How to wrestle the Dragon
to overcome the Great Wall

- A case study on how Swedish SME’s handle institutional barriers in China

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Abstract

During the past decade there have been a large increase of Swedish companies entering the Chinese market. It has been explained that entering the Chinese market can be the biggest challenge a firm will face. It has therefore been of great interest to study this problem. We have in this thesis chosen to study Swedish SME’s established in China, and how they have used their business network to overcome institutional barriers. This study also has the objectives of giving a description of the general procedures of setting up a business in China, and to prepare other firms that have plans on entering the Chinese on what the most common obstacles there are when setting up a business in China.

To be able to fulfill our objectives a qualitative research method and an abductive research approach must be applied. The empirical findings will consist of primary data and that is collected through semi-structured interviews in both Sweden and China. The theoretical framework consists of theories regarding Institution theory, Business Network theory, and the concept of guanxi.

In our analysis we have combined our empirical data with our theoretical framework to be able to analyze and answer to what extent a business network can be used to overcome institutional barriers when setting up a business in China.

Through our analysis we have drawn the conclusion that through the business network’s knowledge, experience and guanxi it has made it possible for firms to set-up in China.

Keywords

Institutional Barriers, Legitimacy, Business Network, Experiential Knowledge, Guanxi, China.
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1. Introduction

In this chapter we will present the background of the problem, followed by a discussion of the research problem. Thereafter, we will unveil the research question, and finally the objectives and delimitations of the thesis.

1.1 Background

For centuries China has been one of the leading civilizations, outpacing the rest of the world in population as well as in arts, science and economy. In spite of that, in the 19th and early 20th centuries the country was in civil war and was overwhelmed by military defeats, mass starvation, and foreign occupation. After World War II, Mao Zedong came into power and made major reforms to ensure China’s sovereignty and established an autocratic socialist system that imposed strict controls over everyday life that cost the lives of millions of people. After 1978, Mao’s successor Deng Xiaoping totally re-structured the economic system, moving away from a planned economy, and by 2000 the output had quadrupled, mostly due to the change to a market-oriented economic development (cia.gov). Sweden has contributed actively to this development. In December 1978, Sweden became the first Western country to write an agreement on technological and industrial cooperation, which was a central part of China’s reforms (Swedenabroad.com). For most of the population, living standards have improved remarkably and the room for personal choice has expanded, yet political controls remain tight (cia.gov).

Today, the focus on China is its immense growth over the past decades, and in 2010 China surpassed Japan as the world’s second-largest economy, capping the nation’s three-decade rise from Communist isolation to emerging superpower (Bloomberg.com). The change to a market-oriented economy by Deng Xiaoping (cia.gov) and the entrance into the World Trade Organization (WTO) in 2001 created a great interest for foreign direct investors (FDI) (interactivegroup.se). The WTO
functions as a forum for governments to negotiate trade agreements (WTO.org) and China is one of the 153 members, which overall represents over 95% of world trade (nationalaglawcenter.org). As a member of WTO, China liberalized its trade, and Qingjiang (2002) explains that China’s strive for a membership in the WTO clearly showed their ambitions and motives of opening up for FDI. In agreeing to the WTO, China committed to grant direct trading rights for foreign firms, which meant that firms now could trade without going through Chinese state-owned trading firms as middlemen (Iizaka, Fung & Tong, 2004). The Chinese government set up special economic zones, coastal open cities - and areas, as well as key cities along borders and rivers (Qingjiang, 2002). Most importantly, Chinese accession to the WTO boosted investors’ confidence in the Chinese economy and the Chinese market and thus induced more FDI to China (Iizaka, Fung & Tong, 2004).

According to data presented from the WTO, China's trade increased substantially in 2003. Both exports and imports of goods increased by more than 20% in value in 2002 and accounted for more than 1/5 of the increase in world trade for both exports and imports (Kommers.se). The presented graph, below, shows the inflow of FDI in China. The graph indicates that there was a slight change in FDI as China entered WTO in 2001 and that the inflow of FDI has had a steady growth.

![Figure 1 - FDI Inflow of China](image)

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*Introduction*
China’s path toward a membership in WTO was faced with many difficulties. China was aware that once it became a member of WTO it would have to open its service sectors to foreign competitors and adopt its measures involving intellectual property protection and foreign investment. At that time, foreign investors were disadvantaged in comparison to domestic companies. Foreign banks could only be set up in Special Economical Zone and in Technological Development Zones. On top of that, Chinese law required foreign investors to prioritize local parts and products; also, only Chinese nationals had the right to serve as chairman of the board of Chinese-foreign equity joint ventures. As there were policy restrictions for foreign firms, many foreign companies were forced to be in joint ventures with Chinese partners (en.ce.cn). Neither of these policies was consistent with WTO’s policies (Macrory et al., 2005), and a new business type grew called Wholly Foreign Owned Enterprises (WFOE) and more foreign companies’ changes to this business type as it enables companies’ to control and possess their own organization by fully owning it (en.ce.cn).

1.2 China and Sweden

China is Sweden’s largest trading partner in Asia and in 2009 trade between the both countries was 72,5 billion SEK. Swedish export was until 2001 higher than the import from China and thereon, from a Swedish point of view, the trade balance was positive. In 2002 the trend changed and the trade balance was negative due to higher amount of import, which can be explained by China’s entrance into WTO in 2001 (Swedenabroad.com).
Examples of early Swedish pioneers to enter the Chinese market were Ericsson and SKF, who have been there for over hundred years. By the 1980’s the establishments started to take place and more and more Swedish Multinational Companies (MNC) started to set-up productions and subsidiaries in China. Today, there are approximately 1500 registered Swedish companies in China (Lundgren, 2010). Ever since China entered WTO there has been an up-trend for Swedish small-medium sized (SME) companies to move their labor to China. Most of these jobs are within the manufacturing industry and the main objective of this transaction is to take advantage of the cheap labor in China (Kinaochindien.se). Recently though, the Swedish embassy has noticed that more and more service-, PR and advertising -, design -, and IT companies are establishing in the Chinese market, and this trend is believed to continue (Lundgren, 2010). But, there are still many obstacles when operating in China; handling with institutional barriers is often a setback for foreign companies (Lundgren, et al., 2009), many foreigners also finds it hard to understand the personnel connection in China known as Guanxi, which is a major barrier hindering outsiders (Fock & Woo, 1998, in Yang, 2010).

1.3 The Complexity of Setting Up a Business in China

A survey made by the American Chamber of Commerce shows that firms are more worried about bureaucratic hurdles than by indefinable laws and regulation or corruption (Huffingtonpost.com):

"The number-one challenge that our members listed this year is bureaucracy," says Ted Dean, AmCham's chairman in China, and further on mentioned. "Members are saying that licensing procedures have become more difficult"

Koh Gui Qing, Huffingtonpost.com: 22 March 2011

A total of 31 percent of 338 respondents said bureaucratic processing was their biggest challenge when setting up a business in China and 42 percent of 220 respondents said it was a new business license that was the most difficult permit to get
(Huffingtonpost.com). Further, Jaques Wallner editor at DN motor comment about the Chinese governments involvement in daily business and bureaucracy.

“Nothing happens in China without the governments involvement.”

Agnetha Bäckström, Nyheterna.se: 13 May 2011

Moreover, Daniel Hedebäck comments about Swedepac’s start up in China;

“The bureaucracy in China is hard to understand. There are many obstacles in the way of doing business, which may be seen as unnecessary. Different administrations bounce you around, it is time consuming and you need to be patient.”

Daniel Hedebäck, board member of Swedepac LangFang LTD: 16 March 2011

Still, firms are not slowing their plans in China. Today China is the most important market for many Swedish companies and estimation is made that within 10-20 years China will become the world’s largest economy (DN.se).

1.3 Problem Discussion

“Small-business owners looking to move into the Middle Kingdom (China), take note: Despite the allure of cheap labor and a staggeringly large market, successfully setting up shop in China might be one of the biggest challenges your company ever face”

Michelle Dammon Loyalka, BusinessWeek.com: 2006

According to the World Bank, China is ranked 151st place of 183 economies when it comes to the easiness of starting up a business (doingbusiness.org). Registering a company is typically 25- to 30-steps process (pathtochina.com). Boisot & Meyer (2008) explains that since China’s open door policy was forged, the government has decentralized the administrative institution, meaning that there is a central –and local government to control economic performance and fiscal system, and legislate both central and local legal framework in each province. This reform has complicated the way of getting things done, meaning that one now needs to deal both with the central and local government. Lee & Ellis (2000), in Yang (2010) explains that even
though the Chinese rules and regulations are seen as bureaucratic it is still lacking of protection, and with weak institutional law the authors’ means that it is through guanxi relationships that social chaos is avoided. As relations are such a large role of society in China it is difficult to conduct business without the facilitating role of guanxi (ibid.). Add these hurdles to a different set of cultural norms and a level of unpredictability that far exceeds the normal volatility of entrepreneurship, and one can start to get a glimpse of what firms who wish to set up a business in China are up against.

“Big companies can afford to pour a continual stream of capital and manpower in their China operations until they finally achieve profitability. But the little guys have no such luxury. For small companies, things need to be done precisely and concisely...that’s why it’s imperative for savvy small-business owners to do their homework and check it twice before charging headlong across the Pacific”

Kenneth Wong, BusinessWeek.com: 2006

According to a survey that was published by the Swedish Embassy and Swedish Trade Council, every fourth day a Swedish firm starts a business in China (Lundgren, et al., 2009). The survey also indicates that a large percentage of the establishments in the last decade are SME’s. To further emphasize the increase of SME’s in China, the Swedish Embassy explains that in 2009 78 percent of the Swedish companies in China had fewer than 100 employees. This shows that there is a clear trend for Swedish SME’s entering the Chinese market. Lundgren, et al., (2009) emphasizes that due to the difficulties of doing business in China, it costs Swedish firms effort, market share and profit. Having this said, seeing the clear trend of SME’s setting up business in China and the complicated process of opening up a business in China, it is utterly interesting to research and study how these SME’s with limited resources handle the complex and bureaucratic procedure of setting up a business in China.

The Chinese way of managing is often seen as harsh and bureaucratic for westerners, and Chinese people have a typically Confucian way of thinking, meaning all relations are deemed to be unequal. Thus, the older person should automatically
receive respect from the younger, and the senior from the subordinate (Jansson & Söderman, 2011; worldbusinessculture.com).

Max Weber was first to present an ideal model in 1947 on how a bureaucratic structure ought to look like, and profoundly influenced the social theory and research (Hillbert, 1987). Weber’s research was especially focused on power and how it relates to the constitutional law and functions. Weber proclaimed in his doctrine two major aspects, first, that all big civilization develops some form of bureaucratic organization structure, that is to say hierarchies of people who specialize in administrative roles. Second, bureaucracy is always a way to exercise power, and with assistance of bureaucracy the raw power will be accepted and stabilized – it becomes authority (F Bakka et al., 2006). Further, Geert Hofstede (1980) a Dutch organizational sociologist conducted a research regarding cultural differences in more than 70 countries. In Hofstede’s survey he identifies what he calls “the five Cultural Dimensions”. These five dimensions analyze the power distance, individualism, masculinity, uncertainty avoidance, and long-term orientation. What is relevant to point out is the power distance dimension that measures the acceptance for authority and bureaucracy (Hofstede & Hofstede, 2004). When comparing Sweden to China, China has an extreme tolerance for authority and bureaucracy compared to Sweden, thus when Swedish companies enter the Chinese market they will experience a significant difference when getting things done.

Since Max Weber’s influential doctrine, social theory has developed in a rapid pace. Another milestone was when Richard William Scott introduced the “Institutional theory” that digs deeper in the social structure (Rietzer, 2004). Jepperson (1991) explains that institutions are often described as rules, routines, habits, conventions and procedures that tend to organize human behavior in various kinds of social groupings, such as an association, firm, market, family clan, nation, ceremony or game. Scott (1995) further explains that institutions are built with three fundamental pillars, regulative, normative and cognitive structures, and these activities can direct be found as barriers when setting up a business as it forms a society.
Initially, to study this problem, Scott’s Institutional theory will be presented in order to give a broader theoretical framework and understanding. Since it is very relationship oriented when handling businessmen and officials in China, we believe it is relevant to analyze the firm’s business network and see how it has facilitated the process of setting up a business in China. Therefore we will use the business network perspective to analyze the firm’s network, which has been developed by respected authors like Jan Johanson and Jan-Erik Vahlne, Håkan Håkansson and Ivan Snehota. It is also relevant to include experiential knowledge as it argues that firms involve previous practice to operate internationally. Through their experience, firms can reduce costs and uncertainty when entering a new country (Hollensen, 2011). Finally, as China is such a relation oriented country it is of importance to understand guanxi and its impact on business relations in our theoretical framework, as it gives a perspective on how relationships are being managed to simplify business in China.

1.4 Problem Formulation

1.4.1 Primary Question

- **To what extent can a Swedish SME’s network be of assistance to overcome institutional barriers when setting up a business in China?**

1.4.2 Sub-Questions

In order to answer the primary question, three sub-questions are identified.

- **What kind of institutional barriers can be perceived as difficult when setting up a business in China?**
Introduction

To answer the primary question we need to identify which institutional barriers are the most difficult to overcome when setting up a business in China.

- *Which part of a company’s business network can be used when overcoming institutional barriers in China?*

- *How can a company’s business network facilitate the process of setting up a business in China?*

With the second and third sub-question we aim to understand the company’s network and analyze how it has facilitated the process of setting up a business in China. We find these questions relevant since it is very network oriented when getting things done in China.

**1.5 Objective**

This research aims to:

- *Describe* the general procedure of setting up a business in China
- *Identify* which institutional barriers can be difficult to overcome when setting up a business in China
- *Explain* how the case companies have used their business network to overcome institutional barriers
- *Give knowledge and prepare* other firms on what the most common obstacles are when setting up a business in China

**1.6 Focus and Delimitations**

In our thesis we have done a theoretical delimitation by choosing Scott’s (1995) Institutional theory, as we believe that Scott has given a comprehending theory of
institutions. We will therefore not focus on any earlier studies of institutions. The theories to study the business network has not been delimited due to the fact that there are many authors that have contributed with many important arguments.

In this thesis we will do empirical delimitations regarding the companies we have chosen. The focus of our choice of study objects have been Swedish companies classified as SME’s from the Småland region that has a subsidiary in China. The emphasis has been on manufacturing, wholly foreign owned enterprises (WFOE). It did not have any significance for this study which type of industry the companies are in, however we wanted them to be of the same type of company (SME), for the reason we believe it is easier to compare them. The reason why we have focused on studying SME’s is that we believe that SME’s are more affected by the barriers in China than compared to Multinational Corporations (MNC) due to that SME’s have constrained resources in terms of finances and manpower. Also, since there are more Swedish SME’s starting up in China we find it more interesting to study them. Our focus has been on the Swedish SME’s but we have also chosen to interview agents in China that assists foreign firms setting-up businesses. We have chosen to do this because the set-up is a complex procedure and the aim is to get a greater insight of the problems. We did this by conducting a field trip to Beijing for one week. Due to the limited time in China, we had to set a limit of agents in Beijing and were therefore not able to go to other cities as Shanghai, Hong Kong etc. where we had other companies who were willing to help us.

