

LAPPEENRANTA UNIVERSITY OF TECHNOLOGY

School of Business

International Marketing Management

Emma Bettina Räisänen

ENTRY MODES OF FINNISH FOOD ENTERPRISES IN CHINESE MARKET

Supervisor/Examiner: Professor Sami Saarenketo

Examiner: Professor Olli Kuivalainen

ABSTRACT

Author: Emma Bettina Räisänen

Title: Entry Modes of Finnish Food Enterprises in Chinese Market

Faculty: School of Business

Major: International Marketing Management

Year: 2015

Master's Thesis: Lappeenranta University of Technology

128 pages, 4 figures, 3 tables and 3 appendices

Examiners: Prof. Sami Saarenketo, Prof. Olli Kuivalainen

Keywords: Entry modes, internationalization, food industry, China

China's phenomenal economic growth and social development have brought along interesting opportunities for Finnish companies. One intriguing sector offering significant growth potential is the food industry. Due to the local food safety issues, rising disposable income level and changing consumer habits, the demand for foreign food is increasing. Finnish food companies have much to offer in terms of high quality, food safety in production, technological development and innovation.

The purpose of this study is to examine how the Finnish food enterprises choose their entry modes in the Chinese market. This study increases understanding of entry modes the Finnish companies can use to successfully enter the unpredictable market of China in the food industry context. The study examines the industry specific challenges and the possible solutions to them.

Qualitative research is selected as research methodology for this study because the intention is to understand the reasons behind the Finnish food enterprises' entry mode choices in the Chinese market. The study is conducted as a qualitative case analysis. Six Finnish case companies operating in the food industry were interviewed.

The results of the research indicate that most of the food industry companies use exporting as their entry mode to China; only one case company used an investment mode. This study illustrates the significance of the factors related to company's background, mode concerns and Chinese market influences in the entry mode choice.

TIIVISTELMÄ

Tekijä: Emma Bettina Räisänen

Tutkielman nimi: Suomalaisten elintarvikealan yritysten etabloitumisstrategiat Kiinassa

Tiedekunta: Kauppatieteellinen tiedekunta

Pääaine: Kansainvälisen markkinoinnin johtamisen maisteriohjelma

Vuosi: 2015

Pro gradu – tutkielma: Lappeenrannan teknillinen yliopisto
128 sivua, 4 kuvaa, 3 taulukkoa ja 3 liitettä

Tarkastajat: Prof. Sami Saarenketo, Prof. Olli Kuivalainen

Hakusanat: Etabloitumisstrategiat, kansainvälistyminen, elintarvikeala, Kiina

Kiinan ilmiömäinen taloudellinen kasvu sekä yhteiskunnallinen kehitys tarjoavat mielenkiintoisia mahdollisuuksia myös suomalaisille yrityksille. Yksi nouseva ja erityisen kiinnostava toimiala on elintarviketeollisuus. Kiinassa sattuneiden elintarvikeskandaalien, kasvavien tulojen sekä muuttuvien kulutustottumusten myötä ulkomaisten elintarvikkeiden kysyntä on kasvanut nopeasti. Suomalaisilla yrityksillä on paljon tarjottavaa liittyen elintarvikkeiden korkeaan laatuun, turvallisuuteen ja tuotantoteknologioiden kehitykseen.

Tässä tutkimuksessa tarkastellaan suomalaisten elintarvikealan yritysten etabloitumisen muotoja sekä niiden valintaan vaikuttavia tekijöitä Kiinassa. Tutkimuksen tarkoitus on myös lisätä ymmärrystä siitä, minkälaisia haasteita yritykset voivat kohdata elintarvikealalla etabloituessaan Kiinaan ja kuinka ongelmat voidaan ratkaista.

Tutkimuksen empiirinen osio on toteutettu kvalitatiivisena tutkimuksena kuudesta elintarvikealalla toimivasta case-yrityksestä. Laadullisen tutkimuksen keinoin pyritään ymmärtämään syitä joiden perusteella yritykset valitsevat tietyn etabloitumisen muodon. Tutkimuksen tulokset osoittavat, että suomalaiset elintarvikealan yritykset käyttävät eniten vientiä etabloituessaan Kiinan markkinoille. Vain yksi tutkimukseen osallistuneista yrityksistä oli investoinut yhteisyritykseen Kiinassa. Tulokset osoittavat yrityksen sisäisten ja ulkoisten tekijöiden sekä kiinalaisen markkinaympäristön merkittävyyden etabloitumisen muodon valinnassa.

ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to the people that have helped me in this challenging and intense process of writing my master's thesis.

First I would like to thank the representatives of the case-companies that have been interviewed for this thesis. I highly appreciate your contribution, without you this research would not have been possible. Based on your experiences and comments I gained a broader understanding of my research topic and China as a business environment. I also would like to thank Finpro, Tekes and FBCS, especially Jarmo, Jaani, Timo and Oskar for their support during my time in Shanghai. Additionally I want to thank Erika, Helen and Chris for taking my mind off from work when it was time to relax.

Secondly I would like to thank the great people I met during my master's studies in LUT and BJUT. I also thank Professor Sami Saarenketo for guidance in the thesis process and Professor Francis Piron for motivating me to go to China for my exchange studies. The awesome time I spent in Beijing and the road trip around China after the semester inspired me to return next year to Shanghai for my internship. I am grateful for such interesting international experiences during my studies in LUT.

Most importantly I want to thank my family and friends for support during all these years. You have kept me going. Special thanks to Helmi, Marjaana, Fabiane, Anni, Cristel and Noora. And of course to Severino for never allowing me to stop questioning. I also must pause to thank myself for the hard work I have done. Now I am ready to move on towards new adventures.

Table of Contents

1. INTRODUCTION	1
1.1 Background of the study.....	1
1.2 Research objectives and questions	4
1.3 Theoretical framework.....	5
1.4 Definitions	7
1.5 Delimitations	8
1.6 Methodology	8
1.7 Structure of the study	9
2. THEORETICAL PERSPECTIVES TO FOREIGN ENTRY MODES.....	10
2.1 A review of the theories and perspectives to market entry.....	10
2.1.1 Transaction cost analysis	11
2.1.2 Institutional theory.....	15
2.1.3 Resource based view.....	17
2.1.4 Eclectic framework (OLI).....	19
2.1.5 Social capability and network theory	20
2.1.6 Uppsala model.....	22
2.2 Foreign entry modes.....	24
2.2.1 Export modes	24
2.2.2 Contractual modes	27
2.2.3 Investment modes	34
2.3 Choice of entry strategy.....	37
2.3.1 Mode selection.....	39
2.3.2 Mode switching and combination strategies.....	41
3. CHARACTERISTICS OF THE CHINESE MARKET AND BUSINESS ENVIRONMENT	46
3.1 Economic development	46
3.2 Challenges of the business environment	48
3.3 Political environment	49
3.4 Specifics of the Chinese business culture.....	51
3.5 Social and environmental issues	57
4. FOOD INDUSTRY IN CHINA	60
4.1 Recent food industry development	60

4.2	Food safety scandals in China.....	63
4.3	Changing consumer habits	65
5.	INTERNATIONALIZATION OF FINNISH FOOD ENTERPRISES TO CHINA	67
5.1	Finland-China relationship	67
5.2	Finnish food enterprises in China	69
5.3	Co-operation and programs	70
6.	EMPIRICAL ANALYSIS OF FINNISH FOOD ENTERPRISES ENTRY	
	MODES TO CHINA	73
6.1	Research methodology.....	73
6.2	Case selection and data collection	77
6.3	Data analysis.....	80
7.	DISCUSSION AND CONCLUSIONS.....	111
7.1	Summary of main findings	112
7.2	Managerial implications	115
7.3	Limitations and suggestions for further research	116
	REFERENCES	118
	Appendices	126

Abbreviations

AQSIQ Authority of inspection of imported food and pre-authorization of establishments

ASEAN Association of Southeast Asian Nations

China IPR SME Helpdesk EU funded project offering free practical and factual information to help European SMEs in China

CPC The Communist Party of China

EFSA European Food Safety Authority

FAO Food and Agriculture Organization of the United Nations

GDP Gross Domestic Product

GNI Per capita The gross national income converted to U.S. dollars using the World Bank Atlas method, divided by the midyear population

HKTDC Hong Kong Trade Development Council

IMF International Monetary Fund

JV Joint Venture

MNE Multinational enterprise

NBS Chinese National Bureau of Statistics

PPP Purchasing Power parity

PRC People's Republic of China

ShFDA Shanghai Food and Drug Administration

Sitra Fund operating under the Finnish Parliament

TCA Transaction Cost Analysis

Team Finland Network promoting Finland and its interests abroad

WTO World Trade Organization

1. INTRODUCTION

This chapter is a general introduction to the study. First the background of the research is briefly described, next the research questions, objectives and the aims of the thesis are presented. Then, the definitions and delimitations of the research are explained and the methodology used in the empirical part is introduced. Then the theoretical framework of the study is discussed and illustrated. The chapter ends with the description of the structure of the whole study.

1.1 Background of the study

China is a country of opportunities, challenges and contradictions. The world's most populous country is going through a long chain of changes that are reshaping its economy, society and the political system. China has shifted from a centrally planned to a market based economy and experienced rapid economic and social development. More than 500 million people have been lifted out from poverty while the GDP growth has been on average 10% a year. China is the largest trading nation of the world and has recently become the largest economy by nominal GDP. The role of China in the global economy is increasingly important and influential. (World Bank 2014) Data released by IMF at the end of year 2014 revealed that China has surpassed U.S. economy and became the largest economy of the world (IMF, BBC 2014).

China's phenomenal economic success is unique; there is no other country in the recorded history that has been able to sustain an almost uninterrupted phase of high growth for such a long period. From autarkic socialist economy through the introduction of economic reforms in 1978, China has emerged as one of the most powerful economies of the world in a span of three decades (Bhaumic 2009,35). Rapid economic ascendance has brought on alongside the opportunities also many difficult challenges

that China needs to overcome. Major issues include growing social disparities, rapid urbanization and migration of labor, demographic pressures, external imbalances and challenges to environmental sustainability. (World Bank 2014) According to the OECD's latest Economic Survey of China, the forecasts are that China's GDP will grow by 7% this year and 6.9% in 2016. China's gradual transition towards slower, more sustainable growth is to be welcomed after three decades of extraordinary economic development. The challenge now is to ensure that future growth occurs on a more durable and inclusive basis. (OECD 2015)

According to publications of Sitra (2015, 28) the government has understood well the importance of tackling these issues and is taking actions to increase the well-being of the society as a whole. The growing middle class is demanding social development in addition to the economical growth. Personal freedom, better public services and higher quality of life are expected by individuals. There is also a growing pressure on more open and transparent political system. Lately this tendency towards openness and growing public awareness has resulted in increasing discussion about the challenges that China is facing.

Food safety is one of those challenges. It is a topic that touches the everyday life of all the inhabitants of China and according to a recent survey, around 64% of Chinese consider food safety as the number one priority that affects their daily life and requires immediate action by the government. (World Bank 2014,2; Tekes.) The consequence is that while the problems expect to be solved, imports of foreign foodstuffs have been steadily increasing as the Chinese consumers have more purchasing power. Based on reports of The Chinese National Bureau of Statistics the annual growth rate for imported food and beverage was around 15 % during last five years. (NBS Yearbook 2013; Asia Perspective 2014) According to statistics provided by the Chinese customs, the value of imported processed food and beverages climbed from 13.4 billion dollars in 2008 to 35.1 billion in 2012, up 27.3% on average each year. (HKTDC 2013)

Finland has much to offer when it comes to high quality standards and safety of food. The Team Finland members target is to facilitate the entry of Finnish food enterprises to Chinese market by different initiatives and programs. Finpro's Food From Finland-export program intends to double the Finnish food export by the year 2020 and one of the main target markets is China. Also, food industry has been one of the important topics for recent events of Team Finland in China, for example Minister Toivakka's delegation visit in February 2015. (UM 2015, Finpro 2015)

In addition to all of these external factors, the choice of the subject for this study is also influenced strongly by personal motivations and interests. First an exchange study programme of Chinese Business and culture in Beijing University of Technology in the spring of 2014 gave valuable background information, then spring 2015 as a trainee in Finpro's Shanghai office helped to get a more complete comprehension of the China's current situation and especially the food industry trends. Participation in related events and discussions with long-term China experts confirmed the choice of the topic for this thesis. Personal presence in China has been important in order to truly understand its complexity and the huge potential the country holds and to see the challenges and problems that hinder the use of that potential.

There are anyhow endless opportunities for collaboration between China and Finland. Safe food is a human right and Finnish organizations can be of help in several ways in delivering that to the Chinese consumers. Yet beliefs of the difficulties that might be faced when cooperating with Chinese counterparts may prevent many successful projects even from starting. This thesis, in addition to answering the research questions presented in the next chapter, intends to clear some of the prejudices and make taking the first steps into the Chinese market easier.

1.2 Research objectives and questions

The purpose of this study is to examine how the Finnish food enterprises choose their entry modes in the Chinese market. The aim is to find factors that influence the choice of the entry mode and to examine if and how have the case companies switched or combined the chosen entry modes, and how relevant is the role of networks when entering the Chinese market. The study increases understanding of entry modes the Finnish companies can use to successfully enter the turbulent and unpredictable market of China, especially in the food industry context. The study examines the industry specific challenges and the possible solutions to them. The focus is on the Finnish food enterprises; however the challenges are similar to any western food enterprises, so the results are relevant also in broader scope.

Research question:

- How do the Finnish food enterprises choose their entry modes in the Chinese market?

Sub-questions:

- Which food industry related factors influence the entry mode choice in China?
- Which are the main challenges related to food industry in China and how have companies overcome them?
- What is the role of networks in the context of entering China's food market?

1.3 Theoretical framework

What has appeared from many strands of research is that foreign entry mode decisions are critical in establishing the basis of a firm's foreign market penetration capacity. Sometimes effective internationalization may also require the use of broader array of operation modes. (Welch & Benito 1994, 7)

Several frameworks of the choice of foreign market servicing method have been proposed in the literature. The theoretical framework of this study is adapted from the foreign operation mode decision model presented by Welch et al. (2007, 438). The model consists of three factors that influence the choice of foreign operation method strategy; company background, company mode concerns, and foreign market influences. These three areas will ultimately have an effect on the entry mode strategy of a Finnish food enterprise entering the Chinese market.

Company background has a great effect on the mode strategy because it relates to matters like company's size, industry field, financial and human resources, prior experience and entry market specific knowledge.

Company mode concerns include matters such as handling risks and uncertainty, finding suitable partners or takeovers, and the issue of profitability. Foreign market influences consists of market conditions, business culture, physical distance and governmental and institutional factors. The internationalization aspect in the model refers to the internationalization process while the mode action concerns of the mode entry or change related issues

The three areas that influence the entry mode choice frame this research, while there is a strong emphasis on the industry specific factors when looking at the foreign market influence. The target is to understand the impact of these three areas of the framework especially related to food industry in China, so obviously the study is conducted in this context.

There is a large quantity of research done on the entry modes, however even if the literature has revealed that the foreign entry mode choice is contingent on a firm's industry, the studies that delve deeply into industry characteristics and their impact on entry mode choice are largely lacking. (Scwens & Laufs, 2014, 1122) The food industry focus was selected for the topic of this study not only because of its significance at the time of the research, but also based on the gaps identified in the current literature.

The main aspects of the study and how they relate to each other is demonstrated in the figure1.

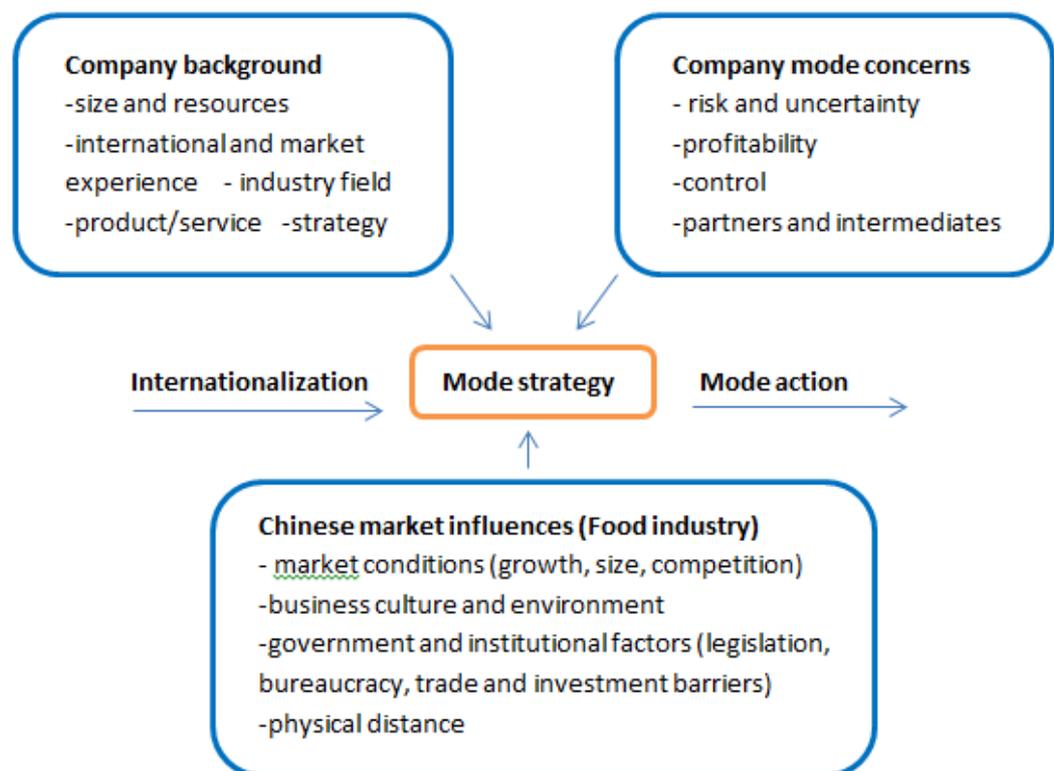


Figure 1. Theoretical framework of the study (adapted from Welch et al. 2007, 438).

1.4 Definitions

Internationalization

Internationalization means the process of increasing involvement of enterprises in international markets. Internationalization takes place when the company expands its R&D, production, selling and other business activities into international markets. (Hollensen 2011, 50) According to Johanson and Wahlne (1990) the internationalization processes are the result of a mixture of strategic thinking, strategic action, emergent development and necessity so it is worthwhile to analyze the internationalization of firms with regard to these factors. It is important to also keep in mind that the company internationalization is embedded in rapidly changing world.

Entry mode

After having chosen the target market, the company needs to select the most suitable way to enter that market. An international market entry mode is an institutional arrangement necessary for the entry of products, technology and human capital of a company into a foreign market. The mode of entry decision is a key strategic issue, and a wrong market entry selection in the initial stages of internationalization can threaten the future market entry and expansion activities of a company. (Hollensen 2011, 315) The entry modes can be classified in contractual, exporting or investment modes. (Welch et al. 2007, 3)

Food industry enterprise

In this study the Finnish companies that participated in the study can be classified according to standard industrial classification TOL (Statistics Finland). The categories of interest in this research are Manufacture of food products (10), Manufacture of other food products (108) and the Wholesale of food and beverages (463).

1.5 Delimitations

This study focuses on Finnish food enterprises and their market entry mode choices when the companies enter the Chinese market. The purpose is to describe and understand selected entry modes and analyze market choice and industry related factors. Many Finnish food enterprises are at the early planning stages and very interested to enter the Chinese food market, but still not yet there. The narrow focus on the food industry was selected to increase the understanding on this interesting industry and the situation that the Finnish food companies face when choosing to enter China.

The main idea was to concentrate on the few case companies that represent the industry and have experiences to share to benefit the study. The purpose is not to describe all the possible aspects of different entry mode choices but rather study their usage in the challenging business environment of China's food industry context. This study does not comprehensively scale or evaluate the success of each operation mode and its statistical generalizability is limited because of the nature of qualitative research. Lastly, the case study interviews were conducted at this certain point in time and thus the study is based on the current situation and would benefit from a follow-up study.

1.6 Methodology

Qualitative research methods facilitate study of issues in depth and detail; the aim is to gain deep and thorough understanding about the research subject. The themes, patterns, understandings and insights that emerge from qualitative inquiry are a way to really understand a certain phenomenon and the reasons behind it. Qualitative research allows the interaction with people and the researcher to gain understanding through other individual's experiences and perceptions. Qualitative data consists of quotations, observations and excerpts from documents. The credibility of

the qualitative methods depends much on the skill, competence and rigor of the person doing the fieldwork. (Patton 2002, 4-5) Qualitative research does not aim to statistical generalizations. And as Patton (2002, 7) states, the quality of the insights generated is what matters, not the number of such insights.

The qualitative research was chosen as the research methodology for this study because the intention is to understand the reasons behind how the Finnish food enterprises choose their entry modes to the Chinese market. The study is conducted as a qualitative within-case and cross-case analysis. Six Finnish case companies operating in the food industry in China were interviewed either face-to-face, by telephone or by an email questionnaire. The respondents were reminded about the confidential nature of the research so they would be able to reply freely without concerns of revealing sensitive competitive information. The methodological process of the research is discussed more in detail in chapter 6.

1.7 Structure of the study

The study begins with the introduction chapter that is followed by the second chapter that offers a literature review of theories and perspectives to foreign entry and operation modes. The chapter is divided in the theoretical approaches, entry modes and choice of strategy. In the third chapter the special characteristics of China and its business environment are discussed. The fourth chapter goes deeper into the contextual subject of the study and the food industry in China is introduced. The fifth chapter then further opens up the internationalization of Finnish companies to China and some of the related challenges are described. In the sixth chapter the research process is introduced in detail and the results are analyzed. The cases are discussed and major empirical findings are reflected to the theory and the research questions are answered. The last chapter draws out the conclusions and implications and gives further suggestions for research.

2. THEORETICAL PERSPECTIVES TO FOREIGN ENTRY MODES

There are a number of theories that can be applied in order to explain the entry mode decisions. The first part of this chapter offers a compact review of the most commonly applied theories and perspectives to the entry and operation mode studies and some insight to the more recent theories that intend to explain this interesting and complex phenomenon. In the second part of this chapter the different contractual, exporting and investment operation modes are described. The last part of the chapter discusses the mode strategy issues.

2.1 A review of the theories and perspectives to market entry

Over the past decades there has been growing interest on companies' internationalization process and the choice for foreign entry and operation mode. From the many strands of research has emerged the recognition that foreign entry mode decisions are critical in establishing the base for a company's foreign market penetration capacity. (Benito & Welch, 1994,7) According to Terpstra and Sarathy (1991, 361) the choice of the entry and operation mode can be seen as one of the most important decisions in the internationalization process because it determines how the company is involved in the foreign operations and the control it has over the activities in foreign markets, and finally how it succeeds in the foreign markets.

Brouthers & Hennart (2007, 400) state that the most commonly applied theories are transaction cost analysis, resource-based view, institutional theory and Dunning's eclectic framework. These four theories are used as the theoretical foundation for almost 90 percent of the published entry mode studies. According to Canabal & White(2008, 272) it appears that entry mode research has originally relied largely on theories based on economics (for example TCA) and anthropological perspectives of cultural factors; however more recent studies have applied theories originating

from other fields of study and have increasingly integrated multiple theories to provide a better understanding on the phenomena. There is a trend towards much more complex theoretical understanding of entry modes.

Entry mode choice is contingent on a company's network relationships rather than only on firm-specific advantages. Social capability and network theory has relationships with other theoretical approaches in the foreign market entry mode choice literature, for instance it reflects the hybrid form of transaction cost economics. (Scwens & Laufs, 2014, 1122)

The kind of theoretical approach that combines different entry mode related theories represents well the contemporary entry mode research field. Time has driven by the previously dominant theories and the tendency is more and more towards usage of combined and stretched modes and hybrid forms of theories. Based on this notion, this study aims to understand how the theoretical perspectives best can be of help in selecting the correct entry and operation mode in the Chinese market environment.

