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FOREIGN OPERATION MODE STRATEGIES OF FINNISH ICT-FIRMS IN CHINA

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ABSTRACT

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Title: Foreign Operation Mode Strategies of Finnish ICT-firms in China

Faculty: LUT, School of Business and Management

Major: International Marketing Management

Year: 2018

Master's Thesis: Lappeenranta University of Technology

93 pages, 6 figures, 6 tables and 7 appendices

Examiners: prof. Olli Kuivalainen

prof. Sanna-Katriina Asikainen

Keywords: entry modes, foreign operation mode, FOM, China

China became the world's second largest economy in 2011 and it is becoming more important market for global ICT firms by being the largest Internet and mobile phone market in the world. The objective of this study was to examine what kind of foreign operation mode strategies Finnish ICT firms have used in China for market entry and how the mode strategies have changed after the entry and why. The goals are to understand how different foreign operation mode choices have affected the process of internationalization and how well these different FOM strategies can be used in the Chinese market.

The empirical part of the study consists of a semi structured qualitative analysis of five case firms from different clusters of the ICT industry. The industry was chosen because it was part of China's 5-year development plan and provided opportunities especially for Finnish ICT firms operating in the fields of software, telecom, electronics manufacturing or digital media.

The results of this study indicated that Finnish ICT firms have primarily used exporting as their initial entry mode to the Chinese market and all the studied firms had either switched or combined different foreign operation mode strategies after entering China. After the companies had gained experience and understanding of the difficult Chinese market, they switched from non-equity and simple foreign operation modes to more challenging and equity demanding foreign operation modes eventually establishing wholly foreign owned operations.

TIIVISTELMÄ

Tekijä: Toivonen, Jukka-Pekka

Tutkielman nimi: Suomalaisten ICT-yritysten ulkomaiset operaatiomuotostrategiat Kiinassa

Tiedekunta: Kauppatieteellinen tiedekunta

Pääaine: Kansainvälinen markkinointi

Vuosi: 2018

Pro gradu -tutkielma: Lappeenrannan teknillinen yliopisto

93 sivua, 6 kuvaa, 6 taulukkoa ja 7 liitettä

Tarkastajat: prof. Olli Kuivalainen

prof. Sanna-Katriina Asikainen

Hakusanat: ulkomaiset operaatiomuotostrategiat, FOM, Kiina

Kiina kasvoi vuonna 2011 maailman toiseksi suurimmaksi talousalueeksi ja se on maailman suurin Internet- ja matkapuhelinmarkkina, mikä tekee maasta erityisen houkuttelevan ICT-alan yrityksille. Tutkimuksen tavoitteena oli tarkastella mitä ulkomaisia operaatiomuotostrategioita suomalaiset ICT-yritykset käyttävät Kiinassa ja miten ja miksi nämä strategiat ovat muuttuneet etabloitumisen jälkeen. Tavoitteena on ymmärtää miten erilaiset ulkomaiset operaatiomuotostrategiat vaikuttavat kansainvälistymisprosessiin ja arvioida miten hyvin niitä voidaan käyttää kiinalaisessa liiketoimintaympäristössä.

Tutkimuksen empiirinen osio on puolistrukturoitu kvalitatiivinen tutkimus viidestä case-yrityksestä eri ICT-sektorin osa-alueelta. ICT-ala valittiin, koska se oli osa Kiinan viiden vuoden strategiaa ja täten maa tarjosi mahdollisuuksia erityisesti ohjelmistoalan, tietoliikennealan, elektroniikkavalmistuksen ja digitaalisen median yrityksille.

Tutkimuksen tulosten mukaan suomalaiset ICT-yritykset ovat pääasiassa etabloituneet Kiinaan viennin avulla ja kaikki tutkitut yritykset olivat etabloitumisen jälkeen joko vaihtaneet operaatiomuotoaan tai yhdistelleet eri operaatiemuotoja. Kerättyään kokemusta ja tietoa Kiinan markkinoista, yritykset ovat muuttaneet operaatiomuotoaan yksinkertaisista ja vähäistä pääomaa vaativista monimutkaisempiin pääomaa vaativiin operaatiomuotoihin perustaen lopulta täysin omassa omistuksessa olevia operaatioita.

ACKNOWLEDGEMENTS

I wish to thank all those who have helped me during this study. Without them I could not have completed this Master's Thesis.

I would like to start by thanking MScBA Aino-Maria Arvela for her study of "Market Entry Patterns of Finnish SMEs Entering China" that acted as the inspiration for this paper. I also wish to thank Professors Olli Kuivalainen and Sanna-Katriina Asikainen for their guidance and examining this thesis.

Secondly, I want to express thanks to all the people I interviewed for this thesis. Your co-operation is extremely valued and I truly appreciate giving me time from your busy schedules to conduct this study. Thank you all!

Thirdly, I wish to thank my parents Pekka and Marja-Leena for supporting me during the studies, Huang Liuzhen, Ye Wei, Li Zhaoping and Juha-Matti Toivonen for helping tremendously with the empirical research in China. Plus, Li Liuyun, Lai Yaner and of course the whole LUT team who are too many to mention here, but you know whom I mean. Thank you all for the great times.

This Master's Thesis is dedicated to my fiancée Patricia Navarro Baeza and to our son Daniel Toivonen Navarro who are the two most important persons in my life and constantly inspire me to live life to the fullest. Love you two!

Lappeenranta 2nd of October 2018

Jukka-Pekka Toivonen

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Abbreviations

3G	Third Generation of Mobile Telecommunications Technology
CATT	Chinese Academy of Telecommunications Technology
CSA	Country-specific Advantage
DM	Digital Media
EM	Electronics Manufacturing
FAE	Field Applications Engineer
FBCS	Finnish Business Council Shanghai
FOM	Foreign Operation Mode sometimes also referred to as Foreign Operation Method
FSA	Firm-specific Advantage
HW	Hardware
IC	Integrated Circuit
ICT	Information and Communication Technology
IPR	Intellectual Property Rights
JV	Joint Venture
MNE	Multinational Enterprise also referred to as MNC (Multinational Corporate)
NIT	New Institutional Theory
OLI	Ownership, Location, Internalization Framework also referred to as Eclectic Framework.
PRC	People's Republic of China
R&D	Research and development
RBV	Resource-based View

ROI Return on Investment

SaaS Software as a Service

SW Software

SWIP Software Products and Information Processing Services

TCA Transaction Cost Analysis

TEKES The Finnish Funding Agency for Technology and Innovation

TPS Telecom Products and Services

WFOE Wholly Foreign Owned Enterprise, sometimes also referred to as WOFE (Wholly Owned Foreign Enterprise)

WOS Wholly Owned Subsidiary

WTO World Trade Organization

1. INTRODUCTION

This chapter acts as an introduction to the study. First, it explains the background of the study and describes the research questions and objectives. Secondly, it lists and explains the most important definitions as well as abbreviations. Next, the limitations of the research are being presented as well as the research methodology used in the empirical part of the research. The final part of the introduction chapter illustrates the theoretical framework of the paper and presents the structure of the study.

1.1. Background of the study

The current global importance of China is undeniable. In fact, as Surman (2009, 197) sums it up, most of the clothes, electrical goods, toys and other manufactured goods we purchase are either produced or assembled in China before being dispatched to our local stores. Ever since the economic reforms of China in 1978, an average annual growth rate of nearly 10 % started and has continued for three decades. During this time, almost approximately 400 million people have been lifted out of poverty and China now stands as the second largest economy in the world. Moreover, China is also second only to US as a recipient of foreign direct investment and accounts for more than 12 % of all growth in world trade. (Tollet 2010, 3-4)

The business activities of Finnish enterprises in China continued modest from the establishment of the PRC in 1949 until the 1980s when larger Finnish companies started their market entry to China. Despite the tripartite agreement and the fact that the nations had practiced clearing trade from the 1950s, firms started their operations in China after the economic reforms and entered simultaneously in other countries of Asia as well. As the China phenomenon became stronger, the number of Finnish companies in China grew massively in the late 1990s where the investments were directed to the coastal regions that have been steadily growing in the number of firms and value of investments. (Kettunen et al. 2008, iii, 1).

The biggest motivation for a foreign company to invest in China is the huge market potential. The previous impetus of low-cost labor is becoming less significant due to higher salaries, especially in the coastal areas. However, the efforts of Chinese government to ensure

technological development of the nation have attracted several ICT firms to China. Thus, the economy of China is developing in two different ways: 1) through mass production of low cost goods and 2) through rapidly changing technology especially in the fields of workshop, electronics and ICT. (Kettunen et al. 2008, iii, 1).

Approximately 350 Finnish companies have entered the Chinese market out of which half have their own production and the other half only has a sales office as a branch. The Finnish companies have invested altogether over 10 billion Euros to China where they also employ over 60 000 people. In 2011 Finland exported goods to China worth of 2 661 million Euros. (Kauppalehti, 2012, 4-5; Tekniikka & Talous, 2012, 18-19)

China is also the largest ICT market in Asia and with its 642 million mobile phone users in 2008 it already was the biggest market for mobile phones in the world. Finally, with more than 420 million Internet users, China is the largest Internet market in the world as well. (Finpro 2010, 40-41; ITU 2010 4).

1.2. Research question and objectives

The focus of the study is on the Finnish ICT companies that are currently operating in China, but it is possible that the information may partially be applied either to other foreign ICT companies or to companies from other industry fields as well. The purpose of the research is to show in theory and practice how these firms have chosen and modified their modes of operation in the Chinese market.

As Benito et al. (2009) noticed, theory typically treats foreign operation modes (FOMs) as choices between well-specified and separate choices, but practice has revealed a messier reality including mode packages, mode adjustments and mode role changes that have been relatively ignored in theoretical and empirical research. The empirical entry mode study of Arvela (2011) also showed that all the six Finnish case companies examined from various industry fields had either combined or switched their mode strategies after entering China. (Benito et al. 2009, 1455; Arvela 2011, 83-84).

Therefore, the goal of this study is to understand the relevance of FOM strategies both in the initial entry mode phase as well as the changes occurred in strategy after the entry. Hopefully,

Finnish managers can use this study as a guideline in avoiding possible operating mode strategy pitfalls in China at both pre-entry and post-entry phases.

Research question:

- *What have been the foreign operation mode strategies of Finnish ICT-companies in the Chinese market and how have they changed over the years?*

Sub questions:

- *Which foreign operation modes were initially used by Finnish ICT firms to enter China and why these modes were chosen?*
- *How the foreign operation mode strategies have changed after the entry to the Chinese ICT market and why they have changed?*

1.3. Definitions

ICT

According to the European Commission (2012), ICTs stand for: Information and Communication Technologies. "ICTs include any communication device or application, encompassing: radio, television, cellular phones, computer and network hardware and software, satellite systems and so on, as well as the various services and applications associated with them, such as videoconferencing and distance learning".

ICTs are responsible for rapidly changing global production, work and business methods and trade and consumption patterns in and between enterprises and consumers. The industry enables a radical change in structures of organizations and means of learning, researching, developing, producing, marketing, distributing and servicing digital and traditional goods and services. It also has a great potential to enhance the quality of life. (European Commission 2012).

Internationalization

Internationalization of the firm is a process where the enterprises gradually increase their international involvement. Internationalization theory (Johanson & Vahlne 1977, 23) is based

on the incremental process of experiential learning in which the firms increase commitment to foreign markets based on their level of experience of the foreign markets.

Foreign operation mode (FOM)

Foreign operation modes (FOMs) or methods are ways for a foreign investor to operate in a country (Hollensen 2011, 466). Foreign operation mode can be described as institutional or organizational arrangements that are used to conduct an international business activity such as the manufacturing of goods, servicing customers, sourcing various inputs or undertaking any business function. (Welch et al. 2007, 18)

1.4. Delimitations

The focus in this study is on Finnish ICT firms and their foreign operation mode actions within the Chinese business environment. The main delimitation of the study is that it consists of only a small number of cases and thus cannot be generalized. Moreover, the results from ICT industry might not be directly applied to other industries and because the focus is on Chinese market, the market characteristics vary a lot from for instance Western markets. Finally, as the aim is to compare the mode strategies of case companies, more in-depth and longitudinal qualitative studies out of all these individual companies would be needed to fully understand how managers choose combinations of modes and evaluate the applicability of different mode packages.

Therefore, the purpose is to give a description of foreign operation modes and analyze the FOMs Finnish ICT companies have used in China and to see how the modes of these firms have changed during the following years. The main goal is to discover and discuss the reasons behind different mode actions and ultimately present a summary of major findings that can be used in further studies.

1.5. Research methodology

This study is a semi structured qualitative research of five Finnish ICT-firms operating in cities of Shanghai and Shenzhen in China. This research method was chosen, because as Benito et al. (2009) point out in-depth qualitative field research and clinical case studies would be the critical first steps for better understanding of foreign operation mode behavior of firms (Benito et al. 1467, 2009). These two cities were chosen, because they are the financial capitals of modern China and made it possible to do an in-depth empirical study on location in a cost-effective manner.