In our definition of “setting-up a business”, we include the period of time from the first contact with China, through the formal set-up, to a fully established business.
2. METHODOLOGY

In the following chapter, we will present the methodological framework that we have worked with. We will describe how our studies were undertaken and how we have worked to understand them. The purpose of this section is to promote understanding of the design of the study. This section also describes why we use certain techniques and methods, and why we have chosen not to use others.

2.1. Research methods

According to Bryman & Bell (2005) there are two main types of research methods: qualitative and quantitative. The qualitative method is used to develop a greater understanding of what is being examined and to better understand a given situation. Qualitative data places great emphasis on the words during the gathering and analysis of data, and is in most cases referred to as soft data and provides answers to the question “why”. According to Patel & Davidsson (2003) there are several ways to conduct a qualitative study; most of the times some sort of text is being used, for example a text that is generated from an interview or a processed version of a written text. When it comes to the quantitative research method, this instead puts emphasis on the quantification during the gathering and analysis of data, and is frequently used when the data is expressed in numbers. The quantitative data is often referred to as hard data and provides answers to the question “how many”. The authors further explain that it is appropriate to do a quantitative research when the selection of material is large but the depth of the survey will not be that great. In some research it can be good to combine different methods to make them complement each other in order to obtain the best knowledge possible.

With this thesis we want to gain a greater understanding instead of collecting numerical data and therefore the method that best highlights our purpose is the
qualitative research method. The study consists of personal profound interviews with managers of Swedish firms that have opened up a subsidiary in China. We believe the qualitative research to be most suitable in order to expose the difficult issues connected to the institutional barriers in China. The quantitative data is more about “how many”, and it is not suitable for us since that is not that type of question we are answering. According to Merriam (2009) the general purposes of the qualitative method is to achieve an understanding of how people make sense out of their lives, delineate the process of meaning making, and describe how people interpret what they experience. When using this method to get an understanding of hidden features and underlying data that can be important to know when trying to comprehend the whole picture, it can helpful to use tools as interviews, observation and previous analysis from the field of area. Merriam (2009) also explicate that through doing interviews and reading documents, quotes can be collected which can conduce to a more descriptive research. This is something we have used throughout this thesis, and since we are using interviews as our key tool for doing this research we consider the qualitative method being best suited.

2.2. Research approach

There are two general approaches when it comes to doing research, a deductive approach and an inductive approach (Gummesson, 2000). In deductive research hypothesis are formulated from existing theories and concepts, which then are tested and either verified or falsified. This is the most common perception of how the relationship between theory and empirical looks like. The objective is to test existing theories in practice. In inductive research the goal is to do the contrary, to generate new theories from empirical data, also known as real-world data. One downside with this approach is that you think you discover things for the first time that has already been discovered. Besides these two approaches there is also a third research approach, which is the abductive method. This method has traces out of both the inductive and the deductive approach (Sörensen & Olsson 2007). According to Dubois & Gadde (2002), when using the abductive research approach, it is a constantly swinging back and forth between the various research activities, empirical
studies and analysis. In this way the researcher can discover patterns, to gain a deeper knowledge and better interpret the empirical and theoretical phenomenon. The original framework is therefore successively changed when doing empirical findings and new theoretical understandings are gained throughout the process. Dubois & Gadde (2002) also writes that the abductive approach builds on refinements of existing theories more than on inventing new ones.

We started by gathering theoretical information to get a structure that we could use to formulate the questions for the interviews. We wanted to study existing theories at first and learn from them. To gain this understanding we have used suitable information found in scientific articles, books and various Internet sources. This resemble very much the deductive research method, but to continually review and improve the theory while working, we consider the abductive approach to be best suited for our thesis. We did not want to lock us in theories and decisions we take in an early stage that is the downside of the deductive method. The abductive method also allows us to provide suggestions for theoretical improvements if we find limitations of the existing theory, but also we will be able to find completely new theories during the process. The inductive research is neither suitable for us, we want to look at existing theories before getting the empirical data and get an understanding of the previous findings. This is to minimize the risk making findings that has already been discovered.

2.3. Research strategy

There is accordance to Yin (2007) five research strategies that are the most frequently used in research. These are: experiments, surveys, analysis of sources, historical and case studies. All these strategies represent different ways of collecting and analyzing empirical data. The research question selected in this thesis is of an explanatory nature as we try to describe current phenomena over time and therefore it is suitable with case study research strategy accordance with Yin (2007). This current course of events can be examined by two methods, direct observation or interviewing the people who experienced the events. In this thesis we have chosen
to interview persons with insight in the establishment process in China. The case study of this thesis is built upon three Swedish SME’s and three agents with main focus on its network and its usefulness to overcome institutional barriers in China. When doing a case study, Yin (2007) explains that main strength as the possibility to directly observe and interview the people involved. This has been important in our choice of strategy since we believe it is better to do the interviews and meet the companies we are studying.

2.3.1. Case study design

When we have defined the case study it is now important to describe how it is going to be designed. We have to decide whether to use a single-case design or a multi-case design, which means if there should be one or more cases in the study (Yin, 2007). We have in this thesis chosen to use a multi-case design since our research question is a current problem for many Swedish SME’s. Yin (2007) also emphasize that a multi-case design is preferable since the results from two or more cases usually are more solid and the chances of doing a good case study will be better than using only one case. Whatever research design is used, each has pros and cons. A concern according to Yin (2007) is that case studies provide little basis for scientific generalization, but using the multi-case design gives us a greater possibility to generalize. Merriam (2009) points out that a limitation to a case study is that the author has the possibility to highlight some information and disregard some, which might be misleading. The author also explains that there is often a tendency, when doing a case study, to exaggerate and also generalize the results too much.

2.4. Data collection

The collection of theoretical data has been done by literature and theories carried out by recognized researchers and authors, which means that one should not doubt its reliability. The literature chosen for the study is mainly in the subjects of International Business. We have used the following theories to understand how business networks have been used to overcome institutional barriers when setting up a business in China:
Methodology

Institutional theory

This theory has given us a foundation and definition of what institutions are. The author means that institutions are built up with three structures and activities, what are called regulative, normative and cognitive pillars.

Business network theory

This theory has helped us understand how the case companies have used their business network along the process since it is very relationship oriented in China (Fournier, 2008). The Business Network theory describes how a firm utilizes its network to gain knowledge and bridge to new contacts.

Guanxi

The concept of guanxi has also been applied to give a bigger understanding on how the Chinese manage their relationships.

In order to do the research, empirical data has to be collected. Yin (2007) present six sources commonly used when doing case studies: documentation, archival records, direct observations, participant-observation, interviews and physical artifacts. Preparations for data collection are complicated and should not be neglected. This is because this is a part of the study that does not have fixed limits in the approach. The actual process of data collection is of great importance to have a clear picture of the subject and understanding of the own questions, ask relevant questions in the interviews, pay attention to the answers and not to be affected by biased or personal beliefs (Yin, 2007). The data can be either primary data or secondary data. Primary data is new data collected by the researcher specifically for the current research and can be collected through for example personal interviews and questionnaires. Secondary data has on the other hand been collected by someone else and has already been presented (Bryman & Bell, 2005). To collect primary data can be very time-consuming, difficult and very costly. Therefore it can be very favorable to use already collected information. Many organizations, and especially government agencies, collect data that can be used in research. The secondary data can often be of high
quality when it comes to a representative selection process and it is often national selections that are very difficult to obtain for a student (*ibid.*).

In the first chapter we have used much secondary data. We have throughout this process as far as possible used scientific articles. These have been found from various sources online. Many articles have been found at online databases, such as the Electronic Library Information Navigator (ELIN) at Linnaeus University. But in our case much relevant data has also been obtained from well-known international newspapers and large organizations as the World Bank and the WTO. We believe that information from authorities, organizations, companies and academic institutions are good sources of high-quality content. An obvious disadvantage of secondary data is that it is collected by other researchers, with other purposes than our study. However, we believe that these newspapers and organizations we have used are very reliable sources and the information is very good as general facts. When we then collected the empirical data we collected primary data through several personal interviews. We believe these interviews bring a deep understanding to our subject.

### 2.5. Selection of the interviewees

The focus of our study has been on Swedish companies classified as SME’s that has a subsidiary in China. The emphasis has been on WFOE. This is because we wanted to as far as possible study how the Swedish companies handled the process without Chinese involvement. We have chosen to make fewer interviews, but with a greater depth of knowledge instead. We interviewed both managers in Sweden with experience of the Chinese market but we also met consultants, which has helped foreign companies to set up production, on site in China to be able to get more detailed information that we otherwise would not have access to. The persons we have chosen have been either responsible or highly involved in the Chinese establishment. They also have great insight into functions within the companies we intend to study. It also needed to be companies that have experience of the Chinese market and have been at the market for some time, because it is important that they have some perspective on it and are able to determine what has been most important.
Then, the selection of other interviews has been made to help us with the depth and spread necessary for our report’s implementation. Apart from the Swedish SME’s, we have chosen to interview an International Law firm based in Beijing, a consultant agent that assists foreign companies to set up businesses in China, and the Swedish trade council. This is because we believe that through the agents we can get a broader and more general picture of how companies use their network when overcoming the institutional barriers in China. It is possible since all the interviewees have long experience of assisting foreign companies setting up companies in China and have key knowledge of this process.

Here follows a short presentation about each company and the interviewee:

**2.5.1 Swedepac Langfang Co., LTD**

Swedepac has been in China since 2001. They manufacture thermoformed plastic products (swedepac.com). The interviewee here is Daniel Hedebäck who is the executive vice president of the Swedish company Forbus, owner of Swedepac.

**2.5.2 Norden Machinery AB**

Norden Machinery’s main activity is tube-filling machines and is a highly international company. They have a long experience of international business and today Norden export 95% of all machines (nordenmachinery.com). The interviewee at the company is Martin Nauclèr who works as sales managers in charge of the Japanese, German and Chinese markets and he has been working at Norden since 2000.

**2.5.3 HangOn AB**

HangOn is exporting 70% of the total production and they distribute to over 20 countries worldwide. They are developing and producing products and services for hanging, masking and handling of products by coating (hangon.se). It is a family owned company where our interviewee Håkan Törefors is the father of the family and the founder of the company.
2.5.4 Hogan Lovells LLP.

Hogan Lovells is an international Law firm based in Beijing. It has co-headquartered in London, United Kingdom and Washington, D.C., United States. Hogan Lovells has around 2,500 lawyers around the world (hoganlovells.com). The interviewee at the company is Jack Sun who is a corporate associate since 2006.

2.5.5. Path to China CO., LTD

Path to China has been assisting foreign investors to establish on the Chinese market since 1999. During this time they have helped more than 1 300 SMEs from 70 different countries. Path to China provides business consulting services for clients interested in starting their business in China (pathtochina.com). The interviewee at the company is Gifty Jia who is the regional manager for the Beijing office and has worked for the company since the opening of the Beijing office.

2.5.6. Swedish Trade Council

The partly state owned Swedish Trade Council helps Swedish companies to grow internationally. They provide all services required to establish a company and its products, services or ideas in new markets. They have offices in more than 60 countries and work closely with trade associations, embassies, consulates and chambers of commerce around the world (swedishtrade.se). The interviewee here wanted to be anonymous.

2.6. Methods for interviews

When it comes to personal interviews, as a method for collecting data there are three main types: structured, semi-structured and non-structured. In structured interviews the interviewer asks the interviewee the questions based on a pre-determined interview model. Here is the purpose that all the interviewees gets the same kind of questions and the answers can then be put together in a similar way and easily be compared. Usually the questions in structured interviews are very specific and it gives the interviewee a certain number of alternatives to choose from. When it comes to semi-structured interviews the interviewer also uses a pre-determined
question schedule, but in this case it is not as strict as in the case of structured interviews. The questions can be asked in different order and they are usually formulated in a more general way than in structured interviews. There is also a possibility to ask follow-up questions when doing a semi-structured interview. The third type, the non-structured interview, is often made in a way that the interviewer only has a list or a set of themes about what the interview covers, and no specific prepared questions. It is sometimes called an interview guide rather than an interview schedule as in previous cases (Bryman & Bell, 2005).

Then there are different types of questions the interviewer can use in an interview. It can either be open or closed questions and the difference can be vast when it comes to the types of answers they could result in. In open questions the interviewee can answer the question the way he or she wants and in closed questions the interviewee can only answer the question by choosing one of the pre-determined choices of answers. To put together the answer from an open interview can be more time consuming than putting together the answers from an interview with closed questions. The advantage with the open questions is that the interviewee in that case will not affect the interviewee may therefore get unexpected answers to the questions (Bryman & Bell, 2005). We have always made clear to the interviewees that they have the possibility to be anonymous. This is to get an accurate and validate result as possible.

2.6.1. Implementation of the interviews

We have made the interviews at different locations, both in Kalmar, Sweden and Beijing, China. We believe that being present and doing interviews in China creates a deeper understanding of the issue. The interviews in Sweden were made in Swedish and the ones in China were made in English. We wanted to do the ones in Sweden in Our choice has been to use semi-structured interviews. We do not want it to be too rigorous, to reduce the risk of missing out on important information, but at the same time we have used interview guides to be able to compare the various interviewees’ answers afterwards. This also made us use quite open questions. This is because to
have the opportunity to get unforeseen answers. Our basic point has always been that we should interview the interviewees direct, face-to-face, instead of for example over the phone. We have used one interview guide for the interviews of the Swedish companies and a second guide for the interviews in China. This was made in order to provide a fair outcome as possible. We also send out the questions to the interviewees before the interviews. We wanted them to prepare themselves and to have relevant information when the interview took place. This is because two of our interviewees did not participate during the actual set up, we wanted them to be prepared and therefore if they needed to get some extra information they had time to do so. We did the interviews at the companies’ offices as far as possible. This is because we wanted them to feel comfortable and be in an environment that made it easier for them to talk to us. All three of us were participating in the interviews but we tried to have only one or two persons who interviewed so it would not be too confusing for the interviewee. We asked many follow up questions as the semi-structured interviews allows. We were following the interview guide but we often changed the order depending on how the interview went and what answers we got. During the interviews we recorded everything with a voice recorder.

2.6.2. Processing of the interviews

We believe the recordings we did were important for the further work with the empirical data and analysis since it facilitated this work. Shortly after the interviews we listened to them again and transcribed them carefully. This was for not missing out of anything that was said or how it was said. Transcribing interviews are a very time-consuming process, which we have been aware of during the whole process.

2.7. Quality of the research

One very important aspect of a thesis regardless of how the process looks like is that the result needs to be reliably. According to Bryman & Bell (2007) are reliability and also validity the two most important criteria when it comes to the evaluation of the research.
Reliability has to do with the results of the study, whether they are repeatable or not, and if the measure is reliable in a way that we can have faith in its consistency. The problem here is that a qualitative study is always done within a human context, and human behavior is never static. Merriam (2009) writes that, for a study to be reproduced exactly in the same way the conditions must be manipulated. To increase the reliability of this thesis we have used the same interview guide for the three Swedish companies and then another one for the interviews in China. Additionally, we have attached the interview guide as an appendix. All the interviews are also recorded to reduce the risk of subjective interpretations. We believe that this study has been made in a well-prepared way and the data collection has been done in a way that we consider to be relevant and favorable to this study.