2.1.1 Transaction cost analysis

According to Brouthers and Hennart (2007,400) in the general research on the international entry mode choice TCA (Williamson ,1985) is the most widely used theoretical perspective. The basic rationale of transaction cost theory is that companies need to create governance structures that will minimize costs and inefficiencies associated with entering and operating in a foreign market. (Canabal&White 2008, 269)

Transaction cost variables are concerned with the cost of integrating an operation within the company as compared with the cost of using an external party to act for the firm in a foreign market. The costs are composed of finding and negotiating with an appropriate partner and the

cost of monitoring the performance of the partner. The theory proposes that such costs influence the entry mode choice. (Brouthers 2002, 204)

The main implication of the theory is that companies choose their governance structures in order to be able to advance their asset utilization while protecting against risks. Additionally the theory suggests that multinational companies evolve as a reaction to market imperfections for different types of cross-border transactions (Welch et al. 2007, 24). TCA also argues that managers suffer from bounded rationality and the potential partners may act opportunistically if they are given the chance. (Brouthers & Hennart 2007, 400)

TCA framework has three factors that are hypothesized to influence decisions. These factors are asset specificity, uncertainty, and frequency. Asset specificity is a central explanatory variable in majority of TCA studies. Asset specificity refers to the assets that lose value in alternative use. Asset specificity basically implies that the parties involved in the transaction each possess some attribute that makes them valuable to the other in regard to international entry strategy. The interaction of these factors determines whether the market will be supplanted by the firm conducting the transaction. The situation called holdup occurs when suppliers or customers have to make investments which are specific to the buyer, and which expose them to the other party to alter the price of the product. In order to avoid this situation, the parties will draft a contract that specifies the price of the product for the useful life of transaction-specific investments. (Brouthers & Hennart, 2007,400) Asset specificity can create contracting hazards because of the opportunism, meaning that the other company takes advantage of the other firm's dependency. To safeguard from potential opportunism problems, firms may utilize higher control governance structures, especially in the case of high asset specificity. (Brouthers, 2002, 215) All in all the general notion of the model is that the higher the specificity of investment the higher the company's commitment in terms of entry mode.

Uncertainty is the second factor of the TCA model, and it has a specific role in Williamson's (1985) model. TCA framework proposes that uncertainty makes contracts inefficient and exposes parties to holdup. Uncertainty is acknowledged to be problematic while coupled with asset specificity or high switching costs. Uncertainty is divided into external and internal uncertainty. Because of external uncertainty it is difficult to specify in advance all the possible contingencies in a contract. And due to the information asymmetry it might be difficult to receive a fair price. External uncertainty relates to market-specific factors like country risk or cultural distance and it can be measured for example with country risk index or dimensions of culture by Hofstede. Internal or behavioral uncertainty makes it difficult to verify performance later. Internal uncertainty is generally thought to be lower if the company has more international experience. Experience is indirect way to measure behavioral uncertainty and some studies have adopted non-experience based measures of internal uncertainty that examine issues such as perceived difficulty in partner selection and ability to enforce, monitor and control contractual agreements. Empirical evidence on the topic has however been mixed, and more thought need to be given to how different types of uncertainty are measured and how they influence the entry mode choice. (Brouthers & Hennart 2007,404; Brouthers 2002, 204)

The third factor of TCA model is frequency. It influences the firm boundary decisions; the choice between using market contracting and integrating transactions within the company. Even if the contracts use already existing enforcement mechanisms integration requires firms to craft their own enforcement mechanisms. The fixed cost involved in integrating transactions within the firm can be only justified if the volume of transactions is large enough. Frequency is important determinant of the choice between contracts and equity and as a perceptual activity measure. (Brouthers & Hennart 2007,401)

The TCA theory predicts that an enterprise performs internally the activities it can undertake at lower cost through establishing an internal

management control and implementation system while relying on the market for the activities in which independent outsiders, like distributors, agents or export intermediaries, have a cost advantage. The transaction costs can be divided into different forms of costs related to the transactional relationship between the buyer and seller; ex ante costs and ex post costs.

Ex ante costs mean the search and contracting costs. Search costs include the cost of gathering information, identifying and evaluating potential export intermediaries. Search costs for distant, unfamiliar markets, where available published material on market information might be lacking, can be especially prohibitive as for example in the case of exports to China. Contracting costs are associated with negotiating and writing an agreement between the producer and export intermediary.

Ex post costs refer to monitoring and enforcement costs, meaning the costs associated to monitoring that both parties fulfil the predetermined set of obligations and the possible sanctioning cost if the trading partner does not perform in accordance with the agreement. Williamson (1985) identified two main alternatives of governance; externalization and internalization. If the transaction costs through externalization, for example through an importer or agent, are higher than the control cost through an internal hierarchical system, the firm should seek internalization of activities, using wholly owned subsidiaries for example. (Hollensen 2011, 77-79)

Although many studies demonstrate the robustness of the TCA model, Schwens & Laufs (2014, 1118) state that there is further need for research, especially concerning how well the model can suit SMEs, that might lack resources to use high commitment entry modes like greenfield investment or acquisitions.

2.1.2 Institutional theory

Institutional theory examines how companies enter and operate in an institutional context that is defined by certain values, rules and norms. The institutional environment of a country affects the company's scope of action because the environment sets the rules according to which the firms must behave. So the boundary choices of the firm are affected by the country's institutional environment. (Brouthers & Hennart 2007, 406) The theory also suggests that isomorphic pressures can have significant influence on decision makers' entry mode selection. For example firms entering a new market will mimic local host country firm actions or competitor actions in order to legitimize their own operations and market presence. (Canabal & White 2008, 271)

The institutional structure in some countries may create a situation where for example the transaction cost predicted mode may not be preferred and however not all the countries offer secure institutional structures.

Sometimes the institutional structure provides barriers to entry such as legal restrictions of ownership and thus host governments may restrict the foreign firm mode choice. Firm's ability to exploit or enhance its capabilities may vary across institutional contexts in different national environments. (Brouthers 2002, 4)

The application of institutional theory to the entry mode choice decision has developed from models of host country risk and uncertainty perceptions to more theoretically based research that derives concepts from new institutional theory. (North, 1990; Scott, 1995) Early work on institutional theory was focused on risk or uncertainty related to product, government policy, macroeconomic, materials and competition. Scholars have found that these risks and uncertainties were important determinants of entry mode choice.

The new institutional theory suggests that country's institutional environment is made up of a set of three dimensions: regulatory, cognitive, and normative. These dimensions vary by each country and they influence

the way how the business is conducted and thus have an effect on managers' decision making process. (Brouthers & Hennart 2007,406) The regulatory dimension concerns the laws and rules, while the cognitive dimension refers to the cognitive structures and the normative dimension encompasses the social values, culture and norms. New institutional theory distinguishes between the formal and informal institutions. According to the theory, a company strives for legitimacy and acceptance by conforming to the host country conditions and expectations. (Yiu & Makino 2002, 667)

Brouthers and Hennart (2007, 406) state that the study by Yiu and Makino (2002) is an example of the new direction for research on institutional theory and entry mode choice. They studied the impact of regulatory, normative and cognitive influences on entry mode choice, controlling the TCA-based influences. The results indicate that all three dimensions have direct effect on entry mode choice. Yiu and Makino (2002) also suggest that cultural distance may reflect differences in normative belief system between home and host countries.

Xia et al. (2008, 196) mention that institutional theory has proved especially useful in interpretation of firms strategies on emerging markets, particularly the research on mimetic entry. (Hevemon 1993) In their research Xia et al. (2008) explored the mimetic mechanism that may drive the rise and decline of strategies in emerging economies where institutional support may be industry and time specific. Their research was done in the context of China. The findings suggest that firms entering transition economies must be attuned to population level changes and trends in different entry strategies since each mode has its own benefits and risks. Using the popular entry mode in the host country may help the company to gain governmental approval and legitimacy, but yet ultimately be less efficient in meeting the strategic and technical needs of the entrant. Xia et al. (2008, 198) also emphasize the importance of choosing a proper reference group as a clue for foreign market entry. Most firms watch their rivals in the home market because the accessibility of information and

common background, while the reference group in the host country might be more important. The regulatory changes in transition economies are not even across industries, thus absorbing information from host country industry peers may help international managers identify pioneering entry modes that fit their strategic needs.

2.1.3 Resource based view

The resource based view proposes that companies develop unique resources that they can exploit in foreign markets or use foreign markets as a source for acquiring or developing new resource-based advantages. Companies develop resource based advantages by developing or acquiring a set of specific resources and capabilities that are valuable, rare and hard to imitate and for which there are no commonly available substitutes. Experience has been one of the earliest resources to be explored in relation to entry mode. Erramilli's (1991) study of experience and mode choice is a good example of this line of research. He examined the length and scope of international experience and how this experience influenced international entry mode choice. Erramilli (1991) found a U-shaped relationship between length and scope of experience and mode choice, so that the low levels of experience and greater experience lead to the use of full control modes, whereas intermediate levels of experience were related to market based modes. (Brouthers & Hennart 2007, 405)

Penrose (1995) suggests that the RBV is particularly suitable for explaining the international entry strategies because its dynamic foundations form a basis for analyzing the dynamics of firm growth, especially the mode and direction of international growth. According to RBV companies' growth paths are a function of their resources, notably their fungible or location bound nature. The RBV provides a tool to analyze how firms' resource endowments, in particular knowledge, generate competitive advantages and drive corporate growth. Companies may

augment knowledge through international operations directly by accessing resources and indirectly through the learning process of the parent company. (Meyer et al. 2009, 557)

According to Meyer et al. (2009, 558) in a foreign entry context exploitation of existing assets involves applying existing knowledge by transferring firm specific advantages in foreign operations. While TCA model focuses on costs of transferring resources, RBV is focused on potential benefits created by resources that can be transferred through alternative modes. Beyond exploitation of existing resources foreign entry is supposed to augment the company's resource base by internal exploration of existing knowledge through organizational learning and external access to complementary resources. When new knowledge development is more important firm are likely to choose collaborative entry modes.

Also the nature of the existing resources determines if the company needs to engage in resource augmentation when going abroad (Luo, 2002, 50). If the core competences of a firm are geographically fungible, foreign investors may attain competitive advantages in new markets with few additional local resources and enter by a resource-exploiting mode. Firms with core competences based on location specific competences prefer modes that allow them to access complementary local resources, unless they already have such resources in the specific context, for example in the form of country-specific experience.

The nature of existing resources determines how a firm can grow by leveraging its own resources with external resources. Entry modes can be categorized into low, medium and high resource augmenting modes, based on their merits for enhancing resources. Low resource augmenting modes include exports, cross border provision of services, contracts, and consortia partnerships. Franchising and licensing are traditional means to transfer knowledge to an independent firm, allowing the transferor to have control through bargaining power. Greenfield plants and branch offices

staffed by expatriate professionals are also low resource augmenting modes. These modes allow limited learning because of weak interfaces with local firms. Medium resource-augmenting modes allow the foreign company to access into the host country resources while allowing exploitation of their own resources. These modes include partial acquisitions, minority or majority JVs, and the establishments of branch offices run by expatriates and local experts. High resource-augmenting modes include majority or full acquisitions that allow entrants complete access to the resources of a local firm. Access to complementary resources is major motive for acquisitions because it provides entrants with otherwise hard to obtain organizationally embedded resources. (Meyer et al. 2009, 571)

2.1.4 Eclectic framework (OLI)

The eclectic paradigm has remained for more than two decades as one of the most dominant analytical framework for accommodating a variety of operationally testable economic theories of the determinants of foreign activities of enterprises. The construct is profound, yet simple; the extent, geography and industrial composition of foreign production is determined by the interaction of three sets of interdependent variables, of ownership (O), location(L) and internalization(I). First factor is the competitive advantages that are specific to the ownership. The greater the competitive advantages of the firm in the intended target market, the more likely they are able to engage in foreign activities. Second factor is the location related advantages of alternative countries or regions for undertaking value adding activities. The third factor is that of the internalization related advantages. (Dunning, 2000, 163)

Laufs & Schwens (2014, 1118) refer that related to the entry mode context, the paradigm states that the enterprises choose the most appropriate entry mode by considering the advantages related to these three factors of the OLI framework. The framework combines insights from resource-

based, institutional and transaction cost theories. Ownership related advantages of firm specific competitive advantages must be sustainable and unique, for example the ability to differentiate a product or a service. The company that has company specific advantages can be better able to overcome the operating cost in a foreign market.

Location advantages are country-specific advantages as key determinant factors for where the company chooses to locate, for example related to availability and cost of resources. Dunning (2000, 178) mentions that actually the contemporary economic events are suggesting that the nature and composition of a country or region's comparative advantage, which has been traditionally based on its possession of a unique set of immobile natural resources and capabilities, is now more geared to its ability to offer a distinctive and non-imitable set of location bound created assets.

Internalization advantages are related to the benefits a firm obtains by choosing the most suitable modalities of exploiting their core competencies given the local attractions. There are different levels of commitment in the arrangements and the greater the benefit of internalizing, the more likely the firm is to engage in the foreign activities rather than for example selecting franchise agreements or licensing. (Dunning 2000, 174) As a conclusion, it can be said that the operation mode choice decision is based on the evaluation of these components and the risk, control, return and resources related to them.

2.1.5 Social capability and network theory

Social capability refers to the ability a company has to acquire and exploit resources from business networks. Rather than depending solely on the firm-specific advantages, the entry mode choice is contingent on a firm's network relationships, for example with customers, competitors and suppliers. Literature demonstrates that networks are an important recourse for companies and that they help companies to overcome

external challenges. The network theory has relationships with other theoretical approaches in the entry mode choice literature. For example reflecting on institutional theory, social capital reduces barriers to internationalization and moreover helps to reduce external uncertainties associated with contractual hazards as social ties are based on trust. (Laufs & Schwens 2014, 119)

Researchers like Håkansson and Snehota (1989) and Johanson and Mattsson (1988) emphasized the importance of the network setting in international business. The activities take place in a network context and there is interdependency amongst members of the network. Also Johanson and Vahlne (2006) suggest that networks are important in identifying opportunities during the firm's internationalization process.

Johanson and Mattsson (1988) define a company's network as the long-term business relationships that it has with customers, distributors, suppliers, competitors and government. The inter-connected relationships of these partners, for example the customer's customer and the customer's suppliers, are also included in this network. The dyadic relationship between two parties is influenced by the partners' other relationships as they provide opportunities as well as constraints. (Chetty & Stangl 2009, 1726)

A basic assumption in the network model is that an individual company is dependent on resources controlled by other firms. The network positions of the firms allow them to get access to these external resources. In the business network the actors are linked to each other through exchange relationships and their needs and capabilities are mediated through the interaction taking place in the relationships. Any actor in the network can modify the structure of the network by engaging in new or breaking old relationships. Thus the networks change flexibly in response to changing conditions. The development of positions takes time and depends on resource accumulation, so a company should establish and develop positions in relation to counterparts in foreign networks. (Hollensen 2011, 81)

In their research of how network relationships are used in internationalization and innovation, Chetty and Stangl (2009, 1725) found out that the companies with limited network relationships have incremental internationalization and innovation, whereas those with diverse network relationships have radical internationalization and innovation. Their findings suggest that network relationships are influential in shaping the future of the firm as well as sustaining it. So the managers need to be aware of the changing dynamics of network relationships, and the impact they will have on the company.

Especially for small companies the support of a partner and network is essential to face an expensive and risky investment like the entry into the Chinese market. The small firms will hardly have on their own the necessary means to stand in a complex and faraway market. (Bontempi et al. 2009, 18)

2.1.6 Uppsala model

In the Uppsala model the internationalization is seen as a process in which the firm gradually increases its international involvement. This process evolves as interplay between the development of knowledge about foreign markets and operations, as well as increasing commitment of resources to foreign markets. (Johansson & Vahlne 1990, 12) The assumption that the internationalization develops step by step was brought up by Swedish researchers that studied manufacturing companies' choice of market and form of entry when going abroad. (Johanson & Wiedersheim-Paul (1975) and Johanson & Vahlne (1977).

Johanson and Wiedersheim-Paul (1975) distinguish between four different operation stages for a company in a foreign market, the successive stages representing higher degrees of international involvement and commitment. The four stages are:

1. no regular export activities
2. export via independent representatives (export modes)
3. establishment of a foreign sales subsidiary
4. foreign production or manufacturing units

The model of progressive growth also suggests that companies begin internationalization process in markets that have less psychic distance and gradually penetrate the more distant markets. Psychic distance is defined in factors such as differences in culture, political systems and language, which disturb the information flow between the company and the market. (Hollensen 2011, 74)

The process can be seen as causal cycles and a distinction is made between state and change aspects of internationalization. The state aspects relate to market commitment and market knowledge, whereas the change aspects are current business activities and commitment decisions. Market knowledge and market commitment are assumed to affect decisions regarding commitment of resources and the way how activities are performed in the foreign market. Market commitment and commitment decisions are in turn affected by current activities and commitment decisions. A critical assumption is that market knowledge including perceptions of opportunities and problems is acquired primarily through experience from current activities in the foreign market. This knowledge creates opportunities and is the driving force of the internationalization process. In consequence this market experience is rather country specific. (Johansson & Vahlne 1990, 12)

2.2 Foreign entry modes

An international entry mode is an institutional arrangement that is necessary for the entry of a firm's products, technology and human and financial capital into a foreign market. Different entry modes represent varying levels of commitment, control, involvement and risk. (Albaum & Duerr 2008, 276) The choice of entry mode is one of the key factors that determine how foreign market operations will be conducted. The choice and use of foreign operation methods is a crucial part of international business activities. (Welch et al.2007, 3)

There is extensive amount of existing literature on the subjects related to modes of operation and entry, and the terminology and classification may vary a bit from a research to research. Some researchers divide entry modes in equity and non-equity modes, however, scholars and researchers seem to widely acknowledge the categorization by Welch et al. (2007, 4) that divides the modes into three parts: contractual modes, exporting, and investment modes.

Contractual modes include franchising, licensing, management contracts, international subcontracting, project operations and alliances. Exporting modes are indirect or direct exporting and own sales office or subsidiary. Investment modes include minority share-, 50/50-, majority share JVs or wholly owned company. (Welch 2007, 4) This chapter introduces the entry modes and reflects them to the Chinese business environment.

2.2.1 Exporting modes

Exporting is relatively easy method for international market penetration and also the risks can be minimized. With export entry modes a company's products are manufactured in the domestic or third country and then transferred to the host market. For many internationalizing companies exporting is a first choice when they are starting to operate on the

international markets. For example, in a large study of Finnish manufacturing SMEs revealed that almost 96 % began their outward international operations via exporting. When the firm first enters a foreign market a low resource mode such as export is desirable, and it is often seen as the only mode option for those companies just embarking on international activity. When comparing the three main groups of modes, exporting can be seen as easy and low-cost way of getting started. Particularly in cases where the foreign customer initiates the exchange, as a fortuitous export order, may require little if any additional work on the part of the supplier, especially if documentation, shipping and other practicalities are outsourced to external organizations. Exporting is a rather easy extension in what a company is already doing in the domestic market, whereas other modes require more substantial shift in thinking and undertaking business (Welch 2007, 237-241).

Exporting is commonly used in initial entry phase and gradually evolves towards foreign-based operations. Exporting can be organized in a variety of ways, depending on the number and type of intermediaries used. (Hollensen, 2011,335) Three main modes of exporting are indirect export, direct export and own export. The choice of exporting mode is influenced by the company's resources, experience and knowledge of the target market, strategic partnerships, and nature of the exported product. It is also common that companies use more than one channel in their exporting operations as a response to the circumstances faced in different foreign markets. (Luostarinen & Welch 1993, 21)

By joining the WTO China has lowered its tariffs and trade barriers, and the foreign exports have seen steady increase since the early 1990's. The companies have taken advantage of the benefits such as low cost and risk, speed and control of the exporting mode. In a risky emerging market these benefits have been important. The drawbacks related to export modes have hindered the exports to China. There are trade barriers such as import quotas, high tariffs and strict product standards that have posed challenges to exporters. (Bing-Sheng, 2004,391)

Indirect exporting

In the case of indirect export the manufacturing company is not taking direct care of the export activities, but another company undertakes the exporting activity on behalf of the manufacturing company. Indirect export can occur through a domestic distributor, a joint or publicly owned exporting organization, or an agent, that is located in the home market. (Luostarinen & Welch 1993, 21) When a manufacturer exports indirectly, the responsibility for carrying out the foreign selling job is transferred to another organization. In this situation the manufacturing company is not involved in the foreign sales of its products. (Albaum & Duerr 2007, 277) Actually the indirect export is not that different from domestic sale because the firm is not really engaging in global marketing. This may block the information flow and the firm establishes little or no contact with markets abroad. Consequently the firm has limited access to information about foreign market potential, and thus it is harder for the company to develop a plan for international expansion. The firm will also have limited means to identify potential sales agents or distributors for its products in the foreign market. The company also has limited or no control on how the product or service is marketed in other countries. Inappropriate channels, poor servicing or sales support and inadequate promotion may damage the reputation of the product. Thus this approach to exporting is more appropriate for a firm with limited international expansion objectives or with minimal resources to devote to international expansion. This method may also suit a company that wants to enter international markets gradually, testing out markets before committing major resources and effort to developing an export organization. (Hollensen 2011, 337)

Direct exporting

Direct exporting refers to a situation when a producing company takes care of the exporting activities and is in direct contact with the first medium in the target market. That medium can be for example a distribution

company, an agent, importer, a joint buying organization or an industrial company. In comparison to indirect exporting, direct exporting allows more involvement and is a more active form of export operation. (Luostarinen & Welch 1993, 21-29.)

The advantages of direct exporting include the access to local market knowledge and experience, contacts with potential customers, shorter distribution chain and more control over the marketing activities. On the other hand direct exporting also demands more international business knowledge and more resources. There is lack of distribution control and control over market price because of tariffs. Communication problems and information filtering might occur. (Hollensen 2011, 350)

Own Exporting

Companies may decide to handle their own exports. In own exporting the company is in charge of the whole export process, there is no domestic or foreign medium between the producer and end customer. The investment and risk are somewhat greater, but so is the potential return. (Luostarinen & Welch 1993, 26.) The sales office or representative office can function as a beachhead into a foreign market and allow the company to build local knowledge and gain market experience.

The changes in trading rights after China joined WTO allowed foreign firms to import to China without a Chinese middleman, which has enhanced the companies' abilities to compete in China. Along with trading rights foreign companies are permitted to distribute, market, wholesale, retail and repair their products, included imported ones. Obviously these rights have made the different exporting modes appealing to many companies entering the Chinese market. (Bing-Sheng, 2004,385)

2.2.2 Contractual modes

By using contractual modes foreign companies can be present in a certain country, even if the market would otherwise be considered too risky, too

small or not a possible target for FDI because of other reasons, for example because of government regulations. Contractual modes can also allow a company to test a particular market. (Lasserre 2007, 205)

Franchising

Franchising is a contractual mode where for a payment the franchisor gives a right to the franchisee to use a total business concept or system including trademarks or brands against agreed royalty. The franchisee provides market knowledge, capital and involvement in management, while the franchisor delivers standardized set of products, systems and also management services. Through past decades franchising has enjoyed rapid growth rate due to several factors. The growth of the service sector activities has encouraged franchising as it suits well service and people intensive activities, particularly when large number of geographically dispersed outlets is needed. Also the popularity of self-employment is a contributory factor. The globally well-known business brands have made the international franchising possible as they have used it successfully in their internationalization strategies. (Hollensen 2011, 361).

Kotler (2009, 608) notes that companies like McDonald's, Avis, Starbucks and KFC have been using franchising with success by making sure their marketing and products are culturally relevant. For example KFC is China's largest, oldest, most popular and fastest growing quick-service restaurant chain. It has own supply and distribution system in China, thus allowing it to rapidly expand into smaller cities. The company has tailored its approach, menu and even its mascot to suit Chinese tastes.

After China joined WTO franchising has become a considerable business strategy. Franchising has brought a certain systematic and advanced management concept to China. The advantages of the franchising concept include factors such as business experience combined with well thought position on the market, unique cultural background, strong brand decision, strategic direction, training system and quality control (Shaw 2004, 27-29)

Shaw (2004) states also that even despite of these factors, success in franchising in Chinese market requires commitment and strong foundations of successful business format, strong branding, franchise experience that can also be taught, enough resources, a master franchisee with a suitable network and background and of course a concept that fits the local market and is accepted by the Chinese consumers.

Licensing

A licensing agreement is an arrangement where licensor gives a certain right to the licensee in exchange for certain payments and performance. Licensing can occur through various intellectual property rights. Licensing agreement does not give away the ownership, but the right to use a manufacturing process, trademark, patent, trade secret or other item of value for a fee or royalty. (Kotler 2009, 607)

Licensing is one way in which the company can establish local production in foreign markets without capital investment. Licensing can be a flexible and effective ways of penetrating international markets, with a relatively small risk. Licensing is a fast form of market expansion and penetration; there are benefits such as quick access to new technology, lower development costs and a relatively early cash flow. (Hollensen 2011, 360)

However, licensing has potential disadvantages, one of them being the loss of control over the licensee. Other risk factors include quality risks, production risks, risk of opportunism, payment and contract enforcement risks. According to Kotler (2009, 608) the best strategy is to lead in innovation so the licensee will continue to depend on the licensor. The Finnish companies comments in Kosonen's (2011, 69-72) study were among those same lines, but anyhow the Chinese business environment is a very challenging one regarding IPR-rights. It can happen for example that the local licensee does minor changes to the product and starts to produce it in their own name.