Qualitative research method is used to answer questions such as “how” and “why” by trying to understand the research subject and explaining the reasons and activities behind its behavior and decisions. The method is based on a choice of a small number of cases from the population and thus the goal is not to create statistical generalizations. (Gillham 2000, 10; Lee & Lings 2008, 209). Instead, qualitative research consists of data about accurate representations of the situations, events, people, interactions and observed behaviors by including either direct quotations from people about their experiences, attitudes, beliefs and thoughts and excerpts or complete passages from documents, correspondence, records and case histories. The descriptions, quotes and case documentation of qualitative measurement are collected empirically as an open narrative without trying to fit respondents’ thoughts into predetermined categories such as ready response choices. (Patton 1980, 22).

The empirical qualitative research was conducted on location in Shanghai and Shenzhen either at the offices of each case company or on location of choice of the respondents who are the representatives of these firms. The ICT industry was chosen based on three main reasons. First, according to the current literature about the industry fields of Finland, ICT is an industry of interest in China out of which they are eager to gain more expertise and knowledge. Secondly, there are several Finnish ICT companies operating in China allowing a comparison between different companies. Thirdly, as China is the biggest ICT market in the world, more Finnish companies are interested in entering China. The case companies were selected based on the following criteria: a) they have their headquarters in Finland, b) they have direct business operations in the cities of Shanghai or Shenzhen, and c) they do (or have done) business in any field of ICT.

The Finnish ICT firms operating in China were listed based on two main sources: the member list of Finnish Business Council Shanghai and Finpro's list (2010, 8) of Finnish ICT companies that can benefit from China. Altogether 48 firms were added on this list, 18 of them were contacted and 5 chosen for the final interview. All case companies fulfilled the abovementioned criteria.

Before the interview the chosen case companies received an e-mail questionnaire consisting of 12 questions about operation mode strategies to act as a foundation for the recorded on-location interview. This questionnaire (Appendix 1) also consisted of the preliminary questions which included the amount of personnel in the company, turnover in 2011, position of the respondent in the company, the year company entered China, and international experience before entering China. The names of the companies participating to this study are not mentioned to gain more reliable information about their foreign operation mode strategies in China without revealing any specific competitive information.

1.6. Theoretical framework

Figure 1 presents the theoretical framework of the research. It shows the main features of the study and shows how they are related to each other. The framework is adapted from the mode choice and change model presented by Benito et al. (2009, 1465) as well as Arvela's (2011, 8) variation of mode decision making model and method choice model originally presented by Welch et al. (2007, 438, 442). The framework is built around foreign operation mode decisions that have been divided into pre-entry, entry and post-entry decisions. The surrounding factors show which issues have an impact on particular mode stages at which decision-making time.

Past experience includes both managerial mode experience with other companies and previous mode experience from other markets. These can lead to discarding a certain mode through negative experiences or favoring a certain mode because of positive experiences causing mode inertia that means focusing solely on existing mode instead of searching for alternative solutions. These factors cause mode bias either for a certain mode or against the further use of that mode. (Benito et al. 2009, 1464-1465)

Transaction cost section of the theoretical framework of this study is based on Williamson's (1985) transaction cost analysis (TCA) framework and it includes analyzing managers' bounded rationality, partners' opportunism, the specificity of available assets, uncertainty and frequency. Thus, it affects the decisions at all stages of the mode strategies. The resources part is based on Resource-based view studies by Barney (1991) where a firm may create firm-specific advantages (FSAs) through its size, existing resources and knowledge related assets. Therefore, resources are an important factor when evaluating as well as comparing different modes and therefore they impact both pre- and post-entry decisions because they keep developing over time. Institutional factors are based on studies by K.D. Brouthers et al. (2002) who studied country risks and uncertainties and found out that all the studied institutional risk types were an important determinant of entry mode choice. Thus, the institutional theory matters influenced by Chinese market are market conditions, business culture and governmental issues. Since the institutional factors change from time to time, they may either cause country specific advantages (CSAs) or limit the available mode choices either in the pre- or post-entry stage. Also as ICT industry, especially on the field of high-technology, has some special characteristics, those are discussed in this part. All the previously mentioned factors influence the choice and configuration of an entry mode or modes and one of the two main points of the study is to see how these factors have been taken into consideration by managers when entering the Chinese ICT-market.

After the entry mode decision has been made and confirmed, the most important part of post-entry decisions are mode actions that are another important part of the study. Benito et al. (2009) recognized five possible mode actions that evolve from the previous mode experience: 1) mode continuation, 2) within mode change, 3) mode role change, 4) mode addition and deletion, and 5) full mode change. In addition to resources and institutional theory, also mode action switching costs and firm performance have an impact on mode actions. Finally, mode actions lead to current mode use that gives managers feedback influencing on either the next entry mode decisions or next mode actions.

An important goal of this study is also to explain the reasons for the operation mode strategies of each ICT-company used in all pre-entry, entry mode and post-entry stages. The intention is to see whether there are similarities in mode strategies within the same industry field to find best practices for ICT-firms thinking of entering the Chinese market.

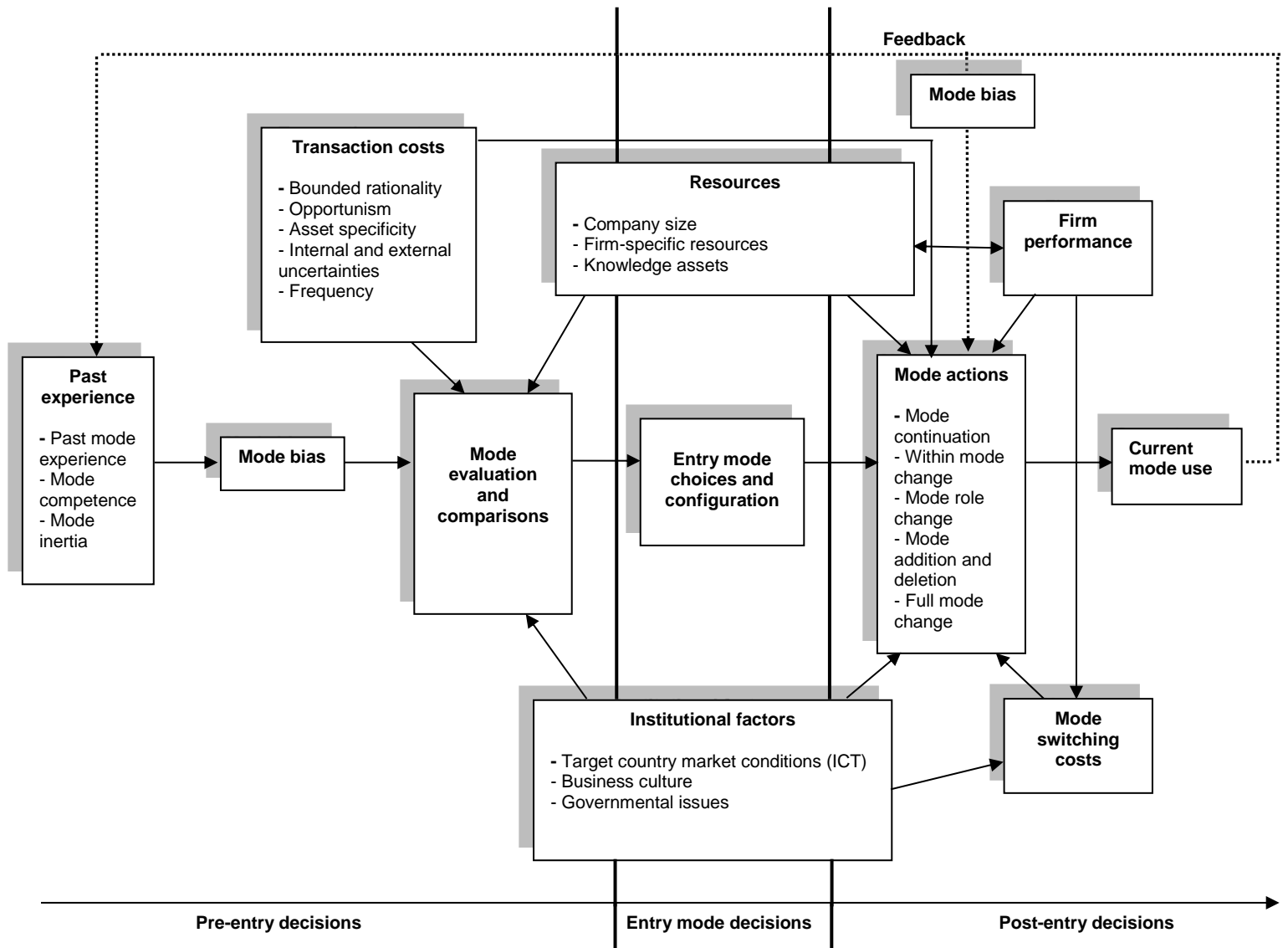


Figure 1 Theoretical framework of the study

1.7. Structure of the study

Chapter 2 introduces the literature review of the study. It is divided into three parts that include the theoretical background of the paper by first introducing the most frequently used theoretical perspectives of foreign operation modes by different scholars. The next part of the chapter 2 introduces the different foreign operation mode options and mode combination and switching strategies. The final part of the literature review explains the features of Chinese business

environment including the Chinese market conditions, business culture and governmental issues.

The chapter 3 explains briefly the background of the overall internationalization process of Finnish companies to China as well as the internationalization of the Finnish ICT firms. In chapter 3, the current status and future of Finnish ICT firms in China is evaluated and some market issues and challenges in China are highlighted.

The fourth chapter discusses the empirical analysis of the Finnish ICT companies in China. It starts by explaining the research methods and describing the case selection process. Then the five cases are described and discussed individually through a within-case analysis. Finally, a cross-case analysis is used to find similarities and to form pairs amongst the case companies.

Chapter 5 is the final chapter and includes discussion and conclusion. It summarizes the major empirical findings and reflects them to the theory and provides managerial considerations as well as limitations and suggestions for further research.

2. LITERATURE REVIEW

In their article about international entry mode research Brouthers and Hennart (2007, 400) reviewed many different entry mode choice decisions. The article claimed that in nearly 90 % of the published entry mode papers the transaction cost analysis (TCA), resource-based view (RBV), institutional theory, and eclectic framework by Dunning (OLI) were used as the theoretical foundation.

This chapter starts by presenting an insight of these abovementioned theories, and the Uppsala-model for internationalization by Johanson and Wiedersheim-Paul (1975) as well as the asset-bundling model Hennart (2009, 1432) as a theoretical background for description of different foreign mode options. The foreign operation mode strategies are explained in the second part of the chapter. Finally, the third part of the chapter describes the characteristics of the Chinese business environment in relation to Chinese market conditions, business culture and governmental issues.

2.1. Theoretical perspectives to market entry modes

Welch et al. (2007, 3) claim that foreign operation modes and their choice, use, management and change all represent a very important element for international business actions. The importance of FOM decisions has finally been noticed by researchers, lecturers and practitioners as the basis to any analysis about the international business strategies and performance of the enterprises.

The interest in studies of firms' internationalization process has been growing steadily since the early 1970s, which can be seen from the increased amount of research material found of the subject over time. For instance, Johanson & Wiedersheim-Paul (1975), Johanson & Vahlne (1977), Luostarinen & Welch (1990), Erramilli (1991), Dunning (1993), Welch et al. (2007) and Benito et al. (2009) have all introduced theories where the internationalization process has shifted from exporting decisions to a more longitudinal approach.

2.1.1. Transaction cost analysis (TCA)

Brouthers & Hennart (2007, 400) claim that transaction cost analysis is the most frequently used theoretical perspective in international entry mode research. TCA argues that managers suffer from bounded rationality in decision making while the potential partners may act opportunistically if they are given the chance. Bounded rationality is the assumption that decision makers have unavoidable constraints that are: limited information about possible alternatives and their consequences, limited capacity to evaluate and process the available information and limited amount of time to make a decision. (Rindfleisch & Heide 1997, 31) In Williamson's (1985) TCA framework, he adds three aspects to bounded rationality and opportunistic behavior, which are hypothesized to influence decision. These aspects are: asset specificity, uncertainty and frequency.

Asset specificity takes place when either suppliers or customers must make investments that are specific to the buyer. Once these investments are made, they cause a situation called holdup, where the other party tries to change the price of the product. To avoid holdup, the parties will sketch a contract that specifies the price of the product for the useful life of transaction-specific investments. (Brouthers & Hennart 2007, 401)

Williamson (1985) identified four different kinds of asset specificity that are: site, physical, human and dedicated asset specificity. Site specificity states that there is a natural resource, which is only obtainable at a specific location and can be moved only with a great cost. Physical specificity refers to an asset, which is a specialized machine or complex computer system designed for a single purpose. Human specificity means highly specialized human skills and finally dedicated specificity means an individually separate and distinct investment in a factory that cannot be used for other purposes. Still, asset specificity is only important if it appears together with bounded rationality or opportunism when uncertainty is present. (Williamson 1985, 52-56)

Williamson's (1985) theory focuses only on vertical investments, but other entry mode researchers have used it also to explain horizontal investments. Horizontal investments are investments that are made to utilize market knowledge or reputation, which was originally developed in another market. When considering knowledge, either licensing or integration is chosen. Firms tend to choose licensing when asset specificity is low and integration if it is high

because the technology recipient must make investments that are specific to the technology sender to absorb the technology. This is due to the problem of information asymmetry referring to the fact that buyers have limited knowledge of what they are buying and are unlikely to evaluate it as high as the sellers. (Brouthers & Hennart 2007, 401) Information asymmetry view is supported by the study of Kogut and Zander (1993, 635) where they found out that codifiable, teachable and simple technologies were more likely to be licensed to a third party rather than integrated to a wholly owned subsidiary.