Internal validity is described to the degree to which the authors’ conclusions and results are reflecting the reality. In this study we have used several interviewees to get as precise answers as possible. Further on, we have used updated literature, research reports and articles that are highly current and relevant for the study. Since our research is about a current issue it is important to use relatively new data sources. We have regularly been given regular feedback from our tutor Petter Boye that we think have increased the internal validity of this thesis.

External validity is to what extent the result can be applicable on other situations; to what extent it is possible to generalize. Merriam (2009) presents the critique that if it is possible to generalize with only a few cases. Since we have used three case companies we think it increases the possibility to make generalizations compared to only use one but we are aware of that the external validity had been greater if we had more companies in our study. A threat to external validity is situational specifics (as timing and extent of measurement etc) of the study that can limit the generalizability.

Validity and reliability are used to validate the research. We believe that the theoretical sources are trustworthy and that there is a clear connection between the theoretical references and the empirical collected data. We think that the secondary
data we have found is reliable. By using large recognized international newspapers and
organizations for this data it is good sources of information. Regardless of how the
process is designed, validity and reliability must pervade how data is collected,
interpreted, analyzed and finally presented (Merriam, 2009). Finally, we believe that
our field trip to China creates extra validity to this thesis.

2.8. Criticism of the collected data, methodological critique, attrition
and confounding

We have used relatively updated data and facts to create reliability. However,
some literature of this thesis is some years old and may reflect other trends and values
than those of today. Our personal backgrounds, experience and intentions of the
authors may vary and affect the material that also is important to remember. Internet
as a source of information is a very large medium and it is therefore important to be
open-minded about the information one can receive from the Internet and also
important to be critical to the Internet sources that have been used in this study. The
quality of Internet sources obviously varies, but to the possible extent we have used
reliable sources from authorities’, companies’ and organizations’ web pages.

One point of criticism is that is can be a disadvantage to send the questions to
the interviewees in advance since they maybe already plans the responses and then
we miss out of information realized at that moment.

In the selection process, it can clearly be errors because it is difficult to come
up with a perfectly representative sample. Every company is unique and has different
backgrounds and conditions. There is a high risk of errors in implementation of the
study. Those who we ask questions to may not want to cooperate as we have
predicted, either by not wanting to answer a specific question or to respond to any
of the questions incorrectly. According to Bryman & Bell (2005) qualitative researches
can be too subjective since qualitative findings rely too much on the researcher’s
unsystematic views about what is important and significant. Further,
the business research process can be disrupted on many occasions of different values and preconceptions. It is unfortunately impossible to have complete control over our own values to do the research entirely objective. However, we have tried to be as neutral as possible when it comes to the empirical material in order for us to compare the different interview responses with each other. When selecting the interviewees we wanted to make sure that they first of all wanted to be a part of our research and secondly that they all had the suitable knowledge and interest in the area.

2.9. **Summary of Methodology**

We have summarized our methodology by illustrating these figures:

![Figure 3 – Summary of Methodology](image-url)
3. Theoretical Framework

In the following chapter we will present our theoretical framework, where Scott’s Institutional theory will at the outset be explained. Next, we will present the Business Network Theory from various authors followed by a presentation of experiential knowledge, and Guanxi influence on business relations.

3.1 Institutional Theory

Institutions provide individuals with rules and tell them what actions are acceptable and which are not. Institutions have always existed around us, since the first grouping of humans, to Julius Caesar’s ruling, to the modern age. Boye (1999) explains that “members of such social groupings or organizations are characterized by their routinized and habitual behavior formed by rules and conventions typical of their organization. New members will adopt this behavior, often without being aware of the underlying rules and mental frames”. When new members interact with institutions without being aware of the differences it is seen as a barrier. An interest in institutional theory did not emerge in organizations as late as the mid 1970s, and has generated much interest and attention (Zucker, 1988; Powell & DiMaggio, 1991).

Max Weber was the first to set the foundation of institutionalism with his notion, “Iron Cage”. Philippe Nonet and Philip Selznick (1978) was a major contributor on legal institutions, their problems and possibilities of responsiveness to their constituencies. Later, John W. Meyer explained how the broader environment influences every institution, meaning that the main goal of organizations in this environment is to survive. In order to do so, they need to do more than succeed economically; they need to establish legitimacy within the world of institutions (Meyer & Rowan, 1977).
There are other great theorists who have provided revolutionary ideas and thoughts on institutionalism; however, we have chosen to use Scott’s institutional theory because he presents a concise yet comprehensive overview of the institutionalist approach, and binds together economics, political science and sociology, which are essential in our field of study. Scott (1995) explains that “institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behavior. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction”. Since institutions are characterized by established patterns of activity, they work as instruments for describing, explaining and predicting management behavior, thereby reducing uncertainty and risks (ibid). Scott argues that social groups have their own institutional set-ups and way of handling things, and such a grouping forms an institution of its own, where behavior follows the specific rules inherent in it. Besides having their own rules, groupings influence each other, meaning that organization of one part of society is influenced by how other parts of society are organized (Jansson & Söderman, 2011). Further, Boye (1999) emphasizes that new members will need to adapt to this behavior to achieve legitimacy.

As already being stressed by Scott (1995), there are three structures of activities in institutions. Rather than giving equal weight to one of the three the activities – regulative, normative and cognitive – each ought to be seen as central. The three pillars will now be presented and explained.

3.1.1 Regulative Pillar

In the broadest sense the regulative pillar deals with regulations, bureaucracy, laws, monitoring and sanctioning activities. Force and fear, and expedience are central elements of the regulative pillar, and are tempered by existing rules. This component ought to be clear and easy to understand (Scott, 1995). The regulative pillar is governed either by the government or the state, a factor that cannot be affected or changed by a firm. Karakaya & Stahl (1991) means that governments can subsidy companies that they think are important and should be kept running even if they
sometimes are not profitable. Tan (2002) explains that since China’s ‘open door’ policy was adopted in 1978, FDI has been generally promoted in most of China’s industries. Particular policies and strategies have been formulated and implemented by the Chinese government to guide foreign investments toward specific sectors. FDI is favorably encouraged in sectors where the outcome develops China’s national industrialization. In contrast, FDI is discouraged or even prohibited in other sectors where the outcome would not contribute significantly to China’s industrialization.

3.1.2 Normative Pillar

Scott (1995) explains that the normative pillar explains different values, expectations and norms, something that is obligatory in social life, and to be accepted in social groups’ normative rules needs to be adapted. Additionally, Scott clarifies that values are conceptions of the preferred or the desirable together with the construction of standards to which existing structures or behavior can be compared and assessed. Norms specify how things should be done and work as guidance; they define legitimate means to pursue valued ends (Scott, 1995). Normative rules are often regarded as constraining on the social behavior, but at the same time they authorize and enable social action. They confer rights as well as responsibilities, privileges as well as duties, and licenses as well as mandates (ibid). Business in China is characterized by being on a very personal level. The Chinese attitudes to relationships could even border on corruption, since often favoritism and business friendships are more important factors than the actual matter. Social contacts and meaningful relationships have often been the crucial factor of whether a company had a particular contract or not (Fournier, 2008). For foreign companies to establish on the Chinese market, it can be necessary to use bribes and similar tools. This can be a problem for companies that try to be ethical. The corruption is connected to the countries culture and norms (Karakaya & Stahl, 1991). Therefore, in many ways is China a country where bribes are a way of building relations. But, corruption is also a barrier that can deter foreign companies (Cavusgil, et al., 2002).
3.1.3 Cognitive Pillar

The cognitive pillar explains how members of a collective develop a common experience leading to shared thoughts, categorizations and images of reality (Boy, 1999; Scott, 1995), in other words cognitive can be interpreted as culture, symbols, language, signs and gestures. Scott (1995) refers to Berger and Luckmann (1967), that means that institutions are “dead” if they are only represented in verbal designations in physical objects. Further, Scott (1995) refers to an anecdote from D’Andrade (1984), who explains that constitutive rules can be seen as a game of football, equivalent to things such as goalposts and the gridiron, ideas as winning and sportsmanship, and events such as first downs and offsides. Unlike the regulative view, cognitive rules insist that games involve more than rules and enforcement mechanisms: they consist of socially constructed players endowed with differing capacities for action and this barrier takes time and patience to fully grasp.

3.1.4 Legitimacy

Meyer and Scott (1983) contend that legitimacy refers to the degree of cultural support and acceptance an organization can get from other organizations. Each of the three pillars provides a different basis for legitimacy. Scott (1995) explains, “In resource-dependence or social exchange approach to organizations, legitimacy is something treated as simply a different kind of resource. However, from an institutional perspective, legitimacy is not a commodity to be possessed or exchanged but a condition reflecting cultural alignment, normative support or consonance with relevant rules or laws”. Jansson (2007) argues that gaining legitimacy is a two-way process where companies, as well as political and administrative actors of the government, are involved in the process, claiming and giving legitimacy. Further, the ease of gaining legitimacy depends on how the political systems and executive bodies work. A regulative legitimacy can for instance determine whether the company is legally established and whether it is acting in accordance to existing laws and regulations (Scott, 1995).
3.3 Business Network Theory

Foreign market entry has long been one of the research focuses in international business studies and there are several theories that have been developed to address this issue. One of these is the network theory that emphasizes the meaning of business relationship (Yang, 2011). The business network theory emerged in the 1980s (Johanson & Mattson, 1994, in Yang, 2011), and was a further development of the social exchange theory (Emerson, 1981, according to Anderson et al., 1994:2, in Yang, 2011). Initially, this theory studied the relationship between buyer and seller between West European firms, but was later extended to firms in Asia, North America and Australia (Håkansson & Snehota, 2000, in Jansson et al., 2007). In the second step the focus was changed, from formerly analyzing two counterpart’s relationship the theory branched and included interconnected relationships, which was coined as a “business network” (Håkansson & Snehota, 1995, in Jansson et al., 2007).

The activities in a network allow a firm to form relationships, which help it to gain access to resources and markets. An assumption in the network model is that a firm requires resources controlled by other firms, which can be obtained through its network positions (Johansson & Mattsson, 1988). Johanson & Vahlne (2009) describe business networks as a web where firms are connected to other business relationships, which in turn are engaged in number of additional business relationships. These webs of interlocked relationships are labeled as business networks. Actors within a business network are partners, agents, suppliers, competitors and the government (Johansson & Mattsson, 1988). These actors are autonomous and the relationships are flexible and may alter according to rapid changes in the environment. The relations are basically linked through exchange relationships and their need and capabilities are mediated through the interaction taking place in the relationships. Any actor in the network can engage in new relationships or break off old ones, thereby modifying its structure (Hollensen, 2011).
3.3.1 Internationalization with Business Network Theory

Relations can extend to other markets as well and be used as bridges to other networks (Hollensen, 2009). Relationships are regarded here as a basic source of information and knowledge of other markets, knowledge that could otherwise be very costly to acquire (Mtigwe, 2006). Johanson & Vahlne (2009) further describe how business relations can be a vital part as supply for knowledge. The authors argue that knowledge does not only increase from the firm’s own activities, but also from the activities of its partners and since those partners are also engaged in other relationships the focal firm is indirectly linked to a knowledge base that extends far beyond its own horizon. Thus, an extended knowledge base is inquired which is provided through a network of business relationships. Johansson & Mattsson (1988) argue that as the firm internationalizes the number and strength of the relationships between different parts of the business network increases. Through internationalization, the firm creates and maintains relationships with counterparts in other countries.

Mtigwe (2006) explains how networks are used as an effective bridging mechanism, which in many cases enables a relatively rapid internationalization process. The author further emphasizes how a company’s internationalization process is often a contribution of formal and informal networks, rather than a solo performance. There is always a third party contributing to the process; these may be support programs from governments, agents or partners. It is therefore of great importance for the company to take advantage of such party and its contribution to the network. This is also concurred by Johanson & Vahlne (2009), who argue that relationships are a source of relevant business information about more distant actors within a network.

Furthermore, effective networks are critical for firm survival, especially in the start up phase. Through the organizations local and international networks the market penetration is hastened (Hitt et al., 1994, in Yeoh, 2004).

Existing literature on foreign market entry is highly Western-oriented (Yang, 2010), and West European business networks originate in the European market
Theoretical Framework

3.3.2 Internationalization with Experiential Knowledge

Another factor influencing internationalization is experiential knowledge (Hollensen, 2011). Recent internationalization research strongly supports that firms accumulate knowledge through experience (Blomsterbo et al., 2004). In this context, experience refers to the extent firms involve previous practice to operate internationally. It is further argued that firms with experience from international markets reduce costs and uncertainty when penetrating new markets (Hollensen, 2011). This also affects the objective of firms as knowledge gained from experience is often applied to future establishments (Blomsterbo et al., 2004). Garvin (1993), in Blomsteinbo et al., (2004) means that firms improve their accuracy and performance as the organization learns more. Furthermore, with more experience firms can better evaluate on how to relate their experiential knowledge vis-à-vis an ongoing establishment. Nelson & Winter (1982), in Chetty & Eriksson (2002), mentions that firms can benefit from the experiential knowledge possessed by other firms, as a result do tasks that they cannot achieve on their own. These third parties have learnt how to develop international business in a foreign country, and the process leading to this knowledge is routines of an ongoing activity. Madhok (1977), in Chetty & Eriksson (2002), further emphasizes that firms which acquire experiential knowledge obtains superior capabilities, which otherwise would be costly and difficult to attain.
3.4 Guanxi

Guanxi is a cultural characteristic rooted in ancient China with a history of more than 5000 years and has been pervasive for centuries in every aspect of Chinese social and organizational activities (Park & Luo, 2001). Along with the trend of globalization and China being more integrated into it, business to business relationships has been more heightened from both academics and practitioner discourse (Yen & Barnes, 2010). In its early studies guanxi was introduced to business audiences as a way to facilitate business negotiation (Ying, 2002). Thereafter a more systematic study of guanxi grew which focused on the human and social effect of guanxi in the areas of psychology, sociology and anthropology (ibid). Nowadays, there are a growing number of publications from the business perspective focusing on two main themes: a) how guanxi simplifies business and its benefits; and b) the link between guanxi and western concepts such as networking and relationship marketing (Simmons; Arias and Lovett, in Ying, 2002). Guanxi is as fibers woven into every individual's social life and every aspect of Chinese society (Park & Luo, 2001). Yang (2010) explains guanxi simply as relationships between individuals widely used in the social life of the Chinese. Guanxi represents the connection between individuals where the parties are obligated to commit to, and as a result, receive benefits from it to ensure continuation. Pye (1995), in Yang (2010), further emphasizes guanxi as an important factor for businesses to occur as it often appears to be settled within the system of guanxi networks.