The China IPR SME Helpdesk reminds that companies that wish to license intellectual property in China should create a strong and comprehensive legal contract with their Chinese counterpart. The contracts in China must include certain clauses in order to be recognized and enforceable. (China IPR SME Helpdesk 2015)

Management contracts

Management contracts are agreements about managerial involvement for a set period of time on contractual basis. In a typical management contract the contractor supplies management know-how to another company that provides the capital and takes care of the operating of value chain functions in the foreign country. Usually the contracts are concerned with management operating and control systems and training local staff to take over when the contract has been completed. (Hollensen 2011, 375)

Management contracts are typical in such situations where one company seeks the management know-how and expertise of another company with established experience in the field. Especially for the developing countries the lack of management capability is the most evident. Typically the financial compensation to the contractor for the management services offered is a management fee that may be fixed irrespective of the financial performance or may be a percentage of the profit (Welch et al. 2007, 139-142).

In a situation where direct investment or export is too risky for political or commercial reasons management contracts might be a relevant alternative. Especially if a company is in early development stages of internationalization, a management contract can offer an efficient way of learning about international business and foreign markets. A management contract allows market involvement and the company can obtain a good position to exploit arising opportunities. (Hollensen 2011, 377)

Benito et al. (1994,13) state that research into the use of management contracts in international operations has shown that commonly management contracts are used in connection with other modes of operation. For example management contract arrangements can be used in JV's to ensure the control of the operation.

International subcontracting

A subcontractor is hired by the main contractor to perform a specific task or provide semi-finished products or services that are needed for the main contractor to perform another overall project in which the subcontractor is not a party. Typically the subcontractor's products are part of the end product, not the complete product itself. Usually the main contractor is responsible to the customer while the subcontractor doesn't have direct contact with them. (Hollensen 2011, 406)

According to Welch et al. (2007, 161-165) International subcontracting can be a way to have an efficient production base in a foreign market without large investments and with reduced cost and increased flexibility in serving the market. However even if international subcontracting is a very considerable option for many enterprises, its greatest potential is rather in its capability to lower overall cost than its ability to augment the actual development of foreign operations. International subcontracting can be seen as a balancing act between lower production costs abroad and lower transaction costs locally.

According to Hollensen (2011, 406) the recent studies of subcontracting and competitiveness have emphasized the importance of moving activities other than the firm's core competences out of the organization. Traditionally subcontracting has been viewed mainly as production activities or outsourcing services, for example call centers or IT-services. Recently the outsourced activities increasingly include also design, R&D and other functions in the value chain.

Wang et al. (2011,419) state that production and subcontracting of goods and services in China has been a very attractive alternative for companies that want to develop a broader presence and lower their costs. Anyhow, some foreign firms have experienced quality related problems in China. The quality issues can be related to culture, management or human factors. It can be challenging to find, select and evaluate a suitable and reliable subcontractor because of the lack of reliable information available. For companies that are using Chinese subcontractors it is advisable to have some physical presence in the country to follow up the production process and to perform quality control.(Perea & Ripolli 2014,69)

Project operations

Project operations are a complex form of international operation that may involve many market players, mode combinations and a broad array of activities. The preconditions are a technology gap between the exporting and importing countries and that the exporter possesses the specific product, technology and know-how that are being demanded in the importing country. Project operations can involve deliveries or supplies that contain a combination of hardware, software and services that constitute an integrated system which the buyer requires. The final output for a customer of a project operation can be for example a factory, its extension, or a completely new production process. (Hollensen 2011, 419)

Welch et al.(2007, 198) mention that typically the mix of project operations varies during the project cycle. Projects often involve mix of different activities, suppliers and mode combinations when executed successfully. The operations may also include elements of foreign direct investments, international finance arrangements, technology licensing, various exports and imports and personnel transfers. Thus project operations are not a direct alternative to other modes, but rather they fit the idea of mode packages or combinations.

According to Skaates et al. (2002, 389) due to the increased complexity and systemization of the offerings of international companies, the project-

like features are more and more common. Companies need to develop their capabilities to supply total solutions, including tangible and intangible aspects, for their customers. These increasingly popular large complexity projects give rise to plenty of challenges in project management. Xie (2009, 1308) points out five essential issues of project management system based on the practices used in the World Expo 2010 in Shanghai. The most crucial points are environment investigation, the project structure breakdown, the management organization planning, decision on the management procedure and the formation of standard documentation. In summary, the management system needs to be compulsory, systematic, endogenous, flexible and durative.

Alliances

Alliances are arrangements of two or more companies engaging in collaborative activities in their foreign market operations while they remain as independent organizations. The contracts can be informal or formal, meaning that informal alliances are about agreed cooperation in a certain activity in one or more foreign market, while formal alliances are legally structured and binding agreements that can also involve shared equity (Welch et al. 2007, 277). Most typically alliances are non-equity cooperation, meaning that the partners do not commit equity into or invest in the alliance. (Hollensen 2011, 366)

The increasing global competition, rapid technological advances and changing market structures companies are motivated to form alliances to reduce risks, share technology, enhance global mobility, improve efficiency and strengthen their competitiveness. By forming an alliance the firms can also pool their resources, protect their assets and be faster to react to market changes. (Tse et al. 1997,801)

Tse et al. (1997) found out that companies were motivated to form alliances with other foreign firms to reduce their investment risk, to capture growing markets or to facilitate their operations in China. Basically they can form alliances in three ways when entering China. Firstly a firm can

form alliances with a company from their own country, secondly the alliance can be formed with a company from another country, or thirdly it can be formed with a local company on the target market. Tse et al. (1997, 801) suggest that in some cases forming alliances with a Chinese firm can be a viable alternative in order to tap into local business environment knowledge and get help in entering and managing the operations in China.

2.2.3 Investment modes

Investment activities can be divided into two main modes; acquisition of an equity stake in an operating company within the target market, or establishment of a new entity with or without partners. The second case, greenfield investment, means that a parent company starts a new venture in the foreign market by constructing new operational facilities. In a brownfield investment the local enterprise and its assets in the target market are acquired and the investing company undertakes the restructuring and launching the new activities. Investments can be roughly classified between wholly owned foreign subsidiaries and joint ventures, with majority, half or minority equity levels. The level of equity of the different parties is a crucial question as it usually defines also the level of control in the operation. (Welch et al. 2007, 319-321)

As Li (2007, 5) States, the investment opportunities that China presents are perhaps the greatest of the 21th century. As China's investment climate has continuously evolved, it has become one of the world's most appealing investment locations. Since China reopened its economy to foreign investors in 1979 it has made tremendous progress in attracting foreign investment. As China has learned how to create attractive and more stable investment environment, the foreign firms have grown more and more confident to invest in China. By introducing several laws and regulations China has been able reduce the level of risk and uncertainty for foreign firms that want to commit resources and invest in equity based

operations in China. The inflow of foreign capital has had a catalytic effect on the growth of the Chinese economy. (Tse et al. 1997, 784)

As of 2013 developing Asia remains the world's number one investment destination with total inflows of 426 billion dollars, accounting nearly 30 per cent of the world total. The stable performance of the region was driven by rising FDI inflows to China. With inflows of 124 billion dollars China again ranked second in the world. (World Investment Report 2014)

Joint ventures

An equity joint venture means the creation of a new entity, in which local and foreign investors share ownership, control and revenues. While global markets demand companies to implement strategies rapidly, joint ventures are often a fast and effective way to achieve objects. Joint ventures are formed for a variety of reasons, such as entering new markets, developing and diffusing new technologies fast and reducing manufacturing costs. Joint ventures are also used to overcome legal and trade barriers. (Hollensen 2011, 368)

Forming joint ventures with Chinese firms have been the conventional approach in entering China. Sustained popularity of joint ventures in China can be attributed to government policies and companies' strategic needs. Traditionally the government has exercised tight control over the forms of foreign direct investment. Joint ventures have been favored based on beliefs that they help to retain national control over industries and facilitate technological transfer to Chinese firms. Most early entrants to China have adopted the joint venture mode that provided them with networks, knowledge and tangible assets such as distribution channels. While joint ventures were the choice during the 80s and 90s, changes in the business environment have thereafter stimulated the increase of other modes. (Bing-Sheng 2004, 385)

Major advantage of joint ventures is that they allow the company to have access to valuable resources and capabilities of local firms. Through joint ventures firms can gain valuable local knowledge and connections from their Chinese partner. They also allow sharing the risks and costs in a new venture or a large project. However, joint ventures are difficult to manage and there is a lack of control in the operations. The partner can have conflicting interests as the Chinese firms often have short time horizon when planning for the venture. Success of a joint venture might not be stable and the partner might act opportunistically. (Bing-Sheng 2004,387) Bing-Sheng (2004) states that over the years many companies have gradually developed a deeper understanding and experience about China, and thus the necessity for joint ventures has declined.

Foreign direct investment

Foreign direct investment occurs when the equity level in a foreign enterprise reaches such a level, that the investing company acquires a significant influence over the key policies of the foreign entity. There is an emphasis on long term orientation and the control factor of the foreign direct investment, so it differs from financial purposed portfolio investment. Foreign direct investment is a powerful mode for a company to operate as it allows high cross returns from the foreign market and gives the control and influence over how the foreign operations are applied and controlled. The FDI also has strong linkages to the rise of multinational companies and the sales generated by their foreign subsidiaries that constitute a big part of the global GDP. (Welch at al. 2007, 320)

In China wholly owned foreign subsidiaries were made lawful in 1986 and thereafter they have increased in popularity rapidly, surpassing the amount of all joint ventures. Many foreign investors have chosen to operate fully owned subsidiaries in order to avoid problems associated with joint ventures and to have total control over the operation. The amount of mergers and acquisitions has seen rapid increase as well, after the changes in the regulatory environment and the growing availability of public and private firms. (Bing-Sheng 2004,388)

However, the 2014 CFO Outlook Asia shows the decline of M&A towards China, as the target market preferences have changed in past years. China's slowing economic growth, higher labor costs and uncertainty about political transition have contributed to the decline, and in 2014 China has moved from the top position down to fifth in the ranking of M&A target market preferences.

2.3 Choice of entry strategy

International entry strategy is a complex economic and social phenomenon that has received attention from several streams of research and variety of factors that affect the choice of entry decisions have been identified in the foreign entry literature. The focus of the existing research has been on the impact of specific factors at firm, industry and country levels. (Xia et al. 2007, 195)

There is no ideal market entry strategy and different market entry methods might be used by different companies entering the same market or by the same company in different target markets. In the variety of possible entry strategies, each option has its particular advantages and disadvantages. Entry into the foreign markets should be made using methods that are consistent with the company's strategic objectives. The choice of entry mode is made to facilitate the firm's international strategy for a particular foreign market entry. The choice of suitable foreign market entry mode is a very important strategic decision. The wrong entry mode choice can impact negatively the whole firm's performance. Managers need to consider cost-control trade-offs in several dimensions in their pursuit of the most efficient entry mode. (Albaum & Duerr 2008, 275)

Root (1994) suggests that companies use three different rules when choosing which kind of strategy they should use for their entry mode selection. First option is the *naïve rule* that means that the firm uses the same entry mode, for example exporting, for all foreign markets. This

approach does not really take into consideration the heterogeneity of the individual foreign markets. The second rule is the *pragmatic rule*, meaning that the most workable entry mode is used for each foreign market. In the early stages it is common to start with low-risk entry mode. Only then if the particular initial mode is not feasible or profitable will the company search for another mode. This means not all potential alternatives are investigated, and the workable entry may not be the best possible entry mode. If the company uses the third rule, *strategy rule*, all the alternative entry modes are compared and evaluated systemically in order to find the optimal mode. An example of this decision rule would be to select the entry mode that maximizes the profit contribution over the strategic planning period subject to the availability of company resources, risk and non-profit objectives.

Even despite numerous attempts and efforts in the research area of foreign market entry strategy, there still has not been scientifically-based and holistic model that can be perfectly used in decision making (Deutschmann 2014, 31). Comparing alternative approaches to entry may be complicated by the multiple objectives that a firm may have in each foreign market and sometimes the objectives appear to be inconsistent. Many conflicting forces and trade-offs among objectives have to be taken into consideration so that the analysis on a set of feasible entry modes could be done (Albaum & Duerr, 2008, 292). It is also worthy to remember that entry mode research has mainly focused on the rational choice models and tended to ignore strategic decision making research in explaining how mode choice decisions are made. This means that managerial decisions are not completely rational, but other factors influence the choices managers make. (Brouthers et al. 2007, 415)

Lastly, foreign entry is a multilevel phenomenon and thus hard to study empirically. It involves a company based in a given country setting up an operation in an industry of a particular host country. Hence the form taken by a given market entry (equity or contract) hinges on the characteristics of the parent firm, on the characteristics of the operation (e.g. size), on the

nature of the transaction, on the situation in the industry entered (e.g. the degree of competition), and on the characteristics of the home and the host country. It can be stated that the choice of foreign entry mode is influenced by multiplicity of variables driven by complementary theories. (Brouthers et al.2007, 420)

It is important also to remember that foreign entry strategies in emerging economies are usually more of a constrained choice (Hoskisson et al., 2000, 249), rather than free choice as most studies based on firms in free-market economies suggest. Xia et al. (2007, 212) remind that decision makers of firms entering transition economies must be attuned to changes and trends in different entry strategies since each entry mode has its set of benefits and risks. A popular strategy, like equity joint ventures in China, can fall out of favor soon after the rise of alternative strategies. Using a specific popular entry mode may gain governmental approval and legitimacy, but at the same time the mode may ultimately prove less efficient in meeting the strategic and technical needs of the company.

2.3.1 Mode selection

Internationalization exposes companies to an array of new challenges that include the decisions on the appropriate arrangements of how to organize their business activities in foreign markets. The alternatives are numerous. Methods have been characterized along several dimensions; like degree of control, level of risk and commitment and skill requirements. (Benito & Welch 1994, 8)

Entry mode decision includes the choice of governance form for foreign operations among exporting, contractual modes, joint ventures and wholly-owned subsidiaries. Because this decision involves the consideration of risk, return, control and commitment, its implications for performance of the company are significant. (Ji & Dimitratos 2013, 995)

A company's choice for entry mode for a given country or product is the result of multiple and often conflicting forces. The need to anticipate the direction and strength of these forces makes the entry mode decision a complex process. A firm's stimulus to mode use is mediated by the company's own interest, target or partner company's interest, and foreign market conditions and demands. (Welch et al. 2007, 440-442) This leads to comprehensive method determination process which results in method choice. There are numerous trade-offs among the alternative modes and many factors that are believed to influence the entry mode decision. These factors can be internal, external, desired mode characteristics or transaction-specific behavior (Hollensen 2011, 322).

Foreign market entrants perceive often significant amount of uncertainty caused by the cultural distance between the host and home country. Numerous empirical studies have concluded that cultural distance encourages the utilization of shared-control modes. Also country risk, such as high volatility in the external environment can promote the use of shared control agreements. Albaum & Duerr (2008, 282) suggest that regardless the approach used in entry mode selection, the choice should always be based on the alternative expected to give the greatest contribution to profit.

Erramilli and Rao (1990, 137) conclude that the choice of a particular foreign operation mode is a function of a large number of diverse factors that varies with product characteristics such as differentiation, technological content, importance and age. The choice might also depend on internal company specific characteristics such as resources, size, degree of diversification, and corporate policies. External foreign host-country related environmental factors, like trade and investment restrictions, market size, geographic and cultural distance, and exchange rate fluctuations also may influence the mode choice.

Even despite the extensive literature on entry modes into foreign markets, it is important to bear in mind that the Chinese market is always not easily interpretable with the same theoretical tools that can be applied to other

developed or developing countries. As Bontempi and Prodi (2008,13) state, China is a case by itself. The Chinese market is extremely complex and its dimensions, institutional assets, development rate, data availability and quality hard to describe.

2.3.2 Mode switching and combination strategies

It is likely that firms conducting international operations will at some point experience switches of foreign operation methods. This might be in order to adapt to circumstances as companies develop in the foreign market or to correct earlier managerial misjudgments. Mode switching can resolve a problematic situation in a foreign market related to present mode usage. In some cases companies may find that the initial mode was selected on false premises and therefore a mode switch may be performed to generate more positive outcomes for the company. (Welch et al 2007, 363.)

According to Calof and Beamish (1995, 129) the possible reasons for changing mode are varied and complex. When a company experiences external or internal environment changes it needs to adapt its operation modes to the new circumstances. The changes occurring in external and internal factors after the initial market entry can make the entry mode less suitable. The factors that influence the mode switch decisions can be unpredictable and they can be related to the local market, the local operator, or the company itself. In the emerging markets companies may be exposed to mode switch as the markets and operation environment may change rapidly. Sometimes the governments in emerging markets can restrict foreign ownership especially in strategic industries. This forces entrant companies to alliances with local companies, but if these restrictions are removed entrant companies can switch to wholly-owned subsidiaries. (Welch et al. 2007, 364-369.)

In order to avoid the high switching costs the mode switch needs to be prepared well in advance and the company needs to create a mode switch strategy. (Welch et al. 2007, 372.) If a company experiences switching costs locking it into an existing arrangement with a foreign partner, other ways than mode switch have to be found to achieve the objectives in the given market. The constraints for mode switch may be due to costs of changing modes, such as contract termination costs, increased competition that results in loss of customers and revenue, and the costs related to setting up a new mode. The constraints on the ability to switch modes can lead the firm to search for enhancing the performance of the existing primary foreign operation mode with additions or deletion to the mode or within the mode adjustments. (Benito et al. 2009, 1466.)

Mode combinations

Several business scholars (Benito and Welch 1994; Benito et al. 2009; Petersen and Welch 2002) have highlighted the importance of mode combinations for companies in developing international business operations. Effective internationalization often requires the use of a broader array of operation modes. Companies frequently face a choice of not only selecting one method versus another, but rather of how to put together the most appropriate package of methods for penetrating a foreign market. (Benito & Welch 1994, 7)

According to Petersen and Welch (2002, 159), a company can combine modes to enter or to develop a specific foreign market. A firm can combine modes in several ways, ranging from unrelated activities to a closely coordinated total business package. These mode packages can take the form of compound use of several operation modes in an integrated, complementary way. Thus the extended mode combinations can lead to improved international market penetration. These combinations may be employed at the outset of a foreign market entry or they may evolve over time as one or several modes are added to singular mode use. The addition of one or more modes can occur due to a temporary arrangement or as long-term oriented solution. (Benito & Welch 2011,804)

Benito et al. (2011,808) suggest that from the business perspective, mode combinations can seem to be a reasonable and rational response to the diverse pressures and opportunities that companies face in their international operations. They can entail a strong strategic component as a company seeks to achieve goals, to obtain tangible, significant returns from foreign markets. In some instances the additional modes in a package may be about generating extra revenue from a given foreign operation, in many cases though additional modes are about delivering control and assuring outcomes. In order to become more effective and flexible in global markets firms are using mode combinations in ever more diverse and creative ways. However, as Benito and Welch (1994) state, the alterations on mode packages may take on the character of emergent strategies, as the longer term potential of a given market and different combinations of operation packages to exploit it may not be foreseen in decision making at the outset.

Multiple modes might be tightly connected with different modes supporting each other in an overall foreign market penetration strategy or there may be little connection between the multiple modes used. Benito et al. (2009, 1461) note that multiple modes in a foreign market are not always directly linked and distinct modes might be used in different product or market segments, or in different parts of the value chain.

Petersen & Welch (2002, 158-160) identified four types of multiple mode operations: unrelated, segmented, complementary, and competing. Unrelated modes occur when more than one mode is in use in a foreign market, but there is no connection between their uses in that particular market. This may be typical situation for a MNE that conducts business across different industries or markets. Segmented modes mean that separate segments of the customer portfolio are handled differently. A company may use multiple modes in the same industry or market to serve different segments. For example, the largest customers may be handled directly, while others are handled through distributors or sales subsidiaries. While using complementary modes, multiple modes are combined in a

mutually supporting way to achieve the company's objectives. The idea is to increase efficiency, without being based on any specific segmentation. An example of this situation is a firm-employed person based permanently in the foreign target market in order to back up an agent or to complement the marketing action of a subsidiary. In the case of competing modes a firm uses more than one mode that competes with each other. They target the same segments and perform similar business activities, but the ownership and location differ from in-house to outsourcing and from home country to host country.

Benito et al. (2011, 805-806) clarify the different versions of mode combinations in following way related to the value chain.

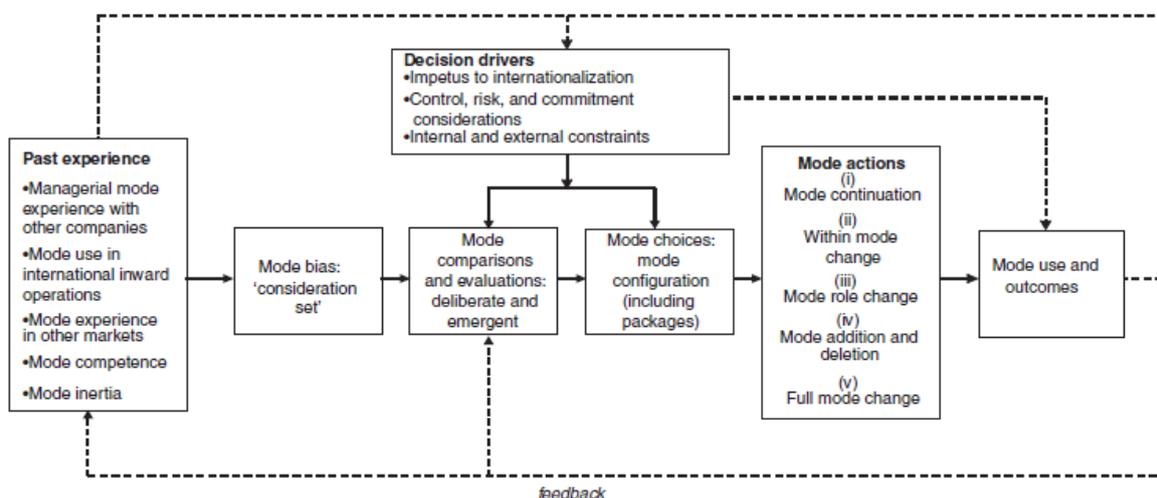
- 1) Mode combinations at different points in the value chain in a foreign market, for example a situation where a wholly-owned production subsidiary is supported by franchising at the marketing level.
- 2) Mode combinations at the same point in the value chain, such as sales in a foreign market handled both by a sales subsidiary and an independent distributor. The sales subsidiary might handle a specific customer segment whereas the distributor handles another.
- 3) Mode combinations that spread across activities in the same foreign market. However in this case it is questionable to what extent such arrangements can be validly described as combinations in a business sense, if the organizational arrangements are separate and there is little if any connection or information sharing between different entities driving activity in the foreign market.

Using combinations of different operation modes can raise several management issues, such as the coordination of operations. It might be also more difficult to compare the profitability, control, and resource commitment of different mode choices used. It is important that companies avoid getting fixed in the range of modes they employ. Sometimes a mode that was first used by chance becomes the one that is best understood or one bad experience can lock out a particular operation mode. Positive mode experience may result in mode inertia which results in a tendency to

use an existing mode rather than look for alternative ones. Therefore a major task for the internationalizing company is to ensure a high level of awareness and knowledge among decision makers of the full range of operation forms and their potential to be packaged and used in ways that strengthen the process of foreign market penetration. (Welch & Benito, 2002,161.)

The choice, development and change of operation modes are illustrated in figure 2, based on the framework of Benito et al. (2009, 1464-1465) The base of the framework suggests that decision drivers are influenced by past experiences and present operations. Given the broad array of possible operation mode options, it is not surprising that managers fall back on their past experience and use modes that were successful in other situations. This may result in mode inertia meaning a tendency to use an existing mode rather than searching for alternative ones. Mode inertia is a constraining factor in the evolution of company's strategies. However, the idiosyncrasies of individual markets do not make it easy to use the same mode everywhere.

Figure 2. Choice, development and change of operation modes (Benito et al. 2009).



3. CHARACTERISTICS OF THE CHINESE MARKET AND BUSINESS ENVIRONMENT

This chapter introduces the Chinese market and business environment, covering some of the main issues foreign companies should consider when entering the market. Cultural and business understanding can help to overcome the market entry barriers. PEST-analysis is used loosely as country analysis framework. PEST analysis was originally created by Aguilar (1967), and it has enjoyed huge popularity as a tool for environmental scanning. There are many variations of the model, taking into account slightly different factors that have impact on the business. For example often in addition to political, economic, social and technological factors, analysts extend the analysis to PESTEL or PESTLE, to cover also environmental and legal aspects. STEER can be considered an updated version of the PEST framework; it covers socio-cultural, technological, economic, ecological and regulatory factors. Related to this study it is not purposeful to delve deeply to all of these issues, so the most relevant topics are covered.

