweden, where people are very direct in their communication. Social status and prestige are major sources of face and it is important for the Chinese not to lose face. Conflicts can arise because western managers do not pay enough attention to saving the face of the Chinese employees and staff. Problems may also arise due to the lack of information from the Chinese part who might be trying to save face. When good relationships have been established, the importance of face is not as big anymore. (Selmer, 1998)

In a particularistic culture like China, honesty is a norm that only concerns people with whom the Chinese have a close relationship. According to Tung (1994) it is acceptable in China to engage in deception to gain strategic advantages. In contrast to this, western people consider this to be immoral. Chinese people will often say one thing and then do another, in order to save face or keep harmony. (Selmer, 1998)

Building trust is essential for maintaining a long-term business relationship in a joint venture. There needs to be a mutual understanding between the Chinese and the foreign party otherwise even small issues can become major problems and affect the joint venture’s performance. Foreign investors are used to trust contracts, but Chinese people emphasize informal relationships and the development of trust between partners. The reason for this is the weak property rights laws and an uncertain and dynamic institutional environment. (Qiu, 2005)
3.7.3 Environment related factors

3.7.3.1 Legal aspects

The new political leadership under Deng Xiaoping’s command realized that China, in order to restore the regime’s legitimacy and realize the new economic reforms, needed a well-functioning legal system. The government therefore started to make new legislations in 1980s. The Chinese legal system is still suffering of big problems but unlike before, it is not due to the lack of laws, it is rather because the lack of consistency in following the laws. China is a society in fast transformation where a strong economical interest affects how the laws are obeyed. Many local governments have the tendency to look through their fingers if it lies in their interest to do so. (Tvärsnitt 2008)

Until recently, Chinese property rights and contract law were practically non existent and by western standards they are still insufficient. Contracts are probably becoming more and more important after China entered WTO. China is a huge nation and is divided by many local governments with its different kind of laws and practices. Knowing how to do business in one place of China will not necessarily help you do business in another. (Lieberthal & Lieberthal 2004)

There are big differences between the coastal areas and the interior provinces in China regarding business policies and the degree of openness to foreign investment. The interior areas still do not have a liberalized market economy and the business climate for foreign investors can be more difficult than other areas in China. (Qiu 2005) The coastal area is called the Special Economic Zone and over eighty percent of FDI is located there. (Sanyal & Guvenli 2000)

3.7.3.2 Government interference

The country has opened up its FDI policy and joint ventures are no longer the only way a foreign firm can establish on the Chinese market. Local governments still ask foreign firms to establish through joint ventures and government officials often promote ailing Chinese companies as joint venture partner candidates. In China, all levels of the government are more invasive and less bound by law and regulations than they are in the
west. There is a big difference when it comes to localities in China regarding the quality of their governments and workforces, experience with international business practices, regulatory environment and even the degree to which their economies are dominated by state-owned or private enterprises. (Lieberthal & Lieberthal 2004)

A survey of managers of American firms in China indicates that government interference is greater in joint ventures than in wholly owned firms. The joint ventures are often formed with state-owned enterprises. Government officials in China have a lot of power and are in the position to be able to influence business operations, both domestic and foreign. All recruitment of employees to the foreign companies has to be done through state-owned employment agencies. Even though there might be government interference in China, keeping a good relation with the government can mean advantages for the foreign company. The local government can help the foreign firm with many administrative issues like quickly getting different permissions. (Sanyal & Guvenli 2000)
4. Empirics

In this chapter the interviews with the company representatives from the studied companies will be presented as well as the expert interviews. The empirics’ chapter is a neutral reflection of the collected data without any own values or standpoints.

4.1 Expert interview Axel Nordegren

4.1.1 Establishing on the Chinese market

Axel Nordegren thinks foreign firms should only enter joint ventures when there are no other options available. There are some industries where there are regulations and foreign firms need to enter joint ventures in order to operate on the Chinese market. He thinks these companies will buy out their partners as soon as there are deregulations and joint ventures are no longer needed.

4.1.2 Potential problems with joint ventures

Axel Nordegren’s general opinion of joint ventures is that they often lead to failure. Joint ventures often fail because companies have an illusion that being the majority shareholder will solve most problems. Axel Nordegren means that when the cooperation stops working it does not matter how much share of the company you have. He thinks that conflicts often occur when the joint venture starts going well. The Chinese partner is often not interested in the joint venture after the western know-how has been transferred.

4.1.3 Partner selection

Axel Nordegren does not think all joint ventures need to end in failure. He thinks that small entrepreneurial firms in Sweden who do not demand too much can gain an advantage of having a Chinese partner. In this kind of joint venture, the Chinese partner would provide everything but the know-how. Bigger Swedish firms need the control of the joint venture and this is a major problem for most firms.
4.1.4 Doing business in China

The Chinese law is according to Axel Nordegren there to favor Chinese companies. One good example of this is Volvo’s failed business operation where their trucks were not allowed on the Chinese market. Another problem with the Chinese legislation is the IPR law. The Chinese have another view of intellectual property rights. In China, it is a common practice to repeat something until perfection. They do not see it as stealing someone else’s property. Axel Nordegren explains that the Chinese people have experienced a very fast growth and are used to the idea of getting fast money. The culture of Chinese and Swedish people is very different but Axel Nordegren thinks many firms often overestimate the culture’s impact on doing business. The cultural differences can be overcome by employing good competent people.

4.2 Expert interview, Ulf Öhrling

4.2.1 Legal aspects

Ulf Öhrling thinks foreign firms should enter joint ventures only if it is absolutely necessary, like in the case of legal restrictions on foreign entry. He does not think the Chinese legislative foundation is good as the law protects the minority party too much. This gives the minority party too much power and leads to the need of unanimous decisions in the joint venture. Ulf Öhrling says many joint ventures are established because the foreign company wants to buy a Chinese local company but in the negotiations they cannot agree on the worth of the company. The Chinese and the foreign company are equal in front of the law but the law itself is partial. It is important to have good legal contracts but they cannot protect the company from every possible obstacle. It is therefore important to know your potential partner and to be able to trust him. If the foreign partner has to take its Chinese partner to court it is possible that they will loose even if they are right. Ulf Öhrling says there is a “we against them” attitude in China. He says this might have been the case in the Danone-Wahaha joint venture, where the foreign party had made a lot of money in China. It is important to have good legal agreements and to know the Chinese law and regulations. It can be a good advantage to
have both foreign and local lawyers on your side. The local lawyers know the Chinese law very well and the foreign lawyers know what the foreign company wants. The legal persons can often be a bridge between the cultures.

### 4.2.2 Doing business in China

Other difficulties in joint ventures can exist because of the different business culture. Ulf Öhrling says the Chinese and the foreign party thinks very differently when the joint venture starts to go well. He says the Chinese party sees the money that goes to the foreign party as a loss to them, “why should we give away 60% of the profit, 60 cents of every crown?” It is more common to be cheated by your business partner in China and there does not exist any fundamental loyalty and this is the reason why it is important to have a good relation with your partner.

When choosing your partner it is important to get to know the other side. It is also important to go through the conditions, like where your partner is located and who your competitors are. Ulf Öhrling thinks it is important not to be blinded by the company establishment, to know that there might be other alternatives available that does not include joint ventures or wholly-foreign owned establishments.