Constant commitment to guanxi is needed to maintain the relationship and can be illustrated as a loop circle where the giving is called mianzi and the receiving or paying back as renqing (Yang, 2010). Mianzi is the personal attributes of an individual that can be of usefulness in a social network (Yang, 2010), while renqing can be seen as a debt that is expected to be paid back in the future (Ying, 2002).
3.4.1 Network of Guanxi

Guanxi operates in concentric circles and figure 5 shows the different levels of relationships in a Chinese society. The core of guanxi is represented by close family members (Park & Luo, 2001). Hence, trust and loyalty among family members is taken for granted and considered absolute (Lasserre & Schütte, 2006). Outside the second circle come relatives, their loyalty is expected within guanxi but on the basis of giving Mianzi and receiving Renqing (ibid). While acquaintance arranged on the periphery is the domain of friends and connections that can extend the guanxi network (ibid). Lasserre & Schütte (2006) claim that this bond starts in early stages; attendance in the same school or same military academy is often a long-lasting bond. Furthermore, for an outsider to be a part of this network he or she needs to be integrated in the network from someone already in the network as loyalty relies on a complex web of mutually binding obligations and dependencies (Tung & Worm, 2001 in Yang, 2010).

3.4.2 Guanxi – Life-Blood of Conducting Business

Yang (2010) believes, for foreign firms to have a successful entrance into the Chinese market, they need to be familiar with guanxi. As most businesses within the Chinese market are conducted in guanxi or guanxi networks, through informal relationships and exchange of favors, it is vital for firms to be prepared to deal with these networks.
Guanxi is believed to have become the life-blood of business conduct in the Chinese market and has a significant and positive impact on firms’ operation in China (Xin & Pierce, 1996 in Yang, 2010). Yang (2010) claims that Westerners find it difficult to understand the Chinese network culture if they are unfamiliar with it. Lasserre & Schütte (2006) further emphasizes on this matter and means that understanding and gaining access to China’s complex networks is often crucial to business success. Western managers who have been able to penetrate these networks and develop their own web of guanxi often have a headstart, but gaining this access is far more difficult than the usual technical and managerial skills that Western firms are used to. Access to these networks requires far more sensitivity and experience of the market (ibid). If a situation would occur that is beyond an individual’s capacity, guanxi is often the lifeline to accomplish desired results (Redding & Ng, 1982 in Park & Luo, 2001).

**3.5 Theoretical Synthesis**

In the theoretical synthesis we will summarize and describe how we have used our theoretical framework to analyze the empirical findings. This part will give the reader better knowledge and comprehension of why we have chosen to use these theories to understand to what extent the company can use its business network to overcome institutional barriers when setting up a business in China.
Scott’s Institutional theory (1995) will give us a foundation and definition of institutions. As we are studying how companies can use its business network to overcome institutional barriers when setting up a business in China, it is of essence to firstly understand and study the underlying structure of society, which Scott presents in his theory. Scott contends that institutions are built up with three structures and activities, what he calls regulative, normative and cognitive pillars. Institutions are always around us, whether we enter new markets or stay in existing ones. Some are clear and easy to identify such as the regulative pillar that deals with laws, regulations and sanctioning activities. The most common barriers to fall into the regulative pillar are, bureaucracy and government incentives. Then there are the normative and cognitive pillars that are not so easy to sense, and often take time to get acquainted with. Barriers that usually are identified in the normative pillar are corruption and relations, and culture and language are to be seen as the most common barriers in the cognitive pillar. Scott also writes that in order for a company to survive they need to succeed more than economically; they need to establish legitimacy within the world of institutions. Thus, by examining these institutions through the cognitive, normative, and regulative pillar it gives us a useful framework to identify different barriers.
We have chosen to use the *Business Network theory* to identify which part of a company’s network that can be used when overcoming institutional barriers in China. Actors within a *business network* are partners, agents, distributors, suppliers, competitors and government (Johansson & Mattsson, 1988). Johanson & Vahlne (2009) describes business network as a web where firms being connected to other business networks, which in turn are engaged in additional networks. According to the *Business Network theory*, the activities in a network allows a firm to engage in new relationships and through them access to new markets (Johansson & Mattsson, 1988). Mtigwe (2006) means that this internationalization process is often a contribution from a third party such as support programs from governments, agents and partners rather than being solo performance.

Mtigwe (2006) explains that third parties may be support programs from governments, agents or partners, and these can often quicken an internationalization process for a firm. Relationships are here regarded as a basic source of information and knowledge of other markets, knowledge that could otherwise be very costly to acquire. This is additionally mentioned in the *experiential knowledge theory*, that previous experience can benefit firms when doing the same procedure in the future (Hollensen, 2011). Nelson & Winter (1982), in Chetty & Eriksson (2002), means that
firms can benefit from *experiential knowledge* possessed by other firms, and as a result do tasks which they cannot achieve on their own. Even though the *Business Network theory* emphasizes a lot on relations and network it is highly Western-oriented, which makes it challenging to adapt to the Chinese market. We have therefore added the concept of *guanxi*, the Chinese way of managing relationships. The Chinese value informal relationships more than Westerners and view informal relationships as very important when conducting business. Further, by employing *guanxi* and *experiential knowledge* in the right way, companies can minimize the hindrance of barriers that is emphasized by Scott, and quicken the process of setting up a business in China.

Figure 9
4 Empirical Data

In the following chapter we will present the primary data collected through our interviews with Swedepac Langfang CO., LTD, Norden Machinery AB, HangOn AB, Hogan Lovells LLP, Path to China CO., LTD and the Swedish Trade Council. The empirical data will present each company separately.

4.1 Swedepac Langfang Co., LTD – Swedish Case Company

4.1 Background

Swedepac is one out of three subsidiary companies to the parent company Forbus Holding AB, which was established in the 1980s. Swedepac was a part of Forbus until 2001 when the company branched off and settled a subsidiary in Langfang, China with the vision to become the leading plastic manufacturer in the Beijing area. Swedepac is a wholly owned Swedish firm with its owners in Kalmar while the rest of their operation is operating in Langfang. The company is effective within the manufacturing industry with a niche on packaging, and their customers are largely Chinese distributor. The firm has a wide range of different production which covers: package material of communication products, cosmetic, transport tray, food, toys, medical instrument, battery, light, digital camera, stationery, knife etc (Swedepac.com).
The interviewee Daniel Hedebäck is the Executive Vice President of Forbus and also a board member. He started to work for Forbus in 2005, and in 2007 he was transferred to Swedepac. Hedebäck was not presence in China when Swedepac established their subsidiary there, but has relevant information of the set-up.

### 4.1.2 Setting Up the Business in China

“It was in those days when everybody went to China because it was cheap”

Hedebäck explains that Swedepac started their production with plastic packages in China as a way to stay competitive and follow their former customer, the mobile giant Ericsson. As their client moved some of their operation to China, Forbus followed and established a subsidiary in the city of Langfang in China. Eventually, Swedepac and Ericsson’s collaboration ended due to the IT crash in 2000, and by a coincidence Swedepac came in contact with Nokia and started a cooperation. With Nokia as partner, Swedepac could not take in any other customer as the production was at full capacity. Cooperation with Nokia worked as a security, as they knew that they would have positive return they could take the initial years of loss, which made it less hazardous to enter a new market without any other customers explains Hedebäck. Today, Swedepac still have a strong relationship with Nokia and around 50% of their total production is to Nokia, the rest are to other global companies such as Samsung and Motorola.

Hedebäck was not active in the company during the start up of Swedepac in China, but he explains that his father was the CEO during that time, and via his father Daniel Hedebäck has relevant information of the procedures. As a small company entering China and with no previous internationalization experience the company was set-up in a so called development area where they got benefits such as lower land rent and no tariffs for imported products. Furthermore Hedebäck describes the process as long going with a whole lot of formality procedures that can be seen as trivial when compared to the same procedures in Sweden. Due to the lack of experience and the
complexity of setting up business in China, Hedebäck explains that the company needed assistance from both persons outside their organization who had experience from conducting business in China and STC and a local law firm was consulted. STC assisted with the formal registration and local lawyers were used to handle with juridical matters.

4.1.3 Company’s Network

Swedepac has multinational corporations as customers, and Hedebäck explains that it was through their own internal network they acquired these collaborations. A small company as Swedepac is very dependent on their large customers, thus when their biggest customer Ericsson moved to China Swedepac had no choice but to follow them. With no previous experience from conducting business in China or any other country besides Sweden, Swedepac’s network in China was minimal. Through their parent company Forbus, Swedepac used external help from a former contact in Nokia who had experience from the start-up phase in China. This person was later employed and assisted Swedepac with the set-up of the subsidiary in China. Hedebäck further describes that through the Nokia contact they had somebody that understood the Chinese way of doing business and the culture. Additionally, external help was acquired from the STC to assist with the procedures of setting up the company. At the same time a local law firm was consulted during the start-up phase due to the complicated juridical system.

"I do not believe that as a foreigner one can have the same business network as a Chinese”

It is further emphasized that relations are a fundamental part of conducting business in China, one need to participate in diverse social activities to come closer to your adversary, and as a foreigner these matters are complicated, Hedebäck explains. This is also the reason why Swedepac is using a native person as a CEO in Swedepac Langfang. Through a Chinese CEO the company can communicate with customers and authorities more smoothly. It has also been noticed that the personnel in China has its own network where the customers seem to be following the individual rather than the
company. Hedebäck illuminate this issue by saying, “West European companies look at price and quality when conducting business while the Chinese rather sees the individual and its qualities”

4.1.4 Institutional barriers in China

“I have learned not to be surprised anymore”

When conducting business in China, it is extremely important to understand the Chinese culture. If one goes to China without any preparation, they will be negatively surprised, says Hedebäck. With years of doing business in China, Hedebäck explains that he have learned not to be surprised anymore, but instead accept that we all are different.

One of the problems Swedepac came across with is when the price of waste material recovery started to increase on the accounting records. Instead of storming out to the warehouse, Hedebäck asked stupidly the manager in place why the prices had increased. As a result, material stopped disappearing. Hedebäck explains that the moral of the story is that Chinese are afraid of feeling ashamed or as in Chinese, loosing face. That is also the reason why the Chinese never say no to a task even if they know that it is beyond their abilities. They rather come back with a mail saying that it did not work. Hedebäck says in this way they avoid losing face. It is impossible to ignore the Chinese culture, especially with authorities, as it is such a major part of their daily life.

“There is a lot of bureaucracy in China; a procedure that takes a couple of days in Sweden takes months in China”

Hedebäck comment that the procedure of setting up a business in China is a long process. For instance when Swedepac wanted to enter the food business, for that, they were required to have a special “clean room”. As they fulfilled the requirements new problems occurred as the local government claimed that Swedepac’s facility was not suitable for that business scope. It is further described that a company cannot act
outside their business scope without special permission, which would take months to acquire, hence Swedepac had to give up their plans to enter the food business.

“I think that the Chinese are going through the same problems but they are probably handling it in another way and not seeing it as bribery like we do”

Handling with the local government can also be problematic in more informal ways. For example when representatives from the local authorities found a problem with Swedepac’s facilities the only way to handle this issue was by handling it informally. All these issues are handled by the Chinese CEO of Swedepac and he has on several occasions given telephone cards and gift checks to local authorities to keep a good relation. In Sweden it would have been considered as fault, but these kinds of things fasten up processes in China, says Hedebäck. That is why relations are so important in China. You need to find the right persons to interact with, which Hedebäck explains that he has not put enough effort in. It is the mentality of “If you scratch my back, I will scratch yours”, Hedebäck explains. So in a way to get closer to the local authorities, Hedebäck was asked to send an invitation letter to a statesman in China. With years of Chinese interaction Hedebäck knew it was good a opportunity to build up his guanxi.

4.2 Norden Machinery AB – Swedish Case Company

4.2.1 Background

Norden Machinery (Norden) is in the packaging industry, specializing on tube filling machines and is world leading within their business. Norden was founded in 1877 as a part of Arenco, which today is the famous Swedish Match. They started producing the tube filling machines back in 1934 in Kalmar. In 1980 Norden broke out from Arenco and established an independent company. Throughout the years, Norden have had many owners and is today a part of the Italian company Coesia GROUP. Coesia is the world largest company within the packaging industry and acquired Norden in 2007 (Nordenmachinery.com).
Norden has customers in 60 countries worldwide and 95% of their total revenue is from export. Norden has been active in China since 1971, and established their first subsidiary in Suzhou, China in 2005. China has been the most prioritized market for Norden, and is today their main market for investments, which also generates the highest turnover.

Norden have five sales managers that share the world market between them. The interviewee Martin Nauclér works as one of these sales managers in charge of the Japanese, German and Chinese market. Nauclér mostly works as a support for the German subsidiary, but the Chinese market is prioritized due to the potential of the market. Nauclér has been working at Norden since year 2000 with focus towards China every since. Nauclér was not present in China during their establishment of a subsidiary but has relevant information of the company’s set-up.

4.2.2 Setting Up the Business in China

“We went into the Chinese market very early compared to other companies”

Norden’s experience of the Chinese market is very comprehensive. With assistance from a local agent they have been exporting to China continuously since the 1970’s. Nauclér explains that it worked very well with this agent, and was therefore no need to set-up an own subsidiary in China. By being a first-mover, Nauclér explains that they have gathered great knowledge of the Chinese market and established a solid network. Norden’s plan has always been to establish a subsidiary in Asia and during that time most of the Western firms had their establishments in Bangkok or Singapore to cover the Asian market. In the beginning of the 2000’s Norden came to a decision that China was the country to establish in, and a subsidiary was opened in Suzhou in 2005 together with four other firms from their previous owner Nordstjärnan. The objective of entering China was to come in contact with local companies and to increase their sales, post market sales, service sales, but also make high quality material purchase to a low price in China.
“As a Swede, one cannot set-up a business in China. We do not have the competence for it”

With long experience of establishments in different countries, Norden has realized that it is best to hire local workforce that has experience of these kinds of set-ups. Therefore, during the startup process in China, Norden employed staff from their sister company Calix as they had assisted Calix during their establishment. Nauclér further mentions that Calix also recommended Norden to consult their former agents which they have had a good cooperation with. Through the Calix personnel Norden had personnel that was used to the procedure of setting up a business in China and was benefitted by the agent, as it was them that handled all the formality procedures. In addition, a local law firm was consulted to handle the juridical aspects during the start up phase.

This start-up phase was planned early from Norden’s side but it took much longer time than expected. But, as Norden already had a functioning sales system in China, through their agents, the long going process did not affect the sales negatively. Nauclér says that the initial plan was focused on production, but it turned out not to be as profitable as expected. Hence, the majority of the production was relocated to Sweden and the component production was kept in China, and Nauclér explains that they were forced to keep some of the production in China due to their type of company. Today, they have two local based service technicians in China and local sales of spare parts.

“...It is much stricter rules in China”

Nauclér explains that rules and regulations are very unlike from Europe. For instance, firms cannot act outside their business scope and when local personnel are hired the government gives tax reliefs. Another example is that the trading business in China became much less of importance than expected. By having a Chinese company to trade through, Norden thought they could benefit from trading in local currency. But it proved to be that there was no need to have a Chinese trading company, as it was possible to trade with distributors in USD, EURO and even in SEK.
4.2.3 Company’s Network

“It can be difficult to use a network from another industry when working for Norden, since the tube filling industry is very narrow”

Norden has a long history and good experience of doing international business and has over the years established subsidiaries around the world. As Norden is an internationalized company, it is also preferable for new employees to have experience from international contexts. Then of course the personal network is important, but Nauclèr points out that it can be difficult to utilize a network from another industry when working for Norden since the tube filling industry is very narrow.