3.1 Economic development

Since the late 1970s China has moved from a closed, centrally planned system to a market-oriented one that plays a major global role. China implemented reforms to bring about a shift in economic policy. The reforms started with the agricultural sector, by phasing out of collectivized agriculture into open market economy, and expanded to the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, creation of a diversified banking system, development of stock markets, rapid growth of the private sector, and opening to foreign trade and investment. (Roberts 2011, 291)

Last year China has become the largest economy of the world (IMF, BBC 2014). And it is very possible that China will remain as the number one economy in terms of size for a long time in the future. China's emergence

as a global superpower has taken place with incredible speed. The past three decades of market reforms have unleashed economic growth of a scale and pace almost unprecedented in history. China emerged from global economic crisis even stronger than before. It is not anymore just a global manufacturing hub, but one of the world's significant consumer markets and economic superpowers. The combination of low-cost manufacturing, modern infrastructure, political stability and the sheer size of the consumer market make China one of the most attractive markets of the world. The manufacturing costs in China may have risen but other markets offering cheaper manufacturing costs fall down on supply chain costs and security. China is unlikely to lose its status as a center for global sourcing because of its abundant supplies of land and labor and the massive potential of its domestic market.

China is an unmissable opportunity. According to Harvard Business Review most of the Fortune 500 companies are already in China and more than 90 percent of multinational companies state that China is important to their global strategies. (Torrens 2011, 1) In the recent years after China has opened up, amount of foreign companies present has been booming and there is a greater access to more and more sectors, as a result of China joining the WTO in 2001. Also the foreign investors are not anymore required to enter into joint ventures, with some exceptions on certain industries. China has accumulated knowledge and expertise available, which can benefit the newcomers to the market.

Economic development has brought along also increasingly complex political, social and environmental challenges. As expected, there are certainly external constraints in operating in high-growth markets: business conditions and investment climates can be unpredictable; regulations have a tendency to swing wildly from inviting to protectionist. Government policies and rules around foreign investment can swiftly reverse course or suddenly improve. Human capital is also hard to find and retain, particularly in key market areas.

China is a demanding market for foreign companies and there are many challenges and obstacles in doing business in China. The strong involvement of the government, different laws, restrictions and regulations in different provinces, the cultural differences, presence of the guanxi and corruption are some of the challenges that companies can face. Also the regulations and agreements are not always followed to the letter. There continue to be fraud scams and copyright issues. The companies heading to China should be flexible, innovative and to have a long-term approach and to build a strong local team and establish good business relationships and personal networks.

3.2 Challenges of the business environment

The business environment of China poses challenges similar to other emerging markets. The Finnish companies may find that their business operations are hindered by things such as heavy bureaucracy and corruption. In China business is strongly regulated and the process of obtaining several permits can be time and resource consuming. (Kosonen 2011, 1) In the most recent comparison of World Bank Group for ease of doing business, out of 189 countries China is on the 90th place. (World Bank 2015)

The European Union Chamber of Commerce in China collects data annually from its thousands of member companies related to the challenges of the Chinese market and business environment. Throughout many years the major issues have been related to growing difficulties to enter the market, lack of political and judicial transparency, IPR infringement issues, protectionism and favoring the local companies. The European companies have reported growing protectionism as the regulative environment has become tighter for the foreign companies while the policies favor the local firms. The regulatory environment in China continues to be a huge challenge for foreign companies, as the laws are implemented and interpreted randomly. The laws and regulations are

drafted at the central level but rulemaking and implementation based on those laws are left to the lower levels of bureaucracy. This means that foreign companies must deal with local governments whose officers exercise discretion in interpretation of central laws and regulations. China is using various regulations and administrative rules that are unclear and left open to interpretation. (Kosonen 2011, 27-30.)

Ministry of Foreign Affairs in Finland collects data about the trade barriers and issues related to authorities of foreign markets. Finnish companies faced most barriers to trade in China and Russia. Most of the issues were related to the technical barriers to trade and intellectual property rights. Other major challenges for Finnish companies were the regional incoherence of the laws and regulations and incoherent practices of the customs and other officials. The transparency of the judicial system is poor and the local authorities might have the local interest in mind when making decisions. Also finding reliable information about the market and potential partners is challenging. The language and cultural differences add to this challenge.

3.3 Political environment

China is governed by the Communist Party of China, being the sole party in power. The Chinese Communist Party's approximately 83 million memberships make it the biggest political party in the world. The CPC maintains a unitary government and centralizes the state, military and media. The party oversees and influences also many aspects of people's individual lives, like education, freedom of speech, reproductive rights and the freedom of assembly. (BBC News Asia)

The ideology statement of the party is as follows: "The CPC is the vanguard of the Chinese working class, the faithful representative of the interests of the Chinese people of all ethnic groups and the core of leadership over the socialist cause of China." CPC's objective is to realize

the communist social system and to build socialism with Chinese characteristics. The party requires its members to be self-disciplined and to have the spirit of making personal sacrifices, to set a good example for the masses in production, work, study and social lives. (IDCPC)

The organization of the party is hierarchical, whereby individual Party members are subordinate to the Party organizations, the minority is subordinate to the majority, the lower Party organizations are subordinate to the higher Party organizations and all the constituent organizations and members of the Party are subordinate to the National Congress and the Central Committee of the Party. The Party's leading organizations at all levels will be produced through election. (IDCPC)

The party's pyramid structure rests on millions of local-level party organizations across the country, reaching all the way up to the highest decision-making bodies in Beijing. Joining the party brings significant privileges. Members get access to better information, and many jobs are only open to members. Most significantly in China, where personal relationships are often more important than ability, members get to network with decision-makers influencing their careers, lives or businesses. (BBC News Asia)

China's development may appear to be driven by economic forces, yet the single party authoritarian system has been an important condition for the economic reforms. While there are reasons to believe that the current political order is likely to continue into the future, there are some great challenges that the China's leadership will face. (Fewsmith 2010, 162) The side-effects of China's rapid economic growth have triggered increasing social unrest and political destabilization. The enduring official corruption, large income gaps and the popularization of communications technology serve to destabilize a political system. At the same time the collective ability of the leadership to handle these problems is at its greatest, as the today's leaders are younger, reform-minded and outward-looking. (Torrens 2010, 24) The CPC is heading towards more flexible institutional structure to make itself pertinent to the China of the present-day. That's not an easy

or clear task and the degree of intensity of reform and the speed of development must match the level of social tolerance for them. However, the Chinese government and bureaucracy represent a major concern for the business activities for foreign and domestic companies. The influence of government on the business activities is still strong. The party also serves as a networking tool for local businessmen and entrepreneurs. (Kosonen 2011,28)

3.4 Specifics of the Chinese business culture

China has a long history of confounding multinational companies. Many have relied on their strategies for developed markets to operate in the country and for many this approach has failed and the companies have been forced to revise their plans to take into account the idiosyncrasies of the Chinese market. The Chinese business life continues to be influenced by an enduring set of cultural and social principles. As China emerges as one of the world's most desirable market, the knowledge of Chinese culture and its impact on modern business conduct is becoming a very valuable asset. Understanding the Chinese and their business behavior will have broad implications for the foreign companies. (Chen 2001,12)

Culture

China is a complex and diverse country containing within its borders a wide range of ethnic, linguistic and regional variations. The Chinese culture has its own special characteristics. The richness of the Chinese cultural heritage, the complexity of China's political experience, the drama of china's recent past might explain some of the Chinese contrarities that point out the fundamental differences from the western countries. (Roberts 2009, 290)

The most important characteristics of the Chinese culture and life are based on the Confucian values and traditions. The focus is on the world, community and family, so a significant factor is the collectivism. Less of personal freedom is accepted in order to gain social stability and progress. An individual exists always as a part of a totality; a family, subgroup, the party or the state. There is an obligation for self-control and to obey the rules of community, state and the party. Life is about making connections thus also the concepts of face and status are highly important. The harmony is fundamental, and one should be focused on how to act right, but not necessary to be honest. The concept of truth is rather flexible and contextual in China. Trickery and deception are even appreciated as signs of cleverness. The Chinese can be considered a rather inward looking and ethnocentric nation, and there is a certain tendency to consider China as the center of the world. The individuals have a long term orientation to work hard, to achieve academic excellence and high status. (Piron 2013)

The Hofstede's cultural dimensions framework can help to gain deeper understanding to some of the main cultural and behavioral differences between China and Finland. The dimension of power distance deals with the fact that all individuals are not equal, it is defined as the extent to which the less powerful members of organizations and institutions within the country expect and accept that power is distributed unequally. At 80 China is in the higher rankings of this dimension, so the subordinate-superior relationship tends to be polarized and there is little defense against power abuse by superiors. Individuals are influenced by formal authority and sanctions, and in general people should not have aspirations beyond their rank.

The dimension of individualism describes the degree of interdependence a society maintains among its members. At a score of 20 China is a highly collectivist culture, where people act in the interest of the whole group rather than themselves. In-group consideration affects also many aspects of work and business life.

Masculinity indicates that the society is driven by competition, success and achievement. China scores 66 on this dimension, which means that the society is a masculine one. The need to ensure success can be exemplified by the fact that many Chinese will sacrifice leisure time to work, and all kinds of scores and rankings are highly valued.

The dimension of uncertainty avoidance describes the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid those. At 30 China has a rather low score on the uncertainty avoidance, thus the Chinese are comfortable with ambiguity and able to adapt to circumstances. Adherence to laws and rules may be flexible to suit the actual situation and pragmatism is a fact of life.

The long term orientation describes how the society has to maintain some links with its past while dealing with challenges of the present and future. China scores 87 in this dimension, which means that it is a pragmatic culture. People believe that truth depends much on the situation, context and time. They show an ability to adapt traditions easily to changed conditions, a strong propensity to save and invest, thriftiness and perseverance in achieving results.

The dimension of indulgence is defined as the extent to which people try to control their desires and impulses based on the way they were raised. China is a restrained society as can be seen in the low score on this dimension. They do not put much emphasis on leisure time and tend to control the gratification of their desires. People with this orientation have the perception that their actions are restrained by social norms and that indulging themselves is somewhat wrong. (The Hofstede Center)

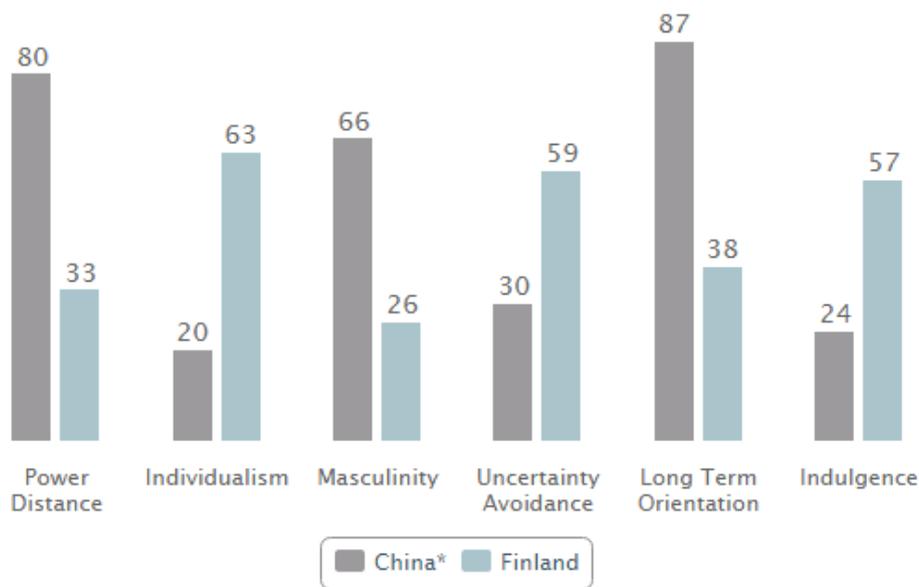


Figure 3. China in comparison with Finland based on the Hofstede's cultural dimensions.

With a deeper understanding of the Chinese culture the foreigners can avoid making mistakes and prevent the tension and misunderstanding that could threaten good personal or business relationships (Chen 2011,14). Cultural values play a critical role in determining specific interventions in organizational management, so business strategies for organizations operating in China should be based upon principles that derive from these specific values, beliefs, worldviews and social relationships and interactions. To successfully collaborate with the Chinese, deep cultural understanding is essential. Some of the key factors to keep in mind are the Confucian values that revolve around the harmonious relationships and the concept of face, regarding to personal behavior in an honorable way.

Guanxi

Unlike the West's transaction-based business culture, Chinese business society is to large extent relationship-based. In the Chinese business context, relationships are a form of social capital owned by

businesspeople and associated with the companies they run. (Chen 2001,45) Every society is built around relationships among individuals, groups and organizations, but the role of personal networks are predominant in most emerging markets. (Michailova & Worm 2003, 509)

Establishing guanxi is fundamental to the world of Chinese business and the concept has received much attention. Guanxi exists in various forms based on the closeness of the relationships between the parties involved. Guanxi consists of connections that are defined by reciprocity, mutual obligation, shared experiences and trust. There is a strong commitment of time to building the guanxi. Through the recent history guanxi formed the basis for a secondary, unofficial economy in China, offering some ways to work around the state bureaucracy. It provided alternative ways for finding jobs, housing, goods and information. Still today guanxi is an important social mechanism. (Chen 2001, 46.)

According to Michailova &Worm (2003) there exists a common belief among Chinese that to succeed in business, personal networking and social connections with the appropriate authorities or individuals can be more important than the price and quality of the product or service or the technological expertise offered. Thus the Chinese invest serious effort and considerable time in building the guanxi networks, which ideally can be sustained over a longer period of time. The benefit of guanxi for business is the protection for threats and uncertainty, as a strong guanxi can shield companies from unexpected challenges or help to minimize the costs. Guanxi is also a source of reliable information that may not be available through official channels. Thus it is extremely important that the foreign companies understand the meaning of guanxi.

Corruption and financial crime

China like other emerging markets suffers from corruption and financial crime. Corruption is rooted in China as it has historically been a part of daily life and the Confucian values help to maintain the structures that

allow the corruption to take place. The scale of bureaucracy and high autonomy of the local governments make the environment suitable for corruption. The uneven distribution of economic growth, the low salaries of officials and low risk of getting caught have also influenced on the high level of corruption. (Kosonen 2011, 1) In the year 2014 ranking of Transparency International China was ranked 100th out of 175 countries compared. (Transparency International 2015)

The Finnish companies operating in China can face corruption in their relations to the officials or in the contract relationships between business partners. Especially prone for bribery claims are the projects on the public sector. Bribery is very commonly expected also in the financing sector. On average, the loan takers paid bribes 9 percent of the total loan. Especially in the 90s it was commonly expected by the Chinese local officials that they would be offered paid trips, business dinners and other benefits if they would create favorable conditions for the foreign company to operate in China. Sometimes the project or permit process would move forward only after company has yielded to the wishes of the local party. It can also happen that the company that does not participate in bribery will lose the project or even get the corrupted officials trying to slow down or otherwise bother the business operations of the company. (Kosonen 2011, 35,79)

The wide social dissatisfaction and outcry about the corruption in China prompted the launch of anti-corruption plan. Various efforts have been made on preventative measures, such as educating and supervising officials and improving the judicial system. (Torrens 2010, 147). The government has organized campaigns against corruption with high public visibility and in 2007 The National Bureau of Corruption Prevention was established with the objective of improving government transparency, developing and improving the mechanisms through which corruption is combatted and coordinating anti-corruption efforts. The government is also seeking to audit the use of public funds more rigorously. The punishments for corruption can be very severe, in the worst case a death penalty. (Kosonen 2011, 5)

Something about the scale of the problem tells the fact that the website set up by the National Bureau of Corruption Prevention crashed just hours after its launch as hundreds of thousands of visitors sought to register their complaints. (Torrens 2010, 147) However it is hard for the central government to get involved in the corruption on the local level and the fight against the corruption is an ongoing process.

3.5 Social and environmental issues

The transformation of China's economy over the past 30 years is a spectacular growth story. Even if less noticed, such a growth rate accounts for tensions China faces today. By focusing on the economic growth, issues such as income inequality, the environment, health care, demographic pressures and basic issues of governance, have been less addressed. China has become a country with an income distribution very skewed, with growing rural-urban income disparity. Also inland-coastal inequality is having an increasingly important role in the general income inequality across the country. (Fewsmith 2011,3-5)

Official data from China's statistics bureau shows that the country's Gini coefficient was 0,473 in 2013 but according to some other estimates it could be notably higher (0,61). And still at the end of the year 2012 about 98.99 million people lived below the national poverty line of RMB 2,300 per year. (Ministry of Foreign Affairs 2014; World Bank 2015)

In addition to uneven distribution of income, there is inequality in access to education, employment, healthcare and social security. Some other causes for ongoing dissatisfaction are the issues in food and drug safety. Also the state still has strong control over resources, which can mean for example land expropriation and forced evictions. (Ministry of Foreign Affairs 2014)

Another issue that the country is facing is a consequence of population control policy, as China is now one of the most rapidly aging countries in the world. In the decade ahead, the workforce will start to shrink. This will be a huge issue, as the demographic structure of a reversed pyramid is going to be a heavy burden for the younger generation.

China has witnessed the world's largest migration, as the economic development has progressed further in coastal provinces than in the interior, millions of migrant workers and their dependents have relocated to urban areas to find work. By the year 2014 already 54, 6 % of the population is living in the cities. The minority who remain in China's villages are often older and less mobile. This rapid urbanization is a big part of the country's economic success, but it poses difficult challenges as well. (Ministry of Foreign Affairs 2014).

Deterioration in the environment, depleted natural resources, pollution, soil erosion, and the steady fall of the water level, is another long-term problem. China continues to lose arable land because of erosion and economic development. The environmental issues have been a much addressed topic in the public discussion and the government has published new plans, acts, regulations and guidelines in order to improve the situation. There has been much attention on the air pollution, soil pollution and water pollution and diminishing of the water resources. There are real concerns that the pollution starts to hinder the economic growth, cause emigration and harm public health. There also remains a question of how China will maintain a high pace of industrialization and economic growth and at the same time feed its huge population with enough safe food.

China also needs to address the growing needs of the energy consumption that in the last ten years has doubled, making China world's number one on energy consumption. The government is seeking to add energy production capacity from sources other than coal and oil, focusing on alternative energy development. By the year 2020 China intends to use 15 % renewable energies of the total energy consumption.

All these ongoing social and environmental issues are a big challenge to the government that is struggling to satisfy the expectations of a new generation of Chinese that are less willing than their parents to make personal sacrifices for their country. This will hopefully set some pressure on the Party to imply changes that benefit the society as whole.

China's 12th Five-Year Plan (2011-2015) consequently addresses these issues. It highlights the development of services and measures to address environmental and social imbalances, setting targets to reduce pollution, to increase energy efficiency, to improve access to education and healthcare, and to expand social protection. The annual growth target of 7 percent signals the intention to focus on quality of life, rather than solely on the pace of growth. (World Bank 2015)

4. FOOD INDUSTRY IN CHINA

After a general overview of the Chinese market environment in the previous chapter, this chapter takes a closer look at the food industry. It introduces the Chinese food industry, its recent development, the issues of food safety and changing consumer habits and discusses the impact of these factors on the business.

Increasing number of Chinese customers enjoy low levels of debt and one of the world's highest national saving rates. Private consumption is rising steadily among the country's fast growing middle class. China has also one of the largest and fastest growing food and food safety markets in the world. Chinese citizens have become increasingly concerned about food and beverages tainted with pesticides, illegal preservatives and additives, as well as industrial waste and heavy metals from polluted land and air. Several food scandals have hit especially the meat and dairy industries in recent years, and many Chinese look to foreign brands and imported products as offering higher safety standards. In addition imports can answer the growing quantity and quality demands of the consumers.

4.1 Recent food industry development

The increase in household disposable income and the food safety scandals in recent years can be seen as some of the key drivers for the rapid growth of China's imported food market. Because of the recent food scandals and the resulting wide-scale distrust towards domestic food products, many middle class Chinese consumers are willing to spend extra money for foreign imports and health foods in order to quell their anxieties about domestic food safety. This has created new investment opportunities for foreign companies in food business in China, especially those involved with organic and health food products. (Wright 2015, 1) Xiong Bilin, deputy director of the China Food Industry Association forecasted in an interview of China Daily, that the food industry is expected to maintain rapid growth over the next five to ten years. (China

Daily 2013) The Statistical Yearbook 2014 of Chinese National Bureau of Statistics reveals that China's urban household annual per capita income five folded since the year 2000. Composition of per capita annual cash consumption expenditure shows that approximately 35 percent is used on food. (China Statistical Yearbook 2014) The World Bank uses the Atlas method to calculate the gross national income. The GNI per capita has increased from approximately 3000 dollars in 2008 to almost 7,400 in 2014. This classifies China in the upper-middle income group of the world's economies. However it is notable that the income share held by the highest 20 % was in 2014 47 %, while the income share held by lowest 10% was only 1, 7 %. McKinsey & Company suggests that based on its research by 2022 more than 75% of the urban consumers annual household disposable income would be between 9000 to 34000 dollars. (McKinsey & Company 2013)

According to the China Statistical Yearbook 2014 the imports value of the category of food and live animals used mainly for food has experienced brisk growth. Since 2008 the value has increased from 140,5 billion dollars to 417 billion in the year 2013. In the same years also the animal and vegetable oils and fats import has come up from 76 to 103 billion (China Statistical Yearbook 2014). The increased demand for foreign food imports is expected to continue to grow. FAOstat estimated that between the years 2006-2011 the annual growth rate of food imports has been around 25 % and the value of food imports has more than quadrupled. (UN 2013).

Projections by the U.S. Department of Agriculture and several other sources expect continued growth for Chinese agricultural imports through 2023. Soybeans are forecasted to continue as the dominant import commodity, but also imports of corn, meats, oils, dairy and processed foods are expected to rise. While bulk commodities still remain predominant in imports, evolving consumer tastes and increased purchasing power stimulate demand for higher value products as well. For example imports of wine, beer, cheese, breads, cookies, extracts of coffee and tea, and ice cream are growing rapidly. (Gale et al. 2015)

China's socioeconomic progress with rapid demographic and nutrition transition have accelerated the demand for food, which have contributed to a decline in self-sufficiency rate and rise in food prices. Food prices in China present a similar pattern to the global food price inflation. While maintaining a robust economic growth rate, China has made great efforts in improving its food situation during last few decades, but feeding one fifth of the world's population from less than a tenth of its arable land and freshwater is a difficult task. Some agronomists and environmentalists believe that China should import more land-intensive food to reduce pressure on its already strained land and water resources, however maintaining a grain self-sufficiency of 95% has been the central theme of China's food security plan. (Ghose 2014, 86-95)

As the population's economic status is improving, the quantity and quality of food consumed has also increased. According to the Food and Agriculture Organization of the United Nations the caloric intake in 2011 was over 3000 kcal/person/day, which means China is approaching the caloric intake levels of high-income countries. This also means that the income increase has been encouraging demand for more animal protein, high-quality vegetables and fruits in addition to grains. On the other hand, accelerated urbanization is enlarging the markets of high-quality food products because the urban population normally has much richer and more diverse diet than the rural population. As the income levels continue to rise so does the demand for non-staple animal-based foods such as meat, fish and dairy products, increasing pressure on domestic production and import from other countries. (Jie 2007, 8)

For instance the imports of dairy products grew more than fourfold from 2008 to 2013. About half of the imports consist of milk powder that is used to manufacture infant formulas and other milk products. China is also becoming increasingly significant importer of other types of dairy products, such as butter, cheese and yoghurt. Also imports of meat and animal offals have increased. China has become a significant importer of mutton and beef as domestic prices soared 85% during 2009-2013. Rising

demand, slow growth in domestic supply and growing costs of production are pushing domestic meat and dairy prices higher, which makes imported meats more competitive in the market. (Gale et al. 2015)

Being faced with massive demand for food China is both strengthening its food self-sufficiency strategies and relying on large-scale imports from international markets. International food companies will find growing demand in China for their products at the same time that import tariffs and barriers are being eased. A large and growing market for safe, reliable food products in China will also benefit companies with products, services and management systems that can improve the local productivity. (Forbes 2013) It is also worthwhile to notice that in China's 12th Five-Year Development Plan for the Food Industry, the nutrition and health food industry has been for the first time included. It is projected that by the year 2015 the output value of China's health food industry will reach around RMB1 trillion, with an average annual growth of 20%. (HKTDC 2015)

4.2 Food safety scandals in China

Some of the China's food scandals have made it to the international news, stirring up public anger. One of the most memorable food safety crises was in 2008, when it was discovered that milk suppliers had been adding melamine, a toxic compound used to manufacture plastic resins, to artificially increase the protein readings of their milk. This resulted in 300 000 children becoming sick and developing kidney problems. (Jia et al. 2014, 411) At least six babies died as a consequence, causing public outrage and prompting the government to try to clean up the industry and introduce tougher food safety regulations. Despite efforts, scandals in the same industry re-emerged the next year. After the crisis the consumer confidence in the quality of the domestically produced dairy products plummeted and dairy imports rose rapidly (Torrens 2010,146).