### 4.3 Expert interview Jay Lian

#### 4.3.1 Legal aspects

Jay Lian explains that the law of equity joint ventures has existed for about twenty years and that it is now easier for foreign firms to operate on the Chinese market. He does not think there are many legal obstacles. The most important thing is for the foreign company to know the rules and business customs. He thinks many foreign firms might lack this knowledge and therefore run into problems. He says that even though the Chinese law is easier on foreign firms now there might still exist a local protection. Sometimes the Chinese companies have advantages. Jay Lian says that even though many foreign firms might prefer having foreign lawyers more and more foreign firms choose to have both a
foreign and a local lawyer. He says the foreign lawyers can deal with ordinary things but that a local lawyer is needed when dealing with special problems. IPR problems are very common in China because Chinese people lack the copy right sense that westerners usually have. Jay Lian also says that the Chinese government interferes a lot and that this problem is more common in the less developed cities where, even though the regulations exist on paper, they are not executed. The more open cities like Shanghai, Beijing and Guangzhou have the sense to protect foreign companies and will obey the regulations. Jay Lian thinks it can many times be easier to have a Chinese local partner. He says that contracts cannot cover all problems so it is important to have good faith in your partner and the company’s true value. Research about the potential partner is important and local Chinese law firms can provide the legal information needed.

4.4 Expert interview Per Lindvall

4.4.1 Establishing on the Chinese market
A reason for entering into a joint venture can be that the foreign company wants to quickly establish on the Chinese market. There can also be economical advantages if the partner is willing to put in half of the capital. Sometimes the joint venture partner might already be a contact, for example an old customer. The motives for a Chinese company to enter into a joint venture with a foreign company can be that it wants to gain technology or get access to the European market. Per Lindvall sees joint ventures as an intermediary stage before one of the partners will buy out the other one, if it is legally acceptable.

4.4.2 Partner selection
Many joint venture conflicts exist because the different parties have incompatible goals with the business alliance. Conflicts often arise when the joint venture goes well and it is time to decide what to do with the profit. The Chinese partner is often more keen on cashing in the profit while the foreign partner wants to reinvest into the company and develop its operations. It is therefore important that a declaration of intent is written down in the initial agreement where the two parties explain their motives if everything
runs as expected. In this declaration it should be stated how any future profits should be taken care of, if they should be reinvested in the company or not.

### 4.4.3 Management control

According to Per Lindvall a fifty-fifty share of the joint venture is called “negotiation to death”. He says that a foreign company should not agree on an equal majority share. It is important to have the power to choose the management and not your partner. If you have to be in a fifty-fifty joint venture then the foreign company needs to make sure the managing director is on its side, that it has control on the key positions in the company.

### 4.4.4 Culture

The foreign firm needs to learn how the Chinese people think. Per Lindvall says that the younger generation act and think in a more “Swedish way” than the older generation. They are more open to learn about the Swedish culture. It is important that both parties are willing to adjust to the other partner’s culture. He says that the Confucian way of thinking is still shining through and that there are still traces left from the Culture Revolution. The Chinese will not tell you more than necessary. Negotiations take much longer time in China as it is a part of the guanxi-factor, relationships need to be built and trust established. It is important that the foreign company has people on the management level who understand both the western and Chinese way of thinking. It is especially important to have western staff there in the beginning of the establishment. Per Lindvall says that Chinese people will often tell you yes but will try to go in the different direction behind your back.

### 4.4.5 Legal aspects

It is important for the foreign firm to have a Chinese lawyer because every time there is a change in the law the Chinese lawyer needs to interpret the law. The way Chinese people think is not always the way it is written. Per Lindvall does not feel the Chinese government is worse than anywhere else. They usually come twice a year and it is
common to have regularly meetings, about once every four months, with the mayor for the local district. As long as they are provided with information they let the foreign companies alone. If good relations are established they can be helpful in processes like getting goods through the customs. Per Lindvall does not consider the foreign firm and the Chinese firm equal in front of the law. It all depends on how good contacts the company has high up in the hierarchy. There is a general thought among the Chinese that the foreign companies have so much money that it does not really matter if they are right or not when they go to court against their Chinese partner. It is therefore important not to take the Chinese partner to court in the district where the local Chinese partner is well established.

4.5 Expert interview Sven-Åke Eriksson

There are some industries where there are restrictions on foreign FDI. The car industry is one of these industries and foreign firms operating on the Chinese market need to establish in form of a joint venture. This is a long-term strategy of the Chinese government based on a state program. Their aim is to control the activities. Sven-Åke Eriksson thinks the goal of the Chinese government is to have about three big Chinese actors in the car industry, somewhat like the European and American car industry. He thinks that the Chinese government wants to continue having some control and be able to control the production in some ways. He says that many foreign companies are in China because the production is cheap but some are there because of the potential market. Sven-Åke Eriksson thinks the foreign company should make sure to have more than fifty percent share of the company. The best potential Chinese partner is a partner who will be inactive.

4.6 Expert interview Bengt Ohlsson

4.6.1 Establishing on the Chinese market

Joint ventures are according to Bengt Ohlsson a good way to get to know your partner if you have an interest in buying that company later on. It is a good way to get insight into
the company and its company management. Another reason for entering the Chinese market through a joint venture is if the company has any kind of technology that it does not want to invest into new markets but instead wants to transfer to another company within a certain market. The company leaves the production of the products to the other company and just collects the royalty of what has been produced.

4.6.2 The Chinese law

4.6.2.1 Government interference

The government in China has its rules, the same as in any other country. The Chinese laws can differ a lot depending on which region the company is doing business in. Bengt Ohlsson means that a foreign company has to accept the rules in the country it is doing business in. It can be an advantage to have good relations with the local government since it can speed up certain decisions but that it is not something that is unique for China. A company doing business in Sweden would also have advantages in keeping a good relation to important people in power. Bengt Ohlsson explains that China has not been open for international business so long and that we therefore cannot expect too much and need to give the country time to change. He says that China is participating in all the international contexts and is becoming more open. The Chinese government is very good at creating new work opportunities and Bengt Ohlsson is impressed by the government and how they handle certain things.

4.6.2.2 IPR protection

The problem with joint venture partners is often that it is hard to control that they are not trying to cheat you. Bengt Ohlsson says that this occur especially in countries like China where they can be prone to pinch a bit more on the truth than the “naïve Swedes”. It is therefore important not to give your partner the total recipe but only certain components. Bengt Ohlsson believes that the Chinese are starting to understand that they do not have a good reputation regarding these aspects and need to change their view of IPR. He thinks
that the foreign companies in some ways contribute to the problem by constantly asking for lower prices. The Chinese will often not say no but will instead make a cheaper copy.

4.6.3 The Chinese culture

The culture in China is different and Bengt Ohlsson says that he has experienced the cultural differences to be much more difficult than he had first thought. He says the Chinese are open to changes but that they are very egoistic in the way that the person first takes care of himself and his family and does not trust anyone else. They talk a lot about teamwork but Bengt Ohlsson explains that he has had a lot of work getting the Chinese to work well together. He says that if you take away their routines and old traditions, they very much want to keep the old and are afraid of loosing face. If you take something away from them to apply new routines, they see it as if they have done something bad instead of a change. The Chinese who are most open to changes are the ones who have been abroad; they do understand the concept much better. Bengt Ohlsson emphasizes that even though the culture is different, he believes humans are overall ninety percent human, and only the rest ten percent depends where you are from. It is important for a foreign firm to treat them as humans, understand that the language is different and so is also the culture. You will not immediately gain their respect just by being a foreigner; you have to prove to them that you have the competence. He thinks it is important that the foreign company respects the culture but help contribute to it by bringing the good things from the Swedish culture. It is important that the Chinese employees do understand that even though the company respects the Chinese culture, the foreign company also has its own corporate culture which means that certain principles need to be considered in the operations.