According to Brouthers and Hennart (2007, 400-402) despite asset specificity is the main explanatory variable in most of the operation mode choices related to TCA, the previous studies have found mixed results on whether the high asset specificity is related to the use of high control modes (WOS) or the total opposite. Their review indicated that the majority of TCA based entry mode choice studies do not find a significant difference between asset specificity and entry mode choice.

The second main variable of TCA is uncertainty, which is divided into external and internal uncertainty. External uncertainty makes it difficult to evaluate all the possibilities in a contract in advance, while the internal uncertainty makes it difficult to validate performance later. In Williamson's model uncertainty is only causing problems when paired with asset specificity or with high switching costs to be broader. This means that contracts will be inefficient and parties are exposed to holdup, which causes them to go for vertical integration. Conversely, if there are many potential buyers and sellers the switching costs are low, and both types of uncertainty will support the market. (Brouthers & Hennart 2007, 403)

However, most entry mode studies have moved away from the Williamsonian model and made the opposite argument that uncertainty encourages firms to maintain flexibility and therefore choose the market over hierarchical governance. Zhao et al. (2004, 530) suggest that country risk and cultural distance are the two most common constructs for market-specific external uncertainty. Yet, in previous studies scholars have measured country risk by using several different measurements e.g. Euromoney Country Risk Index, industry growth, industry concentration ratio, size of market, perceived measures of target market volatility and diversity, perceived political and economic stability, and perceived market potential. Equally, the cultural distance has been measured in diverse ways including perceived similarity in cultures, familiarity with country and the index developed by Kogut and Singh. (1988, 422,427) There they combined Hofstede's dimensions of culture and perceived similarity in cultures and

familiarity with country validating Hofstede's measures and showing that entry mode selection is influenced by cultural factors. Zhao et al.'s (2004, 530) meta-analysis found that the various measures of country risk had a statistically significant negative impact on the probability of choosing hierarchical modes of entry such as WOS. The impact of cultural distance was also negative but considerably weaker.

Internal uncertainty makes it difficult to ascertain the performance of contracting parties ex post facto. The solution to this problem is reducing the incentives trading partners must cheat by taking them over i.e., through integration. Zhao et al. (2004, 537) found out that internal uncertainty is lower if the MNE has more international experience, which researchers have measured by using a variety of constructs including the number of years of worldwide experience, total number of foreign investments, ratio of foreign to total number of investments, number of years' presence in the host country, or number of country-specific ventures. Their meta-analysis also showed that experienced MNEs tend to prefer WOS, whereas Padmanabhan & Cho's (1996, 56-57) study on Japanese MNCs found the reverse with the possible explanation that overall international experience is more important when firms face greater uncertainties with investments in culturally dissimilar countries. Other non-experience based measures of internal uncertainty have examined issues of perceived difficulty in partner selection and perceived ability to enforce, monitor and control contractual agreements. However, these results have been either mixed or have found behavioral uncertainty unrelated to mode choice and thus much more thought needs to be given how different types of uncertainty are measured and how they affect the entry mode choice. (Brouthers & Hennart 2007, 403-404)

The third dimension that Williamson (1985) sees as affecting firm boundary decisions is frequency. It refers to the choice of using market contracting or integrating transactions within the firm. Despite the contracts use preexisting enforcement mechanisms, such as the courts, integration requires firms to create their own enforcement mechanisms. Hence, frequency is an important determinant of the choice between contracts and equity, where it has been measured as channel volume and as a perceptual activity measure. Still, it is not clear why frequency should affect the choice between WOSs and JVs. Overall, Brouthers & Hennart (2007, 404) specify in their review that despite the large number of transaction cost-based studies, there is much room for improving on the knowledge and application of TCA to the entry mode choice decision. According to them there is a need for studies that make a better use of TCA concepts

and develop measures that more closely correspond to its theoretical guidelines. (Brouthers & Hennart 2007, 404)

2.1.2. Resource-based view (RBV)

Resource-based view implies that firms can use cross-border acquisitions to exploit their unique resources in foreign markets or then use foreign markets as a source for acquiring or developing new resources that can lead to firm-specific advantages. According to Barney (1991, 116) firms build up resource-based advantages by developing or acquiring a set of firm-specific resources and capabilities that are valuable, rare and imperfectly imitable and for which there are no commonly available substitutes. Hollensen (2010, 48) categorizes RBV resources into tangible and intangible resources, where tangible resources are raw materials, quantified plants, workforce and finance. Intangible resources are intellectual property rights such as trademarks, patents and copyrights. One of the earliest resources explored in relationship to the choice of entry mode was experience. Originating from the internationalization theory by Johanson & Vahlne (1977, 31) scholars have suggested that over time firms gain experience in foreign markets and thus move from straightforward exporting operations into more complex organizational structures such as JVs and WOSs, meaning that the international experience provides some type of firm-specific advantage.

The scope and length of a firm's pre-entry international experience and how it influenced on the selection of entry mode was studied by Erramilli (1991, 479). Erramilli (1991, 496) discovered that both low levels and great levels of experience lead to use of full control modes whereas medium levels of experience were related to the market-based modes. As stated by Brouthers and Hennart (2007, 405) the two most advanced applications of resource-based theory were studied by Erramilli, Agarwal, and Dev (2002) and Dev, Erramilli, and Agarwal (2002). They found out that the possession of greater resource-based advantages among hotel companies lead to use of internalized non-equity entry mode (management contracts) over market mode (franchising) of entry. (Erramilli et al. 2002, 236-238; Dev et al. 2002, 99) However, Brouthers and Hennart (2007, 405) claim that resource-based entry mode research appears to be fairly limited and they suggest that knowledge about how resources (knowledge and/or capabilities) influence the mode choice could be advanced by studies that develop other measures of

resource advantages, which combine the RBV with other theories such as transaction cost or institutional theory.

2.1.3. Institutional theory

Institutional theory research proposes that a country's institutional environment affects firm boundary choices because the environment reflects the rules of the game by which firms participate in each market. The early studies investigating institutional environments focused on lists of host country risks and uncertainties that might influence the mode choice. K.D. Brouthers et al. (2002, 504) examined five types of risk or uncertainty: product-market, government policy, macroeconomic, materials and competition. They found out that these risk types were an important determinant of entry mode choice as they affected service industry, manufacturing, or both industry types. However, despite studies like this have helped to understand the differences in institutional environments between home and host countries and how these differences may have an impact on the mode choice decision, they also tend to lack a theoretical basis on which to select the risk factors that are included in each study. Therefore, the new institutional theory (NIT) has been adopted by some scholars to address this problem.

New institutional theory suggests that the institutional environment of a country is made up of a set of three dimensions: regulatory, cognitive and normative. These dimensions vary by country and have an influence on managers' decisions because they influence the way business is conducted in a country. Since these influences are very consistent in each host country, isomorphic pressures tend to bring conformity in the way business is conducted and the structures that are acceptable. If these institutional norms are defied, firms risk losing legitimacy and thus get selected out of the marketplace.

K.D. Brouthers (2002, 213) discovered that regulatory dimension plays an important role in explaining mode selection when firms entering markets with high legal restrictions preferred to use JVs over WOSs and Uhlenbruck, Rodriguez, Doh, and Eden (2006, 410) added to this by finding out that corruption had a significant influence on entry mode choice as one of firms to cope with corruption is their adaptation of entry mode strategy. Davis, Desai, and Francis (2000, 251-252) examined the cognitive dimension and found out in general that firms tended to conform to isomorphic pressures in mode selection meaning that the tendency of proven

strategies to spread over time, leads industries to use similar practices that have been successful for others. (Johnson, 2011) Finally, Yiu and Makino (2002, 680) suggest that cultural distance and ethnocentricity may reflect differences in normative belief systems between home and host countries, but Brouthers and Brouthers (2001, 185) claim that although cultural distance is an important part of the institutional environment, its impact on mode choice decision appears to be moderated by investment risk. According to Cho & Padmanabhan (2005, 320) decision-specific experience is found to play the most important role as a compensating factor for the constraining impact of cultural distance in foreign ownership mode choice. Therefore, a firm with extensive prior experience in organizing and managing an ownership mode (full or shared) can easily overcome uncertainties and costs in culturally dissimilar host countries with strong organizational routines and heritages embodied in personal and organizational memory through repeated experiences.

Therefore, as cultural distance meta-analysis by Kirkman, Lowe and Gibson (2006, 312-313) suggests, the way forward in this area is to examine the interactive effects of institutional factors on other decision-making criteria. For instance, which component of the institutional environment moderates the influence of which transaction cost dimension on entry mode choice and how do institutional dimensions influence the ability of companies to exploit resource-based advantages? Lastly, more studies are needed to determine if it is perceptions of institutional distance (psychic distance), or actual distance (cultural distance) that influence decisions and decision outcomes including the entry mode choice.

2.1.4. Eclectic framework (OLI)

Dunning's (1993, 76) eclectic framework, also known as OLI (ownership, location, internalization) is one of the most frequently used perspectives in international entry mode studies. His framework has three main parts that are ownership or firm-specific advantages, location or county-specific advantages and internalization advantages. The OLI framework can be described as a tool that combines the insights from resource-based (ownership), institutional (location) and transaction cost (internalization) theories. When applied to entry mode choice the eclectic framework of foreign direct investment by Dunning (1993, 79-81) claims that firms will select their entry mode strategy by considering three different types of advantages. Firstly,

ownership advantages are focused on the issue of control, the costs and benefits of inter-firm relationships and transactions. Secondly, location advantages are concerned with the availability and cost of resources. Thirdly, the internalization advantages are mainly concerned with reducing transaction and coordination costs.

The most cited work of Dunning's framework is by Agarwal and Ramaswami's (1992, 19) study of US equipment-leasing companies where they found that ownership, location and internalization advantages all affected the mode firms used and that firms would like to establish market presence in foreign countries through FDI, but their ability to do so is limited by their size and multinational experience. In addition, L. E. Brouthers, Brouthers, and Werner (1999, 841) confirmed that Dunning's framework did a good job of explaining firm performance since firms basing their entry mode choice on firm-specific, location-specific and internalization advantages tended to have significantly better performance than firms that did not conform to the Dunning framework. Hence, it seems that Dunning's eclectic framework might be a good tool for combining insights from the three other popular theories and exploring how these theories interact with each other. Still the past studies tend to ignore constructs developed and tested in studies of these three other theories, so entry mode research may benefit from studies with well-tested measures of resource-based, institutional and transaction cost theories, and then further explore how these factors influence each other. (Brouthers & Hennart 2007, 407-408)

2.1.5. Uppsala-model

The Uppsala process model was established in the 1970s by Swedish researchers from the University of Uppsala, who studied the internationalization of Swedish manufacturing firms. They noticed that firms started their foreign operations by exporting to the nearby markets while gradually expanding their operations to the more distance markets. Once the companies gained years of market knowledge through experience and knowledge, they could establish wholly owned or majority owned operations. The gained market knowledge could also be transferred to another country. (Hollensen 2011, 74)

Johanson and Wiedersheim-Paul (1975, 307) identified four different modes or stages to enter an international market. In these stages the later ones represent higher degrees of international involvement and market commitment. The stages are:

- 1) No regular export activities (infrequent export)
- 2) Export via independent representatives (such as agent)
- 3) Foreign sales subsidiary
- 4) Foreign production/manufacturing units.

The sequence of the stages is called as the establishment chain. Still, it is not necessary to go through the whole chain as stages can be jumped over in case a firm has thorough international experience from other foreign countries or that the markets are not big enough for the latter resource committing parts. (Johanson & Wiedersheim-Paul 1975, 307)

According to Ojala (2008, 136) the indirect entry mode stages (stages 1-2) of the Uppsala model boost the company's knowledge about the target country allowing it to do better with the country's local customers. Direct operations (stages 3-4) can be established only after the firm is more familiar with the target country. The company can start by establishing a sales subsidiary, which means that more knowledge and commitment is required in comparison to stages 1 and 2. At stage 4, a company can start producing or manufacturing goods in the market. One limitation of the Uppsala model is however that it excludes joint ventures and partnering, which are operations that also need knowledge and commitment.

The Uppsala model has also been criticized for the fact that it does not adequately reflect on the internationalization patterns of small software companies, since there is not enough support to believe that they systematically start from exporting to advance into other market entry modes. There is also a very little support that the firm internationalize in incremental steps, as the results suggest that the linear stage model is limited in explaining complex, dynamic and frequently non-linear behavior. (Hollensen 2011, 74)

However, psychic distance can be a useful concept when considering the reasons behind foreign operation mode decisions. Psychic distance can be explained as factors which prevent or disturb the information flows between a company and market. These issues can be for instance related in language, culture, political system, level of education and level of industrial development. Often psychic distance is related with geographic distance and it can change with the development of the communication system, trade and other kinds of social interaction. In

addition to psychic distance, potential market size is generally another important issue, which firms consider when starting their internationalization processes. (Johanson & Wiedersheim-Paul 1975, 307-308, Ojala 2008, 136)

2.1.6. Asset-bundling model of foreign entry mode

In the asset-bundling model Hennart (2009, 1432) argues that despite OLI and internationalization models do recognize that foreign market entry requires the bundling of MNE (FSAs) and complementary local assets (CSAs), they completely assume that those assets are freely accessible to MNEs. The model considers the transactional characteristics of complementary local assets and represents foreign market entry as the optimal assignment of equity between their owners and MNEs.