“We are a small company but very internationalized”

Nauclèr emphasize the importance of having a workforce with international experience and good network. Norden’s sales team and service technicians’ travels often around the world to sell spare parts and service machines, and possessing the former mentioned qualities simplify their business. Nauclèr further explains what differentiate Norden from many other companies is that almost everyone in the company is communicating in English. This is because everyone in Norden works externally. As an example Nauclèr says that technicians have to communicate in English with the customers. And today, knowing English is enough to communicate with other people, but in those markets they cannot handle the language, such as China, they have to hire locals to handle that.

“The usage of external resource varies from country to country”

Nauclèr explains that the amount of usage of external resource depends on which country they operate in. Some countries demand more resources than others. In Turkey for instance Norden only have an agent who operates in that market, this is because this single agent can manage the market. While in China Norden need to cover a much larger market, therefore they need to set-up a subsidiary to have more control and coverage. Further, Nauclèr explains that Norden is using lawyers when
writing agreements and external engineers are hired only when sales and orders is in an upswing.

“We have had very much help from competent personnel, and it would not have been possible without them”

After that Norden had set-up their business in China they needed competent workforce, so they used local headhunting agents to search for employees. Nauclér points out that it is complicated to set-up a business in China due to the unfamiliar procedure that not only involves formal registration, but also personal interaction with several authorities. Nauclér further comment that there is no guidance over how to act and behave in China; instead companies have to try and fail themselves, which he believes every Swedish company has done. Nauclér further mentions that many companies use agents to avoid the normal pitfalls. Usage of the Swedish Trade Council is one way to go, but Norden rather collaborates with local agents as they more often have better local knowledge.

“The relationship is just as important as the product”

Nauclér explains that Norden is not very hierarchical when it comes to decisions, and says, “We need to listen to our companies around in the world. It is not possible to sit here in Kalmar and take all the decisions”. With Norden’s long experience they have realized that every country has its own traditions and believe in their philosophy to be flexible and understanding. Further on, Nauclér describes the differences between Swedish and Chinese firms; Swedish firms mostly purchases products due to quality or price while Chinese firms emphasizes more on personal contact. Nauclér says that in these kinds of circumstances it is of immense importance to adapt and understand cultural disparities.

4.2.4 Institutional Barriers in China

Nauclér says that bureaucracy in China is a recurring issue. One of the early problems they came in contact with was of exporting products to China. It required special documentation and was often a time consuming process. Nauclér exemplifies
by saying that “If it took two workdays to get a goods clarified into USA, the same procedure took two weeks in China”. This was a big problem in the beginning, but Norden is now used to these procedures and prepare all the needed documentations and specifications in beforehand.

According to Nauclér, doing business in China is absolutely more complicated compared to Europe and USA. As a foreigner one is completely dependent on people with local knowledge as barriers such as language make it impossible to communicate with authorities. Nauclér says that one may have certain opinions about the Chinese culture, but it works in its own way and adapting to local rules is essential for doing business in China. To better understand and communicate with authorities Norden has a Chinese CEO in their subsidiary in China. If the case was the contrary, explains Nauclér, and Norden had a Swedish CEO that person would have been needed to built up its network and learn the Chinese way of doing business.

Nauclér points out that the most important factor for overcoming the barriers has been the locally employed staff. Their local knowledge and network has made the procedure in China go easier without any significant interference.

4.3 HangOn AB – Swedish Case Company

4.3.1 Background

HangOn is a family owned company that was established in 1989 in Hillerstorp, Gnosjö, Sweden. HangOn established their subsidiary in China in 2002. The company develops and produces material for hanging, masking and handling of products by coating. HangOn started to export already in 1990, and is today active in 25 countries. 70% of their turnover is from the export business. In their website (hangon.com), HangOn describes their vision as “By close cooperation with our distributors our business is in the leading position worldwide”. The company has 45 employees in their headquarters in Hillerstorp, 80 in China, 11 in the Nederland, 4 in Germany and 6 in Great Britain.
The interviewee’s name is Håkan Törefors and is the founder and CEO of the company. Before Törefors founded HangOn, he worked for another family company where he at an early stage worked in an international environment. Törefors was presence in China when HangOn established their subsidiary there, and has therefore primary knowledge of the set-up in China.

4.3.2 Setting Up the Business in China

When HangOn started their business they had all production of material in Hillerstorp. But after a couple of years they started to import their products from external producers in Taiwan. In 1999 HangOn experienced problem from their supplier in Taiwan, the production was slow, long delivery time and when Törefors brought up the problem the supplier ignored to reply. HangOn decided that they needed another supplier.

“Many serious e-mail correspondents…”

It was not long before the coincidence in 1999 that Törefors received an advertisement from a Chinese producer in Ningbo, China via e-mail who offered similar products to what Törefors was searching for. After a couple of serious e-mail correspondents with the export manager Dong Xiaopeng, Törefors decided to travel to China to confirm if the deal was serious or not. According to Törefors, the company in Ningbo showed large commitment to do business with HangOn, and Törefors decided to switch supplier.

“Problem again”

Approximately six months after that HangOn decided to switch supplier, new problem with delivery occurred. This time Törefors got an explanation from Xiaopeng that the company in Ningbo was planning on a joint venture with a Japanese company, the production was therefore stopped and was planned to be moved to another location in China. Many of the employees in Ningbo were upset about the decision, including Xiaopeng and the product manager. Thus, Xiaopeng and the product manager in宁波
manager proposed that HangOn should start their own production facility in Ningbo with help, support and expertise from Xiaopeng.

“Had no time to think about our decisions, it just felt right”

Törefors explains, at that time he was devastated about all the problems that had occurred in the short period of time, he was in a desperate need of a stable supplier. There were other choices, such as finding new suppliers, something that HangOn have had bad experience from, another choice was to move back production to Sweden but that would have been too costly. Therefore, Törefors decided to take things in his own hands and took Xiaopeng’s advice and started his own production facility in Ningbo. Further, Törefors comment that there were absolutely no expectations or planning during the set-up in China, things happened so fast.

4.3.3 Company’s Network

Törefors resembles their business network as a spider web that is large and comprehensive, as they operate in 25 countries with distributors, and have four subsidiaries in China, the Netherlands, Germany and Great Britain. The company produces most of their products in Ningbo, and some in Hillerstorp. Some services and products need to be outsourced to other close by suppliers in Ningbo.

“We have never tried to put pressure on Xiaopeng”

The business network in China started to develop already when HangOn imported their products from Taiwan, which later moved on to the mainland. As mentioned earlier, HangOn experienced disturbance at the initial phase with their first Chinese supplier. Törefors describes that the real and sustainable establishment of their business network in China started when Xiaopeng contacted him, and Törefors mean that this was something of a chance. HangOn was in serious need of supplier, and out of the blue came the proposition from Xiaopeng. Ever since the first contact with Xiaopeng, the relationship between them two has developed to a family like relationship, and HangOn have never tried to put pressure on Xiaopeng to do anything he would feel uncomfortable about. Törefors mean that this relationship has been of
essence of the successful set-up in China, and HangOn has benefitted from Xiaopeng’s language skills and local knowledge. Törefors further describes that Xiaopeng is their most important employee in China. He is also the one who handle all governmental contact and so forth.

“Every employee has an important role in the organization”

Törefors explains that he and his sons Jacob and Lukas manage the company, but Törefors emphasizes that all 45 employees in Sweden have an important role. All the employees have some kind of responsibility in the company such as having external contact with producers, appliance service, purchase of material etc. Törefors describes that the stock staff handles the purchase of wrapping-paper and pallets, something that is difficult for Törefors to get involved with, as he is not out on the working area and does not know what is needed and the quantity of it. Therefore, Törefors means that HangOn has a total flat structure of management and decisions are made in a very informal way.

“Of course, it’s never wrong to go to university. But it is not there where you learn to do business”

When it comes to firm’s internal resource, Törefors describes it as very heterogeneous and mixed. For instance, his son Jakob was earlier a gymnasium math teacher, and Törefors and Lukas has a master degree in business and economics. Törefors emphasizes that it is not at the university or school where one learn how to do business, but rather need to be in place and experience it. Törefors started to do business at an early age. Already in late 60’s Törefors together with his family’s company internationalized, and by the early 70’s over 80% of the turnover was from abroad. He mean t that his primitive experience has made him less afraid of doing business abroad, and willingness of taking risks has increased, which he believe has influenced his decision of opening up a production plant in China. Another important factor is the local knowledge. Törefors explains that they only have Chinese employees in their factory in Ningbo. He further comment that it is totally unnecessary for them to get involved there, considering that they do not have the language skills or the
business mentality, it will only slow down things. Therefore, having a great personal relationship with Xiaopeng who runs the whole operation in China is alpha and omega.

“Swedish Trade Council? Forget it”

In essence, the internal resource has played a significant role in HangOn’s success, and depending too much on external resource is dangerous, Törefors means. “Just take a look at our previous experience with the Taiwanese”, Törefors exemplifies. He also describes that he have been in contact with the Swedish Trade Council, and mean that they only have general knowledge, but when companies need to know something in depth they will not be able to help them. One important external resource is of course the bank, Törefors explains. “We have a good rolling business, so the bank love doing business with us”, Törefors gladly says.

4.3.4 Institutional Barriers in China

“We did not know how the process of setting up a business in China was like”

When HangOn decided to set-up a production facility in China, they needed to register a formal business. Törefors explains that they did not have a clue on how the process looked like, and more shocking was that Xiaopeng had no idea either. After being sent around by different government authorities, Xiaopeng had to hire a WFOE expert to assist HangOn in the process of setting up a business in China. Through the WFOE expert their set-up procedure was eased as this expert have the knowledge of the formal procedures. Törefors explains that setting up a business in China was not that difficult when compared to the Netherlands and Germany, and he explains that they are much more bureaucratic and rigid than the Chinese. Törefors describes that when he met with the local government they appeared to be very professional, in business manners, and was very positive towards the establishment. The time consuming part of the process was that everything was in Chinese and during that period of time some new rule and legislations had just been legislated. Therefore, the local government together with Xiaopeng and the expert had to translate everything into English for Törefors. Törefors explains that he did not even know what papers he
was signing. After that, Xiaopeng took care of the rest of the paperwork, something that Törefors was glad not to deal with.

“Those who have the biggest problem in China are those who act like an imperialist”

Törefors gives an explanation that being humble and give face to the Chinese is the best way to do business and interact both with the local government and businessmen. Being greedy and act like an imperialist will only serve you bad. Therefore it is not strange that the Chinese are not loyal, and leave for another job as soon as they get higher paid elsewhere. “You get what you give”, Törefors explains.

“Bureaucracy obviously exists...as long as you don’t put your fingers in the cookie jar they won’t bug you”

Bureaucracy is obviously a hot topic in China, Törefors says. He and his friends have many times discussed about this, and they mean that the government and the local government do not have time to deal with the small companies, as long as they do not interfere with the government’s ambitions. Additionally, Törefors mention that there are many small companies in China that do not play accordingly to the book. For instance, many production companies hire their own family and register all profit as salary, so in the end the company does not have to pay any profit tax.

“Always on your guard”

Törefors emphasizes that knowing the Chinese culture is extremely important when doing business in China. Because, a Swede may interpret something totally different from what a Chinese would, and that can lead to a misunderstanding. Törefors explains that he is always on his guard, trying not to interpret the typical “Scandinavian way”. Instead he tries to think like a Chinese, and Törefors stress that the Chinese also are aware that there is a culture difference and they often try their best to respect each other.

In retrospect, Törefors is very satisfied with the outcome and there is not anything he would like to change. He means that there is always a series of happenings
that lead to another. If HangOn did not buy their products from the Taiwanese, it would not have led them to their current situation. If they tried to do everything by themselves and underestimated the power of local knowledge, it would have cost HangOn a lot more resource than required, Törefors says.

4.4 Hogan Lovells LLP. – External Agents

4.4.1 Background

Hogan Lovells is a merger between two leading international law firms called Hogan & Hartson and Lovells. Hogan was established 1904 in Washington DC and in 1938 Hogan went in to a partnership with Hartson. While Lovells long history began in 1899 in London and throughout time their history has been included by numerous partnerships. 1\textsuperscript{st} of May 2010 the two law firms merged and are now one of the leading international law firms, together drawing on 112-year of rich history (Hoganlovells.com ).

Hogan Lovells is an international law firm with more than 40 offices around the world positioned in strategic locations, major business centers and national capitals (Hoganlovells.com ). In 1992 Hogan Lovells was granted a license to practice in Beijing and was one of the first five foreign law firms to have the license. Today, Hogan Lovells are one of the largest Beijing-based international law firms. They have five partners and 37 lawyers working in their Beijing office with the primary task to work with foreign direct investments and cross border acquisitions around China. The majority of their clients are foreign companies, which are mostly from USA and European countries, but they also assist Chinese companies on doing business in other countries.

The interviewee Jack Sun has been working for Hogan Lovells since 2006 and has the position Corporate Associate. Sun deals most with corporate law and to some extent foreign direct investment. During his years at Hogan Lovells Sun has worked closely with many companies and has therefore great insight on Chinese establishments.
4.4.2 Company’s network

Sun disambiguates that international law firms and international lawyers are only allowed to practice law in China to some extent. Hogan Lovells is therefore using external Chinese firms for the procedures that require it. Hogan Lovells mainly consult their clients in legal and commercial environment in China as well as documentation handling of procedures that includes acquirement of shares or assets of Chinese companies. Sun emphasize that these matters require close cooperation with the government. Hence, Hogan Lovells often have contact with the government.

“...For Chinese lawyers to have a close relationship with governmental officials can be critical to succeed with business”

Sun explains that to do business in China can be complex, and when Hogan Lovells cannot find the direct answers from the law and regulations they take contact with the local government to understand the local practice. Sun does not interact with government officials, but mentions that there are a lot of Chinese lawyers that extends their relationships with government officials.

Hogan Lovells advices their clients to use their connections within the government as it may simplify the procedure in China. He further point out the importance of having good relations with government officials by giving this anecdote “When Deutsche Bank entered the Chinese market they were not allowed to use their German name as it breached the Chinese law. Chinese law says that no other country name except China can be used as a company name, which Deutsche that means German does not follow. Deutsche Bank was persistent on having that name and was in a long negotiation and had to draw a lot of strings with the state council. However, Deutsche Bank ended up by keeping their bank name that was an obvious breach of law”. Sun explains that Deutsche Bank got a special approval from the state council that made it possible for them to keep their name.

He further explains that network is the most vital asset for companies in China and exemplifies by saying “In 2009 a company wanted to establish in Tianjin and their
law firm had good connections with the local government. Before any paperwork was submitted to the local government the law firm asked if there were any problems that needed to be fixed which you otherwise cannot do before the formal submission. The good connections with the local government made it possible for their procedure to be facilitated”

4.4.3 Institutional Barriers in China

The Chinese government has a guidance catalogue which includes three categories when it comes to FDI in China; encouraged, restricted and prohibited. Sun explains that especially firms with advance technology are encouraged to enter the Chinese market, as it would improve the domestic know-how on technology. In the restricted category, FDI is limited as a way for China to control the market. Prohibited category is banned from any company to enter, such as gambling industry and according to Sun these categories are there to protect Chinese culture.