4.7 Company presentation

Below follows a short description of the companies that have been studied for the purpose of this paper.
4.7.1 Electrolux

Electrolux is the world’s second largest white goods company with a turnover of about ten billion dollars. The company has around seventy thousand employees and is located all around the world. It has bought a lot of companies during the years and is operating on many different markets, the local Chinese market being one of them. (Interview with Bo Kylin, Electrolux 2009)

4.7.2 Tetra Pak

Tetra Pak was founded in 1951 and is a company that supplies what the customer needs for processing, packaging and distributing food and beverages. The company is known for its innovations and smart solutions. Shanghai Tetra Pak Hoyer, Ice Cream Machinery Co. Ltd is the name of the joint venture in China. (www.tetrapak.com)

4.7.3 Arenco

Arenco AB was founded in 1877 and is an engineering company that designs and manufactures modern packaging and handling machinery for worldwide sales, as well as fish processing machinery and machinery for the match industry. The company is also manufacturing machinery and components as a subcontractor. Arenco Shanghai is a subsidiary to Arenco AB, Sweden which also has manufacturing resources in Kalmar and Halmstad, Sweden. (www.arenco.se)

4.7.4 Ericsson

Ericsson is one of the largest Swedish companies and dates back to 1876. The company is a world-leading provider of telecommunications equipment and related services to mobile and fixed network operators globally. (www.ericsson.com)
4.7.5 Scania

Scania is one of the world’s leading manufacturers of trucks and buses for heavy transport applications, and of industrial and marine engines. Scania is operating in about one hundred countries and has around 30 000 employees. (www.scania.com)

4.8 Interview, Bo Kylin, Electrolux

4.8.1 Establishment in China

Electrolux came to China in 1997 and established on the Chinese market through a joint venture with a local Chinese manufacturer of refrigerators. At this time companies were not allowed to have its own manufacturing and had instead to enter a joint venture with a Chinese partner. It was not until much later that the law gradually changed, allowing foreign companies to have full ownership. For Electrolux, joining a joint venture was the only possibility to enter the Chinese market and get a manufacturing license for refrigerators. In the beginning Electrolux had sixty percent of the ownership which was later expanded to a hundred percent. The ambition from the beginning had always been to get the majority to be able to control the operation.

4.8.2 Advantages and disadvantages of joint ventures

According to Bo Kylin, there are both advantages and disadvantages with joint ventures. He stresses that joint ventures are never easy and that they are foremost a second alternative. The advantages of joint ventures are the possibilities for companies to enter the Chinese market even though their own organization is too small to handle it alone. It might be because they do not have the right people who know the culture or the history. The disadvantage of joint ventures does not so much depend on the company’s own conditions. Bo Kylin means that regardless of the situation or ownership conditions, the company will always be dependent on its partner.
4.8.3 Partner selection

When Electrolux was to find a partner they had to choose among the available partners that were presented to them. Bo Kylin means that there is no problem finding a partner in China. He says that companies often go through a Mergers & Acquisitions consultant who acts as an intermediary between two potential partners. When it comes to partner selection and which partner to choose, it all depends on what the company is looking for. Some companies are looking for big companies with a large amount of resources while others look for a small company to expand from. According to Bo Kylin, it is very seldom that two big companies enter a joint venture together because there is a risk of one of them loosing the control. He thinks that it is important for the partners to have the same strategic goals and mean that if they do not share the same goals then the due diligence work has not been properly done from the beginning.

4.8.4 Management control

In a joint venture there is two ways of measuring control. One is through share majority which divides the number of board members. The second and more important measure, according to Bo Kylin, is who has the management. These two measures are linked together but the one with the management control is the one with the real power.

4.8.5 Culture

Bo Kylin sees culture as something different but not necessarily difficult. It just means that the problems that arise need to be solved. He explains that the mentality of the company was different some years ago. At that time the general attitude was “throw the employees into the water and see if they can swim”. That meant that the best way to see if a person was fit for the job was to try them out in real life. Bo Kylin means it is important to see people as people. There are cultural differences but they can all be overcome by time. It is important to choose the right people, people who like other people, and who is open to learn. Bo Kylin explains that Swedish companies who send people to China without any prior knowledge are very likely to step on a mine and will
probably not enjoy doing business in China. It is therefore important to be aware of misunderstandings due to cultural problems. A Chinese will often tell you what you want to hear and not what he means. If a Chinese says yes it does not necessarily mean yes but is in fact just an answer to let you know that the person has understood your question. Bo Kylin says that he often asks the same questions many times using different words and also asks different people to make sure they are on the same page. The importance lies not within the details but the total picture.

4.8.6 Legal aspects
When Electrolux first started doing business in China there were certain aspects that were not easy when dealing with the government. China is region and state controlled and tax questions are handled locally. It is therefore important to keep a good relationship and dialogue with the local government as the company then is able to get some advantages. The Chinese government is constantly looking to create job opportunities and if a company promises to create work it will most likely be rewarded. Sometimes the relationship with the local government can be difficult and it can therefore be an advantage to have a local Chinese partner who understands the way to communicate with them. The importance of government relations and the advantage of a Chinese partner depend on the industry the company is in. China is very much based on favors and favors done in return. It can be good to have a Chinese partner who can hurry up the process of getting building permits and so on as foreign companies do not want nor can be involved with activities that could be considered unfair. According to Bo Kylin, the Chinese legislation has improved through the years. He believes foreign and Chinese companies are considered equal in front of the law among higher authorities but that this might not be the case among lower authorities where friendship and relationships are very important. For big companies the legal aspects are usually not a problem as they often have the time and money to push issues all the way to court.
Bo Kylin explains that it is important for the foreign firm to have its own legal persons who know Chinese, English and Swedish. It is also important that the company has western staff located locally in China and especially its own financial and economic staff.
The foreign firm should never trust the Chinese local partner even if they are able to do so. Bo Kylin means that these areas are so crucial for the business to survive that the risk is not worth taking. If he emphasizes something it is “check, recheck and check again”. For a joint venture to be successful he thinks it is important to mix cultures, have people you can trust, people who know the language and people who are able to get under the skin of the Chinese.

4.9 Interview, Bertil Hedsund, Tetra Pak

4.9.1 Establishment in China

Tetra Pak came to China twenty years ago but it was not until about ten years ago that the sale really started to take off. China is today the largest single market and is also the fastest growing one. Tetra Pak’s products are well suited to the Chinese market because milk products are a fairly new product in China. The idea of being able to distribute the products across the country was revolutionary since refrigerators did not exist. On the ice-cream machinery side of Tetra Pak, they started to look at the Chinese market twelve to thirteen years ago. China is the second largest ice-cream consumption market after USA. Tetra Pak had previously sold a lot of its products from Europe but found that the Chinese competitors had started to copy its products. This was the reason Tetra Pak first started to look at the possibility to establish on the Chinese market. The company started its first joint venture in China 1998. At that time it was very hard, almost impossible to establish without a joint venture. Bertil Hedsund explains that a joint venture was a way for the Chinese state to be able to control what companies that established in China, who they were and what they did. At the same time they had control over the technology that it wanted transferred to China. According to Bertil Hedsund their Chinese partner contributed with staff, knowledge about establishing in China and a customer base. Tetra Pak owned sixty-five percent of the company and it was being run as a private company with a mutual ownership. Tetra Pak appointed the president and the Chinese partner the vice president. The company started to buy out the joint venture partner in 2004 to be able to gain scale of economies. The process took a few years before it was totally run
alone but even though the process took a long time it was according to Bertil Hedsund run smoothly.

4.9.2 Partner selection
When looking for a Chinese partner Tetra Pak searched for the biggest local producer which would be able to provide them the necessary conditions to enter the Chinese market. They chose a Chinese local producer who was able to contribute to the joint venture with staff, knowledge about how to establish and a customer base. Tetra Pak had only access to the top-segment and could by entering into the joint venture also get access to the low and middle-segment.
It is important that the company knows what it wants to gain from the Chinese partner and also to know what the partner wants to get in return. Bertil Hedsund says that foreign firms should be particularly careful with Chinese private companies because they often want to earn quick money. The foreign company needs to do a check up of the Chinese partner and try to find out what they want to achieve, how stable the owner structure is and if the partner sees the joint venture as a long-term business alliance or not. It is not difficult to gain information in China but the problem might be how to use it.