Table 1 shows the optimal way in which a foreign MNE seeks to exploit innovations on one hand and a local owner of complementary resources on the other, combine their assets to undertake value-adding activities in a foreign market. According to Hennart (2009, 1436-1437) knowledge is the main FSA, firms seek to exploit in foreign markets. The interactions between economic agents can take place in three markets: the market for the services of assets, the market for assets, and the market for firms owning the assets. Thus, an MNE eager to exploit its knowledge has three choices: a) sell it on the market for asset services by licensing a foreign manufacturer, b) access the market for assets, by bundling its know-how directly with a variety of purchased assets and incorporating all of those into goods and services, thereby engaging in exporting or producing abroad close to the foreign customer; c) access the market for firms, by selling itself or parts of itself to another firm. Likewise, a local firm, which can for instance own the land that is needed by an MNE, can rent it in the market for land services, sell title to it in the market for land, or sell itself to the MNE and hence transfer the land as well.

		Knowledge assets held by the MNE	
		Easy to transact	Difficult to transact
Complementary assets held by local owners	Easy to transact	1. Indeterminate	2. MNE is sole residual claimant = wholly owned affiliate of the MNE
	Difficult to transact	3. Local firm is sole residual claimant = wholly owned operations of local firm	4. Joint venture between MNE and local firm

Table 1 Optimal mode of foreign market entry (Hennart 2009, 1436)

2.2. Foreign operation mode strategies

In this chapter, different entry mode strategies are first being introduced based on the categorization of Welch et al. (2007). Next, mode switching strategies are illustrated as Luostarinen & Welch (1990, 253) observed that companies increasing their level of international involvement tend to change the method of serving foreign markets. The last part explains the mode combination strategies, in which Benito et al. (2009) consider mode changes as additions to and deletions from existing operation modes and as within-mode adjustments. Their research showed that firms not only regularly struggle with the question of choosing which mode to use, but with which combination of modes, instead of them only being decisions among separate choices such as moving from exporting to intermediaries.

2.2.1. Different foreign operation mode options

This chapter introduces different foreign operation mode strategies according to Welch et al. (2007) and reflects those modes to the Chinese business environment. Researchers such as

Peng (2006, 231) separates entry modes into equity and non-equity modes, but in the model by Welch et al. (2007, 4) the FOMs are categorized as contractual, exporting or investment modes. The contractual modes include franchising, licensing, management contracts, international subcontracting, project operations and alliances. Exporting can be direct or indirect and consist of an own sales office or subsidiary. Finally, the investment modes include minority share joint-ventures, 50/50 JVs, Majority share JVs and Wholly owned foreign enterprise (WOFE). Hollensen (2011, 317) adds that export modes are highly externalized and provide low control, low risk and high flexibility. The investment modes are highly internalized with high control, high risk and low flexibility. Contractual modes are in the middle providing shared control and risk with a split ownership.

Contractual modes

Franchising is an example of a contractual mode where the franchisee is given for instance a right to use an entire business system or concept, which includes the use of trademarks or brands for an agreed royalty or payment. (Hollensen 2011, 361). Terpstra & Sarathy (1994, 262-263) define franchising as an increasingly growing type of licensing where the franchiser offers a standard package of products, systems and management services and the franchisee offers market knowledge, capital and personal involvement in management. They divide franchise agreements used by firms into three categories that are: master franchise, joint venture and licensing. The most common type of franchise agreements is the master franchise, which gives the franchisee the rights to a particular area with the possibility of selling or establishing sub franchises.

The main benefit of franchising is that it provides flexibility in dealing with the local market conditions, but also provides the parent company a fair amount of control. Since the franchiser can see the process of marketing of the products until the final sale, it can be considered also as a substantial form of vertical integration. Franchising has become an increasingly important form of international marketing since it can provide an effective mix of centralized skills and operations. (Terpstra & Sarathy 1994, 262)

Shaw (2004, 27-29) claims that China's WTO membership in 2001 opened opportunities for franchising and it is developing into a more accepted mode of business within the country. She continues that despite today franchise firms can be successful in China, they should consider doing it cautiously, as it delivers a progressive and organized management approach to China. Franchising should contain a well-supplied business event, which is connected with critical market position and estimate, unparalleled cultural environment, appropriate brand choice, strategic choice, centralized quality control and training process. Shaw (2004, 29) concludes that a huge amount of commitment and mastering of certain key elements are needed to be successful with franchising in the Chinese market. Firstly, the business format and brand need to be strong and successful, the franchise experience needs to be substantial and teachable. Secondly, there needs to be a system, which is welcomed and used by the Chinese master franchisee and the master franchiser needs to show willingness to build the brand and provide enough necessary assets to the master franchisee.

Another contractual mode is licensing, which covers a wide array of tasks, users and different aspects (Welch et al 2007, 94). According to Lasserre (2007, 206) licensing arrangements are contracts where the licensor hands over to the licensee its product and/or process technology with the possibility of commercial benefits. Kotabe et al. (1996, 74) add that licensing of technology is often viewed as a transfer of technology for a charge from a leading technology company to an inferior technology company.

Luostarinen & Welch (1990, 31-32) remind that in the licensing arrangement the licensor does not give up ownership, but it can be confirmed legally by registering the intellectual property form such as: patent, trademark, design or copyright. Still, licensing is not about selling the intellectual property, but instead giving the rights to use it. (Welch et al. 2007, 97)

According to Welch et al. (2007, 94) and Luostarinen & Welch (1990, 31), licensing is a substantial foreign entry mode especially for smaller firms and besides technology it also includes the commercial rights for using famous names, symbols and entertainment systems. Licensing has sometimes been utilized when entering for instance culturally or physically distant markets. For example, Luostarinen & Welch (1990, 45) note that some Finnish firms have used licensing to enter markets of India, Mexico and Japan, which were viewed to have a lot of market potential but were physically too distant.

According to Welch et al. (2007, 139-142) management contracts may be the least studied FOM used by firms. It can be considered as an agreement where the operational control of a company (or a part of a company), which normally is controlled by elected managers or the board of directors, is authorized by agreement to another independent firm, which exercises the wanted managerial functions for a payment. They normally are longstanding managerial relationship where a foreign firm (or part of it) is run for an agreed period of time based on a contract. The difference to management consulting is that management contracts also include a direct managerial role in addition to the provision of management advice. They differ from franchising and licensing since they oblige the contractor to also implement the processes within the contracting firm, instead of just selling them the method of operation. Therefore, this enables the contractor to have more direct control over the abroad business activities and outcomes of the client including the transfer of know-how.

Management contracts are often used in addition to other FOMs. For instance, FedEx in China formed a management contract with its 50:50 joint venture partner in 1999. Before this agreement, the company had hired sales agents and established a sales office. The management contract was introduced to safeguard the daily control of the operations. Thus, joint venture was the main operational mode and a management contract was used in a supplementary role. (Welch et al. 2007, 150-151)

International subcontracting (or outsourcing) has often been viewed as a good way to reduce costs rather than as an ability to develop foreign activities. According to Welch et al. (2007, 162-164), international subcontracting consists of all those export sales of products, which have been ordered in advance and where the order giver oversees the arranging of marketing. The essential thing in international subcontracting is that the giver of the order (principal) oversees the distributing and marketing of the produced items. These items can be for example components or other parts that the principal will assemble into a final product. Kauder (1982, 37) claims that both foreign and Chinese firms can benefit from subcontracting as parts are manufactured cheaply in Chinese factories and in turn the Chinese firms gain profits and technological knowledge. This could lead to a success in the massive Chinese market, but then again, many firms have reported insufficient quality and lack of quality control to be the major weaknesses with this operation mode.

Poon (1996, 48) argues that even if the subcontracting will grow in the future, workers will still face substantial consequences. The issue of increasing unemployment has already occurred in Hong Kong, where manufacturing processes have been moved to low-wage countries and newer technology has been adopted for production. Therefore, the workers must either improve their existing skills or gain new skills if they are hoping to stay employed.

Project operations are generally not thought to be a straightforward substitute to other types of operation modes. Instead, they usually involve an extensive mix of mode packages or mode combinations. A project must have a definite start and end date and the operations may include elements of FDI, technology transfer contract such as licensing, foreign financing agreements, exporting or importing of products, systems and services as well as transferring of foreign employees. The activities and content can range from a varied mix of hardware and software potentially including such aspects as the design and construction of facilities such as housing projects, factories, industrial complexes and IT systems; and software components such as education and training, as part of technology transfer arrangements. For instance, the 2008 Beijing Olympics enabled an extensive array of buildings and infrastructure developments all over the city, which were strongly marketed by the foreign project operators. (Welch et al. 2007, 198, 233)

According to Skaates et al. (2002, 389) more and more industrial firms are utilizing project operations in the international business strategies due to the complex and systemized offers of several foreign enterprises.

Welch et al. (2007, 273; 277) describe alliances as agreements in which at least two enterprises commit in cooperative activity while staying as independent organizations. They are an important and widely used foreign operation mode for firms seeking to internationalize, but also difficult to operate. Alliances can be either informal cooperation in a certain activity in one or more markets or formal and legally structured agreement. Petersen & Welch (2002) add that they are frequently used in a larger mode combination package, which can contain distinct use of modes where they are supporting the primary mode. An example of this is a marketing alliance, which supports the exporting activity.

According to Tse et al. (1997, 779-780) establishing alliances is essential since through an alliance a company may enter a foreign market while reducing its investment risks as well as boosting its competitive advantage. A Western company can also enter China by forming an alliance with an Asian company to overcome the cultural distance between the enterprise and the Chinese business environment.

Exporting

Exporting refers to foreign sales of physical goods and services and it enables a firm to access the foreign markets from its home country. It serves as one of the main foreign market penetration choices, since it is an easy way to enter a new market and the financial risks can be minimized. (Welch et al. 2007, 237; Terpstra & Sarathy 1994, 260) Due to this several internationalizing firms are using exporting as their first move into international operations and often other operation mode alternatives may not even be acknowledged. (Welch et al. 2007, 268-269)

Luostarinen & Welch (1990, 20-28) divide exporting into indirect, direct and own export. Indirect export means that the manufacturing company does not take care of exporting actions directly but uses a domestic intermediary such as a trading company. Indirect export is mostly used at the start of the internationalization because it is expensive, it can block the flow of information and it may be inactive. Direct exporting means that the producing firm contacts directly the first intermediary in the foreign market such as a sales agent or a distributor. Thus, it requires greater knowledge of international business as well as larger financial resources. Own export means that there are no domestic or foreign intermediaries between the manufacturer and its end customer and the firm establishes for example its own sales office or sales subsidiary.

According to Terpstra & Sarathy (1994, 261) exporting is often chosen as the operation mode when the firm is small and thus lacking the resources needed for higher control modes such as joint ventures or foreign direct investment. Firms tend to choose exporting when there are no political or economic reasons to manufacture abroad, if there is a chance of governmental risk in the country or the target markets may seem uncertain or unattractive. (Bradley 2001, 262) China's WTO membership increased the chance for international firms to export in China, but it also allowed a new level of competition, which the Chinese economy had not experienced before. (Ho 2007, 21)

Investment modes

According to Welch et al. (2007, 320-321), foreign direct investments occur when an investing firm acquires a substantial authority over the foreign company through equity and thus has sufficient level of ownership to determine the main practices of the firm. These investments can be wholly owned foreign subsidiaries, joint ventures with majority share, JVs with 50:50 share or with minority share. Foreign direct investments are selected as an operation mode because they enable for instance strong international market expansion, chance of intellectual property exploitation, access to unique local assets, cost reduction, reacting to competitors' activities and avoiding tariff and other trade barriers.

Foreign companies are investing heavily to China in the form of FDI, which appears to show a motive for market exploitation. Tarzi (2009, 276) acknowledges that the growth rate of foreign direct investments into China have been beyond belief. In addition, Lian & Ma (2010, 184) claim that FDI has significantly impacted to the economic improvement of China. They continue that maybe the majority of China's exports growth is credited to Chinese companies with foreign investment as well as the income growth per capita is considerably higher in coastal regions where most of the FDI has occurred compared to other areas.

The reducing of foreign investment barriers means that foreign companies are entering China to take advantage of the various location advantages. The law and regulatory system for FDI was developed and reformed between 1970s and 1990s resulting in an intricate legal framework for FDI and founded an opened FDI administration to captivate foreign investors. Finally, China's WTO membership meant reduction of tariffs and expanding the industries available for FDI, which meant the expansion of FDIs. (Tarzi 2009, 275; 288-289)

Bennett (1995, 75) defines a joint venture (JV) as a cooperative agreement between independent associations that transfer or combine different resources while remaining separate and independent legal organizations. Joint ventures are often established to begin a particular project at a certain time and they are an example of a strategic alliance. JVs are becoming more common as a foreign operation mode because they are flexible, they can be entered or abandoned quickly, they allow sharing of costs, but still can be equally effective in gaining market expertise as more direct forms are.