Sun illustrates the different organs governing in China through a hierarchical model:

![Chinese Government Structure](image-url)
“Although the Chinese government has no prohibitions to that business scope for foreign investors they are using technical functions to prevent foreigners to invest”

Sun explains that the Chinese state often influences the market in their own will via various measures. One of which that has been observed is when the Chinese government intervened in the real estate market as an objective to control it. The Chinese state wanted to prohibit foreign actors to enter this market even though they were allowed to act within this business scope. To regulate FDI on this market they used technological measures. When parties of interests went to the Ministry of Commerce (MOFCOM) to register their company it was not possible as the computers shut down when ‘real estate’ was typed down as business scope.

“This clearly shows the power of the Chinese government”

Another famous case is when Coca Cola wanted to acquire a famous juice company called Huiyuan Juice in China, but the Chinese government opposed to this. The deal was prevented by the Chinese government who claimed that Coca Cola did not pass their “anti-trust cause”.

Sun explains that setting up a business in China is a long process that may take up to six months. Accordingly to a former Mongolian client the same procedure takes five days in Mongolia. Sun describes briefly the different procedure of setting up a business in China and takes pharmaceutical industry as an example. The first step would be to get approbation for company name, and then if you are going to invest in a special industry sector, such as pharmaceutical, one needs to go to State Food and Drug Administration (SFDA), to receive a special approval. Next step is to prepare documentation to be submitted to the MOFCOM and the local authorities. Once the approval is approved, registration of the company is needed in the Administration for industry and commerce (AIC). Thereafter, the company needs to turn to the post office for registration in matters of such as foreign exchange and customer relations.

However, Sun means that the procedure of setting up a business can be hastened. He reify by giving this example “A foreign investor acquired a Chinese
company in Guangzhou, as it was a high tech company with eminent technology the local government was eager for it to occur. Normally, such acquisition would take three months but it took the local government five days to manage the documentation”. Sun means that small firms have a larger possibility to fasten up the procedure of setting up a business in more rural areas than setting up in large cities. The local government receives tax income and development in the area while the companies are benefited with lower taxes and other benefits.

For a company to manage these steps Sun stress that it is important to get external help from lawyers, accountants, agents or any other sponsor as they have special requirements regarding documents. These sponsors have sufficient experience handling with local authorities and have often good relations with the local governments, which make the procedure more smoothly.

4.5 Path to China CO., LTD – External Agents

4.5.1 Background

Path to China (PTC) was established in 1999 and is one of the leading registration agents in China for small and medium sized foreign companies (pathtochina.com). PTC is a consultancy agents that assists foreign investors to establish their business in China. PTC provides services such as establishing and structuring of entities, collecting of required documentation, visa services, deregistration services, accounting services etc. PTC has intentions on open up more offices around the country and expanding their services by including juridical advices, accounting and human resources, as there is a demand from their customers. PTC’s head quarter is based in Shanghai and has offices in Beijing, Shenzhen, Hangzhou and Hong Kong. The Beijing office was set-up in 2008 and is responsible for a total of five provinces in northern China. There are five employees and two accountants in the Beijing office, which has helped over 100 firms to establish in China. Most of their clients are from Europe, America and Oceania.
The interviewee Gifty Jia is the regional manager for the Beijing office and has worked for PTC since the opening of the Beijing office. Jia’s responsibilities are to maintain contact with customers and to have continuous dialogue with the other offices of PTC.

4.5.2 Company’s Network

“Our CEO has a close relationship with many governmental officials”

Jia explains that as a consultant agents it is important to be updated with the latest rules regarding business set-ups for foreigners. To receive this information Jia emphasizes that they need to work close with the local government, which they are visiting daily in account for their clients’. This gives PTC the possibility of getting the latest updates on coming change of rules. Further, Jia explains that due to the different rule-setting in different province it is important that all offices are always updated. Jia also mentions that the CEO for Path to China has a personal relationship with several governmental officials.

4.5.3 Institutional Barriers in China

There are a lot of companies that want to set-up a business in China because of the potential of the Chinese market, but there are many hurdles in the way, Jia says. Many of their clients have the opinion that the procedure of setting up a business in China is a long process. It involves different stages, many documentation requirements, and a tax system that differs from Western standards.

Jia explains that some of the documentation requires over 35 documents and all the license information is written in Chinese. The procedure needs to go through seven different govern offices, where most of them do not speak English. For the most simple company set-up the procedure of setting up a business takes around three months while for a WFOE the same procedure takes six months. PTC’s objective is to make this procedure as easy as possible for their customers. Jia explains that with years of experience handling with paperwork and the other procedures PTC can make the process go faster. First, their clients send them the information needed and does
Empirical Data

not need to attend in person during the set-up. Later, all the documentation will be translated by PTC and submit to the local government. When the local government approves the registration PTC translates it into English and sends it back to their client.

Jia also mentions that there are ways to fasten the procedure. Local governments are often more obligingly towards FDI investments of 100 million RMB or higher. Furthermore, she also mentions that there are some ways to speed the procedure. If an extra fee is paid to local governments the procedure can be shortened, but with the complex documentation system Jia emphasizes that it is better to use an agents as these have the experience of conducting it.

4.6 Swedish Trade Council – External Agents

4.6.1 Background

The Swedish Trade Council (STC) is a 50% state owned and 50% Swedish business owned consulting agents (Swedishtrade.se). STC assists Swedish firms during their expansion and penetration stages into new markets. STC was founded in 1972, and serves the Swedish Government and Swedish business. They have offices in more than 60 countries and work closely with trade associations, embassies, consulates and chambers of commerce’s around the world. Their first China office opened in 1994 and today STC have offices in Beijing, Shanghai, Guangzhou and Hong Kong. STC describes their vision as to make it as easy as possible for Swedish companies to grow internationally. Taking strategic decisions and evaluating relevant factors involving establishments are some of the processes which STC supports their customers with. STC also enhance their customer with recruitment of key personnel, financial services, incubator services, partner searches etc.

The interviewee has chosen to be anonymous, and that is why we have decided to use a fictitious name to this person. To give the reader more closeness to the empirical data we have therefore chosen to call the respondent Charlie. Charlie has been working for the STC for more than three years, and works as a market consultant with long experience of the Chinese market.
4.6.2 Company’s Network

“Our official status opens door to local authorities”

Charlie explains that considering that STC is owned by the Swedish Government and Swedish businesses, means that STC has an intimate connection with both networks. They can therefore utilize their broad network to help Swedish companies to access different markets. Charlie means that having an official status can for instance open many doors to local authorities in China, which usually is a difficult and time consuming. The majority of STC’s work is focused on consulting Swedish companies. They do around 400 individual assignments for companies in China per year. This gives the STC a good network and client base both in Sweden and China.

“Business usually gets involved in personal life in China”

Working and doing business in China is very contrasting compared to Sweden. “Your business life and network usually blend together with your personal life”, Charlie says. For that reason Charlie often associates with working friends from other international companies and different statesmen from various embassies and authorities.

“You save time by knowing who you want to talk to, and I think it is similar in Sweden”

Charlie explains that utilizing your guanxi can make things happen much quicker. For instance, if you have a good contact in an industry and you need support or help with something it is relatively easy and acceptable to do so in accordance with general business practice. Additionally, knowing whom to talk to is also very important and can save a lot of time. Charlie says that it is similar in Sweden, but emphasizes though that the Chinese value relationship much more than the Swedes.

4.6.3 Institutional barriers in China

“Make sure you know what incentives the government has”
Depending on which industry foreign firms wish to enter in China, and what products and resources they bring to China, the institutional barrier can deviate. Charlie explains that the Chinese government has different priorities in different provinces, for instance the automobile industry has been heavily prioritized from both the local government in Chongqing and the central government. Then there are three different incentives from the government: encourage, prohibited and restricted incentives. Encouraging incentives are for instance information technology, meaning that foreign firms with developed information technology are more prioritized than others and will receive benefits such as duty-free imports of capital goods and VAT reductions. Prohibited incentives are for example the firearm, national defense and biotechnology industry; these industries are strongly discouraged by the government to invest in. Finally, there are the restricted incentives, which is the gambling industry that is totally restricted to invest in. Charlie explains that by knowing what incentives the government has, it will make things much more easier for foreign companies to set-up their business in China, because once you have drawn bad attention to you from the government they will make it hard for you. Further, Charlie describes the difficulty of understanding certain paperwork and regulations, and says that some are barely graspable, even for the Chinese. It is therefore important to hire somebody who has experience in this field to assist the firm when setting up the company.

“We are part of the embassy ourselves so it is a bit different for us”

The STC often deals with various governments in China, and has a good relationship with them. Charlie emphasis that the STC is part of the embassy, on that account they get another treatment from the Chinese government. Moreover, the STC have local Chinese employees who have the language skills and can therefore communicate without any difficulty with non English-speaking Chinese.

“It’s important to understand and respect the Chinese culture and be humble”

Charlie clarifies that it is important for Swedish firms to have an understanding of the Chinese culture before they enter the Chinese market. Respecting the culture and being humble is highly valued by the Chinese. Charlie also explains “when you
come to China for the first time you may not know how things are here and a ‘right’ decision in Sweden may be a wrong decision in China due to cultural differences”. Charlie points out though that Swedish management style is very adaptable and often tolerates changes, which Swedish company will benefit from when dealing with the Chinese.

“Language is important, but if you have employees that master this, it will be less important for you”

When setting up a business in China it is very important that firms prepare a detailed plan of what resources that is needed for the set-up. Charlie describes resources as finance, language, local knowledge, network and experience as equal important, though it depends sometimes on which industry you wish to enter, some industries requires heavy finance resource some not. The larger commitment or investment that is planned to be made, the more important it is for the foreign company to have the right entry strategy, otherwise the outcome can be very severe and expensive. Charlie further discusses the decreasing importance of the Chinese language. Charlie means that nowadays it is easy to find employees that both speak English and Chinese, thus can act as a bridge to the Chinese market.
5 Analysis

In this chapter we will analyze how our theoretical framework relates to our empirical data.

5.1 Institutional Barriers in China

When setting up a business in China it is inevitable that a firm will face institutional barriers. As defined in our theoretical synthesis Scott’s Institutional theory will be the foundation to understand how societies are built up. An institutional structure consists of regulative, normative and cognitive pillars. For a firm to overcome these barriers it needs to understand its complexity. As categorized in the theoretical synthesis, the barriers language, culture, relations, government policy, bureaucracy and corruption fall either into the regulative, normative, or cognitive pillar. Our theoretical synthesis also clarifies that it is important for companies to establish legitimacy with various actors in an institution.
### 5.1.1 Regulative Pillars

In our theoretical synthesis, we defined regulative pillar as regulations, laws, monitoring and sanctioning activities that are governed by the state or the government. All our case companies explained that during the startup in China, they experienced strict rules and regulations. When Swedepac was setting up its business in China, it experienced the procedure as unnecessarily drawn-out and formalistic. When it wanted to enter the food packing business in China, it was rejected by the government, which claimed that it was not allowed to act within that business scope and needed special permission. Due to this complication Swedepac had to cancel its plans to enter this market. Through our empirical findings, something similar happened to Norden who at its startup phase experience the procedures as drawn-out. Norden initially planned to focus its business on production in China. It shortly realized that producing machines in China was not as profitable as it thought. Due to its business scope it was not allowed to fully stop its production, and was therefore forced to keep some of its production in China. We can see a clear message from the companies’ that they find Chinese regulations strict and incomprehensive. Hogan Lovells has explained that the Chinese government can influence the market in their own will. It is exemplified in our empirical data that the Chinese government intervened in the real estate market by blocking FDI’s through technological measures. Another example on how rigorous the Chinese government can be was when they
hindered Coca-Cola from buying a famous juice company by referring that Coca-Cola did not pass their “anti-trust cause”. These examples clearly emphasis how powerful the Chinese government is.

**HangOn** described their experience of setting up a business also as confusing. During their set-up, HangOn explained it was very difficult to find the right information and documents to register a company. HangOn also described that the Chinese system of rules was very difficult to interpret, because it was in Chinese. Even their Chinese employee had difficulties understanding Chinese procedure and regulations. In our theoretical framework we explained that the regulative pillar ought to be clear and easy to understand. HangOn interprets this pillar as blurry and difficult to understand. Our case companies see this irrational way of handling things as barriers to business. It is emphasized by **PTC** that their clients experience similar difficulties, but they also found the tax system to be very unlike what they are used to. This means that our case companies are not the only ones who have experienced the regulative pillar as a difficult barrier to overcome.

Both **Hogan Lovells** and the **STC** explained in our empirical finding that by knowing the government’s incentives, the regulative pillar could instead of being a barrier be of a firm’s advantage. This is supported by Hogan Lovells example on the high tech company who wanted to set-up in Guangzhou. Due to the eagerness of the local government, the procedure took only five days instead of three months. This finding can be related to our theoretical framework where we described that a government can promote important industries and areas in a country by attracting FDI through giving benefits. There is a clear understanding from both Hogan Lovells and **STC** that companies with advanced technology are the highest prioritized companies by the Chinese government. It has also been understood that small foreign companies should look to establish in small rural areas where FDI is demanded. **Hogan Lovells** explained this matter as a win-win situation, where the local government receives tax income and the area gets developed, while companies are benefitted with various rewards.
In the theoretical framework we have explained that bureaucracy is designed to control an organization by providing strict and specific rules. It is identified that Swedepac experienced bureaucracy when it were setting up their business in China, our interviewee made the statement “A procedure that takes a couple of days in Sweden takes months in China”. Through our empirical data, Hogan Lovells explained that organs in a hierarchical structure control the regulative pillar, with the State Council as the top organ and the Village in the bottom. Through this hierarchical structure legislation and decisions takes a huge amount of time to get approved. PTC also described in our empirical data that bureaucracy in China is a complex and ongoing process where a company needs to go through many different government offices and submit many registration forms. Even for the simplest companies the procedure of setting up a business takes around three months, while for our case companies it takes six months. Through this explanation, we can understand that this is a reason for the time consuming procedures that our case companies have experienced.

5.1.2 Normative Pillar

In our theoretical synthesis we defined the normative pillar as values, expectations and norms; that is to say, how certain thing works in a society. We have also described in our theoretical framework that these relations are especially important when companies want to enter the Chinese market, since favoritism and friendship are the most important factors in Chinese business. Through our empirical data it is identified that all our case companies have through their presence and experience in China learned to understand how the business norms functions there. The STC has pointed out in our empirical finding that Swedish companies are very adaptable and often tolerate changes. It was also explained by the STC that working and doing business in China differs a lot compared to Sweden, because business life and network in China usually blend together with personal life. By reviewing and comparing the empirical data, the STC’s statement comports with our case companies.
Swedepac explained that relations are a fundamental part of conducting business in China and that it often requires participating in social activities to come closer to their adversary. This business norm was totally new for Swedepac and it needed to adapt to this new way of doing business. Further, through our empirical findings, we have identified that Norden also has experienced that informal interactions with authorities are necessary for getting things done in China, and through their long experience of internationalization Norden believe that it is essential to adapt to be able to successfully set-up a business in China. Norden explained in our empirical data that it perceives the Chinese as extremely relation-oriented and emphasized that the Chinese would rather buy a product from someone in the business network rather than looking on the price and quality. Norden explains therefore that it find it more complicated doing business in China than Europe and USA. It is to be found in our empirical finding that HangOn has learned that the best way to do business is by being humble and by respecting the Chinese, and claims that it will not serve one well to be greedy and act like an imperialist towards the Chinese; “You get what you give”.