Some of the contaminants from years of industrial development make their way into the country's food from the soil in which it is grown. A government test indicated that almost half of the rice sold in the southern Chinese city

of Guangzhou was contaminated with cadmium. Nearly half of 18 rice samples tested in local markets contained excessive levels of cadmium, according to the Guangzhou Food and Drug Administration. Cadmium, a carcinogenic metal that can wreak havoc on the body's kidneys, has been found in heavy concentrations in soil in different Chinese regions, soil-pollution experts state. Cadmium is frequently found in leafy vegetables such as spinach and choy sum grown in polluted conditions. Heavy-metal contamination in China's soil also includes high amounts of lead and arsenic. (WSJ 2013) Also Greenpeace East Asia has sampled soil and rice crops in villages close to a cluster of heavy metals smelters in Hunan Province. The area ranks first in rice output and among the top five in nonferrous metals production. Testing and analysis of the samples showed that both rice and soil samples taken near the industrial complex were contaminated by heavy metals, including lead. 12 out of all 13 rice samples contained excessive levels of cadmium. (Greenpeace Asia 2013) The news that the main ingredient of the kitchen may also be toxic drew a vehement outcry, triggering anger from consumers as China's staple food has not escaped the widespread pollution tainting its air, water and soil. Fury erupted online after this and other recent pollution controversies such as a discovery of thousands of rotting pig carcasses floating in Shanghai's water supply and the choking levels of air pollution. (WSJ 2013)

In 2013 Chinese police officials caught traders in eastern China who had made fake mutton using rat, fox and mink flesh adulterated with chemicals. Sixty-three people were arrested and accused of buying fox, mink and rat which they doused in gelatin, red pigment and nitrates and sold as mutton in Shanghai and Jiangsu Province for about 1,6 million dollars according to the Ministry of Public Security. This and other cases of meat smuggling, faking and adulteration added on to the distrust of the consumers already queasy over many reports about meat, fruit and vegetables laden with disease, toxins, banned dyes and preservatives. (New York Times Asia Pacific 2013) In 2014 another large meat scandal was exposed, when Shanghai Husi Food Co. Ltd supplied products containing expired meat to

McDonald's, KFC, Starbucks and Burger King. The firm was shut down after a TV report showed staff using expired meat and picking up meat from the floor to add to the mix. (Reuters Business News 2014)

Another long term problem that the government has been fighting for to clamp down is the production and sale of gutter oil. The gutter oil is produced from old cooking oil illegally collected from restaurant waste bins and gutters, or sometimes from rotten animal parts or oil made from animal fat refuse. The waste materials are reprocessed to sale at lower prices than new oil. Most gutter oil ends up in restaurants, which buy oil from distributors in bulk. (WSJ 2014)

As these and other countless scandals are a source of widespread dissatisfaction and danger to public health the government has vowed to strengthen scrutiny to stamp out food safety hazards. Anyhow, it is possible that China may yet have to face some serious food safety issues. In this respect China is still a developing country and establishing the food safety system throughout the food supply chain requires passing through several developmental phases.

4.3 Changing consumer habits

Even despite that China's overall economic growth rate is expected to slow down in coming years, the rebalancing of the economy towards greater private consumption means that the private consumption rates are expected to grow by 8% over the next five years. According to BMI report on the food and beverage industry development, the forecast for consumption of food between 2014 and 2019 goes up by annual average growth rate of 9,1%. While also per capita food consumption is expected to have annual average growth rate of 8,6%.(BMI 2015) This also means that Chinese consumers will spend more money on higher-valued food products including dining out, and imported food. The pervasive scandals on food safety have undermined consumers' confidence in domestic food production processes and standards. The food safety incidents have subsequently had a great influence on the purchase decisions of

consumers. A survey carried out by Ipsos during 2012, showed that over 60% of Chinese consumers would rather choose foreign brands, particularly when purchasing food products for infants and children. (Asia Perspective)

According to Euromonitor (2015) both packaged and fresh food market experienced continuing and healthy growth in 2014. Sales have benefited from Chinese consumers' willingness to trade-up to premium products especially in categories such as dairy, baby food, confectionery and oils and fats. Due to increasing health consciousness, a growing number of consumers are spending more heavily on healthier and more nutritious packaged food or products that have health benefits. The rise of health awareness is increasing demand for healthier and fresher food, and healthier products have become the fastest growing categories in fresh food as well. Consumers are also increasingly interested in premium food. Growing interest is expected for products that are positioned as offering better quality, environmentally-friendly packaging, higher nutritional value or fortified ingredients. (Euromonitor 2015) Once seen as a luxury food item, also imported organic foods are an increasingly accessible option for Chinese consumers with growing disposable income. The organic food market in China has tripled since 2007 to currently account for 1.01 percent of total food consumption, current rough estimates for the market value of organic imports are around 20 million dollars, consumers typically being middle and upper class Chinese with children (Wright 2015, 1)

Chinese consumer's palates are tantalized by new products as in China, like in many other countries, trying foods from other cultures is popular. The increased income, improved availability of different kinds of foods in local market due to better transportation network and increased international cultural exchanges and exposure to different foods and eating habits have facilitated changes in Chinese consumers' tastes and preferences, leading to their increased interests in trying new foods. (Zhou et al 2012, 42)

5. INTERNATIONALIZATION OF FINNISH FOOD ENTERPRISES TO CHINA

There are high expectations for the growing Chinese food market, as China is becoming home to an ever growing middle class with a big appetite for high quality and imported food products. The Chinese consumers growing interest towards clean, safe and high quality food represents appealing opportunities for Finnish companies. Safety, cleanness and high hygiene standards of the Finnish food can be used as selling points for the Finnish products. According to the annual report released by the European Food Safety Authority, food produced in Finland is the cleanest in Europe. (Efsa 2013; TF publications)

The production technologies in Finnish food enterprises are at advanced level. Opening the market for Finnish businesses in this industry indicates the good results of strong cooperation between different operators. When compared on the international level, the Finnish food companies are rather small in size, this has emphasized the need for faster technological development, innovation and specialization. The R&D inputs in the industry are high, and for example several health-promoting products have been developed by the Finnish food enterprises. The development of functional food and process optimization through information technology and use of biotechnology have been key research areas for many Finnish food enterprises and the Finnish innovation in science and technology are internationally significant. (Köper & Zaremba 2012, 172).

5.1 Finland-China relationship

In the year 2015 Finland and China will celebrate the 65th anniversary of diplomatic relations between the two countries. There is a long tradition of good bilateral relations both on governmental level and among individuals and companies. Finland was actually one of the first Western countries to recognize the People's Republic of China. It was also the first country with

market economy system to conclude a long-term trade agreement in the year 1953 with China. Finnish companies have been operating in and to China for decades in close cooperation with their Chinese counterparts. The amount of our trade, import and export, have been steadily increasing over the years. Originally the trade and economic cooperation between China and Finland began with wood, pulp and paper as well as heavy engineering and machinery.

China is the 7th largest export partner for Finland with annual turnover about 2.8 billion euros and the 4th largest partner on import with 3, 7 billion euros. Finnish companies have also invested significantly in China, and there are almost four hundred Finnish companies currently present in China with investments worth more than ten billion euros. Increasing amount of Chinese companies are also operating in Finland with local presence, and also the amount of Chinese investments in Finland is growing. (Toivakka 2015)

In its policy definitions the government of China wishes to significantly increase the international cooperation in regards to improving food safety. In relation to this, Finland's high levels of expertise have been noted in China. Cooperation with the Finns and their investments in food safety in China has made a very positive impression on the Shanghai Food and Drug Administration. ShFDA works closely with Finnish experts to learn how to solve food safety issues in China.

Visits and discussions have given new insight into the Finnish and Chinese food industries, their current situation, the challenges they are facing as well as their regulations related to supervision of food safety. In Finland both, the legal framework and the practical implementations of food safety are of the highest level. So especially in these areas Finnish know-how is very valuable. (Qi & Kivelä 2011,16)

5.2 Finnish food enterprises in China

Due to the lower trade barriers and increasing interest and activation of Finnish food enterprises, the food exports to China is expected to rise by several hundreds of millions of euros. At the moment the Finnish companies' exports to China are about 60 million euros and expected to grow to 200-300 million euros in the next years. (Finpro Food From Finland 2015)

Finnish Food enterprises operating in China are still limited in number. Out of the Finnish food enterprises Valio Ltd. has longest experience in China. Already starting in 1986 Valio carried out a co-operation project between the Finnish and Chinese ministries of agriculture for knowledge sharing and equipment sales to Chinese agricultural leaders. In the 1990s Valio Demi™ demineralized whey powder was sold to China. First Valio operated in China through a foreign distributor, and then in 2001 Valio's representative office in Shanghai became responsible for selling Valio ingredients and technologies. In 2008 Valio founded a subsidiary, Valio Shanghai Ltd. to cater for the Chinese market. The turnover of the Chinese operations was 48 million euros in 2014. In China, Valio mainly imports Valio Demi™ demineralized whey powders and milk powders. (Valio 2015)

In addition there are some other Finnish food companies that started their operations in China in more recently. The product categories range from dairy products, cereal grains, snacks, confectionery, biscuits, and berry products to nutritional supplements. Exports of Finnish oats and barley have started and the market for grains looks promising. The berry products are also considered to have great potential in the Chinese market. According to the Finpro's report (2015) from the berry markets of East-Asia, in the last ten years there has been increasing demand especially for imported blueberry in China. The rising health consciousness of the consumers is increasing the interest towards other berry products as well. Major part of the blueberry imported to China from Finland is used as raw

material that is further processed into other products, such as the compounds known as flavonoids used for example in the nutritional supplements or cosmetics. (Finpro, 2015)

Also the Finnish meat producers are willing to head to the Chinese market, but direct export of Finnish meat to China has not been possible prior to export certification. In the first stage, permits are being sought to deliver whole pig carcasses and pork offals, such as ears, feet and rectum that are hard to sell in Finland, but have market in China. There have been extensive negotiations, and the process of obtaining the import licenses from the Chinese authorities has been going on for about seven years. Last year the representatives of the General Administration of Quality Supervision Inspection and Quarantine (AQSIQ) officials visited Finnish slaughterhouses and dairies. The Chinese authorities have a positive view of getting the application process completed and to then starting imports of Finnish products. Ministry of Agriculture and Forestry hopes to wrap up the permit process and launch exports during 2015. (Evira; Yle 2015)

At the moment there is only one Finnish company in the food industry that has opened a production plant in China. The factory is a joint venture with Chinese, Finnish holding the majority. The factory produces fresh and processed cheeses, yoghurts and other dairy products. The establishment of this factory has been a notable event for the Finnish food industry as the production plant is first of its kind and acts as a trailblazer for the other companies. (Keskipohjanmaa 2011)

5.3 Co-operation and programs

If considered on the Chinese scale, even the larger Finnish organizations seem small. This emphasizes the importance of co-operation between different actors in building a strong image for Finland in the international food industry. Building a network of the industry players helps to foster learning and sharing of information and experiences.

The Team Finland network promotes Finland and its interests abroad; the internationalization of Finnish enterprises, investments in Finland, and the country brand. The core of the network consists of the publicly funded organizations, such as the ministries, Finland's network of diplomatic missions, Finpro, Tekes, national culture and science institutes, Finnvera, Finnfund, and the regional internationalization services, built upon the ELY centres. Team Finland China offers services through a broad network of cooperation, including the Embassy of Finland, the Consulate General of Finland in Shanghai, the Consulate General of Finland in Hong Kong, Finpro, Tekes, FinNode, the Finnish Business Councils in Beijing, Shanghai and Guangdong, and the Finnish Chamber of Commerce in Hong Kong. (Ministry for Foreign Affairs 2015)

In 2005 Ministry of Trade and Industry of Finland together with Finpro and Tekes established FinChi, a fast, safe and trouble-free platform for Finnish companies, institutions and other organizations in China. FinChi facilitates the access to the Chinese market and can offer support and networking assistance in business expansion and growth.

Another good example of collaboration and support is Food From Finland, an export program for the food industry. The program is carried out by the Team Finland organizations, The Finnish Food and Drink Industries' Federation (ETL) and private companies in the Finnish food sector. China is one of the main target areas of the program. The aim of the program is to double the Finnish food exports by 2020. The intention of the export program is to expand the level of internationalization within Finnish companies operating in the food industry. Increasing the number of subsidiary companies located in other countries is also one of the goals of the program. The export program encourages and enables cooperation between export-oriented food companies and can offer assistance for example in starting the exports or international marketing activities. (Finpro Food From Finland 2015)

Finnish companies can benefit from these activities in many ways, finding information about opportunities, networking with the local actors and

finding potential business partners. For example in January 2015 almost 20 Finnish companies took part to the Finnish business delegation led by Lenita Toivakka, Minister for European affairs and foreign trade of Finland, and Team Finland members. During the visit the Finnish companies met over 300 interested Chinese buyers and potential partners. In May 2015 Food From Finland organized a Finnish pavilion in the SIAL-trade fair, one of the major fairs of the food and beverage industry. And yet again the clean, safe and high quality of Finnish food attracted a huge number of interested local companies and individuals.

Obstacles in the food industry

Several projections suggest that trade will continue to expand, but assessing China's demand for imports remains difficult due to lack of reliable data, inconsistent application of regulations and market-distorting interventions. Some of the obstacles and uncertainties relate to events such as rejections of shipments, new requirements for exporters, antidumping investigations, opaque approval processes, and uneven application of inspection and quarantine regulations and procedures. (Gale et al. 2015)

Increasing competition among domestic companies as well as foreign operators means that the Chinese food and drink sector is getting increasingly competitive especially in first tier cities, (Shanghai, Beijing, Guangzhou and Shenzhen). It means that companies need to offer more innovative and premium products in major coastal cities and consider expanding their geographic footprint in the rest of the country. The second tier cities include capital cities of each province or coastal cities (Tianjin, Chongqing, Chengdu and Wuhan). Third-tier cities are usually medium-sized cities of each province, yet they also have populations in the millions and represent promising potential. Especially there is growing interest towards western and middle parts of the country.

6. EMPIRICAL ANALYSIS OF FINNISH FOOD ENTERPRISES ENTRY MODES TO CHINA

The purpose of this study is to gain deeper understanding on which kind of entry modes or combinations of entry modes Finnish food enterprises use in the Chinese market and which factors have influenced the mode choice. The entry mode research has recently emphasized the mode actions after entry. However the Finnish food enterprises in China are a rather new phenomena and the market is yet under development, and many companies are just entering China, so the possible mode combinations are seen more relevant related to this research than the mode changes after the initial entry.

This chapter gives closer introduction to the empirical research method; it explains the questionnaire design, the reliability and validity of the research and the case selection and data collection process. Then the data analysis is presented, first case descriptions and within-case analysis are offered and lastly cross-case analysis including comparison of the similarities and differences between the cases are discussed.

6.1 Research methodology

This study is conducted as a qualitative case research aiming to examine foreign entry modes of Finnish food enterprises in China. The purpose of the research is to understand and compare different entry mode strategies and reasons for entry mode choice and mode change. A qualitative method is the most appropriate for conducting this study as it aims to understand the research subject and explain the reasons and activity behind its behavior and decisions.

It is typical for the qualitative research that it aims to gain holistic understanding and to find and reveal facts. Qualitative research does not aim to statistical generalizations, but to gain deep understanding that comes from exploring the totality of the situation. Qualitative methods

intend to describe and understand a certain case or activity and provide theoretical interpretation of the phenomenon of interest. It is common that the human observation is used as an instrument in data collection as especially interactive methods can be ideal for this kind of research. Qualitative research favors the use of methods that allow the respondents perspectives and experiences to get displayed. Research data can be collected by several means, for instance by using structured or semi-structured interviews or theme interviews, while questionnaires or forms can be used as well. Typically the number of the cases is small and the target group selected with purposeful sampling. (Hirsjärvi et al. 2003, 152-155)

A common question while conducting a qualitative research is the sufficient quantity of the data, but there is no definite answer to that question and in practice the research resources define to large extent the amount of informants and data collected. Anyhow as the intention is not to reach statistical generalizations but to gain deep, holistic understanding or describe and interpret a certain phenomenon in a theoretically meaningful way, the quantity of the informants is not the main question. It is important that the informants know as much as possible about the research topic or they have personal experience related to the topic in question. So the quantity of the data is not decisive, but the depth, quality and constancy of the analysis. (Sarajärvi & Tuomi, 2008,85)

Qualitative research allows the researcher to gain understanding through other individual's experiences and perceptions through interaction. Qualitative data can consist for example of quotations, observations and excerpts from documents. The themes, patterns, understandings and insights that emerge from qualitative inquiry are a way to really understand a certain phenomenon and the reasons behind it. (Patton, 2002, 5)

Questionnaire design

Kvale and Brinkman (2009,99) suggest that the open structure of the research interviewing is an asset and a problem. No standard rules or

procedures exist and this creates an open field of opportunities for the researcher's skills, knowledge and intuition. The thematic questions of "why" and "what" need to be answered before the technical "how" questions, as the design and method of the study depend on the purpose of the study.

According to Sarajärvi and Tuomi (2008) the interview and questionnaire are simple ways to obtain information from the subject to understand reasons behind certain activity. There is no strict separation between questionnaire and interview, but usually questionnaire is filled by the respondent by themselves or in a group situation, whereas in the interview the interviewer asks the interviewee questions and records the answers. It is necessary that the questions asked from the respondents are meaningful considering the research problems and fit in the theoretical framework of the study.

In this study both semi-structured interview and questionnaire were used to gather research data. The design of the questionnaire fits the requirements of qualitative research; open questions were used instead of scaled questions. To ensure the comparability of the data the structure and questions of the questionnaire were followed also in the interviews on telephone or face-to-face.

The questionnaire is divided into four sections; preliminary information, internationalization, market entry mode in China and challenges and solutions. There was also free space reserved for additional comments. In the questionnaire there are six questions about the background information and twelve questions related to the internationalization and market entry process and the possible challenges. The questionnaire can be found in appendix 2. Figure 4 represents how the questions relate to the initial research problem.

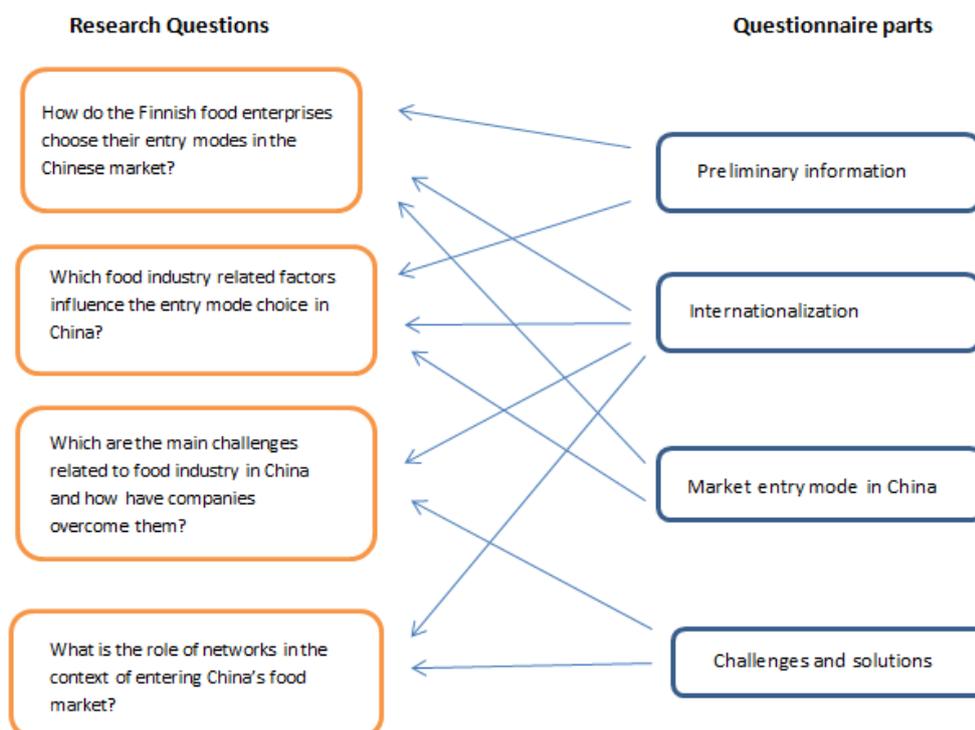


Figure 4. The questionnaire parts in relation to research problems.

Validity and reliability

The diverse approaches to qualitative inquiry mean also that the issues of quality and credibility intersect with intended inquiry purposes and audience. (Patton 2008, 543) Traditionally the method literature uses the concepts of validity and reliability to describe the credibility and trustworthiness of the research. In the field of qualitative research usage of these concepts has received some critique as they were originally formed for the quantitative research. (Sarajärvi & Tuomi 2009, 136)

Validity refers to the ability of the study to measure what it is supposed to measure. In more broad conception more fitting to the qualitative research, validity pertains to the degree that a method investigates what it is intended to investigate, meaning the extent to which the observations indeed reflect the phenomena or variables that are of interest. Reliability refers to repeatability and consistency of the research; it is often treated in relation to the issue of whether the finding is reproducible at other times or

by other researchers. (Kvale & Brinkman 2009, 246) However there is no unambiguous method to assess the validity and trustworthiness of the qualitative research. Patton (2008, 14) reminds that the credibility of qualitative methods hinges to great extent on the skill, rigor and competence of the person doing the research.

In the data collection process of this study, there are several factors that could influence the perceived trustworthiness of the research. Firstly half of the respondents answered to the questionnaire and half were interviewed personally so that means that deeper information could be obtained from some of the case companies. Some of the respondents were also met in other circumstances than this study and additional questions could be asked and information collected to help gain better understanding, but this was not possible with all the case companies, meaning that there were some inconsistencies in the data collection. On the other hand this means more data on some of the cases and that can benefit the study in total. Unfortunately with the questionnaires there is the possibility that some questions were wrongly understood and interpreted. Also each respondent's personality, feelings, motivation, knowledge and background could have influence on how the questionnaires were filled in or the questions answered in the interview.

6.2 Case selection and data collection

The case companies were chosen for their accessibility and for the extent of their international operations in the field of food industry, meaning that purposeful sampling was undertaken. Patton (1990, 169) has argued that "the logic and power of purposeful sampling lies in selecting information-rich cases for study in depth". Also, Eisenhardt (1989, 537) points out that in choosing cases random selection is neither necessary, nor even preferable, as the goal of is to choose cases which are likely to replicate or extend the emergent theory.

The case choice process of this study was quite long, challenging and multiform. The data collection of this study was conducted during the

spring and summer 2015. The potential case companies were found and contacted via multiple sources. Finpro and Team Finland networks, business delegations, events and trade fairs in China and personal contacts established during the internship in Shanghai Finpro office were the main channels. Newsletters, press releases and internet sources on the industry were also used to recognize the potential case companies. Less than twenty potential case companies were identified. These companies included the ones already active in China and the ones that are currently at the entry stage. Because of the small quantity of the potential case companies, it was important to motivate the companies to participate in the study so that the sufficient amount of respondents would be reached. All of the identified companies were contacted. Part of the potential case companies were met at the events and trade fairs and the study was introduced to them and they were asked if they were willing to participate and to reply to the questionnaire or to be interviewed. Other companies were contacted via email, text messages or through network contacts and personal inquiries. In each company, at least one key informant was identified and contacted. The respondents received an email explaining briefly the purpose of the research. The questionnaire was sent as an attachment to the email and the respondents were kindly asked to reply by a certain date or to book a date for an interview. The anonymity of respondents was also highlighted, to make the respondents feel at ease to answer the survey. After initial screening and making attempts at getting contact, six Finnish companies were chosen for this study. The final selection of companies was made based on their willingness to take part in the study, since access to data would be crucial.