Usually the most important aspect in joint ventures is the equity level of the JV organizations as it tells which firm has more control over the operations. Normally, 51 % equity represents

control, whereas 50:50 or smaller equity ownership does not. Additionally, sometimes they can be the only allowed way to enter the emerging markets. For example, an American company Heinz was seeking to develop into a key player in Zimbabwe by gaining at least 51 % equity in the joint ventures it was looking for with a Zimbabwean manufacturer. Nevertheless, the local government initially accepted only maximum equity of 49 % and negotiations lasted for over two years to eventually reach for the equity level of 51 %. Moreover, the government also was included as a partner in the joint venture. However, the lack of equity control can also be made up for by utilizing modes such as management contracts or licensing, as they can give more managerial, intellectual, legal and marketing control. (Welch et al. 2007, 280-281)

2.2.2. Choosing the right foreign operation mode(s)

Choosing the right FOM is difficult as they all have strengths and weaknesses. Table 2 below summarizes the main features of each foreign operation mode based on 8 different criteria. Because establishing a market presence takes a long time, the return on investment is scaled close to the cost of capital from high to moderate. Additionally, when it comes to acquisitions, the initial investment needs an upfront premium. Most of the return is explained by residual value, as it shows that wholly owned foreign enterprise and acquisition are effective for a long-time and therefore should only be utilized when country risks are low. Licensing can be very successful from the ROI standpoint since there is a continuous flow of royalties with a minimal investment, which makes the absolute value low and is ideal in the case of high risks and low commitment. However, the long-term influence of licensing is weak. Finally, joint ventures are in the middle between the wholly owned and licensing and the theoretical value of JVs are often destroyed by poor implementation. (Lasserre 2007, 208)

	Wholly owned	Acquisition	JV	Licensing	Representative office	Agent/distributor
Upfront investment, financial and managerial	HIGH	HIGH	MEDIUM	LOW	LOW/MEDIUM	LOW
Speed of entry	SLOW	QUICK	QUICK	MEDIUM	SLOW	POSSIBLY QUICK
Market penetration	MEDIUM	HIGH	MEDIUM/HIGH	MEDIUM/LOW	LOW	MEDIUM/LOW
Control of market (customer knowledge)	HIGH	HIGH	MEDIUM	NIL	LOW	LOW/NIL
Political risk exposure	HIGH	HIGH	MEDIUM	LOW	LOW	LOW
Technological leakage	LOW	LOW	HIGH/MEDIUM	HIGH	LOW	LOW
Managerial complexity	HIGH	HIGH	HIGH	LOW	MEDIUM	LOW
Potential financial return	HIGH RISK HIGH/ MEDIUM RETURN HIGH PAYOUT	HIGH RISK HIGH/ MEDIUM RETURN HIGH PAYOUT	MEDIUM/ HIGH RISK HIGH/MEDIUM RETURN MEDIUM PAYOUT	LOW RISK HIGH RETURN LOW PAYOUT	LOW RISK ? RETURN	LOW RISK ? RETURN

Table 2 Comparing different operation modes (adapted from Lasserre 2007, 209).

Terpstra & Sarathy (1994, 260) argue that an operation mode decision should be based on the following features: analyzing the marketing potential, estimating the firm's resources and the level of marketing involvement and commitment the company is willing to make. The choice of FOM can be anything from infrequent exporting to heavy capital and management investments in attempt to capture and maintain a specific and permanent share of the international markets. They claim that the suitable mode strategy can be found by analyzing the firm's strengths and weaknesses, the degree of commitment the firm is willing or able to make and the characteristics of the target market. As stated by Cateora and Ghauri (2000, 194) the following issues have an impact on the FOM selection: firm's objectives, the size of the firm based in assets and sales, the line of products and nature of them as well as abroad competition. Additionally, they highlight that there are other issues relating more generally to the entry to foreign markets, which are moderately independent of the company and its industry.

According to Tse et al. (1997, 779-780) FOM decisions are affected by country-specific, firm-specific, market-specific and industry-specific issues. The country-specific issues consist of economic, legal, political, institutional and cultural applications. The major variables of country-specific factors are country risk, governmental regulations and cultural distance. Firm-specific aspects link to transaction costs where the handover of specialized assets between companies is affected by market failures. The key points of firm-specific issues are asset specificity, international experience and size of the company. Market-specific aspects include for example market potential, demand uncertainty and intensity of competition. Industry-specific issues contain for instance the operation scale, which can vary between industries. Tse et al. (1997, 779-780) also noted that companies favor to choose the special economic areas of China as their main operational location, because the better infrastructure and market environment of these areas serve a better protection for the firms' investments. Usually, these investments are big enough for the higher level of Chinese government to be included in the process.

2.2.3. Foreign operation mode switching strategies

According to Luostarinen & Welch (1990, 251) firms have the habit of changing their foreign operation mode(s) as the degree of international involvement increases. As previously mentioned in chapter 2.1.5., the foreign market commitment increases typically from no exporting to exporting via an agent to a sales subsidiary and ultimately to a production subsidiary. Luostarinen & Welch (1990, 253) continue that it is challenging or impossible to successfully increase internationalization just by using one operational mode.

Therefore, Welch et al. (2007, 361) claim that the majority of firms that conduct foreign transactions will at some point encounter switches of their foreign operation modes. Firms can for instance switch their FOMs to correct a managerial mistake or to adapt to new environments when their foreign operations have developed. Mode switching enables to develop more concentrated procedures in the markets to support a strategy of deeper market penetration. It can be utilized to overcome an obstacle or regroup from a difficult situation related with an existing mode use. Welch et al. (2007, 361-363) emphasize that to avoid the high mode switching costs the executives need to develop a mode switch strategy in advance and implement it. The main aim of the mode switch strategy is to get rid of the switching costs and

to make sure the local partners consider the mode switch as a normal and agreeable part of the cooperation. (Welch et al. 2007, 372)

2.2.4. Foreign operation mode combination strategies

Past operation mode studies have often treated as choices between separate options such as advancing from direct exporting to intermediaries, from intermediaries to local sales subsidiaries or from joint ventures to wholly owned subsidiaries. However, as stated by Petersen & Welch (2002, 158) it is not exceptional to see that firms use more than one operation mode in an overseas market.

According to Benito et al. (2009) mode changes are performed to existing operation modes as within-mode adjustments by adding or deleting a mode. Their study showed that firms not only regularly struggle with deciding which operational mode to use, but with which combination of modes. (Benito et al. 2009, 1460-1461)

Welch et al. (2007, 393) acknowledge that rather than switching a mode or substituting it with other mode, companies can add different operation modes to a current one. Adding one or more modes to a current one can either be a momentary adjustment or alternatively a long-lasting or even a permanent arrangement. Nevertheless, the mode combination strategies bring out several questions for management, especially the challenge of coordination in the foreign market. Welch et al. (2007) use a value chain proposal to resolve the management problems related to the mode combination. Mode combinations are often used for entering or developing a certain overseas market for instance to serve different customer segments, bolster commitment and control, or benchmark local operators. (Welch et al. 2007, 395-401)

Figure 2 presents a framework by Benito et al. (2009, 1465) that illustrates the mode choice, mode development and mode change processes. Their framework is based on the firm's behavioral theory, which implies that the decision impulses are affected by past experiences and present options. Because there are many possible FOM choices available, managers seem to make decisions based on their previous experience and choose mode that either has been successful in previous circumstances or limit the set of mode choice. Previous international mode experience could have been received through inward operations, if a firm for example

has used licensing to access foreign technology and uses the same type of licensing arrangement for its outward operations. A bad mode experience can lead to mode bias against its further use, whereas a good experience often results in mode inertia that means the routine of using an existing mode instead of trying out for any other modes. (Benito et al. 2009, 1464-1466)

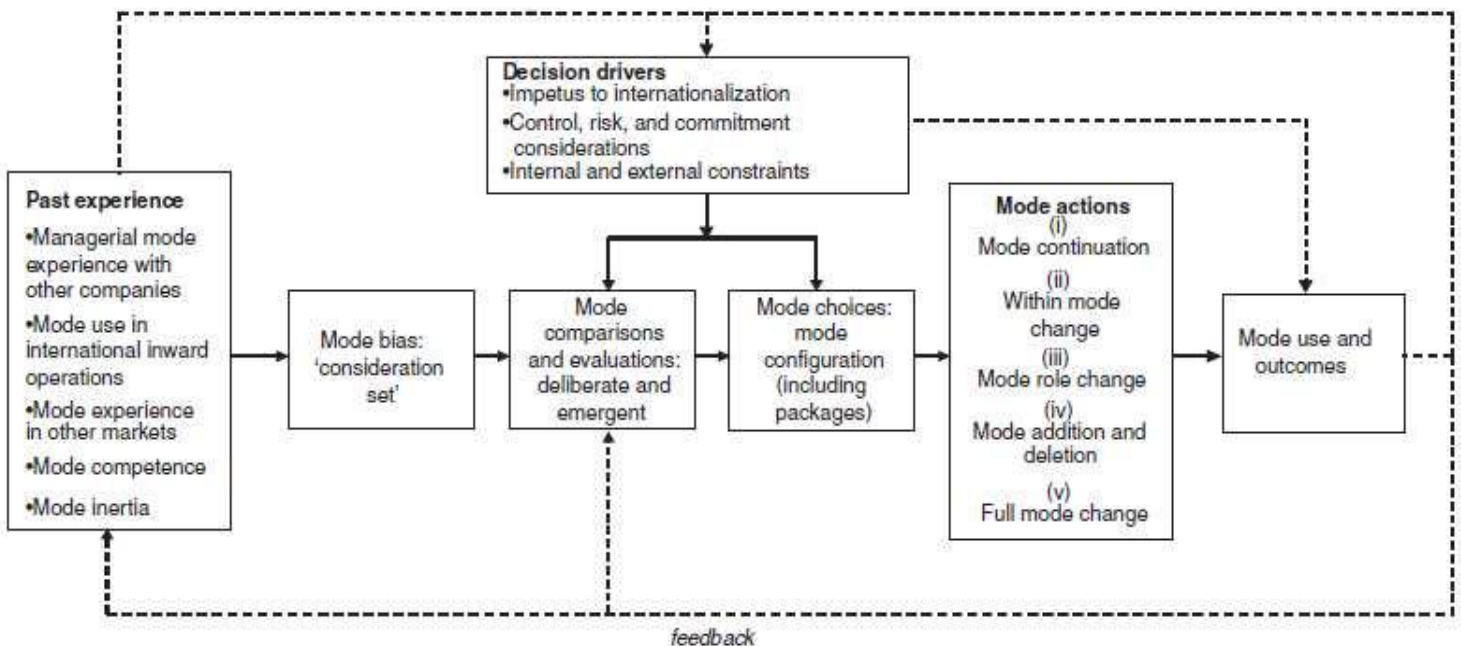


Figure 2 Mode choice and change (Benito et al. 2009, 1465)

2.3. Characteristics of Chinese business environment

This part explains the main features of Chinese business environment with focus on the issues that explain why China is considered as an opportunity and a challenge for foreign firms.

Figure 3 shows comparison of Finland and China based on the Cultural Dimensions by Geert Hofstede who is recognized internationally for having developed the first empirical model of "dimensions" of national culture, thus establishing a new paradigm for taking account of cultural elements in international economics, communication and cooperation. Through his manifest

academic and cultural activities in many different countries Hofstede can be regarded as one of the leading representatives of intercultural research and studies. The findings of his research and his theoretical ideas are used worldwide in both psychology and management studies.

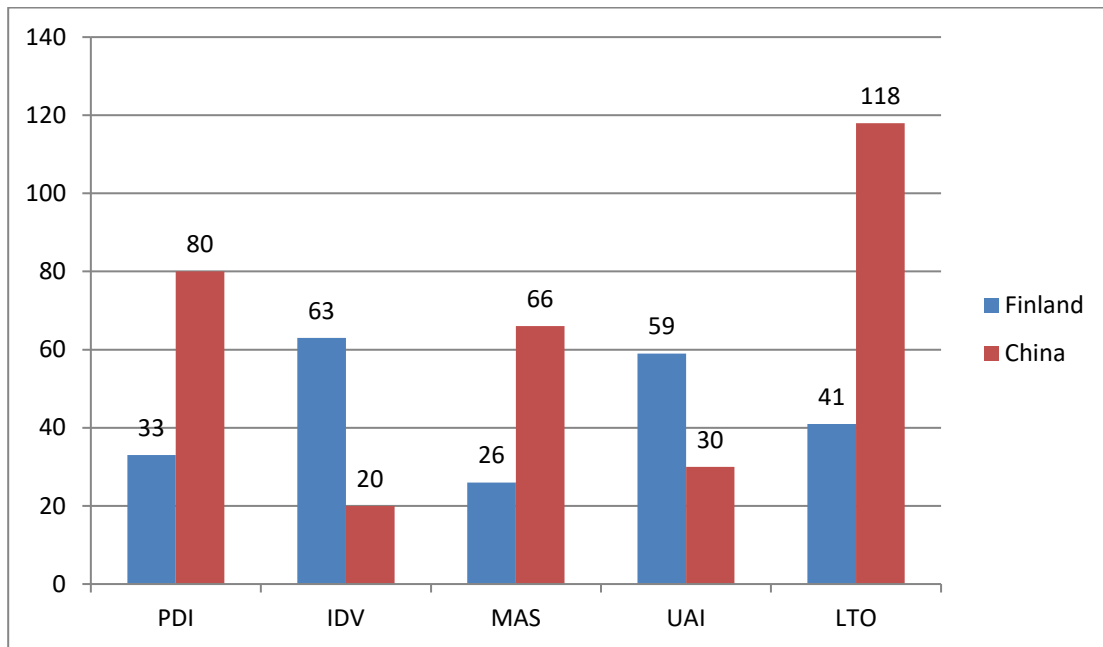


Figure 3 Comparison of national cultures of China and Finland (Hofstede 2012; 1 & 2)

Power distance (PDI) expresses the degree to which the less powerful members of a society accept and expect that power is distributed unequally. The fundamental issue here is how a society handles inequalities among people. People in societies exhibiting a large degree of power distance accept a hierarchical order in which everybody has a place and which needs no further justification. In societies with low power distance, people strive to equalize the distribution of power and demand justification for inequalities of power. (Hofstede 2012; 1 & 2) Finland with the PDI of only 33 belongs to the group of low power distance where people want the power to be shared equally. In contrast, China's PDI of 80 shows that the Chinese accept the hierarchical order and unequal distribution of power.