4.9.3 Management control
The owner of the Chinese company was the Chinese state whose main objective was to create employment opportunities, not necessarily generate quick profits. The company did therefore not interfere so much in the business operations. Bertil Hedsund also thinks that the holding company was satisfied by having Tetra Pak in its portfolio as its brand name is very strong. He thinks it is important though that one of the firms has the control over the company. Bertil Hedsund means that the Chinese partner is not dependent on anyone, if they want to they will cheat you and this is not something the foreign company can control.
4.9.4 Culture

The foreign firm should implement the Chinese culture. Bertil Hedsund explains that it took two years for him to really learn the culture. The Chinese people usually have a very short-sighted way of thinking. They are used to a hierarchical society and are expecting the boss to tell them what to do. Bertil Hedsund says it is easy to make them do things but that process changes take longer time and need to be divided into small steps. He also thinks there is a difference between the older and the younger generation. Older people have been growing up during Mao’s leadership and the Culture Revolution. These people are not used to take any own initiatives. The younger generation listens and is eager to learn. He says that the Chinese staff is loyal to you as long as you treat them well. Negotiations take longer time in China because the Chinese do not want to say no. Sometimes agreements have been made but the Chinese later wants to take it up for negotiation again.

4.9.5 Legal aspects

The Chinese law is on the Chinese companies’ side. Bertil Hedsund does not think the legislation is a big problem in Tetra Pak’s daily operations but that one should be afraid of directly breaking the law. It can sometimes be hard to know what rules to follow and it takes a lot of administration to handle because there is flexibility in everything. It can be an advantage to have good relations with the government because it can make processes run faster. China is an administrative big country and there are exceptionally many rules, some of them that you have to follow and some of them that are negotiable. Ten to fifteen years ago it was close to impossible to establish without a joint venture. Bertil Hedsund thinks that they would have done so even if they were not legally forced to. Today there are law firms that can help the company with the administrative and legal aspects. Tetra Pak is so big in China now and has its own legal persons that it does not have to establish any new legal units as a joint venture. Bertil Hedsund says that foreign firms need to be aware of the fact that what they bring into the country will most likely get copied and the company therefore needs to find another advantage with its product than only production. The product can not be too simple then it will definitely get copied. He thinks it might be
4.10 Interview, Anders Liljegren, Arenco

4.10.1 Establishment in China

Arenco first came to China in 1992 and was at that time forced to enter a joint venture with a Chinese partner. Anders Liljegren says that with facts in hand they would not have established a joint venture. Their partner was a local producer, called Shanghai light nr 4, who was in fact copying Arenco’s machines and selling them on the Chinese market. Arenco had the majority share of the company with 51%. Anders Liljegren thinks that companies if they go into joint ventures should go in with a clear ambition of later buying out the Chinese partner. If the company is too small to operate alone on the Chinese market it is better to focus on the already existing market that the company is operating on. Arenco bought its Chinese partner’s share in 1998. At that time the Chinese staff thought they would lose their jobs and the environment was so hostile that there were days the western managers needed police escort to go to work. In the end, the situation calmed down when the employees realized that the working environment would be even better working for just Arenco.

4.10.2 Partner selection

When it came to partner selection, there was really only one big Chinese local company to choose from. This company was presented by the state. The Chinese company had a
market and all the companies they sold to were state-owned. The negotiations started already in 1985 but due to the incident at Tian Anmen square they were postponed and were not realized until 1992. Arenco’s Chinese partner was not interested in doing business for the sake of the company; they were just interested in sucking out as much money from the joint venture as possible.

Anders Liljegren thinks it is important to analyze what the company wants to gain from the joint venture. It is not easy to analyze a Chinese company and to know what the potential partner wants. He thinks it is necessary to find other people who can help the company with different perspectives. China has not a tradition of references and the Chinese people are often afraid of ruining their relations with other partners. If the foreign company wants to be in a business alliance with a Chinese partner because of the potential customer base then the Chinese partner can be very valuable. It is important to analyze if the customer base really does exist. Arenco’s Chinese partner was according to Anders Liljegren not a big asset because the market was about to get privatized and smaller, and the customer base Arenco wanted to get did no longer exist.

4.10.3 Management control

Anders Liljegren thinks it is important for the foreign company to have the majority share of the company. The foreign company also needs to be active and make sure that they have the control of the persons sitting on the key positions. The difficult thing can be to know which these key positions actually are. In many Chinese companies there exist a strong key person who has an entrepreneurial spirit. It may be important for the foreign company to be on good terms with this person, especially if the company is considering a buyout. In Chinese culture, strong relationships are very important and if that person decides to leave, the rest of the staff might follow. Anders Liljegren thinks it is important to have foreign people located in China but it is also important to have a Chinese management that is a hundred percent loyal. It is not possible to run a company in China and get the control by running the business using pure Swedish perspectives. It takes a long time to build trust and know who you can trust. Anders Liljegren emphasizes continuity and explains that it is important not to change management too often. He says
that it can take up to four or five years before a foreign manager is really useful. The
greater the Chinese company is the harder it will be for the foreign company to gain
control over the operations. In big companies there might be too much staff, more than
you have use for. Anders Liljegren thinks that Arenco sent the wrong people to set up the
operations with the joint venture. The company thought it would be a good idea to send
older people because age is something Chinese people respect. It turned out that these
people were not right for the job as they did not have any knowledge of the Chinese
culture but also did not have enough knowledge about Arenco and its products.

4.10.4 Culture
The Chinese culture is different and foreign firms need to adjust to it. The biggest
mistake a foreign firm can make, according to Anders Liljegren, is to try to make the
joint venture into a “Swedish company”. The company has to have respect for its Chinese
partner. The partners might share the same core values but these will be presented in very
different ways. Swedish companies love to have meetings and make sure that everyone
feels involved in the decisions. In China it is important not to inform too early but instead
really know what will be done when it is time to present something. The Chinese staff is
waiting to be told by their boss what needs to be done. They are historically used to show
great respect for the people who are hierarchically above them. Anders Liljegren thinks it
is important to have local managers because they know in what way to speak to the
Chinese staff to make them understand.

4.10.5 Legal aspects
Arenco does not have so much contact with the local government but Anders Liljegren
says it is important to keep good relations with them and also with important local
companies. He does not think there will be any deregulations regarding FDI until the
Chinese state thinks it is the right time. The Chinese state likes to be in control and want
to economically gain as much as possible from foreign firms. He also thinks that foreign
companies are inferior to the law if they were to face their Chinese partner in court.
Arenco has gotten its products copied but they have not won one single case. According
to Anders Liljegren, going to court is not the right way to go. It is hard to protect the company from counterfeiting mainly because the Chinese do not see it as stealing. The only way to protect itself is to always be one step ahead and have a product with a high value that makes it hard to copy.

4.11 Interview, Björn Boström, Ericsson

4.11.1 Establishment in China

Ericsson established on the Chinese market in 1992. At that time they were forced to enter a joint venture with a Chinese partner. They were given a few options to choose from and they chose the company Panda who is one of the bigger state owned electronic companies.

4.11.2 Partner selection

Ericsson chose Panda as their partner because they were one of the most prominent companies. It was a modern company who stretched over a complex area regarding governmental and administrative issues. Ericsson had a lot of support from the local Chinese partner with administrative contacts, tax issues and so on. It was a big advantage having them on their side. According to Björn Boström, there were never any big conflicts when setting up the business and they have only seen the positive sides of the partnership. The local Chinese company does not interfere with the business, it is purely an investor. There has also not been any transfer of technology.