We described in our theoretical framework that bribes and corruption are sometime required to build relationships in China and to quicken things. Swedepac has described that when setting up business in China it involves informal procedures such as gift giving, and it is important for a foreign company to be able to handle these procedures in a smooth way. Swedepac has in many cases given gifts to local governments to fasten up the procedures, suggesting that the Chinese believe in the maxim, “if you scratch my back, I will scratch yours”. These explanations clearly connect with our theoretical framework where we have explained that with privileges come duties. By analyzing our empirical data we can find that HangOn has knowledge about that small companies in China often do not play by the book. It is being explained that these kinds of business norms are very common. As we explained in our theoretical framework, these kinds of norms can be seen as a barrier and a dilemma to foreign companies who are not accustomed to them.
5.1.3 Cognitive Pillar

In our theoretical synthesis it is defined that the cognitive pillar is culture, symbols, language, signs and gestures in a society. It is also explained that this pillar is something a company cannot directly affect but has the possibility to gather information about and adapt to. We have clarified in our theoretical framework that not knowing the language can complicate setting up a business in China. We see a clear emphasis in all our case companies in our empirical data that language was a big barrier to success. Norden, for instance, said that due to the fact that it lacked the knowledge of Chinese, it was impossible to communicate with Chinese authorities during its set-up. HangOn pointed out that during the start-up phase, it encountered language problems when it was registering the company. All documents were in Chinese, which complicated the procedure due to the fact that our case companies did not know Chinese. This barrier was to be seen as the most time consuming part of the set-up for HangOn. This statement can further be supported by PTC, who explained in our empirical data that registering a business in China requires over 35 documents and all the licensing information is written in Chinese. Also when consulting with the government offices they do not speak English. It has further been emphasized by HangOn that due to the complexity of the language it is difficult to get too involved in managing the business in China.

In our empirical findings we have brought to knowledge that our case companies established their businesses in China six to ten years ago. It can be understood that the language was by that time a significant barrier. Through our empirical findings it can be further discussed that the STC means that the importance of the Chinese language has started to decrease, due to the fact that more and more Chinese speak English.

The word culture is defined in our theoretical framework as beliefs, values and customs between different countries and societies. Culture is defined as something that is not changing very fast; it is instead quite consistent over time. It was also stated that it is important to be aware that these differences apply everywhere in society.
Lack of deeper knowledge of the cultural differences in China can make it difficult for foreign companies to enter the Chinese market. By reviewing our empirical data we can understand that all our case companies share the same opinion, that Chinese culture is very different from Swedish, and that it is important for foreigners to learn it. **HangOn** describes that a Swede may interpret something totally different from how a Chinese would; this can lead to misunderstandings and slow down processes. This example can further be justified by the **STC**, who also described in our empirical data that a right decision in Sweden may be a wrong decision in China due to cultural differences.

**Norden** with its long experience of doing business with the Chinese has made them develop a great understanding of the Chinese culture. Hence, when Norden was setting up its subsidiary the Chinese culture was not new to them. It can be found in our empirical data that Swedepac had no previous internationalization experience, and entering the Chinese market was almost a coincidence. **Swedepac** had no knowledge of the Chinese culture before entering China. During Swedepac’s time in China, it learned to understand the Chinese culture. Swedepac means that one need to learn and prepare that there are culture differences otherwise one will be negatively surprised, as it is such major part of the Chinese daily life.

**5.1.4 Legitimacy**

We have described in our theoretical synthesis that legitimacy refers to the degree of cultural support and acceptance an individual or organization gets from the society. Through our empirical findings we can identify that our case companies have understood that it is required to establish legitimacy both with individuals and governments when conducting business in China. **Swedepac** has understood that even when the business has been set-up, establishing legitimacy is an on-going process and needs to be established with employees and other individuals. Swedepac has described that it is important for a foreigner to never make a Chinese lose face. For instance, when Swedepac had internal problems it solved it through an informal method, acting like being unaware of the issue. Through this way of handling the
problem, Swedepac both saved the face of the guilty and showed that it understood the importance of legitimacy in China. It is stated in our empirical data that **HangOn** thinks it is important to have a native representative to deal with issues in China. HangOn has therefore been working on a mutual basis with the representative Xiaopeng. HangOn has never tried to put pressure on the representative and made him do anything he feels uncomfortable with. Through this way of managing the relationship HangOn has developed a family-like relationship and a strong legitimacy.

**PTC** has explained that foreign firms can establish legitimacy with the Chinese government through various measures, and not only through personal relations, but through means such as guanxi can legitimacy be established. In other words, if a foreign firm invests more than 100 million RMB, the government would prioritize the firm in another way. Another example that shows that the Chinese government is very receptive to investments is through the example **Hogan Lovells** mentions in our empirical data. It is explained that Deutsche Bank’s name application was rejected by the Chinese government, but through some informal negotiation and the importance of Deutsche Bank being China, made the application go through.

### 5.1.5 Summary

According to our analysis, we have identified that our case companies have identified these barriers:

**Swedepac**

- **Regulative** – *Bureaucracy* and *government policy barrier* - It has been identified that Swedepac have encountered that setting up a business in China can be a drawn out process. It is also explained that the Chinese government is very strict with the business scope the company have, and you need special permission to act outside it.

- **Normative** – *Relation barrier* - Both Relations and participating in social activities is a fundamental part of conducting business in China.
Analysis

- **Cognitive – *Culture and language barrier*** - There is a huge culture difference between China and Sweden, and one needs to prepare well before entering the Chinese market, as the culture is such a big part of everything in China.

- **Legitimacy** - To establish legitimacy with the Chinese, one should never make a Chinese lose face.

**Norden Machinery**

- **Regulative – *Bureaucracy and government policy barrier*** - Norden have explained that setting up a business in China was a time consuming procedure. He has also that Norden was forced to keep some of its production in China even though it did not want to, due to the business scope.

- **Normative – *Relation barrier*** - During its set-up, Norden has experienced that informal interactions with authorities are necessary to getting things done in China.

- **Cognitive – *Language barrier*** - Due to the lack of the language skills, Norden could not communicate with the Chinese authorities.

**HangOn**

- **Regulative – *Government policy barrier*** - HangOn interpreted the Chinese regulations and procedure of setting up a business as complicated. It had difficulties finding the right information and registration forms.

- **Normative – *Relation barrier*** - Business norms in China differ from Sweden, the Chinese need to be treated with respect and as a foreigner one should not act like an imperialist because then it will be difficult to do business with the Chinese.

- **Cognitive – *Culture and language barrier*** - During its set-up all documents were in Chinese, HangOn pointed out that translating and understanding the
documents was the most time consuming part of its set-up. HangOn has also pointed out that due to culture differences misinterpretation can easily occur.

- **Legitimacy** - To establish a more close relationship and legitimacy with the Chinese, HangOn has explained that one need to work on a mutual basis, and never try to pressure them.

Through our analysis we can understand that our agents interpret these barriers as the most difficult for foreign firms to overcome:

**Hogan Lovells**

- **Regulative** - Government policy barrier - The Chinese government has a powerful influence in the Chinese business world, and can hinder foreign companies to do business in China. To get support from the government one need to know their incentives.

- **Legitimacy** – By being a big and important company, a firm can establish legitimacy with the government

**Path to China**

- **Regulative** - Bureaucracy and government policy barrier - PTC have explained that many of their clients have experienced similar difficulties as our case companies when setting up a business in China. But also mentions that the tax-system is seen as a problem.

- **Cognitive** - Language barrier - PTC has described that all formal documents for registration of a company is in Chinese, and when consulting with the government office speak English.

- **Legitimacy** – Through sufficient investment a firm can establish legitimacy with the Chinese government.

**Swedish Trade Council**
- **Regulative** - *Bureaucracy and government policy barrier* - The Chinese regulations can be hard to interpret, even for Chinese people. By knowing the government’s incentives, it can be of a firm’s advantage.

- **Normative** - *Relation barrier* - Doing business in China often means that business life blend together with personal life.

- **Cognitive** - *Culture and language barrier* - There is a huge culture difference between China and Sweden, the right decision in Sweden may be wrong in China. Language is also a big problem.

5.2 Business Network

Figure 8

Our theoretical synthesis asserts that business networks are important when setting up a business abroad. We contend that a firm’s network can be linked to additional networks by infiltrating an already established network. We also mentioned in our theoretical synthesis that business networks can be used to bridge new markets, and a third party is often used rather than a solo performance. We have defined actors
within a business network in our theoretical synthesis as partners, agents, distributors, suppliers, competitors and government. Norden has for a long time been active on the Chinese market, and has a broad network there. Norden used its business network within its corporate group Nordstjärnan to reach the Chinese market. It is described that when Norden was setting up its subsidiary in China, it used its sister company, Calix’s, employees to establish Norden’s company in China. Norden also took help from an agent that Calix used during its set-up in China. It can also be found that Norden used a local law firm to assist with juridical issues. Similarities can be found in HangOn’s company set-up in China. It can be understood in our empirical data that Xiaopeng has played an important role for HangOn’s establishment in China. It is explained in our empirical findings that through Xiaopeng’s local knowledge he could find a WFOE expert to consult HangOn in the company registration process. Thus, we can understand that both Norden and HangOn have used actors within its network to reach new actors, which justifies that a firm’s network can further be expanded to new networks. Swedepac’s network in China is described as minimal, it can be understood that it is due to the fact that Swedepac do not have any previous experience from doing business internationally. To set-up its business in China it needed assistance, and various agencies were consulted to handle the process. Through the business network in Sweden Swedepac employed a former Nokia contact to assist with the establishment. It is also identified that a local law firm was consulted to handle the juridical matters, and STC assisted with the set-up procedure. Hence, we can point out that all our case companies have used a third party to set-up their business in China.

5.2.1 Summary

With accordance with the Business Network theory, it has been applicable to our case companies. According to our analysis, we have identified that our case companies have used these following business network to establish their subsidiary in China:

Swedepac

- Partner – Former Nokia Employee
- **Agent** – Swedish Trade Council
- **Law Firm** – Local Chinese Law Firm

**Norden Machinery**
- **Partner** – Employees from its sister company Calix
- **Agent** – Local Agent
- **Law Firm** – Local Chinese Law Firm

**HangOn**
- **Partner** – Xiaopeng
- **Agent** – WFOE Expert

### 5.3 Facilitation through the Business Network

![Figure 9](image-url)
In our theoretical synthesis it is explained that an internationalization process is often a contribution from a third party and it is illuminated that company’s can benefit from the capacity possessed by these third parties. These capacities have been identified as experiential knowledge and guanxi. It is further mentioned, in our theoretical synthesis, that through experiential knowledge firms with experience from international markets can reduce costs and uncertainty, which firms can benefit from the experiential knowledge possessed by other firms and as a result do tasks which they cannot achieve on their own. In our theoretical synthesis it is described that guanxi can be difficult to understand by Western managers, but once one has built up its guanxi network it is often the lifeline to accomplish desired results.

5.3.1 Contact Within Business Network

By employing the former Nokia employee, Swedepac could with his assistance deal with the complicated procedure of setting up a business in China. Through this person, Swedepac had a representative that understood the Chinese culture and took care of the set-up. Similarities can be found in Norden’s case, where it also utilized contacts within the network to deal with the set-up. It is described that Norden employed personnel through its sister company to be present during Norden’s startup. Through these contacts, Norden could benefit from the contact’s earlier experience of setting up Calix’s business in China. It is described in our empirical data that through Xiaopeng, HangOn could take use of his local knowledge to find a WFOE expert, and use his language skills to set-up its business. It is also described that through Xiaopeng, HangOn had somebody who understood the business mentality in China. Through our empirical data we have understood that all our case companies have used contacts within their business network to establish in China. They all mean that they have benefitted from the network’s experience and knowledge when setting up a business in China.

5.3.2 Agent

It has been explained through our empirical findings that when Swedepac did the set-up in China, the STC assisted with the formal registration. The STC stated in our
empirical data that through its local employees and the broad network, they are able to assist its clients in China in overcoming barriers like, bureaucracy, language problems and understanding government incentives. The STC also mean that through its official status, it often interacts with the government and receive a different treatment. It is also stated that by utilizing your guanxi, an errand can be quickened. Both Norden and HangOn have chosen not to use the STC to handle the formal registration. It has instead been explained in our empirical data that through their network they could get in contact with a local agent with sufficient knowledge and experience to deal with the formal procedure of setting up a business. It has been clearly expressed in our empirical data that both Norden and HangOn experienced language as a time consuming barrier to overcome. PTC, who deals with foreign companies’ set-up, explained that it helps foreign companies to overcome this barrier by acting as an interpreter. It has also been described that it is important for a consulting agent like PTC, to be updated on the latest rules and regulations regarding business set-ups for foreigners. It is therefore required to have a close relationship with the local government. It has been understood that through employing agents, our case companies can facilitate the procedure of setting up a business in China through the agent’s experience, knowledge and relations on the market.

5.3.3 Law Firm

Both Norden and Swedepac described in our empirical data that they needed assistance from a Chinese law firm, due to the fact that they did not know the juridical system in China. Hogan Lovells stated in our empirical data that it is important to use lawyers during the start up, as the Chinese juridical system is seen as unintelligible and difficult to grasp. It is explained by Hogan Lovells that due to the hard interpreted law, it needs to consult and ask for guidance from the local government. It has further been described that many Chinese lawyers extends their relations with government officials to build up their guanxi. Network, has been explained by Hogan Lovells to be the most vital asset for companies in China. This is exemplified by the Canadian company example in our empirical data that wanted to establish in China, through a law firms connection with the local government it could fasten the set-up.
5.3.4 Summary

Through our analysis we have identified how the business network can overcome institutional barriers:

Swedepac

- **Contact within the business network** – Former Nokia Employee - to understand the procedure of setting up a business in China, and act as a representative
- **Agent** - Swedish Trade Council – dealt with formal registration
- **Law firm** – Local Chinese lawyer – deal with juridical matters

Norden Machinery

- **Contact within the business network** – Employee from its sister company Calix – acted as an representative and had experience from earlier set-ups, and helped Norden to get in contact with other actors
- **Agent** – Local agent – the local agent dealt with the formal registration
- **Law firm** – Local Chinese lawyer – this contact dealt with juridical matters

HangOn

- **Contact within the business network** – Xiaopeng – acted as an representative and had local knowledge
- **Agent** - WFOE expert – dealt with formal procedure

Hogan Lovells

- Through close interaction with the local government Hogan Lovells keeps updated with the latest changes in the juridical system, and know the governments incentives
Through the Canadian example, it understood that law firms can have strong guanxi with various authorities, and through this guanxi they can make things happen much quicker

Path to China

- Agents like PTC can act as an interpreter for foreign companies who lack the language knowledge
- Have daily contact with various authorities to keep updated on the latest change of regulations
- Are used to the company set-up procedure

Swedish Trace Council

- Through their official status they receive a different treatment from the Chinese government, and can therefore “open doors” that others do not have the possibility to
- Have a broad network, guanxi and knowledge to overcome barriers like, bureaucracy, language issues and understand government incentives
6 Conclusions

In the final chapter we will present our conclusions for our problem formulation through our analysis. Further, we will present the limitations of the thesis and give recommendations for further studies.