The second dimension is called individualism versus collectivism (IDV). The high side of this dimension, called Individualism, can be defined as a preference for a loosely-knit social framework in which individuals are expected to take care of themselves and their immediate families only. Its opposite, Collectivism, represents a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of an in-group to look after them in exchange for unquestioning loyalty. A society's position on this dimension is reflected in whether people's self-image is defined in terms of "I" or "we." (Hofstede 2012; 1 & 2) Finland's IDV value of 63 indicates that Finns belong to a society where individuals are expected to take care of themselves and their close family, whereas China's low value of 20 shows a strong collectivistic culture.

The third dimension is masculinity versus femininity (MAS). The masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material reward for success. Society at large is more competitive. Its opposite, femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented. (Hofstede 2012; 1 & 2) The results show that Finland with a score of 26 is a feminist country, when China's score of 66 makes it more of a masculine nation.

The fourth dimension is uncertainty avoidance (UAI), which expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. The fundamental issue here is how a society deals with the fact that the future can never be known: should we try to control the future or just let it happen? Countries exhibiting strong UAI maintain rigid codes of belief and behavior and are intolerant of unorthodox behavior and ideas. Weak UAI societies maintain a more relaxed attitude in which practice counts more than principles. (Hofstede 2012; 1 & 2) The smallest difference between the two countries is with the UAI values, where Finland's score was 59 and China's 30. Still, the results show that China has a more relaxed attitude about avoiding uncertainty.

The final dimension is long-term orientation (LTO) that can be interpreted as dealing with society's search for virtue. Societies with a short-term orientation generally have a strong concern with establishing the absolute Truth. They are normative in their thinking. They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results. In societies with a long-term orientation, people believe that truth depends very much on situation, context and time. They show an ability to adapt traditions to

changed conditions, a strong propensity to save and invest, thriftiness, and perseverance in achieving results. (Hofstede 2012; 1 & 2) The greatest difference between Finland and China was in the LTO values of 41 and 118. Thus, the Chinese people believe that the truth depends on situation, context and time indicating that situations can change very rapidly under new circumstances.

2.3.1. Chinese market conditions

The main reason why China is attractive for companies today is its sheer market size. The country has been modernizing and growing financially about 10 percent each year since the year 1978 to have an outstanding global economic role and position. It also has the biggest population of a country in the world with 1.4 billion people from which over 400 million have been lifted out of the poverty during this time. Additionally, direct labor and land costs are cheap, infrastructure is improving and political environment is stable. (Tollet 2010, 3, 29).

From a marketing point of view, money and appearing to be wealthy are the central themes in China. The national hero and the man behind the economic growth Deng Xiaoping summarized this with his famous sentence: "it is glorious to be rich". Chinese people seem to be more loyal and single brand dominated than Westerners. They have more focused experiential, social and functional needs for expensive high-involvement goods and not so much for the cheap low-involvement goods. According to the Chinese logic, using or wearing the products from established firms makes you look wealthier and increases your social status. Furthermore, the Chinese value Western products and are willing to pay more for them, but on the other hand they have very high expectations for them and a single flawed product may destroy your reputation immediately. (Tollet 2010, 19-20). Starbucks is a great example of a successful foreign company introducing coffee to the country with over 5,000 years old tea culture. Instead of valuing the taste of the coffee itself, the Chinese like to be seen at Starbucks. The cafes are located on central areas and sell rather expensive drinks, so a Chinese person gains social status by being seen either at Starbucks or by carrying a Starbucks product. (Tollet 2010, 24).

However, it is important to realize that many Western MNEs have not reached their estimated growth targets at the Chinese markets. This is mainly since they have failed to adapt to local market conditions. Jan J. Tollet mentioned during his presentation that the 20/80 rule could be

applied for successful Western companies in China. About 20 percent of the companies are successful while the other 80 percent are either unsuccessful or not reaching the targeted profits. These companies' major mistakes tend to be that they have not been patient enough for building guanxi relationships, did not understand the consumer preferences, and did not have the right distribution channels. Companies also must prepare for the fact that successful brands will be copied very quickly. Thus, marketing in China is an adventure where nothing is easy, but everything is possible. Foreign companies must be flexible, responsible and responsive to win the hearts and pockets of Chinese consumers, especially the older generations who have a very strong national pride, which shows in their purchasing behavior as they favor local products. (Tollet 2010, 20). Furthermore, the money markets are at their initial stage and savings rates are very high in mainland China. In 2009, the savings percentage from a person's disposable income was between 30 to 40 percent and the savings totaled 40 % of the nation's GDP. The Chinese are traditionally encouraged to save money, so the government has reacted to this and is now strongly encouraging people to spend more by making the inefficient state-owned banks absorbing less of the consumers' deposits. (Zhen 2007, 84 & Tollet 2010, 19).

2.3.2. Chinese business culture

The culture of China is well-known for its particularism and persistence on building up trust. The trust is achieved through personal relationships, which often makes it difficult for foreigners to be trusted. Child & Möllering (2003, 69) conducted a study where they suggest ways of how managers of the foreign companies can build up trust with the Chinese partners and workers when they lack the possibility of having a close personal relationship. Their study showed three strategies that can be used in breaking the barrier of trust. The strategies are creating personal relationship with the Chinese operational staff, hiring local managers and trying to substitute firm's own micro institutionalization for the lack of foundations and introducing its familiar practices, rules and standards into its cross-border operations. (Child & Möllering 2003, 72-73)

Another important feature of the Chinese culture is networking, which is a complex phenomenon that can be understood through economic, political, social, historical and cultural factors. Despite, societies are always built around relationships between individuals, groups

and organizations, the importance of personal networks is more dominant in most emerging markets. China is a Confucian society, which means it is one of the most relationship focused society in the world, and conducting business operations successfully in a Confucian society requires establishing and developing connections. Lately, the need for personal networks has increased in China because the country has been governed by the communist party over 50 years and has had a planned economy for most of this period. (Michailova & Worm 2003, 509-510)

The word “guanxi” is used for describing the personal networks, which reinforce all the business relationships in China. According to Michailova et al. (2003, 510) guanxi networks are interchangeable, binding, intangible and practical. Torrens (2010, 17) adds that additional social behaviors such as maintaining the “face” are combined into guanxi. The “face” is the emotion of a personal interaction as well as a sentiment and the moral duty inherent in maintain a relationship. Guanxi is extremely important feature in business relationships and requires mutual collaboration and understanding, as it means connection on a personal level and thus cannot be transmitted to other people.

Several authors and scholars such as Michailova & Worm (2003) have reached the conclusion that to have successful business operations in China, personal networking and social connections with appropriate individuals or authorities are often more important than the quality or price of the product or service or the technological expertise offered. A considerable time and a lot of effort is invested by the Chinese to build up personal relationships, but these investments can only pay off if they can be sustained over a long period of time.

Child & Möllering (2003, 69) conclude that amongst emerging countries China is the most important destination of direct investments by foreign firms. Their study showed that contextual confidence variables are consistent predictors of trust. In addition, the trust in local personnel seems to be higher when the legal system in China is seen to provide an effective system of support for transactions and where there is a low level of arbitrary behavior by government officials. Chinese authorities should feel encouraged to strengthen their efforts in building effective institutions and rooting out corruption and therefore increase the trust of investors towards their Chinese colleagues. Alternatively, investors and foreign managers are urged to start or reinforce active trust development initiatives instead of pointing at the current inadequacies of Chinese institutions. (Child & Möllering 2003, 76-78) In conclusion, the results

of the study gave strong indication that advancing personal relationships and transferring business procedures will eventually increase trust in the business market of China.

2.3.3. Chinese governmental issues

Despite the Chinese market reforms have made it possible for private businesses to enter China, the government and bureaucracy are however considered as the main threats in most business cases. Both international and Chinese firms have been complaining that the Chinese administration has been interfering in the business activities. (Blackman 2001, 26) The taxation system of China is not coordinated, as the country does not have a controlled central processing mechanism. Instead, the taxes are collected provincial governments on behalf of the central government. In 1994, the government introduced the view of equal treatment in the tax system, but still it has not been properly implemented yet. Due to these variations in the taxation system, foreign firms must apply the local government taxes and regulations into their estimates and operations in China. The taxation is also administrated by a quota system, which is not applied to each firm in the same way.

According to Blackman (2001, 27) foreign companies have to deal with local governments where the officers interpret the central laws and regulations in different ways. This can mean that foreign firms, which have activities in many cities possibly notice that each of their units are facing different regulations and interpretations of them. Despite the laws are drafted on a central level, the making of the rules and implementation of the laws are controlled at the lower levels of bureaucracy. The civil servants in China are often defined as risk-averse by foreign managers. This means that decisions are either postponed or passed up to another person in the hierarchy. The decisions are made solely according to the rule books and if an issue is not the same way as in these books, the administrator will be held personally responsible if any problems occur later. Moreover, the bureaucracy in China is also highly personalized, which means that the bureaucrats prefer to advise only those people with whom they have good personal relationships. (Blackman 2001, 30)

As it is common with other emerging markets, corruption and financial crimes occur regularly in China. The difference to other markets is the extent of the bureaucratic and economic development from a low base, which both create possibilities for corruption and financial

benefits for underpaid local government bureaucrats. Corruption and anti-corruption have turned into an important subject amongst all people in China. Corruption is defined as an “abuse of public power by occupants of public office” by the Chinese authorities. (Torrens 2010, 144-145)

As stated by Changzheng (2010, 58) the origins of Chinese corruption began from the founding of the PRC and it has historically been a part of everyday life. Still, even the state and party leaders did not expect the corruption to spread so wide and become such a serious issue. The growing hatred towards it, however, has not resulted in reducing it and this is due to two main reasons: acceptance that nothing can be done about it and the acknowledgement that it is an effective mechanism, which will smoothen the road to development.

The increasing amount of corruption has begun to cause extensive frustration and protest in China. Therefore, a lot of work and several different measures have been done to improve the circumstances. Numerous high-level corruption scandals resulted in the Central Committee of the Communist Party of China to introduce a five-year anti-corruption plan that focuses on preemptive actions such as improving the judicial system and educating and supervising the officials. (Torrens 2010, 147)

Nojonen (2014, 3) states in his article that China is about to experience its most serious economical and structural challenges in over three decades. The economic growth of PRC is entirely dependent on investments, and the investment rate rose to a record high level of around 48 percent. Several industries are suffering from overcapacity, which has an impact on production of for example metals and concrete production as well as housing and real estate. The debt burden of the economy has increased public debt to 2300 billion euros and the share of non-regulatory shadow banks from the total debt has already risen to about 30 percent. However, the total debt is still only 53 % of the gross domestic product.

In addition to the unbalanced growth and debt problems, also the economic productivity is low as the productivity of China is only about a fifth of the productivity of the United States. Moreover, the domestic demand has remained low, which is approximately 35% of the GDP. State enterprises and the public sector have remained as crucial actors in several sectors, such as finance, energy and land use. This means there is an estimated 800 billion euros worth of gray economy, which has not yet been tackled. Finally, there has been a very little progression in decreasing corruption and dealing with environmental problems. (Nojonen 2014, 3)

China's overinvestment operations have had serious consequences. One of the most visible ways of showing this are the ghost cities as well as tens of millions of empty real estates. Even absolute cities such as the city of Kangbashi in Inner Mongolia or neighborhoods, such as one in Zhengzhou, the capital of Henan, are completely uninhabited, even though they have been built with perfect condition infrastructure. (Nojonen 2014, 7)

3. INTERNATIONALIZATION OF FINNISH FIRMS TO CHINA WITH FOCUS ON THE ICT INDUSTRY

Whereas Sweden and Denmark had started doing business with Eastern Asian countries already in the 18th century, the Finnish firms started trading with China in the 1920s after Finland became independent. The first activities were the modest export of wood processing, which continued also in the 1930s. Only after PRC was founded in 1949, the official trade agreements were made between China and Finland. Over the years the business relationships have developed leading to a rush of Finnish companies entering China in the 1990s.

Currently China is a very important trade partner for Finland and the country is the second biggest non-EU trade partner country of Finland after United States. In 2008, Finnish companies had invested more in China than any other Nordic countries. (Kettunen et al. 2008, 81) This chapter explains the activities and internationalization of Finnish firms in China during different eras.