4.11.3 Doing business in China

When doing business in China it is a great advantage having someone in the company who knows the culture. Björn Boström says it might be different today but when Ericsson first established in China there was a need for local knowledge. He says it is a pleasure working with the Chinese because they are hard working and have good qualities but they can also be very pragmatic. In China, nothing is black and white -everything is
negotiable. When creating a joint venture with a Chinese partner Björn Boström says it is important to set up clear rules from the beginning and to know what the partners want to gain from the cooperation. He does not believe it is hard to do a proper check up of your potential partner and he means it is important to do so since the Chinese sometimes want to strip the foreign partner of his technology. It is also important to make clear in the contracts which part has the operational responsibility and to state everything from invested capital, profits and the different parties’ expectations.

4.12 Interview, David Jiang, Scania

4.12.1 Establishment in China

Scania’s organization structure is emphasizing organic growth and the company therefore does not want to buy other companies or create joint ventures. The corporate culture is very important for Scania and according to David Jiang it is also the company’s strength. It is hard to establish the corporate culture in a joint venture. Scania has therefore decided not to establish on the Chinese market due to the existing regulations on FDI. He says that no joint ventures on the truck-side are really successful. There need to exist a common goal if the joint venture is going to work. If the company is forced by law to create a joint venture and it is the main reason for doing so, then the company should not enter.

4.12.2 Partner selection

When deciding which partner to form a joint venture with it is important to do a thorough check of the potential partner. It is important that both partners have the same goals since it itself eliminates many problems. What someone says and what someone actually does are two different things, everyone bluffs a little. The company should not only ask themselves what they want to get out of the deal but also put themselves in the potential partner’s shoes. There need to be a win-win situation for the joint venture to be a success.
4.12.3 Management control

David Jiang means that if the two partners are aiming for the same goals, then there should not be any major conflicts and therefore the amount of control is not as important. Even if the partners have the same goals, conflicts can still arise and it is important to have a clear owner structure if there are problems so the partners both know who has the last say in the matter. The worst kind of owner structure, according to David Jiang, is a fifty-fifty share of the company. It does not have to be important to have the majority share but someone needs to have the majority and with that the control.

4.12.4 Culture

The Chinese culture is different but David Jiang does not consider the culture in China to be a big obstacle for doing business. He means that differences in culture exist everywhere, even in two Swedish companies there would be some cultural differences due to a different company culture. David Jiang thinks that the language sometimes creates a problem and that many companies rely on the local Chinese partner to do the daily work and therefore loses some control.

4.12.5 Legal aspects

The local government is important when any bigger business constellation is created. Foreign companies are on away ground and this also applies to the laws. There does not have to be a bias towards Chinese companies but the foreign companies do not have the right contacts, they do not know the Chinese law and they do not speak the language. This ultimately put them in a disadvantage if they will have to face their Chinese partner in court. David Jiang says that the Chinese people have another view of IPR and that it does happen that foreign firms find their staff gone over the night just to find them a hundred meters down the street producing the same things. He says that the Chinese people are not dishonest by nature; they just have another view of IPR. It is therefore important that the foreign company does a proper due diligence when first choosing partner.
5. Analysis

In this chapter the theoretical framework and the empirics will be connected into a discussion that aims at giving an answer to the problem formulation: What problems do foreign firms need to be aware of when entering into a joint venture with a Chinese partner? What do they need to do to avoid or overcome these problems?

5.1 Establishing on the Chinese market

The most common reason for foreign firms establishing on the Chinese market through a joint venture is the existing legal regulations. Another common reason is that the foreign firm quickly wants to establish on the Chinese market. Anders Liljegren means that if a foreign firm is too small to be able to establish on its own, then maybe the company should put its effort on its already existing market. A foreign company should not go into the Chinese market if it does not have a clear ambition. Bo Kylin describes joint ventures as a secondary alternative, when no other options are available. A common opinion is that joint ventures might have been necessary some years ago but that times have changed and it is easier for foreign firms today to establish on the Chinese market. Foreign firms do not have the same need to establish through a joint venture due to better legislation and a friendlier environment for FDI. Per Lindvall and Bengt Ohlsson see joint ventures as an intermediary stage before one of the partners will buy out the other one. It is a good way to get insight into the company.

5.2 Partner selection

5.2.1 Ability to contribute knowledge or other resources

According to Carl Svernlöv (1997) both partners in the joint venture need to give something that is valuable to them and that they are afraid of loosing, either in material or immaterial assets. The general opinion of the respondents is that it is very important for foreign firms to evaluate its potential partner and that both parties need to contribute to the joint venture. According to Bertil Hedsund, the foreign firm is often contributing with
technology while the Chinese partner contributes with local knowledge of the market and sometimes a local customer base. Axel Nordegren says that it is important that the local Chinese partner is not only looking to gain resources like technology, know-how and money but sees the cooperation leading to something more. When evaluating the other partner’s resources it is important to analyze if the potential resources really do exist and if it is worth as much as the Chinese partner promises. The foreign firms in this study have chosen a partner who has something to contribute to the partnership, whether it is local know-how, staff or a customer base. It is obvious that both parties want to gain something from the cooperation or the joint venture would never have been established in the first place. The question is rather if these resources really do exist and if the parties can continue to contribute resources to the joint venture.

5.2.2 Mutual dependency

The literature describes the importance of having a mutual dependency in the joint venture. The dependency is supposed to be not too strong or too weak, but a balance. Most respondents agree that both parties should have an interest in keeping the joint venture alive but according to Bertil Hedsund the Chinese partner is never really dependent on anyone. The Chinese partner will cheat you if they want to and it is therefore important to have a good relation with your partner. According to Bo Kylin the problem with joint ventures is exactly the dependency; a foreign firm will always be dependent on its Chinese partner no matter the situation. This is especially true when it comes to firms operating on the regulated Chinese market where joint venture is the only possibility to establish on the Chinese market. Their negotiation position is not so strong since they know that they have to have a Chinese partner or they will have to go back home. In these cases it is probably very important that both parties are able to provide different resources so that a dependency has to be created from both parties. The foreign firm needs to be aware that the Chinese partner is not really dependent on them as the Chinese companies are able to act on the Chinese market and that many Chinese companies are only looking to get the technology. What is tricky for the foreign firm is to keep the Chinese company dependent on them even after the technology has been
transferred. Having a good relationship with its partner can make the Chinese company if not feeling dependent; at least feel loyal towards its partner.

### 5.2.3 Ability to provide capital

According to the literature, a difference between the partners regarding its financial strength can be a problem when entering into a joint venture. Therefore the potential partner should be investigated regarding its financial situation as well as its future objectives and plans for expansion. The ability to provide capital has not been something the respondents have emphasized during the interviews. Bo Kylin explains that different companies are looking for different qualities in their potential partners. Some companies are looking for big companies with a large amount of resources while others look for a small company to expand from. Many times the companies’ resources are transferred into money to be able to calculate a value. The foreign company does not always look for capital in pure money to be invested in the company but is often looking for the local Chinese know-how and facilities. All the respondents do emphasize the need to do a thorough check-up of the company’s potential partner. Some respondents think it is difficult to get the proper information about the partner while others do not. Bertil Hedsund says that it is not difficult to gain information in China but the problem might be how to use the information. Björn Boström says it is important to make clear in the contracts about the invested capital. Arenco is a living proof of this as their partner was only interested in cashing in the profits and had no interest in reinvesting it in the joint venture for further expansion. Having clear contracts that state how the capital and also future profits are supposed to be invested will help eliminate these kinds of conflicts.

### 5.2.4 The parties’ similarity in size and development

A joint venture between two big companies is generally seen as more stable. This is not a view that is shared by any of the respondents. According to Bo Kylin, it is very seldom that two big companies enter a joint venture together because there is a risk of one of them loosing the control. Anders Liljegren says that the bigger the Chinese company the harder it will be for the foreign company to gain control over the operations. If the
companies are equal in size it can be important that one of the companies take on a passive role. Ericsson is an example of a partnership where its partner Panda has taken on a passive role and does not interfere in the business operations. The company is only investing capital and let Ericsson run the operation. In this kind of partnership the size of the different parties does not really matter as long as it is clear who has the management control and that both parties know its place in the joint venture.