Totally, six key informants participated in the study. Key informants were CEOs and export managers, mostly the key informants were members of the top management team. Data collection was done through questionnaires, interviews and other communication with key informants. Three of the respondents answered by filling up the questionnaire sent via e-mail and they returned it to the researcher. Two of the respondents were

interviewed through telephone and one respondent was interviewed face-to-face and the interview recorded. All of the interviewees received the questionnaire well in advance so they could familiarize with the questions. Semi-structured questionnaire and a semi-structured interview were used. The questionnaire consists of the same questions for all the respondents but because there are no ready answer choices, the respondent have opportunity to respond in their own words and to continue discussion if an interesting subject comes up. After that, the answers were transcribed, collected in tables, compared and analyzed.

As Brouters et al. (2007,395) state the mode choice is usually retrospectively examined, and this may lead to recall biases. In this study for the participating companies the moment of entry was just under way or recently happened, so the moment of the study was beneficial in order to avoid the recall bias.

The European Commission classifies the small and medium-sized enterprises according to the number of employees and either turnover or balance sheet total in the following way. (European Commission)

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Table 1. Classification of small and medium sized companies

The main focus of this study was the food industry, thus the size of the company was not considered in the selection of the case companies. Also due to the limited number of Finnish food enterprises operating in China it was not reasonable to concentrate on the size of the company while selecting the case companies.

6.3 Data analysis

Case studies can be used to accomplish various objectives such as providing description and test or generate theory. Eisenhardt & Graebner (2007, 25) describe case studies as rich, empirical descriptions of particular instances of a phenomenon, that are typically based on a variety of data sources. Analysis then transforms data into findings. Case analysis involves organizing data by specific cases for in-depth study and comparison. Well-constructed case studies are holistic and context sensitive in nature. The essence and the challenge of the analysis is making sense of the large amount of data. (Patton, 2002, 447)

Eisenhardt (1989, 540) identifies within-case analysis as one of the key features of data analysis and suggests that within-case analysis can help the examiner to cope with the volume of the data. Within-case analysis usually involves detailed case study write-ups for each case while the idea is to become intimately familiar with each case. This is central to the generation of insight because it helps in finding the unique patterns of each case, before the researcher can seek patterns across cases in the cross-case comparison. The idea of cross-case comparison is to force the analysis to go beyond initial impressions in order to improve the likelihood of accurate and reliable theory, while, cross-case searching tactics enhance the probability of capturing some novel findings which may exist in the data. Eisenhardt (1989, 540) proposes three tactics for cross-case comparison. First one is to select categories or dimensions and to look for within-group similarities coupled with intergroup differences. Dimensions can be suggested by the research problem or by existing literature. The second option is to select pairs of cases and then to list the similarities and differences between each pair. This tactic can result in breaking simplistic frames and comparison of new unexpected categories and concepts. Third tactic is to divide the data by data source. The advantage of this tactic is exploitation of the unique insights possible from different types of data collection.

The rest of this chapter introduces the six cases examined in this research followed by within-case analysis of each case. At the end of the chapter the cross-case analysis is performed. Table 2. below summarizes the interviews done in this study and introduces the products of the company, position of the respondents and the time of the interview.

Company	Products	Position of the respondent	Time of the interview
A	Dairy products	CEO	21st of June 2015
B	Berry and fruit products	Entrepreneur, CEO	18th of May 2015
C	Grains	CEO	23rd of July 2015
D	Grain products	Export Manager	19th of May 2015
E	Bakery products	Business Area Director	7th of August 2015
F	Food supplements	Export Director	14th of May 2015

Table 2. Summary of the interviews.

Case A

The CEO of the company A was interviewed on telephone 21st of June 2015 in China. Some additional information was requested via messages later on. The company A is producing fresh and processed dairy products, such as cheddar, mozzarella, cream cheese, yoghurt, quark and milk. Company A's entry process to China started in 2009. Prior international experience of almost 15 years includes trade with many European countries (such as Germany, Poland, Switzerland, Spain, Sweden and the Baltic countries) and also some outsourced production. At the moment of the interview company A employs approximately 150 employees in China but the number has been steadily increasing and is expected to go on growing. The company A's factory is operating in northeast China, in Fushun that lies in the province of Liaoning.

The CEO of the company described the motivations behind the entry as the open window of opportunity that followed an invitation to participate on a business delegation visit in China in the year 2009. The cities of Fushun and Kokkola, where the company was originally founded, are sister cities. *“During the delegation visit the local city government had organized*

several meetings and activities. The city used to be known for the heavy industries and there were aspirations to shift the local industry structure towards healthier direction. The interest towards our Finnish dairy company and the know-how was high and also a potential local partner was introduced to me. This visit was a real eye-opener and left a spark to return to China". The CEO then soon returned to China with his employees to visit the major cities and organize tastings. This was the stage where the huge potential of the market revealed itself and the CEO became convinced that the Chinese consumers do like dairy products and are increasingly using them. This was an important point as back in Finland there were many that doubted that the Chinese would like these products. According to the CEO the consumer adoption process of dairy products would follow the same patterns in China than in other markets, like in Japan and also a longer time ago in Finland. This means that first the consumers get familiar using milk, yoghurt and eventually cheeses and other more complex dairy products.

The original plan was to bring to the Chinese market mainly fresh dairy products, the specialty being the Lapland cheese, introduced first time to China. However because of the fast development of the market, the company has then afterwards shifted emphasis more towards processed products such as grated or sliced cheeses.

In the preliminary stages the company has used external expertise such as Finpro's services for market research. Especially the local experts have been necessary concerning the complex permit and certification processes. Also global networks have proved useful, especially the European and American business contacts. The CEO states that through the wide networks the company selected the machinery and found a partner for product development and sharing of know-how. Long-term collaboration has been very fruitful. The market entry mode of the company A was a joint venture with a local partner. Majority of the company is owned by the Finnish side. The whole process was challenging, the CEO needed to convince the financiers, participate in

lengthy negotiations and seek potential partners. The selected Chinese partner was the one introduced to the company already during the CEO's first visit to China. This has been the most suitable entry mode for the company A and they have not combined or changed their entry mode since. The time of entry played an important role in this case as the company was the last one to obtain the uniquely extensive certificates to produce these dairy products. After the melamine milk scandal the government wanted to develop the existing industry players and no new certificates were granted anymore. This meant that the local government has offered their support to company A, as it has brought new know-how, employment and taxes in the area. It can happen for example in negotiations that the locals will "press" the potential buyer to buy from the company A.

There have been multiple challenges along the way, especially related to the strict regulations and complicated permit and certification processes. The melamine milk scandal had forced the authorities to set stricter control especially on the dairy products. The CEO noticed that it was even difficult for the local officials to understand the rapidly changing regulatory environment that has according to the company's experience come to be close to the European standards. The Chinese government has put effort on improving the level of control of the industry. The CEO is glad about this direction as it increases safety of the whole industry. However because of the strict regulations the process of starting the actual production was prolonged. Especially hard was to obtain the certification for the cheese production.

Also on the personal level this process has been very informative and the CEO tells: *"Different ways of communication and cultural differences are something that anyone doing business in China has to get familiar with. Chinese practices and habits are different and I have noticed that it is necessary to adapt and to understand the local environment. This is where many plans are bogged down. So the main message for the Finnish*

companies that want to enter the Chinese market is that they need to come prepared to have some cultural collision.”

The company is using local workforce and has had positive and negative experiences. This has also been a learning process of how to recruit the right personnel. In the beginning some local professionals were found to lack competence and skills, thus slowing down the business activities. Mainly the company has been satisfied with local employees.

The CEO of company A sees the company's future in China very bright. The company is developing and expanding locally and there are new interesting projects and opportunities. The company is rapidly moving forward and taking next steps, such as new sales office, new deals and new business partners. Also due to the political situation the Russians have been increasingly interested in the company's products. The future plans also include another production facility. All in all the CEO says that the effort and the risk have been well rewarded and that there has been also some good luck in addition to hard work that helped the company's success in the Chinese market.

Case analysis

Company A is the first and only Nordic food enterprise that has expanded into China by setting up production facilities locally. The company A stands out of the case companies of this research as well, being the only one of the food enterprises that has used the JV as their entry mode in China. The company had prior international experience from geographically closer market areas, before moving to the more distant ones and the international involvement has progressed in stages. This gradual process can be described with the Uppsala model (see page 22).

Forming joint ventures with Chinese firms have been the conventional approach in entering China. (See page 35) Sustained popularity of joint ventures in China can be linked to government policies and companies' strategic needs. Traditionally the government has exercised tight control over the forms of foreign direct investment and JV's have been favored

based on beliefs that they help to retain national control over industries and facilitate technological transfer to Chinese firms. Bing-Sheng (2004, 387) reminds that through joint ventures firms can also gain valuable local knowledge and connections from their Chinese partner. They also allow sharing the risks and costs in a new venture or a large project.

Also the resource based view (see pages 17-19) can be used in explaining this case. According to RBV companies' growth paths are functions of their resources that generate competitive advantages. Medium resource-augmenting modes include partial acquisitions, minority or majority JVs that allow the foreign company to access into the host country resources while allowing exploitation of their own resources.

Company A chose JV as their entry mode mainly because of the opportunity that was proposed to them during a delegation visit. The personal visit of the CEO to China was the main motivation behind the entry. Visiting the local market and getting familiar with the consumer culture and developing own understanding of the changing consumer habits and market opportunities were important factors behind entry. The high interest and requests for collaboration from the Chinese side got the company seriously activated and the process was started. The support from the local government has been of great worth as well. As explained in the chapter 4 the dairy industry is strictly regulated and controlled partly due to the melamine scandals. This has posed challenges during the entry process in this field of industry, but also offered competitive advantage because the government wants to put emphasis in developing currently existing production of dairy and new wide certifications have not been granted since the company A obtained theirs. The strict regulations are seen as a positive thing and company A sees this increasing the trust of the consumers towards the dairy products that are locally produced. The CEO states that their own laboratory, testing and production facilities are at the European level.

In this case the institutional and new institutional theory (see pages 15-17) is very well applicable, as it suggests that companies enter and operate in

an institutional context that defined by certain values, rules and norms. The institutional environment of a country affects the company's scope of action because the environment sets the rules according to which the firms must behave. Brouthers (2002,4) states that the firm's ability to exploit or enhance its capabilities may vary across institutional contexts in different national environments. The new institutional theory suggests that country's institutional environment is made up of a set of three dimensions: regulatory, cognitive, and normative. These dimensions vary by each country and they influence the way how the business is conducted and thus have an effect on managers' decision making process. In this case the manager's decision process was influenced by all of these factors. It was suggested by Xia et al (2008, 196) that institutional theory has been especially useful in interpreting market entry on emerging markets. Yiu and Makino (2002) note that cultural distance may reflect differences in normative belief system between home and host countries. The CEO of the company told that the cultural differences have been one of the challenges of the entry process. The cultural environment of China and Finland differ greatly (see pages 51-54) thus influencing many aspects of the business.

The company A has had challenges along the way, especially related to the local changing regulations and certification processes. These are common issues for other foreign companies operating in China as well (see pages 48-49). As Kosonen (2011, 1) states, the companies may find that their business operations are hindered by things such as heavy bureaucracy and corruption. In China business is strongly regulated and the process of obtaining several permits has been time and resource consuming also for company A. Anyhow the CEO sees that the risk has been rewarded and the future is full of opportunities for the company. Through learning and using external experts to deal with bureaucracy and the local knowledge of the local partner the company has been able to succeed beyond expectations in the Chinese market.

Case B

The entrepreneur and CEO of the case company B was interviewed via email questionnaire that was returned on 18th of May 2015. The company specializes in berry, fruit and mushroom products. The company employs 16 people in Finland and the annual turnover in 2015 was 5, 1 M€. The family business has been operating for nearly 30 years and has prior international experience from several foreign markets. In Asia the company B has been five years in Korea and two years in Japan. The company also has been in Latvia for six years and in Estonia and Sweden for one year. In China the company considers all the geographical areas as potential market areas, it is not sure at the moment of research where they are going to operate.

The CEO describes that the motivation and reason to enter the Chinese market was the large market potential. *“Especially there is a lot of demand for blueberry in China and also in other parts of Asia.”* The company is offering different kinds of berry products to China, including blueberry juice, blueberry powder, sea buckthorn juice and powder, lingonberry juice and lingonberry powder and also frozen blueberries and lingonberries.

About the external experts and partners the CEO tells the following: *“In Japan we have hired an assistant that has worked for years for Finpro as well and all his life in the international trade. His role is to go through all the contacts and also deal with the first negotiations with them. He is the contact person in Japan and acts also as an interpreter and organizes meetings. We have also considered using Finpro’s services, but by this far we did not need them. In China we might turn to Finpro, especially if we have challenges in contacting because of the language etc. We got from the first fair (SIAL 2015) more than hundred contacts. We first reply to them by ourselves, but if we need help with them we turn to Finpro. Also in obtaining different permits and documents we shall need some external help.”* By this far the company B has used networks of Finpro. *“At this stage we have been using only the contacts of Finpro. They have been extremely important for the first-timer.”* The company has also participated

in Food From Finland programme and found it to be very helpful. *“We are currently in Food From Finland and the support and help gained through it has been crucial while we have done our export efforts. Without the program it would have been difficult to participate for example in trade fairs or trainings.”*

About the entry modes the CEO states the following: *“We are searching for importers and distributors for our products. We want to stay as a productional company that knows their customers and their distribution channels. We are a small company and we don’t have many options for our activities. In addition, we are just taking our first steps in China and we have also much to learn about the market and business culture. That’s why the selected way is the less risky one but gives anyway sufficient opportunities for significant growth”* The company B has not combined or changed their initial entry mode.

By this far the company B has not faced very difficult challenges and CEO tells about the problems and overcoming them: *“Up until now we have not faced anything insurmountable. Language and getting all the necessary documents are probably the most challenging points for us, but I don’t see them as problems but rather as facts that we need to work with as they are part of doing business.”*

Main factors related to food industry that a company needs to consider entering Chinese markets according to the CEO, are to comply with local regulations on the food products of the target country and to arrange all the necessary documentation. Also he points out that the Finnish price level seems to be sometimes a barrier to trade. Anyhow the future in China looks bright for company B: *“I believe that China, Japan and Korea will cover major part of our trade in the future”*.

Case analysis

The entry mode of case company B to China is direct exporting. Exporting is relatively easy method for international market penetration and also the risks can be minimized. Welch et al.(2007, 237) state that for many

internationalizing companies exporting is a first choice when they are starting to operate on the international markets because then a low resource mode such as export is desirable. Exporting is commonly used in initial entry phase and gradually evolves towards foreign-based operations. (See pages 24-27) By joining the WTO China has lowered its tariffs and trade barriers, and the foreign exports have increased steadily since the early 1990's. The company B took advantage of the benefits such as low cost and risk, speed and control of the exporting mode. In a risky emerging market these benefits have been important.

The company has prior international experience from Asia; Korea for five years and Japan for two years. The company also has years of experience from geographically closer markets, such as Latvia and Sweden. The company has been actively expanding their market areas and China is considered to offer significant opportunities. The motivation and reason to enter the Chinese market was the large market potential. There is a lot of demand for blueberry in China and also in other parts of Asia. The changing consumer habits, purchasing power and growing health consciousness increases the interest towards the range of the products that company B is offering to the Chinese market. (See pages 59-62)

In Japan the company B has hired a local assistant and they have benefited the external expertise. In China the company is searching for importers and distributors for their products. The reason behind this choice is that the company wants to remain concentrated being a producer, but also know their customers and their distribution channels. The company is rather small and don't have many options for organizing their activities. In addition, the company is just entering the market, so they have much to learn about it and the Chinese business culture. That is why the company selected a method that is less risky but can give anyway sufficient opportunities for significant growth. The company has limited resources and no previous experience from China so the choice of exporting mode is very reasonable.

The OLI-model can be applied to this case, meaning that enterprises choose the most appropriate entry mode by considering the advantages related to the three factors of the OLI framework (see pages 19-20). Ownership related advantages of firm specific competitive advantages for the company B are rather unique, so they have good abilities to overcome the operating cost in the Chinese market. Location advantages are country-specific advantages as key determinant factors for where the company chooses to locate, for example related to availability and cost of resources. Internalization advantages are related to the benefits a firm obtains by choosing the most suitable modalities of exploiting their core competencies given the local attractions. Dunning (2000, 174) concludes that the mode choice decision is based on the evaluation of these components and the risk, control, return and resources related to them. In this case the CEO stated that the company wants to stay as a producer of high quality products and that the company sees that the selected entry mode gives the best opportunities for growth with minimizing the risks. Keeping the production in Finland follows the reasoning of the OLI-model.

Major challenges for company B have been related to the documentation, local regulations and the language. (see pages 48-49) And also in this case the institutional environment affects the company's scope of action and ability to exploit or enhance its capabilities. (see pages 15-17) The case company B has participated in export programmes and activities organized by Finpro and found them very useful. Especially the contact networks, trainings and trade fairs have benefited the company B. Additionally being active already in other Asian countries can help the company to conduct business in the Chinese environment.

Case C

The CEO of the company C was interviewed on telephone on 23rd of July 2015. The company operates in international grain trade with the Finnish eco-friendly grain; mainly the delivered product is barley and oats to the food sector. The main market area currently is Europe. The company was established in 2007 and is owned by a number of family farms, employing

currently one person. The turnover in 2014 was 250000€ and it is expected to double or triple this year. The company has several years of international experience from the European market, mainly Germany where they have mostly imported their products. The company C entered China at the beginning of the year 2015 and there are also plans to enter other new markets such as India or Pakistan. In China the company's products are mainly sold to companies in major cities, but the Chinese buyer, the local middleman, influences on the final selection of the geographical areas.

The motivations behind entering the Chinese market the CEO describes as following: *“The market situation in Finland so to speak sucks, so we wanted to expand into international markets more widely. China happened to offer opportunities in the right moment, as we got requests from that end.”* A Finnish food exporter and importer company in China contacted company C because they had had requests from a client for Finnish grains. The protocol for barley and oats was signed some years ago, so it was possible to start exporting. *“Also the fact that the Chinese are active in business everywhere and broadening their activities was interesting. Another fact is that the cargo expenses to China are cheaper compared to the other potential markets we have been watching at, like India. Also the level of local infrastructure in China is better.”*

In their internationalization to China the company C has established an exclusive cooperation framework with its partner that has Finnish personnel located in the Chinese market. Company C is managing the individual suppliers in Finland while the partner in China is responsible for sales negotiations and contracting of the grain trading projects in the Chinese market. This has been essential because expertise and market knowledge of the partner have made the project easier. Otherwise the company has not used external expertise, they don't know if for example Finpro could have offered some help. The company C did not participate in export programs either.

The role of networking the CEO describes as *“Very important especially for the smaller companies, so that the start in the foreign market can be successful. We are a small company so it is better to practice while growing. It would have been difficult to just book a plane ticket and go there personally. It is so much better that you are having a person acting on your behalf on the local market.”*

The initial entry mode of company C is exporting and they are going to continue with that method, no need to change or combine. This mode was chosen because of the request received from the Chinese end for the products of the company. The company C is satisfied with the current collaboration and experiences no need to change anything.

About the challenges and overcoming them the CEO tells: *“There have been some technical problems and communication trouble due to cultural differences. The Chinese humidity standards of the products are different from the Finnish ones and it has been difficult to get the locals to understand that it is ok. The new client wants another health certificate, which has caused a bit of a hassle. Otherwise the permit process has been going well. At the Chinese end we did not experience trouble with officials, it must have helped that the product was sold to the Chinese client that dealt with the customs and so on. The containers have been emptied in the 15 days every time and everything went smoothly.”*

The CEO thinks that for a Finnish company that wants to enter the Chinese market it is important to take into consideration the payment arrangements and the possible complications. Of course the cultural differences and communication may be challenging in a way that mutual understanding can be reached. All in all the CEO sees the industry development offering positive prospects for the Finnish organizations. Also the future of company C looks positive, several metric tons of product have been delivered and the company is going to do another very large delivery for the previous buyer and there is also a new client that has been found. As an additional comment CEO states: *“As we Finns are small on the Chinese scale, we don’t have the potential for huge volumes, so we*

should rather concentrate on brand building and selling to a specific narrow segment. It is also questionable if we should try to market ourselves with Finland-brand or with the Scandinavian one.”

Case analysis

The case company C has entered the Chinese market in the beginning of the year 2015. The selected entry mode is exporting. The responsibility for carrying out the foreign selling job is transferred to another organization meaning that the company uses indirect export method (see page 25). Also the case company C wanted to have benefits such as low cost and low risk, speed and control of the exporting mode. The CEO stated that it is better to grow gradually, practice while growing and gain more market knowledge. For a small company with limited resources it would have been too difficult to enter the market without a partner that has local presence. The company C has established a cooperation framework with its originally Finnish partner that has personnel located in the Chinese market. The expertise and market knowledge of the partner have made the entry easier. These notions are in line with Hollensen (2011,337) suggesting that this approach to exporting is appropriate for a firm with minimal resources to devote to international expansion or a firm that wants to enter international markets gradually, testing out markets before committing major resources and effort.

The motivation for entering new markets has been to seek growth from abroad because the home market situation is weak. The fact that the Chinese are active in business everywhere and always broadening their activities was interesting according to the CEO. China was selected as one of the next target markets because of the requests received from there for the company's products through networks; a Finnish food exporter and importer company had a Chinese customer that was interested in buying Finnish grains. Here the network and social capabilities theory (See pages 21-22) can help to understand the importance of the networks. As Bontempi et al.(2009, 18) state, especially for small companies the support of a partner and network is essential to

face the potentially expensive and risky entry into the Chinese market. The small firms hardly have on their own the necessary means to stand in a complex and faraway market. The CEO's opinion was in line with this, the role of networks was considered very important for the case company C.

The protocol for the barley and oat has been signed between China and Finland already before so it was possible to start exporting. Another factor is that the cargo expenses to China are cheaper compared to the other potential markets that the case company has been watching at and the level of local infrastructure in China is considered better too. Some of the challenges for the company have been related to the local standards and regulations. So also the institutional theory (see pages 15-17) can be applicable to this case as well. The cultural distance may reflect differences in normative belief system between home and host countries. In this case the company had some difficulties in convincing the Chinese customer about the Finnish standards for the product humidity etc. Otherwise the company C did not face major challenges and they have been very satisfied with the current collaboration. The company has high expectations for the Chinese market and the sales are expected to grow.

Case D

The export manager of the case company D was interviewed via email questionnaire that was returned 19th of May 2015. The company manufactures, sells and markets grain products, such as grains, flakes, flours and pasta in Finland and internationally. The frozen pastries, dough and baked goods are also in the assortment of the company. The company is established nearly 90 years ago and has international experience of 25 years, especially from Russia and Eastern Europe. The turnover in 2014 was 68 M€ and the company employs about 120 people. The company D plans to operate nationwide in China, initially offering one product to the market.

The main motivation to enter the Chinese market according to the Export Manager is the huge market potential there. The entry process the company D is *“Aiming to do on our own. Anyhow there is a role for the old networks and the Finnish trade delegation visit to China. Also participation in the export program has made it easier and more economical.”*

The entry mode of company D is exporting, working through importer/distributor. There are risks related to the Chinese market and the exporting modes are considered as less risky modes of entry. The company recognizes that it is crucial to select the right partner and to consider also the suitable number of the distributors. They first *“We prepared a gross list, made personal interviews and then the decision.”* The company did not combine or change their initial entry mode.

The challenges that the company D has faced in their entry to Chinese market the export manager describes as following: *“Key challenge is the language, local legislation and logistics.”* Especially the local legislation is seen as a major challenge that a Finnish company entering China has to take into consideration. This is why the company D finds it important that the local partner they are going to use can help the company to deal with these challenges. *“They will understand the local law, way of doing business etc.”* The future of the company and the whole industry looks bright and the export manager concludes: *“We hope to be able to achieve significant export results.”*

Case analysis

Company D's entry mode to Chinese market is exporting; also this case company chose direct exporting because it has lower risks related to market entry (see pages 24-26). Bing-Sheng (2004, 385) notes that especially in risky emerging markets companies use exporting modes to have the benefits such as low cost and risk. Also Welch et al. (Welch 2007, 237) suggest that when the firm first enters a foreign market a low resource mode such as export is desirable.

At the time of the questionnaire the Export Manager was interviewing potential partners and participated in a trade fair in China. For company D it is important to select the right partner from the list of potential candidates, because the local partner will help them to understand and learn about the local law and the way of doing business. As RBV (see pages 17-19) suggests, beyond exploitation of existing resources foreign entry is supposed to augment the company's resource base by internal exploration of existing knowledge through organizational learning and external access to complementary resources. When new knowledge development is more important a firm is likely to choose collaborative entry modes. This generated knowledge can help company D to gain competitive advantages and corporate growth.