3.1. Internationalization of Finnish companies to China

In this chapter the internationalization history of Finnish firms to China is described starting from the establishment of People's Republic of China in 1949 based on the division of time periods by Kettunen et al. (2008).

3.1.1. Activities between 1949-1978

This era started from the establishment of PRC and lasted until the end of Mao Zedong's reign. Economic and political relationships were established by the Republic of Finland right after the formation of People's Republic of China. In fact, Finland was amongst the first western countries to recognize the communist government of China in 1950 and in 1951 the Finland-China Friendship Association was founded in Helsinki. The Embassy of Finland was established during the following year to Beijing. (Kettunen et al. 2008, 82) According to Heikura (2003, 112),

the trading between China and Finland started in 1952 through a firm called “Kaukomarkkinat Oy”, which sold a 4500-ton set of newspapers to China. This newspaper trade was a tripartite trade between Finland, China and Soviet Union and was made through the Soviet Union. One year later, the company sent their first representative to China and Finland became the first western country to make a bilateral agreement with the PRC. (Heikura 2003, 112; Toivola 2003, 117) The Finnish trade activities were focused in Beijing, because the Ministry for Foreign Trade was located there and import and export companies from different industry fields were operating there. (Kettunen et al. 2008, 82)

3.1.2. Open Door Policy 1978-1991

Finnish firms and their operations remained modest in China also after the Cultural Revolution in the end of 1970s. However, at this time the foreign trade union was improving its relationships with East Asian countries via Singapore and for instance organized the first Finnish technology days in Asian countries. Finland reached a co-operation agreement with the Ministry of Commerce of PRC in 1979 in the fields of economy, industry, technology and science. (Kettunen et al. 2008, 84)

In addition, Finland and China signed contracts to protect investments and to avoid double taxation. Finally, trips of the export delegation were organized where the management of firms were familiarized with Chinese market and its main characteristics. In 1985, the Finnish-Chinese Trade Association was established in Helsinki. This association was one of the first ones that China had with any foreign countries and it founded a collaboration office in Shanghai in 1991, which was several years before main consulate or commercial secretary entered the city. Still, Finland’s China operations were managed by a few people who were handling the trade related business efforts until the 1990s. (Kettunen et al. 2008, 84)

According to Kettunen et al. (2008, 85) most Finnish companies that were doing business in China in the 1980s were still doing it with either direct or indirect export. In 1985 China formed a law enabling joint ventures within the country and in 1988 three Finnish companies: Raute, Schaumann and Puolimatka had formed them with Chinese counterparties. Finnish firms became more attracted of the Chinese market in the end of 1980s due to the rapidly growing economy and country’s reformations. At the time, almost 70 Finnish-Chinese projects related

to for instance forest, energy and building industries were pending. The Finnish Chamber of Commerce was established in 1986 in Hong Kong to support Finnish firms and their networks, especially around South China area.

However, regardless of the encouraging start the export was decreasing massively whereas import kept growing in 1990. At the time, only three Finnish firms were operating in China while comparing to the 20 Swedish firms. After China began to develop its forest industry, Finnish forest companies saw the chance of selling paper machines and transferring their production to the growing Chinese market. These activities enabled the rapid development of the trade between Finland and China. (Kettunen et al. 2008, 85-86)

3.1.3. The beginning of market socialism 1992-2001

Deng Xiaoping visited Finland in 1992 and after this famous visit more joint ventures were established between Finnish firms and the Chinese counterparties. This resulted in that Finland's export to China grew over 500 million Finnish Marks in 1994 compared to the previous year. The main products behind the increasing trade growth were electric generators and motors, steam boilers, paper, lifting and loading machines and products of telecommunications. One of the high technology industries in Finland entered China during the same year, when Fimet, a firm producing products of dental medicine, established a joint venture with Chinese Shanghai Medical Instrument Co., Ltd and built a factory to Shanghai. (Kettunen et al. 2008, 87)

In spite of the growing trade, in 1995 the interest towards China was fading due to intensified taxation, constant changes with the legislation, increased costs and the negative attitude of Chinese towards foreign companies. This led to that Finnish firms and the Foreign Trade Union started establishing chambers of commerce in mainland China in addition to Hong Kong. (Kettunen et al. 2008, 88)

The financial crisis of Asia in 1997 did not have a major effect on Finnish companies or their strategy of entering China. This was due to the fact that the trade was mostly based on US dollars and thus the declining currency value did not impose a big currency risk. Instead, the crisis boosted the export and investment operations to China. (Kettunen et al. 2008, 89)

3.1.4. Strong growth and WTO partnership 2002-2008

China joined WTO in 2001, which increased the trust of investors in the stable development and consistent operational environment based on the international regulations. The WTO partnership also meant for the Finnish industry a decrease in tariffs and enabled the founding of WFOEs, except for a few industries including telecommunications. (Sitra-Tekes-Finpro 2003, 79)

One of the biggest industries that continued its growth in China was the building industry, especially the production of elevators that was mostly arranged in China. Additionally, the ICT and electronic industries were growing significantly and employing more Chinese workers. By November 2005, the Finnish firms employed over 30 000 Chinese workers in China. Finally, the paper industry expanded its China operations and other industries such as chemistry, metal, clothing and workshop also continued to reinforce their position within the country. (Kettunen et al. 2008, 94-104)

The ICT and the electronics industry grew rapidly in the 2000s. The mobile and telecommunications sector was one of the largest areas in which the Finnish firms were strongly involved. According to the Chinese Ministry of Commerce, Nokia was the tenth largest import company in 2003 with 2.1 billion US dollars in imports. The growth of the market continued and in the first quarter of 2004, over 50 % more cell phones were sold in China than during the previous year. In June 2004 Nokia gained the market share of 15.5 % and surpassed Motorola to become the biggest mobile phone company in China. At the same time Nokia had started massive R&D operations in China establishing several research institutes. The aim of the firm was to develop 40 % of its mobile phones within the country and by the end of 2005 Nokia had six R&D facilities and four production facilities in China. By the end of 2007 the number of mobile phones had exceeded 500 million in the country and Nokia had gained almost 40 % market share, which meant that over 160 million Chinese were using its products daily. (Kettunen et al. 2008, 96-97)

The Finnish electronics companies were extremely successful in Asia in 2005-2006. At the beginning of 2006, the largest turnover growth of 208 % in Asia was generated by Eimo Oy, which was acquired by Taiwanese Foxconn a few years earlier. Also, Perlos increased its revenue by 179 % to 126 million euros through successful timing of investments in facilities and machinery. The biggest Finnish electronics firm was Elcoteq, which had increased its revenue

by 30 % and generated over 500 million of revenue in Asia during the first half of 2006. In the early part of 2007, the competition between Nokia's subcontractors had grown considerably and the operating profit had fallen in line with the prices of phones. On the other hand, a charger manufacturer Salcomp made a fantastic result in 2006, and Kauppalehti estimated that the company left Finland at the right time and has thus got the world's largest mobile phone manufacturers as its clients. (Kettunen et al. 2008, 98)

In the telecommunications sector, investments began to focus along with the coastal growth centers to Chengdu, the capital of Sichuan Province, where Nokia had set up a network technology research and development center in 2005. In 2008, TietoEnator, Plenware and Digia also opened their own R&D units in Chengdu to where a major concentration in the IT and telecom industry has formed. The Chinese Government has also supported Chengdu's development to balance the living standards between the rich east coast and the poorer inland. (Kettunen et al. 2008, 98)

Finpro Marketing conducted a research in 2004-2005 where about 80 % of the respondents told that they knew Finland quite well. The respondents knew best the Finnish electronics, paper, wood, ICT and environment protection industries. The Finnish employers were thought to be honest and reliable business partners and the economy of Finland was considered to be stable. The respondents from Beijing and Shanghai knew most about Finland whereas in South China not much was known about the Finns. The FinChi Innovation Centre was opened in 2005 to Shanghai Technology Park to support the activities of Finnish firms operating in the area and another one was later opened to Shenzhen, South China in 2007. (Kettunen et al. 2008, 105) Finally, Finland and China made an agreement in 2004 about the contribution of new investments and bilateral protection. This agreement would protect Finnish investments from political risks and requires treatment of discrimination. (Finpro 2010, 19)

3.2. The present state of China for Finnish companies

It is claimed that the first phase of China phenomenon can be said to be over, since the production costs have risen and thus the advantages are marginal when compared to the cheapest countries of Europe. Therefore, it is no longer affordable to enter China just to produce goods that are brought back to Europe to be sold. Instead, the second part of China

phenomenon has begun where the country wants to transform from the world's workshop into a knowledge industry driven by innovations. This means that China now wants to develop new products itself instead of just manufacturing them to others. The new 5-year development plan was made about a year ago and the plan emphasized the following keyword: biotechnology, renewable energy, high-quality manufacturing processes, energy saving and environment protection, clean energy vehicles, new materials and new generation ICT-solutions. (Kauppalehti 2012b, 13)

Professor Riitta Kosonen continues that when previously China has had open doors for foreign investments, now the emphasis has switched to investments that can increase the level of Chinese know-how. This means that the country has begun to select carefully what kind of investments and partners it wants to work with and now those are especially high-technology companies. This new direction shows as increase of protectionism where the Chinese government is testing the tolerance level of Western companies by creating legislation that favors Chinese companies. Professor Kosonen argues that if the biggest Western companies will not resist these new rules strongly, the new laws may become permanent. (Kauppalehti 2012b, 14)

Due to the abovementioned points, if previously all the companies were going to China, now some of them are already leaving the country as there clearly is more movement in and out than before. Especially firms whose end markets are in Europe are moving their production back to the cheapest European countries. (Kauppalehti 2012b, 14)

3.3. Current status and future of Finnish ICT-firms in China

The role of China within the Finnish ICT domain is becoming increasingly important and according to Hanna Marttinen-Deakins, the Global Head of Industry of Software and Digital Media at Finpro, the current trends can be categorized into the following four industries: software and information processing services (SWIP), telecom products and services (TPS), electronics manufacturing (EM) and digital media (DM). (Marttinen-Deakins 2010, 2) Therefore the same categorization is used in this paper for clarity.

The SWIP industry has become one key area in the Chinese national development plan and thus it has a strong governmental support and incentives for software with indigenous intellectual property rights (IPR). In addition, Software as a Service (SaaS) and embedded software are gaining popularity. The Appendix 2 shows the software development trend of China. In TPS the home-grown 3G TD-SCDMA is becoming the engine of innovation and changes. TD-SCDMA stands for Time Division Synchronous Code Division Multiple Access and it was developed in the People's Republic of China by the Chinese Academy of Telecommunications Technology (CATT), Datang Telecom, and Siemens AG in an attempt to avoid dependence on Western technology. Hence the Mobile, Internet and Mobile Internet usage is booming. The TPS market is thick with rules and regulations and competition is intense with both local and international players. (Marttinen-Deakins 2010, 3; Siemens 2004, 5)

EM has remained as a driver of growth and economic development in China meaning that the industry is still growing, but at slower rate. The main products are mobile phones, microcomputers and integrated circuits (IC). The supply chain is mature and there is skilled labor force available as well as great infrastructure for logistics. However, the growing emergence of “Shanzai” manufacturers, the Chinese makers of imitated and pirated brands and goods, may create further obstacles for the future. DM means here any storage device that holds digital data or any type of information stored in that device, including data, voice and video. At this point the Chinese market mainly consists of Internet applications and online gaming, but online marketing companies are constantly developing new offerings and therefore foreign players are rapidly entering Chinese DM markets. (Marttinen-Deakins 2010, 5; PC Magazine)

Appendix 4 shows the four major ICT clusters of China. The first cluster is entitled Bohai Basin and it focuses around the cities of Beijing, Tianjin and Dalian. The key industries of Bohai Basin are software, IC design and electronics manufacturing. The biggest Chinese Mobile manufacturing base is located in Tianjin. Second cluster is called Yangtse Delta consisting of the cities of Shanghai, Hangzhou and Nanjing. The key ICT industries are IC design & production, software, electronics, mobile design and display industries. The third cluster is Pearl River Delta including the cities of Guangzhou, Shenzhen and Dongguan where the key industries are consumer electronics, telecom and electronics manufacturing. The two biggest Chinese TPS companies Huawei and ZTE are based in Shenzhen. The fourth and final cluster is named Middle and West and it includes the cities of Chengdu and Xian. Key ICT industries

here are software and telecom industries. The cluster has more international big names than domestic brands in this area due to the cheaper labor costs compared to the coastal areas.

According to Hanna Marttinen-Deakins (2010, 7) China's strategic goals for ICT are the following. 1) Service: the amount of telephone users needs to be increased to 1 billion, out of which the figure of 3G users exceeds 150 million. Plus, broadband internet should be provided to wider population. 2) Development: rural areas, central and western regions need to be further developed. This is done by building on existing ICT industry bases nationwide and allocating reasonable radio frequency. 3) Competitiveness: TPS market is expanded overseas, with enhanced competitiveness in basic telecom operations and enterprise management capabilities. The market size of software, ICs and new-type components is increased by four times. The upstream in industry supply chain is extended and thus global-influential industrial bases and enterprises are formed. Finally, industry-wide governance and management capabilities must be improved. 4) Innovation: the country must transform towards enterprise driven technological innovation system by cultivating many innovative enterprises with independent intellectual property rights. The ICT industry's new development and patents must be increased and key technology R&D capability toward international level, new technology commercialization, and influence in international technology standards need to be improved.