5.2.5 Company managements’ compatibility

It is important to have a management that is compatible. This is something that can be hard to establish in a joint venture with a Chinese partner where the management style is very different. Per Lindvall thinks it is important to have western staff located in China especially in the startup of the company. Anders Liljegren emphasizes the importance of having local managers because they know how to deal with the local Chinese staff and can speak to them in a way they respect and will understand. Many times the foreign partner and the Chinese partner have the same core values but they are presented in different ways. He also thinks it is important not to change management too often. Björn Boström also thinks it is important to have someone in the company who knows the culture. Because the management in the joint venture is from so different backgrounds Anders Liljegren means it is important to make sure to have the right people on the key positions. This is especially important if conflicts occur.

5.2.6 Similar strategic goals

All respondents agree that it is extremely important for the partners to have the same strategic goals. David Jiang explains that having the same goals eliminates many problems. Bo Kylin means that if the foreign partner and the Chinese partner do not have the same strategic goals then the due diligence work has not been properly done. It sounds simple but doing a proper due diligence of the potential Chinese partner is not always easy. Per Lindvall means that incompatible goals is one of the big sources of conflicts. The Chinese partner is often more keen on cashing in the profit while the foreign partner wants to reinvest into the company and develop its operations. A
declaration of intent is therefore important to have in the early stage of establishment. What someone says and what someone actually does are two different things and everyone bluffs a little. David Jiang says it is therefore important that the company puts itself in the partner’s shoes and ask itself what the potential partner wants to gain from the relationship. Anders Liljegren and Bertil Hedsund are on the same track, they mean that the Chinese companies often want to make quick money and do not see the joint venture as something long-term. Axel Nordegren and Per Lindvall explain that conflicts often arise when the joint venture starts going well. Anders Liljegren thinks it is important to find other people outside the company who can help analyzing the potential Chinese partner. Sometimes foreign firms need to see things from other perspectives.

5.2.7 Cultural and language differences

The Chinese culture goes back more than 4000 years and that there exists both cultural and language differences in China is obvious to most foreign firms. It is important to gain knowledge about the other party’s culture and this is something the respondents have emphasized. Many companies want to keep the company’s business culture when establishing in China. According to Anders Liljegren, the biggest mistake a foreign firm can make is to try to make the joint venture into a “Swedish company”.

Even though there are cultural differences Axel Nordegren thinks many foreign firms overestimate the culture’s impact on doing business in China. Bo Kylin and Bengt Ohlsson both agree on this. Bo Kylin explains that the culture is different but that does not mean it necessarily has to be difficult. Bengt Ohlsson means that humans are overall ninety percent human and the rest of the ten percent depends on where we are from. The important thing according to them is to be aware of the cultural and language differences and mean that everything will get easier by time.

5.3 Control over the alliance

According to the literature alliances with an even split ownership has been found to be more successful than the ventures that were dominated by one company. None of the
respondents have agreed on this. In contradiction, all respondents have emphasized the need of having the majority share of the company. David Jiang means that as long as the partners have compatible goals the need of control over the company is not so important. The problem is that very often foreign firms and Chinese partners do not share the same goals. According to David Jiang it does not necessarily need to be the foreign firm who is in control but there needs to be a clear owner structure so the partners know who is in control if conflicts occur. He says that a fifty-fifty share of the company is the worst kind of owner structure. He gets support from the other respondents who also mean that someone needs to be in control of the company. Per Lindvall calls a fifty-fifty ownership structure a “negotiation to death” because there is no side that can make decisions if the other party does not fully agree.

The only one with a different view on control is Axel Nordegren. He thinks that many joint ventures fail because companies have an illusion that being the majority share holder will solve most problems. He says that the foreign firm is never really in control if something goes wrong and the two parties need to go to court to settle a conflict, then it does not matter how much share of the company the foreign firm has.

5.4 Contingency factors

5.4.1 Management conflicts

According to Bo Kylin it is important to have the management because then the company has the real power. If you do not have the management on your side it is difficult to implement changes and get things done. Anders Liljegren means it is important to have the right people on the key positions, but that it might be difficult to know which these key positions are. He also says there is often one person in the Chinese company that the local staff has much respect for and it is important to have a good relation with this person because the local staff will listen to him/her. Per Lindvall explains that it is important to have people on the management level who understand both the western and the Chinese way of thinking. Bengt Ohlsson means that the managers need to be aware that conflicts can arise because of the different culture and different leader styles. He also
says it is important to prove to the Chinese that you have the competence and that the
manager is not only there because he is a foreigner. The difference in culture, according
to Bertil Hedsund, is that the Chinese are used to a hierarchy society and expect the boss
to tell them exactly what to do. Anders Liljegren thinks it is important to have foreign
people located in China but it is also important to have a Chinese management that is a
hundred percent loyal.

5.4.2 Confucianism and Guanxi

China has a cultural heritage that is deeply rooted in the daily life of ordinary people. The
culture is also apparent in the way a Chinese person will do business. Most respondents
agree that the culture in China is very different from that of the west. They also agree that
even though it is different, it does not have to be difficult. It just means that things might
take longer time and things have to be done in a different way. Bertil Hedsund and Bengt
Ohlsson both see a change in the younger generation. They are more open to the western
way of doing business and are more open to changes especially the ones who have been
abroad. It is important not to get overwhelmed by the cultural and language differences.
Be aware of the culture but do not let it intimidate you or stop you from doing business.
Guanxi and the importance of it is well-known in the literature but even though good
relations are important, and maybe in some ways even more so in China, it is not
something that is specific for China. The respondents mean that good relations are
important anywhere in the world that you do business, even in Sweden.
Scania values its own corporate culture and sees it as one of the company’s success
factors and therefore does not want to enter a joint venture. David Jiang thinks it is hard
to transfer the corporate culture and the core values to a business alliance.
When talking about culture it is important to remember that China is a very big country
with many different minorities and different local dialects. A Chinese person from south
of China will not be able to understand a person from the north. It is therefore impossible
to talk about one culture and one language when describing China.
5.4.3 Laws and regulations

With China being a member of WTO it should mean a more open and friendly business environment for the foreign firms wanting to establish on the Chinese market. Many of the respondents mean that it is easier now than a few years ago to do business in China, but most of them feel that the Chinese local companies have an advantage if they would have to go to court. Going to court is not the right way of solving problems because no legal contracts can totally protect you. There also seems to be a “we against them” situation and there exists a local protection. The Chinese lawyer thinks that the bigger cities are better at protecting the foreign companies than the smaller cities. It is important to remember that China is a huge country where the different regions have their own rules and regulations. It is important for foreign firms to be aware of the Chinese law; many times the foreign firms might not have the right knowledge of the Chinese rules and business customs. Many of the respondents think it is important to have both foreign and local Chinese legal persons helping the company. Ulf Öhrling says that his law firm often cooperates with local Chinese law firms, to be able to cover all perspectives, both the foreign and the Chinese.

5.4.4 Government interference

Most of the respondents mean that the Chinese government likes to have control and that it will not let go of all the regulations until it think it is time. When talking about the government most respondents say they have a big respect for the government and think they are doing a great job providing work opportunities for their people. The respondents do not feel that the government interferes in the companies’ daily operations but still feel it is important to have good relations with the government. The reason for this is that keeping good relations with the government and also with important companies can give the company an advantage when it comes to processes like getting its products through the customs and getting permissions quickly. Being on good terms will only get you so far, because officials change positions and fall out of power. What is most important according to Bertil Hedsund is for the company to not directly break the law.
5.4.5 The protection of intellectual property rights (IPR)

Jay Lian says that IPR problems are very common in China and the respondents seem to all be aware of this problem. Many of the respondents have experienced that their products have been copied. They all agree that there is nothing you can do to protect yourself from this. No legal contracts can protect you from this. The fundamental reason for this is probably that the IPR history in China is very short.