The company has 25 years of international experience, especially from Russia where it also has manufacturing facilities. Even if Russia is another emerging market, the business environment is very different from the Chinese one. So even despite the company's long international experience the Chinese market is yet rather unfamiliar for them. This is also in line with the Uppsala model (see pages 22-23), as the company has progressed in their internationalization in stages. Johansson and Vahlne (1990) also state that the market experience gained is usually rather country specific.

Also for the case company D the reason to enter in the Chinese market was the huge market potential (see pages 65-67). The company has participated to delegation visits and export program of Finpro and the Export Manager sees that it has made the entry easier and more economical. The major challenges have been related to local legislation, logistics and language. Especially important factor is the local legislation that has been mentioned also in the research of Kosonen (see pages 48-49).

Case E

The Business Area Director of case company E was interviewed face-to-face on 7th of August in the group headquarters. The group offers a comprehensive product assortment, including fresh bread and other bakery products, bake-off products, crispbread, thin crisp products and snacks. The history of the company dates back for over 160 years and also the brand that the company is bringing to the Chinese market was launched already 60 years ago. The products sold under this brand are exported to nearly 40 countries around the world, most important markets being Sweden, Russia, Germany, United States and England. The group employs nearly 3000 people, the net sales in 2013 was approximately 414 M€. In China the group will initially sell certain products under one brand and the idea is to first concentrate on the first tier cities.

About the motivations behind market entry to China the Director tells the following: *“As we have tried to enter the market already in the past, and now the middle class prospers and the economic growth has been enormous the last years, the interest has revived again. So the last autumn we started to consider seriously about it and got activated. We aim to continuing growth and China has a large potential, there is a mass of consumers and it is a huge market area that is getting more and more interesting. It is necessary to be present there and now it is the right time.”*

First concrete action was that the company participated in local trade fairs and organized some product tastings. Also potential partners were met and the company has been scanning them through until recently. Next major effort was participation in the SIAL 2015. During the business trip, in addition to the trade fair participation, tastings and meeting a huge number of potential partners and changing contacts, the company organized meetings with previous partner candidates.

One challenge related to the partner selection was to understand which of the candidates were serious and reliable. There were many that have just started their business or had no previous experience of this range of

products but that have been importing for example wine. Also language skills vary largely and that has caused some extra challenges in reaching mutual understanding.

Ideally the company is searching for an importer that then sells to distributors. Initially the most potential 20 partner candidates were selected, and after further communication that group narrowed down to about one fourth. Out of an initially big group of potential partners, it is actually a much smaller number that shows real potential and are serious about the business collaboration. The experience of the Director with the Chinese was that: *“many were enthusiastic and interested when met personally at the trade fairs, but when asked something concrete later by email, their interest slowed down”*.

The company has tried to enter the market previously, several years ago. Some sales were accomplished through an importer, but there were some complications and the trial in the market was interrupted. The Director states that the partner was not the most reliable one and the preparation for the different market of China was insufficient. There have been also some trademark conflicts and infringement that the company E suffered. The Director also remembers that there have been some issues with the packaging the last time, as they would need to be very resistant to humidity and insects etc. So this time the company is more cautious and has a right kind of attitude to test the market again, and to ideally find a way to have a lasting presence in China.

The main target and also challenge for company E is to find a suitable importer. Also the selection of the ideal number of importers needs to be considered. The market is so huge, that it is questionable if one importer would be enough. Many distributors would like an exclusive contract and tell that they would deal with all the China. But by giving exclusive rights the company could risk blocking significant market areas and thus it might be beneficial to have few importers instead, located in different geographical areas. The idea is to start from the first tier cities because *“The product is rather challenging and still a novelty to the market. Also it*

is in the premium range so to say, so not exactly everyone can afford to purchase it. In the big cities there are most of those people that have lived abroad; the business people, immigrants and expats. If we think of the rural areas, at the moment the potential there is quite small”.

Another major challenge is that the products of company E are not familiar at all to the local consumers. The taste and mouthfeel of the products are very different from the Chinese food. Even one initially very interested potential importer lost their interest after having tried the products with consumers. They told that the product is too difficult for them. The company E has organized tastings in Finland for some Chinese students and especially certain flavors of the products were found tastier according to them. But these students of course represent the most open-minded consumers and the taste world and preferences among the older consumers might be more traditional. The company understands that their product is challenging and will need proper education of the consumers and efficient promotion of its benefits for the target market. The company considers important to select the right products for the market entry and still is pondering between current products and product development. Among the current range of products there are some options that would fit to the local snacking culture and based on initial market screening the company is finding the most interesting potential target segments for these products. Also the distribution channels, especially online purchasing needs to be considered in a way that as much as possible information can be given out about the product.

The unfamiliar product is also in the same time a competitive advantage as the products are unique and rye as raw material is interesting and it also fits well to the growing health awareness of consumers. The Director believes that the Chinese consumers will get to like their products *“If the rest of the world eats these products, they will learn too if they are willing to.”* Company E is finding the balance between how much to use time in preparation and development of the product and just entering the market

rapidly with current products and do possible modifications later on after the feedback from the market.

The company has used some external experts, Finpro among others and also they have participated in some of the Food From Finland export programme activities, for example to trade fairs. The role of the business networks has also been important in finding contacts, for example one potential importer to China was found through the brand's Swiss importer. These kinds of references from other European partners are considered useful, because it can increase the trust towards potential importer if they have successfully collaborated with the other European companies for years.

The selected entry mode of the company is exporting, and it is also the main operation mode in the other market areas. The Director states: *"This has been the best mode for us and also it has the advantage of flexibility. Whether the result is good or bad, it is not irreversible. In case of losses or no success in trade, it is not the end of the world. If we would instead invest in own production facility in China and then notice that the consumers don't eat our products, we would be puzzled. If the market grows in the future it might be considered if it is worthy to transport the product from afar or could it be produced nearer. In our experience collaboration with a good importer and deciding together how to advance in the target market has been the best method."*

Main points to consider for the Finnish companies entering China is the sheer size of the market. *"Everyone is interested and knows about the potential. We would only need to gain one thousandth of the market and our factory would be producing day and night products for the Chinese."* All in all, the future outlook seems promising and the company wishes to get some serious results in the Chinese market.

Case analysis

The case company E also selected exporting as their entry mode to China, and it is also the main operation mode in the other market areas.

Exporting has been used successfully in other market areas and the Director stated that the advantages of flexibility and lower risk have been important, as whether the result in a certain market is positive or negative, nothing is irreversible(see pages 24-26). In the case company E's experience, collaboration with good importers and deciding together how to advance in the target market has been the best method. Direct exporting allows more involvement and is a more active form of export (Luostarinen & Welch 1993, 21-29). The company E is in direct contact with the first medium in the target market. The advantages of direct exporting include the access to local market knowledge and experience, contacts with potential customers, and more control over the marketing activities. On the other hand direct exporting also demands more international business knowledge and more resources. However the Director does not exclude the possibility of local production in the future. It seems that in this case Root's (1994) pragmatic rule (see pages 37-38) could be applied, meaning that the most workable entry mode is used for each foreign market. In the early stages it is common to start with low-risk entry mode. Only then if the particular initial mode is not feasible or profitable will the company search for another mode. What is curious about this case is that the company has previously tried to enter the Chinese market, but retreated after having found that the preparations have not been enough, the partner was unreliable and there were some product infringement issues (see pages 48-49). Now the company will re-enter and wishes to stay permanently in the Chinese market. Even despite of the setbacks the company has not considered changing the entry mode, but understandably this time the selection process of the importer is done very cautiously.

The selection of the right importer and the suitable amount of partners are some of the main challenges that the company E is dealing with. The company is large and its products are unique, this represents interesting opportunities for the Chinese importers, which often would want exclusive contracts. The Director sees that this would not be a justified option, as it

could lead into trouble if the selected importer then proved not reliable again or would not have the means to cover all the geographical areas of the target market. The company E would benefit of the importers external expertise about the local market. They have a great challenge to get the Chinese consumers familiar with the product that is very unique and rather difficult to market. This has already scared at least one importer away. Thus it is crucial that the partner has experience, excellent ideas and knowledge about the marketing and can help the company also to get to local online sales channels. The company is also attempting to find a balance between further product development and rapid market entry, considering if it is better to enter with current range of products or should they reconsider the flavors and composition that could be even more suitable to the Chinese tastes. Also language skills of the Chinese vary largely and that has caused some extra challenges in finding mutual understanding.

The company has used external expertise and considers it important. Especially as their product is such novelty to the market, the local expertise of the partners is needed. The company has used some consultants, services of Finpro and also they have participated in some of the Food From Finland export programme activities, for example to trade fairs. The role of networks has also been important for example in finding importers. References from other European partners are considered useful, because it increases trust towards potential importer if they have successfully collaborated with the other European companies for years. Literature demonstrates that networks (see pages 21-22) are an important recourse for companies and that they help companies to overcome external challenges.

The reasons to enter China are its enormous economic growth and prospering middle class. The company aims to continuing growth and China has large potential, huge mass of consumers and opportunities that cannot be missed (see pages 60-62). The company has tried to enter the market before, and is now even more motivated to conquer it, they see

that it is necessary to be present there and now it is the right time. The Director is very optimistic about the company's future in China and eager to see the local consumers learning to use and like their products.

Case F

The Export Director of company F was interviewed via email questionnaire that was returned 14th of May 2015. The company produces food supplements and other special products such as weight control supplements, herbal remedies, vitamins and minerals, oil supplements, tonics and various extracts. The company has over 30 years of experience and is strongly oriented to exports and currently present in approximately 50 countries with international experience of more than 20 years. In Finland the company employs nearly 100 people and the turnover in 2014 was 18,5M€. In the Chinese market the company entered in 2007. The company's products are distributed mainly in major cities.

The motivation behind the entry to the Chinese market has been the great potential of the market. The company is offering to the Chinese market food supplements that have in general increasing demand among the consumers. The company F has one local client in one of the major first tier cities and according to Export Director that has been enough for them. No other external experts have been used and the company has not participated in the export programmes of Finpro. About the role of networking the Export Director tells the following: *"For many companies networking is important. For me personally not."*

The entry mode method of company F has been exporting. It was selected because of its simplicity. *"We export, they import-basically the most simple way ever. This was chosen because it is simple and easy. We do not have a company in China, we only export our products there and our client does the distribution. Our Chinese client sells all over China, mostly in major cities"*. The company has not had any need or reason to consider combining or changing the initial entry mode.

For the company F the challenges included especially legal issues. About these challenges faced on the Chinese market the Export Director tells: *“Since we entered to the Chinese market, the legislation has changed three times, last time was December 2013 to January 2014. All our products must be re-registered again, which means in money – many-money, so to say.”*

Case analysis

The case company F has been exporting their products to China already since 2007, using exporting also as their initial entry mode. Exporting (see pages 24-26) is an easy method for international market penetration and also the risks can be minimized. For many firms a low resource mode is desirable when entering a new market. (Welch 2007, 237). Also the case company F has benefited of using export mode. The company is satisfied with the mode use and has not considered changing or combining it. This direct export mode was selected because it is simple and easy; the case company exports products to their Chinese partner client that then does the distribution in the local market. For the company F one local partner has been enough and the company has not needed other external experts or participated in the activities or export programs of Finpro. The Export Director of company F recognizes the importance of networks (see page 21) in general but has not personally used them much in the entry process to China. The company has extensive international experience that gives them confidence, their products are currently imported to almost 50 countries and the company has 20 been internationally active since 20 years. So it can be said that like RBV (see pages 17-19) suggests, exploitation of existing assets involves applying existing knowledge by transferring firm specific advantages in foreign operations. Experience has been one of the earliest resources to be explored in relation to entry mode. The experience of case company F in so many markets has helped them to minimize the need for external expertise or the support of the network in China. Yet still they are learning more about the local market through their

selected partner and by participating in trade fairs and events. This will generate competitive advantages for the company F.

Similarly to the other case companies the great potential of the Chinese market motivated the company to enter. Additionally the company F's products are in the category that has very fast growth expectations (see pages 65-66) because of the growing health consciousness and increasing demand for health benefiting and diet enhancing products and supplements .

The challenges that company F has faced are also in line with other case companies and report of Kosonen (2011) that describes the major issues the Finnish companies have in the Chinese market. She states that the regulatory environment in China continues to be a huge challenge for foreign companies. Sometimes unfortunately the laws and regulations are implemented and interpreted randomly, as they are drafted at the central level but rulemaking and implementation based on those laws are left to the lower levels of bureaucracy (see page 48). Unfortunately the company F has suffered the hurdles of changing legislation already three times since they entered the market. This has been causing additional expenses and been time consuming.

Cross-case analysis

Based on the previous case descriptions and analyses, the cross-case comparison is performed. This part of the study seeks patterns across cases and tries to capture some novel findings which may exist in the data. Following cross-case analysis is conducted in accordance to Eisenhardt's suggestion (see page 81). One of proposed tactics for cross-case comparison is to select categories or dimensions and to look for within-group similarities coupled with intergroup differences. Dimensions can be suggested by the research problem or by existing literature. The table 2 summarizes the major findings of the studied six case companies.

The case companies are all operating in the food industry but not directly competing with each other because each of them offers different products

to the Chinese market. The product categories are dairy products (company A), berry products (company B), grains (company C), grain products (company D), bakery products and snacks (company E) and food supplements (company F). The case companies vary in size, the smallest employing one person and the largest almost 3000 people. The turnover of the companies varied from 0,25 million to 414 million €. The company A did not want to report their turnover in RMB, but it supposedly falls in this range.

The earliest entrant to China was company F in the year 2007. Company A started their venture in 2009. Company E has previously tried to enter the market about five years ago and is now activated again. Other case companies' year of entry is 2014 or 2015. All of the case companies had previous international experience, companies D,E and F had 20 to 25 years or more, company A 15 years, company B six years and company C few years.

For all of the case companies the main reason to enter the Chinese market was the huge market potential and prospects for growth. The growing middle class and rising income levels mean a large mass of consumers. China represents unmissable opportunities and the interviewees stated that it is almost a necessity to enter the market. For two of the case companies (A and C) the interest and requests received from the Chinese side motivated the companies to enter the market. The importance of networks was recognized by all the case companies, even if one respondent said that they had not used them in the entry to China. Most of the companies had used external expertise, for example private consultants, local professionals and Finpro. Four of the case companies considered collaboration with Finpro important and useful, couple of the companies had also participated in Food From Finland export program.

All the case companies except company A, have used solely exporting modes in their entry to China. The case companies B,D,E,F chose direct exporting and company C indirect exporting. This makes sense as the case company C was the smallest of the studied companies and the

indirect exporting suits best a firm with minimal resources to devote to international expansion. Case company A used investment mode, in the form of joint venture, the Finnish owning the majority. As discussed in chapter 2, for many companies exporting is less risky, fast and low resource demanding mode of entry (see pages 24-26). Especially in developing and unpredictable markets like China even the internationally experienced companies enjoy the benefits of exporting modes. Bing-Sheng (2004) states that foreign exports have rapidly increased since the early 1990's and by joining the WTO China lowered its tariffs and trade barriers.

Traditionally the JV's have been rather popular in China, so it was surprising that only one company has used that as an entry mode. In general the sustained popularity of joint ventures in China can be attributed to government policies and companies' strategic needs and the benefits of the JV mode (see page 35). Major advantage of JV is that the company has access to resources and capabilities of local firms. Through joint ventures firms can gain valuable local knowledge and connections, while sharing the risks and costs in a new venture. However joint ventures are difficult to manage and there can be issues of conflicting interests and lack of control. It might be that the case companies were too cautious to think about JV as an entry mode. Anyhow company A has entered and operated successfully in the JV and the CEO of the company sees that the risk has been very well rewarded.

What is also very curious in this study is that none of the case companies had combined or changed their initial entry mode. This is unlike the contemporary entry mode research and literature suggests. This might be due to the fact that the phenomenon of the Finnish food enterprises in China is rather recent and fresh and the situation is developing constantly. The food industry is also very much influenced by the laws and regulations unlike the more traditional industries where the Finnish companies have been strong in China (see page 68). The Finnish food enterprises have recently become very interested to enter the Chinese food market, but still

not yet there. Many Finnish food enterprises are at the planning stages and in the next years hopefully more and more Finnish companies will enter the Chinese market. Due to the lower trade barriers and increasing interest and activation of Finnish food enterprises, the food exports to China is expected to rise by several hundreds of millions of euros. (Finpro 2015)

The challenges have been quite similar to all of the case companies. The major challenges for Finnish enterprises entering China are related to the local laws and regulations, difficulties in finding suitable partners and cultural and language problems that obstruct the mutual understanding. Other challenges that have been mentioned were issues related to things such as trust, reliability, trade barriers, public policies and bureaucracy. Surprisingly unlike expected, corruption and guanxi were not mentioned as major issues. Two of the case companies expressed having experiences or concerns about infringement and IPR issues, which are indeed a significant issue in China (see page 48). The case companies have not faced any totally insurmountable problems, even if they have experienced frustrating moments and their entry process have been hindered by the problems. As one of the interviewees stated, the obstacles are seen as a normal part of doing business and they just need to be dealt with. The local partners and external experts have had an important role in dealing with the issues. The future of the case companies and the food market in China in general looks very positive and promising as all of the interviewees expressed optimistic forecasts about the future.

Due to the newness of the Finnish food enterprises in China, changing local regulations and complexity and unpredictability of the market it is likely that case companies (except company A) will continue using exporting even though they might have capabilities and resources for more complex operations modes. The case company A has done an important act as a trailblazer in the food industry by entering China boldly and starting the local production. This may motivate other companies to consider other modes than exporting as well.

The most applicable theories in this study are the institutional theory, resource based view and Dunning's OLI-framework. Also Uppsala model could be used to explain some of the cases studied as they have internationalized gradually, starting from the markets of less psychic distance, like the model suggests. Additionally the network theory offers useful insights related to some of the cases, especially for the company C that would most likely not enter China if it was not for the networks the company had established.

Brouthers and Hennart (2007, 406) propose that the institutional environment of a country affects the company's scope of action because the environment sets the rules according to which the firms must behave. The boundary choices of the case companies are affected by the China's institutional environment. Xia et al. (2008, 196) mention that institutional theory has proved especially useful in interpretation of companies strategies on emerging markets. In this study the company A has been very able to exploit and enhance its capabilities in the local institutional context that has been favorable.

The RBV suggests that companies develop unique resources that they can exploit in foreign markets or use foreign markets as a source for acquiring or developing new resource-based advantages that can be transferred through alternative modes. (see pages 17-18) Beyond exploitation of existing resources foreign entry is supposed to augment the company's resource base by internal exploration of existing knowledge through organizational learning and external access to complementary resources. When new knowledge development is more important firms are likely to choose collaborative entry modes like the case companies have done. This helps them to generate knowledge from the Chinese market.

The popular OLI-framework combines insights from resource-based, institutional and transaction cost theories. Related to the entry mode context, it states that the enterprises choose the most appropriate entry mode by considering the advantages related to ownership, location and internalization (see pages19-20).

As these cases demonstrate the choice of the entry mode is a complex, interesting and important decision. Choice of foreign entry mode (see pages 37-40) is influenced by multiplicity of variables driven by complementary theories and yet there is not one

perfect, holistic theory. The companies are run by people and this means that managerial decisions are not completely rational, but other factors influence the choices too. Like in this study the personal experiences, learning, perspectives and beliefs of the interviewees could have impact on the entry mode choices of the case companies. Hoskisson et al (2000, 249), remind that entry strategies in emerging economies can be more of a constrained choice than free choice.

7. DISCUSSION AND CONCLUSIONS

Finnish food enterprises and their high standards of food safety on production, offer Chinese partners and customers new sources and solutions for increasing demand for high quality food and new areas of commercial activities in this industry. The R&D inputs in the food industry are high, and for example several health-promoting products have been developed by the Finnish food enterprises. The development of functional food and process optimization through information technology and use of biotechnology have been key research areas for many Finnish food enterprises and the Finnish innovations are internationally known. It is important that Finnish companies, Team Finland actors, educational and research institutions and all the other actors in this industry work together to build a strong image for Finnish food. In collaboration it is possible to make Finland even more famous for the high quality, safety and health benefiting food.

Although China is already home to many MNEs, such as PepsiCo and Nestle and many smaller international and national food companies, the country's massive size, increasingly affluent middle class and lasting economic growth mean that there is still room for considerable growth. And actually what really matters for long-term growth is China's ability to improve skills and adopt new technology. This offers also new kinds of opportunities for Finnish food enterprises that are known for their innovative production, use of high technology and development of health improving products.

This chapter presents the summary of major findings of the study and the answers to the research questions. Also main managerial implications are discussed in respect to interview data, existing literature and cultural context of China's food industry. Finally limitations and issues of the study and suggestions for further research are introduced.

7.1 Summary of main findings

The purpose of this study was to examine how the Finnish food enterprises choose their entry modes in the Chinese market. The aim was to find the factors that influence the choice of the entry mode and to examine if and how have the case companies switched or combined their entry modes and how relevant is the role of networks when entering the Chinese market. The study helps to understand the industry specific challenges and the possible solutions to them.

The findings of the study were introduced and analyzed by using within-case analysis and cross-case analysis tactics. The major findings are summarized in table 3. Furthermore, the initial research question and the sub questions can be answered in the following way.

Company	Products	Nr.of Employees	Turnover M€	Intl.Experience before China	They year of entry	Entry Mode
A	Dairy products	150	x RMB	15 years in Europe	2009	Investment mode; JV, local production
B	Berry and fruit products	16	5,1	5 years in Korea, 2 in Japan, 6 in Latvia	2015	Direct exporting
C	Grains	1	0,25	Several years(3-4) in Europe, mainly Germany	2015	Indirect exporting
D	Grain products	120	68	25 years, especially Russia and Eastern Europe	2014	Direct exporting
E	Bakery products	nearly 3000	414	Exports to app.40 countries, +50 years	Previous trial 2009, next 2015	Direct exporting
F	Food supplements	100	18,5	20 years, app. 50 countries	2007	Direct exporting

Table 3. Summary of major findings.

Research question:

- How do the Finnish food enterprises choose their entry modes in the Chinese market?

According to the study the Finnish food enterprises use mainly exporting modes. (see pages 24-26) Out of six case companies there was only one that used an investment mode. In this study the case companies favored direct exporting; four out of five companies chose that method. Exporting is relatively easy and a low resource method of entry and allows the risks to be minimized. Especially when the firm first enters a foreign market a low resource mode such as export is desirable. (Welch 2007, 237)

The choices of entry modes of Finnish companies are influenced by the industry, the company's resources, lack of experience and knowledge of the target market, strategic partnerships, and nature of the exported product. Also the environment-specific factors related to the local culture, as well as regulations and policies of the region have impact on the choice. The Finnish food companies in China are a recent phenomenon and the market is considered risky, unpredictable and difficult to understand. The case companies have understandably taken the advantage of the benefits such as low cost and risk, speed and control of the exporting mode. In an emerging market context these benefits have been especially important. In this study the company size and the previous international experience on other markets did not have much effect on the entry mode decision.

The framework of the study was built of the factors that have the most effect on the mode strategy (see page 6). The factors most influencing the mode strategy in company's background were the industry field, resources, the offered product and strategic objectives. On the company mode concerns, the factors of risk and uncertainty and partners and intermediates were the most influential. The Chinese market influences presented in the theoretical framework were all very important in explaining entry mode choice. The market conditions (growth, size and

competition), business culture and environment, government and institutional factors (legislation, bureaucracy, trade and investment barriers) and physical distance were notable in all the studied cases.

What is very curious in this study is that none of the case companies had combined or changed their initial entry mode. This might be due to the fact that the Finnish food enterprises are just entering in China and the situation is developing constantly and also the local institutional environment sets boundaries for mode choices and combinations.

Sub-questions:

- Which food industry related factors influence the entry mode choice in China?

The food industry is very much influenced by the laws and regulations, more than the traditional industries where the Finnish companies have been strong in China (see page 68). Institutional environment had clearly an effect on most of the case companies' entry mode choice which also relates to the issues of host country risk and uncertainty perceptions. According to Brouthers (see page 15) this is an important determinant of entry and operation mode choice for a company. Lack of knowledge about local ways of doing business, unfamiliarity with the Chinese food industry and local consumers differing tastes and behavior suggests that companies rather choose entry modes that help them to solve these issues and allow them to access additional resources and gain knowledge.

- Which are the main challenges related to food industry in China and how have companies overcome them?

The main challenges for the Finnish companies entering China are related to the local laws and regulations, difficulties in finding suitable partners and cultural and language problems that can make it difficult to reach mutual understanding. Some of the case companies expressed experiences or concerns about infringement and IPR issues (see page 48). The local partners and external experts have had an

important role in dealing with different problems. Also cultural understanding, growing experience from the market and the right attitude and patience have helped the companies to deal with issues faced in China.