6.1 Answering the Primary Question

To answer our primary question “To what extent can a Swedish SME’s network be of assistance to overcome institutional barriers when setting up a business in China?” we have chosen to incrementally discuss and conclude our sub-questions that will lead to an answer of our primary question.

6.1.1 Institutional Barriers in China

Through Scott (1995), we have defined that societies are built upon institutions, and institutions consists of three pillars, the regulative, normative and the cognitive pillar. These pillars have been a foundation for our thesis to understand what problems and barriers a firm can meet when encountering new institutions. Through our synthesis we have been able to analyze and answer the first sub-question:

“What kind of institutional barriers can be interpreted as difficult when setting up a business in China?”

Scott (1995) has explained that the regulative pillar is ought to be clear and easy to understand. Through our study, we can draw the conclusion that this pillar has been the contrary towards Scott’s (1995) explanation. All our case companies has manifested that they have experienced that the law system and government policy in China as unclear and hard to understand, and this can also be confirmed by our agents. The STC has explained that the government policy in China is a common barrier for foreign firms to encounter, even for the Chinese ones. Hogan Lovells have through various examples described that the Chinese government has a very powerful
influence in the Chinese business world, without their permission nothing will be able to happen, and if they want something to happen they can bend the rules. Having this said, we can understand that the government policy and the law system has been the most difficult barrier for our case companies to overcome. Bureaucracy is another barrier that was encountered by Norden and Swedepac. Both were unfamiliar with the process of setting up a business, and experienced it as drawn out and some procedures were seen as redundant. We can therefore conclude that the regulative pillar is an unpredictable barrier, and can therefore be difficult for a firm to interpret and overcome. Both STC and Hogan Lovells emphasize that there are government incentives that can be a barrier for firms who are not aware of them. We can conclude that by understanding them it can be of a benefit instead of a barrier.

All our case companies have during their set-up in China encountered that norms in China diverge remarkably from Sweden. The STC has declared that doing business in China often means that business life blend together with personal life, meaning that firms that are not used to this kind of activities can interpret this as a barrier. Norden experienced that to make things happen in China, informal interactions with authorities is a necessity, this way of interacting was interpreted as very contrasting compared to Sweden. Swedepac and HangOn encountered that relations are very important in China, and that the Chinese put a lot more weight on relations than the Swedes. We can therefore conclude that relations can create barriers for firms who are only used to customer relations, and not used to deal with relationships outside their clientele.

By looking in to the analysis, we can conclude that the most common barrier that our case companies encountered during their set-up was the language barrier. All our case companies experienced that the language hinderance was a big issue for them to handle. Norden for instance explained that due to the lack of language knowledge they could not communicate with the Chinese authorities. PTC has also described that their clients experience the language barrier as a difficult barrier to overcome. It can also be concluded that all our case companies has experienced that the culture difference between China and Sweden is immense. Both STC and HangOn
have pointed out that a right decision in Sweden may be wrong in China. Thus, we can conclude that the language and the culture barrier are two important barriers to understand and research before entering the Chinese market.

Through our analysis we can draw the conclusion that establishing legitimacy with the government can be made through various measures. It has been explained that if a firm have a close relationship with the government it can create legitimacy and lead to support from the government. It has also been explained by Hogan Lovells that if the firm is important enough and the Chinese government can benefit from the, the firm will easier receive legitimacy. PTC has further explained that through sufficient investment a firm can establish legitimacy with the Chinese government. We can therefore draw the conclusion that small firms with insufficient finance and knowledge, and lack of relation will have it more difficult to establish legitimacy than those who hold these resources.

We have come to a conclusion that barriers are encountered differently, depending who you are and who you know barriers can be minimized in China.

6.1.2 Business Network

Johansson & Mattson (1998) has described that through the activities in a network it allows a firm to create new relationships and help the firm to reach new markets. Johanson & Vahlne (2009) describes business network as a web where firms being connected to other business networks. Through the analysis of the second sub-question “Which part of a company’s business network can be used when overcoming institutional barriers in China?” we have found that there is a clear pattern that all our case companies have been using their business network to get in contact with relevant people and organizations that were able to assist them to overcome institutional barriers in China, which justifies with the theories. Three types of actors has been identified, partners, agents and law firms. Swedepac used a former customer’s employee to set-up their business in China, and through this person Swedepac could also get in contact with the STC and a law firm. Norden used their sister company’s employees to get in contact with a local agent and a law firm in China for the set-up.
HangOn used an old distributor’s employee to get in contact with a local expert in China to help through the process. Through this information we can draw the conclusion that our case companies’ business network has been important during the set-up and overcoming institutional barriers.

6.1.3 Facilitation through Business Network

Mtigwe (2006) has explained that a company’s internationalization process is often a contribution from a third party and it is illuminated that company’s can benefit from the capacity possessed by these third parties. These capacities have been identified as experiential knowledge and guanxi. In our theoretical synthesis it is described that through experiential knowledge firms with experience from international markets can reduce costs and uncertainty. The term guanxi has been emphasized as an important factor to consider when entering the Chinese market. Experiential knowledge has further been explained to be of importance when entering new markets. Through our analysis of the third sub-question “How can a company’s business network facilitate the process of setting up a business in China?” we have understood that all our case companies has employed various actors within a business network to take use of their:

- Experience of setting up a company in China, such as handling documentations
- Local knowledge regarding the Chinese regulations and laws
- Language knowledge to be able to communicate with various authorities, and translate documents and act as an interpreter
- Guanxi to easier interact with the Chinese, and simplify processes
- Knowledge about the government’s incentives
- Legitimate status to be able to open new doors

These factors have made it easier for our case companies to set-up their business in China, which is in accordance with the theories mentioned above.
6.1.4 The Extent of the Business Network

The primary question we have studied to answer is:

“To what extent can a Swedish SME’s network be of assistance to overcome institutional barriers when setting up a business in China?”

Earlier studies have shown that business network have been of big importance to access new markets and minimize barriers (Johansson & Mattson, 1998). Earlier studies has also criticized that the business network theory is not sufficient enough to be applicable on the Chinese market (Yang, 2010), and instead guanxi needs to be considered when doing business in China.

Through our study, we can conclude that all our case companies have used contacts within their business network to fully set-up their business in China. Our study has shown the importance of the business network, this is supported by Norden, who with a long experience of the Chinese market were necessitated to use its business network to get in contact with third parties to set-up their business in China. We can also conclude that with assistance from their business network they were able to overcome the institutional barriers. Our case companies has concurred that the process of setting up a business involves many difficult barriers, and it is of necessity to take use of someone who has the knowledge of the procedure and a strong guanxi with the authorities. Our conclusion complies therefore with Johansson & Mattson’s (1998) and Yang’s (2010) theory.

Through our conclusion we can point out that Scott’s (1995) definition of the regulative pillar do not apply on the Chinese society, Scott mean that the regulative pillar is ought to be seen as clear, while our study shows that the regulative pillar in China can be very difficult to understand. It has further been described by Scott that the normative and cognitive pillars are time consuming to understand, and through our conclusion it has shown to be so.
6.2 Limitations of the thesis

The conclusions of this study are based on a multi-case design of three Swedish SME’s in the Småland region and additionally three local based agents in Beijing. This result is limited since we are not able to draw conclusions generally about Swedish SME’s. If we had more case companies general conclusions could have been greater. Also if we had used more case companies in other areas in Sweden it could have created a more general result due to regional factors.

A limitation in this study is that we could not get access to the two persons from our case companies who had the relevant information about the set-up in China. We have realized that even though one of our case companies was presence during the start-up phase could not in detail point out the exact procedures of the set-up, but this is explained that it was outsourced to an agent who handled the whole procedure.

Another limitation in this study is that we only had one interview each with the companies, and we have then got their personal opinions of the process of setting up a business in China. Instead it would have been preferable to follow the companies during the whole process to really understand how the network has been used to overcome the institutional barriers.

6.3 Recommendations for further studies

For further studies within this field of research we recommend to use our theoretical synthesis and problem formulation, as this problem is highly interesting to further study. To be able to get a more generalizing picture we believe it is necessary to have a broader empirical data collection. We suggest though, doing a research where the case companies establishment in China matches the government’s incentives, and make a comparison with those who have not. It will be interesting to see how the barriers differentiate between the companies. During our study we have understood that setting-up a company in China is to be interpreted as difficult, though we have acknowledge by Hogan Lovells that shutting down a business is even more difficult. Therefore it would be interesting to study this problem.
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Figure 3: Own figure


Figure 5: According to Lasserre & Schütte, 2006, *Strategies for Asia Pacific – Meeting new Challenges*, 3rd Edition, p. 171.

Figure 6 - 9: Own figure

Figure 10: Lecture with Daniel Hedebäck, 2011.

Figure 11: Interview with Hogan Lovells, 2011.
Appendix

1. Procedures for setting up a WFOE in China

Stage 1: Preliminary approval - Project Proposal

In the initiation stage the project proposal will be prepared by the foreign investors and submitted directly to local authorities. The report must contain information regarding the objectives of the WFOE, such as business scope, scale of operation, products to be produced, technology, et cetera. Generally, this process takes 30 days before the authority gives an official reply (Chinaknowledge.com).

Stage 2: Formal approval - Articles of Association

After the foreign investor receives a written reply from the relevant government authorities, a formal application supported by all the required documents should be filed and approved by the local Ministry of Commerce either at a county, municipal or provincial level. After the formal approval is received, then an appliance is needed to the Ministry of Commerce with necessary documents for an approval certificate (Chinaknowledge.com).

The required documents must include the application letter for establishing the WFOE, such as articles of association, list of legal representatives, a list of materials to be imported, written replies from the local approval authorities at county level or above, etc (Chinaknowledge.com).

Stage 3: Business License

Upon collection of the approval certificate, an application for a business license has to be filed within 30 days at a provincial or municipal level with the Administration for Industry & Commerce (AIC). The local AIC will then issue the business license within 10 working days to projects that have passed the examination and this will also be considered to be the official date of the establishment of the enterprise (Chinaknowledge.com).
Having acquired the business license, the WFOE has to finish up with procedures such as opening of a bank account, registration for tax payment and customs declaration with the local public security, technical supervision, etc (Chinaknowledge.com).

**Process of establishing a WFOE in China and the required steps**

Before registration of WFOE the firms needs to posses the required documents

1. 2x Certificate of Incorporations, or Articles of formation or Equivalent document certified by Chinese embassy or Chinese consulate.
2. 2x Bank Reference Letters from investor’s bank.
3. Passport copy of: Parent company’s director, China company’s Legal Representative and China company’s supervisor.
4. 6 photos and brief resume provided by China Legal Representative.
5. Registered capital; Business Scope; 8 proposed Chinese names of China company
6. Office address in China, 2x leasing contracts, 2x certificate of real estate ownership and 2x landlord identification.
7. 4x Letter of Authorization.
8. And a trading WFOE needs to display the latest annual audit report copy provided by a Certified Public Accountant (CPA) and Custom HS Code of proposed Import/Export products in China (pathtocchina.com(B)).

The above documents are enough to register a Trading WFOE, Service WFOE & Consulting WFOE. But, if investors want to incorporate a Manufacturing WFOE in China there are additional documents required.

9. Purpose and estimated investment
10. WFOE’s operational structure and number of employees
11. Permission for land use, environment evaluation report
12. Products, size of production, detailed list of equipment, and business plan
13. Environmental protection measures
14. Requirement for utilities such as power and water supply (pathtocchina.com(B)).
Once the firm has the required documents the procedure for registration is as follows:

15. Name registration with State Administration of Industry and Commerce (SAIC)
16. Certificate of Approval by Ministry Of Commerce or Foreign Economical Cooperation Bureau
17. Apply for Business License with SAIC
18. Chops made by Public Security Bureau (PSB)
19. Organization Code License by Technical Supervision Bureau (TSB)
20. Tax Certificate by Taxation Bureau
21. Registration and Approval with State Administration of Foreign Exchange (SAFE)
22. Open Foreign Currency and RMB bank account
23. Inject Capital from investor’s overseas bank account
24. Capital Verification Report by Certified Public Accountant (CPA)
25. Applying for Permanent Business License with SAIC
26. Financial certificate Registration
27. Statistics license Registration
28. Import/Export license (Applicable for Trading & Manufacturing WFOE only) (pathtochina.com(B)).

2. Interview Guide - Agents

Part 1: Background

Can you describe the company?

- What kind of industry is the company in?
- How long have the company been active?
- What vision does the company have?

What is your position in the company?

- For how long have you been working for this company?
• What is your responsibility in the company?

Part 2: Company’s Network

How does the company’s network look like?

• Customers, government, local government, bank, agents, lawyers etc.

How does your network look like?

• Social network etc.

Does the companies’ network fasten the process of getting things done in China?

Part 3: Institutional barriers in China

Which barriers do you think foreign companies experience the most difficult when setting up a business in China?

• Paperwork, language, informal procedures, interacting with people, “Chinese way of doing things”

How is it like when dealing with the local government?

• Language, bureaucracy

How important do you think it is for foreign firms to know about the Chinese culture and norms when setting up a business in China?

Which resources do you think is most important for foreign firms to have when setting up a business in China?

• Finance, language, knowledge, homework, network, experience

To what extent can your firm assist a foreign firm who wishes to enter the Chinese market?
3. Interview Guide – Case Company

Part 1: Background

Can you describe the company?

- What kind of industry is the company in?
- How long have the company been active?
- What vision does the company have?
- Which countries is the company active in?

What is your position in the company?

- For how long have you been working for this company?
- What is your responsibility in the company?

Part 2: Setting Up the Business in China

- How long have the company been active in/on the Chinese market?
- What was the motive for entering the Chinese market?
- What was your expectation for the Chinese market, in terms of profit, easiness of doing business and growth?
- How involved were you in the process of setting up the business in China?
- How did the plan look like for setting up the business in China?
  Time, resource (internal & external) needed
- Can you describe the process of setting up a business in China?

Part 3: Company’s Network

How does the company’s business network look like?

How have you built up your network in China?

- Recommendations, own research etc.
Can you describe the company’s internal resources?

- Experience, knowledge, language, social network,

Can you describe the company’s external resources?

- Outside experts, consultants, business network, finance

How does the management look like in the company?

- How is decisions made in the company?

Part 4: Institutional barriers in China

Have the process of setting up a business in China been as planned?

- In terms of timeline and resources needed etc.

Can you comment about the process of setting up a business?

- Which steps did you feel was flexible, easy, difficult, uncomfortable, problem, unnecessary etc.
- Informal steps?

How is it like when dealing with the local government?

- Language, bureaucracy

How important do you think it is to know about the Chinese culture and norms?

- Did you experience anything dissimilar from Swedish culture and norms?

How have the resources been applied for overcoming these barriers?

- Internal/external, a lot of preparation before executing, homework, finance, agent help, Swedish trade

In retrospect, do you think that it needed more preparation for setting up a business in China?
• Is there anything you would have done differently today?