According to both Jay Lian and Anders Liljegren, the Chinese people do not have the common copy right sense that westerners usually have. It is hard to implement a law when there does not exist an understanding for the law. The Chinese do not see copying as something bad. The blame is not only to be put on the Chinese, all foreign people who go to China and buy cheap copies are contributing to the problem. Bengt Ohlsson means that also the foreign companies contribute to the problem by constantly asking for lower prices. The Chinese will not be able to say no and instead they will try to produce the same product but with a lower quality.

Bengt Ohlsson thinks it is important that you do not give your partner the whole recipe but only certain components. He is seeing a change among the Chinese though and thinks that the Chinese people are starting to understand that they have to change their view of IPR because they do not have a good reputation in the rest of the world. The only way to protect the company from counterfeiting is, according to Anders Liljegren, to be one step ahead and have a product that is hard to copy. It can also be important to keep a good relation with your partner so he does not parallel produce the products. If there is an established relationship where both parties respect each other maybe the Chinese partner will not copy the products.
6. Conclusions and reflections

In this chapter the contents from the previous chapter will be illustrated and reflected upon. The chapter will end with suggestions on continuing research within the field.

6.1 Conclusions

Joint ventures are never easy and there are many obstacles that companies need to be aware of when entering into a business alliance. Even though these obstacles exist joint ventures are in no way only negative. In many cases foreign firms can have a great advantage of having a local Chinese partner on its side. China becoming a member of the WTO has also helped China becoming a friendlier environment for FDI and these changes can only lead to a better climate for foreign firms wanting to do business in China. With increasing deregulations more and more foreign firms are starting to establish through a wholly-foreign owned company because they do not need to deal with the difficulties that can exist due to having a partner that you need to cooperate with.

Even though China is now a member of the WTO and becoming more open, there are still regulations that the Chinese government has imposed on the “pillar” industries that they want to keep control over. Because of these regulations joint venture is still an entry-mode that is a highly pressing issue. Foreign firms, who enter joint ventures, whether they voluntarily do so or are forced by law, need to be aware of the challenges ahead but they should also look on the joint venture with positive eyes. If the foreign firm goes into a joint venture with the expectation that the joint venture will fail then they should not enter it at all. Many companies enter joint ventures as an intermediary mode before they buy out the company in a later stage. This is a common thing and nothing wrong with that, but the foreign firm and also the Chinese partner should both try to make the joint venture and the relationship work while they are still in the business alliance together.

There are foreign firms who are naïve and in their eagerness to expand think that there will not be any major issues entering a new market. One has to remember that entering a
new market, whether it is through a joint venture or through a wholly-foreign owned company, is never easy. One also has to remember that entering a joint venture is never easy regardless of where the partner is from and on which market it is on, and even less so in China. There are many factors contributing to the success or failure of a joint venture. Many times these are factors that foreign firms cannot control themselves; they are so called contingencies that foreign firms need to be aware of and do their best to deal with.

When choosing a partner the most important thing is to know who your partner is. This is not always easy and the foreign firm might have to get help from other persons outside the company who can give another perspective. It can often be difficult for a foreign firm to know what to expect from a Chinese partner and to know in what way they think. A Chinese might say one thing and mean another, the same goes with contracts. The foreign firm should therefore get help from both local and western lawyers who can see the issue from both sides. When entering into a joint venture with your partner it is important to know what you want to gain from the relationship but it is equally important to know what your partner wants to gain from it. Foreign firms who are just able and wanting to see things from their side might very well find themselves in a shock when they realize that the partner wants something totally different. To be able to have not only a functioning but successful joint venture it is important that there exists a win-win situation. A common thought is that the Chinese partner never is dependent on the western partner but as long as both parties have resources to contribute to the joint venture there should exist some kind of dependency from both parties’ side.

When a foreign firm has chosen a partner who it thinks is a good match, it is important to analyze if the two parties’ strategic goals are compatible. If they are not, there are definitely going to be conflicts. The foreign firm needs to be aware that many Chinese companies are only looking to gain technology or capital and is not interested in any long-term relationship. The foreign firm therefore needs to know from the beginning what it is to expect from its potential partner in regards to future goals and how the profit
is going to be invested. Many conflicts arise when the joint venture starts going well and
to avoid conflicts it is important that these issues are already written down in the contract.
It is important that the foreign firm does a proper due diligence on the potential partner
and also that a letter of intent is written down in the initial negotiations. Foreign firms
should be aware that contracts are important but they are in no way an insurance that
everything will go accordingly.

As long as the foreign and Chinese companies have compatible goals, who has the
control over the company is not the most important issue. The problem though is that
conflicts often do arise even when the goals are somewhat compatible. It is therefore
necessary that the owner structure is clear from the beginning. Having the majority share
often indirectly means that the company has the management power, and the one who has
the management power often has the real power. That one party has the majority share
and with it the control does not mean that conflicts will not arise, it just means that if
conflicts arise there is already an agreement which party has the final decision in the
matter. It is important though to remember that even though the foreign party has the
majority share, it is still a partnership and having the majority share will not immediately
solve all problems. The joint venture is a relationship and needs to be taken care of
thereafter.

When being in a joint venture relationship with a company who comes from a very
different culture from its own, situations will exist where these cultures will collide. This
is only natural; it would actually be strange if it did not happen. Many foreign firms are
intimidated by the term culture and everything that comes along with it. Culture is
something different, it means people speak another language and have customs and
traditions that you might not understand, but it does not mean that two people from
different cultures cannot find a way to work with each other. If both sides are open and
willing to learn then these differences can be overcome. It is important for a foreign firm
to have its business culture but it is also important to respect the culture in the country
where the foreign firm is operating. A company can still be Swedish and have Swedish
core values at the same time as it adapts to the local business climate. Having both
Swedish and local Chinese managers working together might be a good way to create a joint venture culture that works for both sides.

Guanxi and its importance when doing business in China is a frequently discussed topic, and researchers often mean that companies need to establish good relations both with the local companies and the Chinese government. Building trust and relations is very important in China but that can also be applied to the rest of the world. I do not think the term guanxi should be overrated as even though relations and favors are important they will not last forever. One also has to remember that guanxi and favors can be closely related to corruption. This is a very fine line sometimes and something the foreign firms need to be aware of.

Doing business in China is in many aspects different from any other country in the world. It is not until recently that the government has started to open up the country for FDI and the laws and regulations can sometimes feel like a jungle for foreign companies. It is therefore important to get help from local people who knows the way to interpret the law. Even foreigners who have been in China for many years sometimes have problems seeing things the way Chinese do and these things need to be handle by a local Chinese person who the foreign company can trust. The laws and regulations are often there to protect the Chinese company and potential conflicts should if possible not be handled in court. In this aspect relations can be very important as the Chinese will be loyal to someone they have established a close relationship with.

Whether or not a foreign firm should enter the Chinese market in form of a joint venture or through a wholly-foreign owned firm is not something this study has been focusing on but it is important that the foreign firms are aware of their alternatives. Ulf Öhrling, the resident lawyer at Mannheimer Swartling explained this very well: “It is important for foreign firms to be aware that there are other tools than the hammer and the spanner available in the toolbox”, the hammer being joint ventures and the spanner being foreign-owned companies.
Many times the foreign firms are blinded by thinking that their options are limited. For some firms who do not have the capacity to enter the market on their own, maybe that is a sign that they should not enter it through a joint venture either. In the end, it all depends on what the foreign firm wants to gain from the cooperation. If the company is aware of the fact that it might not get the control over the operations and might get stripped of its technology and still finds joint ventures being a good way of entering the Chinese market then they definitely should. The only important thing is to have open eyes and be aware of the possible situations that might occur.