- What is the role of networks in the context of entering China's food market?

Rather than depending solely on the firm-specific advantages, the entry mode choice is contingent on a firm's network relationships (see page 21). Networks are an important recourse for companies and that they help companies to overcome external challenges. The network theory has relationships with other theoretical approaches in the entry mode choice literature. For example reflecting on institutional theory, social capital reduces barriers to internationalization and moreover helps to reduce external uncertainties associated with contractual hazards as social ties are based on trust. (Laufs & Schwens 2014,119) . Johanson and Vahlne (2006) suggest that networks are also important in identifying opportunities during the firm's internationalization process. The best example of this was the company C. This study shows that individual company is dependent on resources controlled by other firms and the network position allows them to get access to them.

7.2 Managerial implications

Entry mode choice has a significant role in international management. The nature and character of the management process considering aspects like control, coordination and staffing are directed by the type of foreign entry and operation method. Therefore, it is important to acknowledge how different internal- and external factors influence on the company's mode selection and use. Managers need to acknowledge the differences between different foreign entry modes and the level of control specific mode provides. As explained in the previous chapters, China poses its

own operating challenges and many Finnish companies have entered the market with low-risk mode such as exporting.

Due to the newness of the Finnish food enterprises in China, changing local regulations and complexity and unpredictability of the market it is likely that most of the case companies will continue using exporting even though they might have capabilities and resources for more complex operations modes. The case company A has done an important act as a trailblazer in the food industry by entering China boldly and starting local production. This could motivate other companies to consider other modes than exporting as well, especially once they get more familiar with the Chinese business environment.

The main conclusion of the survey in this respect is that the main obstacles when entering China are related to the difficulties associated with local market conditions, regulations and legislation, culture and language. Also finding and selecting suitable partners has been challenging for many of the case companies. The lack of knowledge of such matters is the biggest impediment when doing business in China. It is extremely important to understand the market characteristics when operating in China. The key factor is to adapt to the circumstances of the country by acquiring as much information as possible. Through information and local knowledge the company can analyze the possible opportunities and avoid risks. All the case companies have worked in collaboration with locally present partners and many of the case companies have also used external expertise. It can be stated that only through knowledge of the local market can a Finnish firm succeed in doing business in China. Whilst this is true when working with any new market, it is even more so in China, due to complexity of the market.

7.3 Limitations and suggestions for further research

One of the main limitations of this research can be associated with the nature of qualitative research that does not allow a lot of further

generalizations. This causes the main methodological limitations of this study. However, the purpose of the study was to examine how the Finnish food enterprises choose their entry modes in the Chinese market and for this purpose, qualitative case study suits well. Other issues related to limitations, such as topics related to reliability and validity are discussed in chapter 6.1.

Other important limitation to be considered related to this study is the rather small amount of the Finnish companies available to participate in the research. This is due to the limited number of Finnish enterprises that have actually entered in the Chinese market in this specific industry. Even if probably most of the companies have been identified, not all of them have been willing to participate in the study because of the sensitive competitive situation at the moment of the research. Many Finnish food enterprises are at the early planning stages and very interested to enter the Chinese market, but still not yet there. So naturally because of this situation the companies that have already entered the Chinese market tend to be careful not to give out information that might benefit their direct competitors. Considering these notions, the amount of six case companies can be considered good.

This study had purposefully a narrow focus on the food industry. The interesting result was the favoring of exporting modes in this industry and using one mode only instead of combinations of modes. These results are rather different from the results of previous entry mode studies and can be largely explained with the industry related factors. The situation of Finnish food enterprises in China is very interesting and one suggestion for further research would be a longitudinal study of this industry. It would be interesting to study these case companies after some years from now and see if by then they have some major changes or mode combinations. Hopefully this and the future research can increase the understanding on entry mode choice and encourage more Finnish companies to enter the fascinating market of China.

REFERENCES

- Asia Perspective (2014) China's Increasing Appetite for Imported Food and Beverage [online-document]. [accessed 27.03.2015] Available: <http://www.asiaperspective.net/chinas-increasing-appetite-imported-food-beverage/>
- BBC News Asia [online document]. [Accessed 18.07.2015]. Available: <http://www.bbc.com/news/magazine-30483762>
- BBC World News Asia Pacific. [online document]. [Accessed 19.05.2015]. Available : <http://www.bbc.co.uk/news/world-asia-pacific-13904437>
- Benito, G., Petersen, B. & Welch, L. (2009). Towards more realistic conceptualisations of foreign operation modes. *Journal of International Business Studies*, Vol.40, pp. 1455-1470.
- Benito, G., Petersen, B. & Welch, L. (2011). Mode Combinations and International Operations: Theoretical Issues and an Empirical Investigation. *Management International Review*, Vol. 51, pp.803–820.
- Bhaumik, T. (2009). *Old China's New Economy*. New Delhi. Sage Publications.
- Bing-Sheng, T. (2004). The WTO and Entry Modes in China. *Thunderbird International Business Review*, Vol. 46(4), pp.381-400.
- Bontempi, M. & Prodi, G. (2009). Entry strategies into China: The choice between Joint Ventures and Wholly Foreign-Owned Enterprises, An application to the Italian manufacturing sector. *International Review of Economics and Finance*. Vol. 18, pp.11–19.
- Brouthers, K.(2002). Institutional, Cultural and Transaction Cost Influences on Entry Mode Choice and Performance. *Journal of International Business Studies*, Vol 33, No.2, pp. 203-221.
- Brouthers, K. & Hennart, J.(2007). Boundaries of the Firm: Insights From International Entry Mode Research. *Journal of Management*, Vol. 33 No. 3, pp. 395-425.
- Calof, J. & Beamish, P.(1995). Adapting to Foreign Markets: Explaining Internationalization. *International Business Review*. Vol.4, No.2,pp.115-131.

Chetty, S. & Stangl, L. (2010). Internationalization and Innovation in a Network Relationship Context. *European Journal of Marketing*, Vol. 44, No. 11/12, pp. 1725-1743.

Dunning, J. H. (2000) The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International Business Review*. Vol. 9, pp. 163–190.

Erramilli, M. K. (1991). The experience factor in foreign market entry behavior of service firms, *Journal of International Business Studies*, Vol. 22, No. 3, pp. 479-501.

Erramilli, M. K. & Rao, C. P. (1990). Choice of Foreign Market Entry Modes by Service Firms: Role of Market Knowledge. *Management International Review*. Vol. 30, No. 2, pp.135-150.

Euromonitor. Food in China report 2014. [online document]. [Accessed 15.07.2015] Available: <http://www.euromonitor.com/packaged-food-in-china/report>

European Commission. Enterprise and Industry [online document]. [Accessed 17.07.2015]. Available: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm

Evira Finnish Food Safety Authority (2013) News Archive [online document]. [Accessed 04.04.2015] Available: <http://www.evira.fi/portal/en/food/current+issues/?bid=3676>

Finpro. Export Finland [online news release 18.02.2015]. [Accessed 30.03.2015]. Available: http://www.exportfinland.fi/food-from-finland-ajankohtaista/-/asset_publisher/0xRN/content/suomalainen-ruokavienti-kiinaan-kasvaa-sadoilla-miljoonillaeuroillalahivuosina?redirect=http%3A%2F%2Fwww.exportfinland.fi%2Ffoodfromfinlandajankohtaista%3Fp_p_id%3D101_INSTANCE_0xRN%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dview%26p_p_col_id%3Dcolumn-1%26p_p_col_count%3D1

Finpo (2015) Food From Finland Export Programme [online document]. [Accessed 23.03.2015]. Available: <http://www.exportfinland.fi/food-from-finland>

Food and agriculture Organization of the United Nations. FAOSTAT Country Profiles [online document]. [Accessed 27.03.2015] Available: http://faostat.fao.org/CountryProfiles/Country_Profile/Direct.aspx?lang=en&area=351

Forbes 25.04.2013. Feeding China's Population [online document].
[Accessed 25.03.15]. Available: <http://www.forbes.com/sites/jackperkowski/2013/04/25/feeding-chinas-population/>

Forbes China's Growing Food Problem/Opportunity [online document]. [Accessed 15.04.2015]. Available: <http://www.forbes.com/sites/jackperkowski/2014/09/25/chinas-growing-food-problemopportunity/>

Gale, F., Hansen, J. & Jewison, M. (2014). China's Growing Demand for Agricultural Imports, USDA reports February 2014. EIB-136, U.S. Department of Agriculture, Economic Research Service. USDA. U.S.

Ghose, B. (2014). Food security and food self-sufficiency in China: from past to 2050. Food and Energy Security. Vol.3, 2, pp.86-95.

Greenpeace Asia. Greenpeace Research Laboratories Technical Report 04/2014 [online document]. [Accessed 24.05.2015]. Available: <http://www.greenpeace.org/eastasia/publications/reports/toxics/2014/cadmium-rice-heavy-metal/>

Haveman, H. (1993). Follow the leader: mimetic isomorphism and entry into new markets. Administrative Science Quarterly Vol.38, No.4, pp.593–627.

Henry, S. (2014) China Business Review, Licensing in China: Challenges and Best Practices. [online document]. [Accessed 10.04.2015]. Available: <http://www.chinabusinessreview.com/licensing-in-china-challenges-and-best-practices/>

Hirsjärvi, S., Remes, P. & Sajavaara, P. (2003). Tutki ja Kirjoita. Tammi. Helsinki.

Hofstede, G. The Hofstede Centre. China. [online document]. [Accessed 15.07.2015]. Available: <http://geert-hofstede.com/china.html>

Hollensen, S. (2011) Global marketing: A Decision-oriented Approach. Fifth edition, Prentice Hall. Harlow.

Hong Kong Trade Development Council (2013) China's packaged food market: capitalising on the rising demand for premium imported items [online document]. [accessed 27.3.15] Available: <http://economists-pick->

research.hktdc.com/business-news/article/Research-Articles/China-s-packaged-food-market-capitalising-on-the-rising-demand-for-premium-imported-items/rp/en/1/1X000000/1X09V7A5.htm

Hoskisson, R., Eden, L. , Chung Ming, L. & Wright, M.(2000). Strategy in Emerging Economies. The Academy of Management Journal. Vol. 43, pp. 249-267

Jia, X., Luan, H. & Huang, J.(2014) Marketing Raw Milk from Dairy Farmers before and after the 2008 Milk Scandal in China: Evidence from Greater Beijing. Agribusiness, Vol. 30, No.4, pp. 410–423.

Jie, C. (2007). Rapid urbanization in China: a real challenge to soil protection and food security. CATENA Vol.69, pp.1–15.

Johanson Jan and Vahlne Jan-Erik (1990): The Mechanism of Internationalisation. International Marketing Review, Vol. 7, No.4, pp.11-24.

Kosonen, R. (2011). Liiketoiminnan turvallisuus Venäjällä ja Kiinassa. Aalto-yliopisto Kauppakorkeakoulu, Kansainvälisten markkinoiden tutkimuskeskus CEMAT. Unigrafia Oy Helsinki.

Kotler, P. & Keller, K. (2009). Marketing Management. 13th ed. Pearson Education Inc.

Kvale, S. & Brinkmann, S.(2009).Interviews:learning the craft of qualitative research interviewing. 2nd ed. Sage Publications. Los Angeles.

Lasserre, P. (2007). Global Strategic Management. Second edition, Palgrave Macmillan. Hampshire.

Laufs, K. & Schwens, C. (2014) Foreign market entry mode choice of small and medium-sized enterprises: A systematic review and future research agenda. International Business Review. Vol. 23, pp.1109–1126

Luo, Y. (2002). Capability exploitation and building in a foreign market: implications for multinational enterprises. Organization Science Vol.13, pp. 48–63.

Luostarinen, R. and Welch, L. (1990) International Business Operations. Helsinki School of Economics, Helsinki.

Luostarinen, R. & Welch, L. (1993). International Business Operations. Kyriiri Oy. Helsinki.

MCKinsey 2014[online document].[Accessed 12.05.2015]. Available:

http://www.mckinsey.com/insights/consumer_and_retail/mapping_chinas_middle_class

Meyer, K., Wright, M. & Pruthi, S. (2009). Managing Knowledge in Foreign Entry Strategies: A resource-based Analysis. *Strategic Management Journal*, Vol. 30. pp.557-574.

Michailova, S. & Worm, V. (2003) Personal Networking in Russia and China: Blat and Guanxi. *European Management Journal*, Vol. 21, No. 4, pp. 509-519

Ministry for Foreign Affairs.Team Finland [online document].[Accessed 22.07.2015]. Available:

<http://www.finland.cn/public/default.aspx?contentid=266908&nodeid=46699&contentlan=2&culture=en-US>

National Bureau of Statistics of China: China Statistical Yearbook 2013 [online document].[Accessed 25.03.2015]. Available:

<http://www.stats.gov.cn/tjsj/ndsj/2013/indexeh.htm>

OECD [online document].[Accessed 23.03.2015]. accessed 25.3.15

available: <http://www.oecd.org/economy/structural-reforms-can-help-china-settle-into-a-new-normal-era-of-slower-but-more-sustainable-and-inclusive-growth.htm>

Patton, M. Quinn (2002) *Qualitative research and evaluation methods*, 3rd edition. Sage Publications Inc., USA

Perea, E. & Ripoll I Alcon J. (2014) A profile of Spanish firms in China: reasons to set up a business and future perspectives. *Universia Business Review*. Vol. 3 trimester 2014, pp. 58-83.

Petersen, B. & Welch, L. (2002). Foreign operation mode combinations and internationalization. *Journal of Business Research* Vol. 55, pp. 157–162.

Piron, F. (2013) *Asian Management lectures March 2013*, Lappeenranta, Finland.

Qi, Z. & Kivelä, P. (2011). Food safety in China is being developed in cooperation with Finnish experts. 2011.OSKE. Food development Cluster Program publications.

Reuters Business News. 22.07.2014 China food scandal spreads, drags in Starbucks, Burger King and McNuggets in Japan [online document].[Accessed 15.07.2015].Available:

<http://www.reuters.com/article/2014/07/22/us-china-food-idUSKBN0FR07K20140722>

Roberts, J. (2011) A history of China. 3rd ed. Hampshire. Palgrave MacMillan.

Root, F.R. (1994) Entry Strategies for International Markets, revised and expanded edition. The New Lexington Press, Lexington, MA.

Sarajärvi, A. & Tuomi, J. (2009). Laadullinen tutkimus ja sisällönanalyysi. Tammi. Helsinki.

Shaw, JoAnne (2004) Franchising in China: Growing Opportunities. Franchising World, Vol. 36, No. 3, pp. 27-29

Shoushuang, L. (2007) The Legal Environment and Risks for Foreign Investment in China. Springer.

Skaates, M. A., Tikkanen, H. & Lindblom, J. (2002) Relationships and project marketing success. The Journal of Business & Industrial Marketing, Vol. 17, No. 5, pp. 389-406

Statistics Finland. Tilastokeskus 2008. Standard Industrial Classification TOL 2008. Available: http://www.stat.fi/meta/luokitukset/toimiala/001-2008/index_en.html

Terpstra, V. & Sarathy, R. (1991) International Marketing. 5th edition. Dryden Press. Chicago.

The Communist Party of China international website. [online document]. [Accessed 25.04.2015]. Available: <http://www.idcpc.org.cn/english/cpcbrie/cpcprofile.htm>

The China IPR SME Helpdesk 2015 [online document]. [Accessed 15.03.2015]. Available: <http://www.china-iprhelpdesk.eu/content/licensing-and-technology-transfer>

The New York Times Asia Pacific. Rat Meat Sold as Lamb Highlights Fear in China. 03.05.2013 [Accessed 03.03.15] Available: <http://www.nytimes.com/2013/05/04/world/asia/rat-meat-sold-as-lamb-in-china-highlightsfears.html?action=click&contentCollection=Asia%20Pacific&module=RelatedCoverage®ion=Marginalia&pgtype=article>

The World Bank, China Overview [online document].[Accessed 29.03.2015]. Available:

<http://www.worldbank.org/en/country/china/overview>

The World Bank (2014) From farm to chopsticks: Improving food safety in China. [www document][accessed 26.3.15] Available:

<http://blogs.worldbank.org/eastasiapacific/farm-chopsticks-improving-food-safety-china>

The Wall Street Journal. China News. Threat to Rice Fuels Latest Chinese Uproar.21.05.2013 [online document].[Accessed

20.07.2015].Available:<http://www.wsj.com/articles/SB10001424127887324787004578494583962413470>

The Wall Street Journal. China Real Times 03.04.2012. Chinese Gutter Oil Attains New Level of Gross. [online document].[Accessed 20.07.2015].

Available: <http://blogs.wsj.com/chinarealtime/2012/04/03/chinese-gutter-oil-attains-new-level-of-gross/>

Torrens, C.(2010). Doing Business in China: A guide to the risks and rewards. The Economist in association with Profile Books Ltd. London.

Transparency International. The Global Coalition against the corruption. Country ranking 2014. [online document].[Accessed 15.04.2015].

Accessible: <http://www.transparency.org/country#CHN>

Tse, D., Pan, Y. & Au, K. (1997) How MNCs choose entry modes and form alliances: the China experience. Journal of International Business Studies, Vol.4, pp.779-805.

Turkki, T. (2015) Sitran Selvityksiä n. 86 [online document].[Accessed 23.03.2015]. <http://www.sitra.fi/julkaisut/Selvityksiä-sarja/Selvityksia86.pdf>

Ulkoministeriö (2015) Ministeri Toivakka vienninedistämismatkalle Kiinaan [online document].[Accessed 22.03.2015]. Available:

<http://formin.finland.fi/public/default.aspx?contentid=320067&contentlan=1&culture=fi-FI>

Wang J., Singh P., Samson D. & Power D. (2011). Sourcing from China: experiences of Australian firms. Supply Chain Management: An International Journal, Vol.16, No.6, pp. 419–427.

Welch, L.S. & Benito, G. (1994). Foreign Market Servicing: Beyond Choice of Entry Mode. Journal of International Marketing. Vol.2, pp.7-27.

Welch, L.S., Benito,G.& Petersen, B. (2007) Foreign Operation Methods – Theory, Analysis, Strategy. Edward Elgar Publishing Ltd. Cheltenham.UK.

Williamson, O.E. (1985) *The Economic Institutions of Capitalism*. The Free Press, USA.

World Economic Outlook Database October 14, Report for Selected Countries and Subjects [online document].[Accessed 15.06.2015].

Available:

<http://www.imf.org/external/pubs/ft/weo/2014/02/weodata/weorept.aspx?pr.x=79&pr.y=11&sy=2012&ey=2019&scsm=1&ssd=1&sort=country&ds=.&br=1&c=924%2C111&s=NGDPD%2CPPPGDP%2CPPPSH&grp=0&a=>

World Investment Report Overview 2014. United Nations, New York and Geneva 2014. [online document].[Accessed 16.07.2015]. Available:

http://unctad.org/en/PublicationsLibrary/wir2014_overview_en.pdf

Wright, K.(2015). Going Organic: Investing in China's Growing Health Foods Market China Business Review. Jun 15, p.1-1.

Xie, L. (2009) A Study on the Management System Design for Large Complexity Projects Based on the Case of the World Expo 2010 Shanghai, China. *Computer Science and Convergence Information Technology* Vol. 24-26 Nov 2009, pp.1308-1313.

Xie, T., Tan, J. & Tan D. (2008) Mimetic Entry and Bandwagon Effect: The Rise and Decline of International Equity Joint Venture in China. *Strategic Management Journal*, No. 29, pp. 195-217.

Yiu, D., & Makino, S.(2002). The choice between joint venture and wholly owned subsidiary: An institutional perspective. *Organization Science*, Vol. 13(6), pp.667-683.

Yle Uutiset[online document].[Accessed 22.03.2015]. Available :

http://yle.fi/uutiset/finland_hopes_to_expand_food_exports_to_china_next_year/7469630

Zaremba , H.& Köper,J.. (2012).*Quality Management and Qualification Needs 1: Quality and Personnel Concepts of SMEs in Europe*. Springer Science & Business Media.

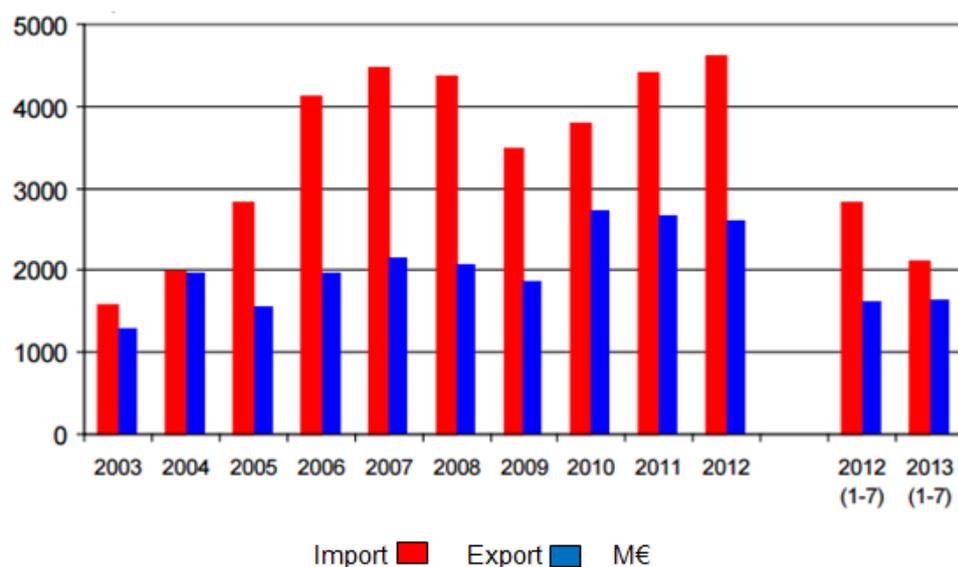
Zhou, Z., Weiming, T., Jimin, W. et al. 2012.*Food Consumption Trends In China April 2012*. Australian Government Department of Agriculture, Fisheries and Forestry Industry Report.

2014 CFO Outlook Asia: A survey of Chief Financial Officers. Bank Of America Merrill Lynch. Economist Intelligence Unit. The Economist Group Asia Pacific Ltd.

Appendices

Appendix 1.

Trade between Finland and China 2003-2013 (Finnish Customs 1, 2013)



Appendix 2.

Item	Average Chinese import value
	<i>\$ Billion</i>
All agricultural products	109.0
Soybeans and other oilseeds	40.6
Fats and oils	11.9
Cotton	10.1
Meat	5.0
Cereal grains	4.9
Dairy	4.2
Fruit and nuts	3.9
Wine and beverages	3.1
Cattle hides	2.6
Wool	2.7
Baking products	2.3
Vegetables	2.5
Sugar	2.5
Fish meal	1.7
Distillers' dried grains	1.1
Tobacco	1.4
Live animals	.5
Hay and forage products	.2

China's major agricultural import's value. Source USDA.

Appendix 3.**Questionnaire for Finnish Food Enterprises:**

Dear respondent,

Please note that the answers are handled confidentially. The name of your company is not mentioned in the study. Kindly reply by the DD/MM/YYYY.

Thank you for participating!

Preliminary information:

Company size, number of personnel in Finland/China:

Turnover of the company in 2014:

The year of market entry to China:

International experience before China (countries and number of years):

Geographical areas in China that company is operating /going to operate in:

Position of the respondent in the company:

Internationalization:

-Which were the main reasons to enter the Chinese market?

-Which kind of products you are you offering to the Chinese market?

-Have you used or are you planning to use external experts, intermediates, partners or agents in your internationalization process? Please explain how.

-Which kind of networks have you used related to entering the Chinese market? How important you consider the role of networking?

-Have you participated in Food From Finland or other kind of export program or group? What has been the advantage of that?

Market entry mode in China:

-Which market entry mode your company used or is planning to use (exporting, licensing, franchising, management contracts, international subcontracting, project operations, alliances, joint ventures, foreign direct investments)?

-How and why did you choose that specific entry mode?

-Have you switched or combined different modes, if yes, please explain how and why?

Challenges and solutions:

-What kind of challenges and problems have you faced in entering the Chinese food market and have you been able to overcome the possible challenges? If yes, please explain how?

-Are you using Chinese workforce? If yes, then what are the advantages or disadvantages of it?

-Which are the main factors related to the food industry that a company entering Chinese market has to take into consideration?

-How do you perceive the food industry development and the future of your company in China?

Additional comments:

If you have any questions concerning the questionnaire or the study itself, please don't hesitate to contact me:

Emma Bettina Räisänen
bettina.raisanen@lut.fi
+8615023123123
Finpro Shanghai
Finland Trade Center
Consulate General of Finland