Scania is a company who has clearly stated that they do not want to establish on the Chinese market through a joint venture and no one can say that they are wrong. The company has a clear concept of their organizational structure and they are sticking to what makes them successful.

I think many firms are focusing too much on the negative aspects of doing business in China –the culture, the laws and regulations. Yes, the culture is different, yes, things are going to take a longer time and yes, you might wonder what you are doing in a country where no one seems to understand you. Despite this, if you are aware of these things then China and the Chinese people have a lot to offer and enter a joint venture does not need to be any more difficult in China than anywhere else.

A joint venture can be seen as a marriage. The most important thing is who you get married to. Even if you trust your partner it is a good idea to write a prenuptial agreement if you have assets you are afraid of loosing. A marriage consists of two individuals who are different but share the same core values and goals. The relationship need to be taken care of and conflicts dealt with and then the marriage could be prosperous and last forever. If they are not, the marriage might end in a divorce, and if it does you will be happy that you did write a prenuptial agreement.
6.2 Suggestions on continuing research

This study has been trying to explain what problems foreign firms meet when they establish in a joint venture with a Chinese partner and also what they need to do to overcome these problems. This study has only been trying to explain the problems from the Swedish companies’ point of view as it would not be possible to study both Swedish companies and Chinese companies within the timeframe set up for this study.

It would therefore be interesting to study how the Chinese companies look at the relationship with a joint venture partner from a western company. Maybe they see the problems in another way and there might be issues that they see as a problem which the Swedish managers do not.

Since China is becoming more and more open to FDI and with the government starting to create policy changes regarding regulations on wholly-foreign owned establishments, it could also be interesting to analyze whether there will still be a need for joint ventures in the future.
Glossary

Cooperative joint venture  A foreign company and a local company together establish a new enterprise, and share profits and risks on the basis of contractual agreements.

Due Diligence  An investigation of a potential investment where the potential partner’s background is checked regarding aspects like the company’s financial situation.

Equity joint venture  A foreign company and a local company together establish a new enterprise, and share profits and risks on the basis of their respective equity contribution.

FDI  Foreign Direct Investment

IPR  Intellectual Property Rights

Letter of intent  In the initial stages of an agreement both parties state their future goals with the business alliance.

MOFTEC  Ministry of Foreign Trade and Economic Co-operation

TRIPS  Trade-related Aspects of Intellectual Property

Wholly-foreign owned enterprise  A foreign company establishes a new enterprise in China and holds capital of the new enterprise.

WTO  World Trade Organization
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Appendix

Appendix 1 interview guide –companies

1. Kan du berätta lite om dina erfarenheter av joint ventures samt det företag du arbetade för?
   - När etablerade sig företaget på den kinesiska marknaden?
2. Varför bildade företaget ett joint venture?
   - Var det lagkrav eller frivilligt?
3. Om frivilligt, varför joint venture?
   - Om ofrivilligt, hade ni valt en annan etableringsform om ni hade kunnat välja? Vilken och varför?
4. Vilken typ av joint venture är det?
   - Hur ser ägandeförhållandena ut?
5. Vem är er partner?
6. Hur gick valet av partner till?
   - fick ni välja fritt eller var det staten som utsåg en partner?
   - vilka kriterier utgick ni ifrån i val av partner?
   - vad är viktigast för företag att tänka på då de ska välja en partner att ingå joint venture med?
   - Är det viktigt rent psykologiskt sett att båda parter tillför viktiga resurser till företaget, att både parter har något att förlora?
   - Hur såg beroendegraden ut? Fanns det ett lika stort beroende eller var den ena parten mer beroende av den andre?
   - Är det viktigt att ha ett lika stort beroende av varandra?
   - Är det viktigt att kolla upp sin partners finansiella bakgrund?
   - Hur noga kollar man egentligen upp sin partner? Gör man ett sk due diligence?
   - Hur viktigt är det att ens partner är jämbördig i storlek?
   - Hur vet man vad den andre partnern vill ha ut av sitt JV?
   - Hur gick förhandlingarna av joint venturet till?
   - Tog det lång tid att komma till avtal?
   - Tar det längre tid att komma till avtal med en kinesisk partner?
7. Hur tycker du samarbetet fungerar?
8. Har det uppstått några större konflikter mellan parterna? I så fall, vad är det för slags konflikter som uppstår?
   - Har du upplevt att det funnits olika strategiska mål med joint venturet?
9. Är företaget fortfarande i ett joint venture med sin kinesiske partner? Om inte, varför?
10. Vad behöver ett företag göra för att ta kontroll över sitt JV?
    - Hur viktigt är det att ha lika eller mer kontroll?
11. Är det vanligt att den kinesiska partnern försöker ta över och kontrollera?
12. Hur ser du på de kulturella aspekternas inverkan på samarbetet?
    - uppstår det några specifika kulturella problem?
13. Finns det några specifika problem som kan uppstå just pga den kinesiska kulturen?
14. Hur fungerar det med ledarskapet?
    - Vad ska man göra för att få både kineser och västerlänningar att arbeta tillsammans på ett effektivt sätt trots kulturella skillnader?
    - är det svårt som västerländer att få kineserna att förstå en och göra som man säger?
    - hur ska man vinna deras respekt?
17. Hur påverkar den kinesiska lagen företag i Kina?
18. Lägger sig den kinesiska myndigheten i mycket?
19. Om det uppstått problem med den kinesiske partnern, är de båda parterna lika inför lagen eller favoriseras den kinesiska parten?
20. I Kina är det ju vanligt att företag får sina produkter kopierade. Hur ska man skydda sig från kopiering, att den kinesiske partnern inte kopierar ens produkter och konkurrerar med den gemensamma verksamheten?
22. Skulle du rekommendera företag att gå in i ett joint venture?
23. Avslutningsvis, om ett företag går in i ett joint venture, frivilligt eller ej, kan du summera några punkter som är viktiga för företaget att tänka på?
Appendix 2 Interview guide – experts

1. Har du några erfarenheter av joint ventures?

2. Vad har du för uppfattning om joint ventures här i Kina?
   - Skulle du rekommendera ett svenskt företag att etablera sig genom ett JV?

3. Vad tror du är viktigast för företag att tänka på då de ska välja en kinesisk partner?

4. Tror du det ofta uppstår konflikter mellan den kinesiske och svenska partnern?
   - I så fall varför och vad för slags konflikter?
   - Vad kan man göra för att förebygga dessa?

5. Tror du att de olika parterna ofta har olika strategiska mål och att JV därför misslyckas? Man vill helt enkelt olika saker med samarbetet.

6. Hur går förhandlingar med en kinesisk partner till?
   - Tar det lång tid?
   - Handlar det mycket om guanxi?

7. Tror du att den kinesiske partnern och den svenska partnern är lika beroende av varandra?

8. Vad behöver ett företag göra för att ha kontroll över sitt JV? Är det viktigt att ha kontrollen i företaget?


10. Hur ser du på de kulturella aspekternas inverkan på samarbete mellan 2 parter från helt olika kulturer?

11. Finns det några specifika problem som uppstår just pga den kinesiska kulturen?

12. Skiljer sig ledarstilarna/management mycket åt mellan en kinesisk och en västerländsk manager?

13. Är det svårt som västerlänning att få kinesernas respekt?

14. Vad tror du företag måste tänka på för att få samarbetet att fungera effektivt trots kulturella skillnader?

15. Hur påverkar den kinesiska lagen företag i Kina?

16. Lägger sig den lokala myndigheten i mycket?
17. Om det uppstår problem med den kinesiske partnern, är de båda parterna lika inför lagen eller favoriseras den kinesiska parten?

18. I Kina är det ju vanligt att företag får sina produkter kopierade. Hur ska man skydda sig från kopiering, att den kinesiske partnern inte kopierar ens produkter och konkurrerar med den gemensamma verksamheten?


20. Skulle du rekommendera företag att gå in i ett joint venture?

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