3.4. Market issues and challenges in China

The rapid economic growth of China is constantly luring more and more Finnish firms to open an office to China. However, since the challenges and obstacles entering the Chinese market can be vast, here are some suggestions from experts on how a Finnish firm thinking of entering China can avoid the most common pitfalls foreign enterprises have faced. (Kauppalehti, 2012a 4-5)

Legal issues

A proper pre-emptive research should be done before entering China, because it is vital to make sure that an important patent or trademark can be protected. In addition, the firms need

to know if there are special limitations for foreign companies in their operating industry since these limitations may vary between provinces or even cities.

The company form is also important as a foreign firm can establish either a limited company or a branch office. Since it is a lot faster and easier to found a branch office many firms start by establishing it. This may become a problem later, because the Chinese laws set strict limitations for the operations of a branch office. According to Ms. Sha Wang from Borenus Attorneys at Law Ltd. these branch offices are allowed to market and sell their products, but not allowed to establish partnerships or send bills outside China. Furthermore, they are allowed to hire only a few workers to their offices. Lastly, due to the huge language and cultural differences it is essential in business negotiations to use a partner who is familiar with the Chinese language and habits, because excess time and money will be spend in vain if one cannot assess the situation between the lines. (Kauppalehti 2012a, 4).

Market research

In addition to market and industry researches it is also important to visit China to get firsthand information about the business and market conditions. Arve Lukander, Partner at high-tech venture capital investments company Inventure Oy states that it is important to take a few weeks trip to the country to meet around 20-30 clients and partners plus explore the market signals to be able to decide whether the time is right to open an office to China. (Kauppalehti 2012a, 5).

Recruiting workers should not be stopped as it takes a long time and a lot of money. This is because talented Chinese workers are now so popular, which makes it easy for them to change jobs. Therefore, if a company has found an extremely talented person, it should start preparing that this worker may leave the firm quickly in search of better salary or other benefits. Finally, starting up a business takes time in China. Only registering the company and recruiting a good team may take at least 6 months and gaining profits might take a few years. Also, the Chinese employees should not be managed via phone or e-mail as it is easier to discuss about misunderstandings and cultural differences face to face. (Kauppalehti 2012c, 21).

Patent and trademark issues

According to Professor Riitta Kosonen from CEMAT Research Center of Aalto University the main problem for foreign enterprises in China are the patent and trademark issues where things have not improved even though China has been a WTO member for over 10 years now. Thus, it is needed to plan how the firm can protect its most important secrets in China since there have been cases where for instance the technical drawings have been gotten into the wrong hands even through the government officials. The competition between companies and pirates is intense and every company will face piracy of some form in China. Some Finnish companies have protected their production secrets by dividing parts of production to different Chinese producers, so that none of them will have enough knowledge to form the big picture. In addition, some companies have added flaws to their blueprints and drawings while presenting those to Chinese organizations, so that those drawings are useless to pirates. (Kauppalehti 2012b, 14).

The firms should be prepared that bureaucracy is slow in China and it may take a long time to receive the necessary permits. Therefore, it is essential to hire local, professional employees for the company's legal department as practice has shown that foreign companies in China regularly have bigger legal departments than in less bureaucratic countries, so Finnish managers should prepare for that. Finally, even though China has lesser corruption than Russia for example, there is still some corruption in China, but a foreign company should never bribe anyone or accept bribes, because those will eventually lead to even bigger problems. (Kauppalehti 2012b, 14)

4. EMPIRICAL ANALYSIS OF FINNISH ICT COMPANIES IN CHINA

The objective of this study is to explain the reasons for the foreign operation mode strategies of each ICT-company used in all pre-entry, entry mode and post-entry stages. The intention is to see whether there are similarities in mode strategies within the same industry field to find best practices for ICT-firms thinking of entering the Chinese market and growing the business operations there.

The first part of this chapter introduces the research method used, the process of selecting the cases and the individual case descriptions, which include the within-case analysis. After the cases have been presented a cross-case analysis compares the similarities and differences between the cases.

4.1. Research methods

One of the most important decisions in researching is choosing the most suitable research method. The attempt is to approach the research topic as closely as possible, to understand it, and give responses consistent with the main questions of the study. This paper is a qualitative within-case and cross-case study, which is trying to analyze and explain the foreign operation modes Finnish ICT firms have used when they began their internationalization to China. The qualitative research method was chosen for this study as it is the most suitable one, as the objective of the study is to compare various operation mode strategies and to figure out the importance of the operation mode choice in pre-entry, entry and post-entry phases. The purpose of qualitative research is to answer questions such as “how” and “why” by trying to figure out the research subject and explaining the details and activities behind its actions and decisions. Qualitative research is based on a choice of a few cases from the population and thus the goal is not to create statistical generalizations. (Gillham 2000, 10; Lee & Lings 2008, 209). Hirsjärvi et al. (2000, 27) add that qualitative research should bring out the observations of the respondents and give voice of the situations and a change to recognize the matters related to their past and development.

This research was done as a semi-structured questionnaire and recorded face-to-face interviews on location in China in the cities of Shanghai and Shenzhen. The respondents received a semi-structured questionnaire, which contained the same questions and were asked in the same order. Moreover, there were no prepared answer choices, which gave the respondents the chance to reply using their own words.

According to Patton (1990, 10) qualitative methods contain three different types of data collection that are: direct observation, in-depth, open-ended interviews and written documents. This study uses on-location interviews to collect data, which included direct quotations from the interviewees about their opinions, experiences, knowledge and feelings. In a qualitative inquiry, a basic source of raw data are direct quotations, which reveal the respondents' basic perceptions, their extent of emotion, their ways of organizing their world, the thoughts about what is occurring and their experiences. Patton (1990, 11) continues that the validity and reliability of qualitative data depend mostly on the methodological skills, sympathy and honesty of the researcher.

The collection of data for this study involved contacting the respondents via e-mail and asking their approval for an interview. The same e-mail contained the initial questionnaire as an attachment to enable them to get familiar with the questions beforehand. Then the time for an interview was set and the respondents' answers were recorded during the interview. Altogether three interviews were done on location in Shanghai, one interview in Shenzhen and one via telephone due to interviewee's busy schedule. Finally, the responses were collected in tables, compared and analyzed. After analysis, the answers were also sent to the interviewees via email to allow any possible corrections or for adding any additional information.

4.2. Case selection process

Eisenhardt (1989, 536-537) explains that choosing the cases is important for building theory from them as the population describes the set of entities from which the research sample is to be drawn. Moreover, by selecting the suitable population the variation can be controlled and limits for generalizing the results can be defined more accurately. The cases in this study were selected after evaluating the alternatives carefully and emphasizing the cases, which would enable an on-location interview for more chance for direct observation.

The case selection process contained many parts and involved collecting data from several sources. The process was started by contacting organizations such as Finpro, Finnish Business Council Shanghai (FBCS) and Finnish Business Council Guangdong. These organizations were contacted based on the personal knowledge or the researcher and recommendations of the examining professors. All these organizations were helpful and gave useful data for this study such as contact information and lists of the companies. Hanna Marttinen-Deakins of Finpro (2010, 8) lists Finnish ICT companies that can benefit from China and FBCS provides a list of their Finnish member companies. (Finnish Business Council Shanghai, 2012)

Altogether 48 firms were added on this list, 18 of them were contacted and 5 chosen for the final interview. All case companies fulfilled the following criteria: a) they have their headquarters in Finland, b) they have direct business operations in the cities of Shanghai or Shenzhen, and c) they do (or have done) business in any field of ICT.

4.3. Case descriptions and within-case analysis

Eisenhardt (1989, 534-535) explains that a case study is a research strategy that aims to understand the dynamics present within single settings. The case studies can just include one case or multiple cases and normally they contain several levels of analysis within a single research. They usually combine different data collection methods such as interviews, observations, questionnaires and can contain qualitative or quantitative results or both. The case studies are normally used in three ways: to provide description, to test theory or to create theory. This research concentrates on providing description of the FOMs Finnish ICTs have used in China at pre-entry, entry and post-entry stages. According to Patton (1990, 429-430) the main parts of qualitative inquiry are description and quotation. It is important to include sufficient description and direct quotations in the study as they allow the reader to enter the situation and explain the thoughts of the interviewees.

To build theory from case studies, the data must be thoroughly analyzed. This is often done with a with-in case analysis that is based on the volume of the data. However, because the research question is normally open-ended, the volume of the data is often problematic. According to Eisenhardt (1989, 539-540) a within-case analysis is a good tool to handle such data as it usually includes detailed case study write-ups for each location. The write-ups are

typically just descriptions of the cases although still important for understanding as they aid analyzing the huge amount of data. The purpose is familiarize each case as a unique entity and thus allowing to form particular patterns of each case before generalizing these patterns to other cases.

Then again, the strategies in cross-case analysis are based on the matter that people generally process information poorly. Eisenhardt (1989, 540) claims that they make conclusions based on incomplete data, can ignore basic statistical properties, are influenced by richness or top respondents or occasionally discard disconfirming evidence. These biases mean that the researchers may acquire premature or even wrong conclusions. Therefore, Eisenhardt (1989, 540-541) developed three different ways to examine the data for a cross-case analysis. The first way is done by selecting categories or dimensions from the cases and then searching similarities within-group together with intergroup differences. The second way is by pairing the cases by listing the similarities and differences between each pair. By comparing the cases the received outcomes can lead to brand-new categories or even perceptions that the researcher was not expecting. Finally, the third way of Eisenhardt (1989, 541) is to split the data by its origin. For example, one person can deal with observational data whereas another one will review the discussions and yet another one analyzes the answers of a questionnaire. The main point of the cross-case analysis is getting researchers to move outside their original estimations while also enhancing the possibility of reliable and accurate theory. Furthermore, these cross-case approaches can also increase the chance of discovering new findings in existing data.

In this chapter, the five cases studied in this paper are introduced and analyzed thorough a within-case analysis. The interviewee of the case E was interviewed via telephone whereas in cases A, B, C, and D the interviews were recorded face-to-face on location of the respondent's choice. Appendix 1 shows the questionnaire that acted out as the basis of the interview questions.

4.3.1. Case A

The Vice President and Sales Manager of the company A were interviewed on location at their office in Shanghai on 15th of May 2012. The firm was established in 1991 and it operates in SWIP industry. The firm entered China in 2008 and currently employs 70 people, out of which

17 are working in China. In 2011, it made revenue of 5 million €. The company is operating solely within the Yangtse-Delta cluster and they have been exporting to international customers, but no direct operations abroad before entering China.

The VP and SM explain the motivations behind entering China and the FOM processes of the company as the following:

“We had done exporting to other countries before and were exporting to China as well. However, the initial reason for properly entering China was that our key customer was operating here and required us to be here as well. So, this gave us the change to pursue their competitors too. We chose Shanghai as the location after purchasing a report from Finpro. We were seeking the cheapest possible place that still has quality workers available, reasonable level of costs, and where we could be close to our customers. We entered China through a WFOE since we had the chance of acquiring a Finnish company’s affiliate that was thinking about leaving China, so we bought it and moved to their office.” We have outsourced our accounting and sometimes used some local consulting companies. The locals work best with other locals since they have the necessary contacts and networks.”

The VP was hired in the beginning of 2008 to develop company’s business towards growth and internationalization and in June 2008, with the help of Finpro, the firm decided to acquire this other Finnish company’s affiliate in China. His reply to on how the company’s strategies have evolved during these four years in China:

“When the WFOEs became available it meant that most of the JVs with Chinese parties ended. Since we know that here many Western firms have had bad experiences working with Chinese, we have not really considered changing the main FOM strategy by partnering with Chinese. During these past 4 years, we have noticed that we must focus on Western companies as customers. We tried with Chinese companies, but had problems with the local complex business culture including e.g. negotiation process, signing agreements, keeping agreements and receiving money.

Issues and challenges to which a Finnish manager needs to prepare in China:

“We haven’t learned the business culture yet. The negotiations are always extremely complicated and even when we had a contract, we did not necessarily receive any

money from Chinese customers. Despite we are a high technology company, sometimes the customer specs are out of this world. In addition, the salary requests in Shanghai are almost on the Finnish level despite the competence of workers is poorer due to communication and language barriers.”

Future sights of the company in China:

“Despite being in China has been like a big rollercoaster ride, we are here to stay. Thus, we need to extend our customer base to gain growth, which in turn then starts to feed itself in the form of snowball-effect. However, the level of costs cannot increase too much, because we are a hi-tech company and need to have support from Finland as well as an expat here, which brings additional costs compared to competitors and causes our price to be higher.”

Case analysis

Case company A had done several Pre-entry decisions before entering China. The company lacked past international experience and despite they had exported products to China and other countries; the firm did not have any other previous operation mode experience. However, they still encountered mode bias, as they did not consider any form of FOMs that included co-operation with a Chinese counterparty after hearing how other Western companies had had problems with Chinese JVs.

For Mode evaluation and comparisons phase the firm consulted Finpro to help them to reduce transaction costs such as uncertainty and chose SH as the location due to the chance of establishing a profitable WFOE that also provided full control of operations for their existing resources. The main motive for entering China was reactive as the firm decided to enter the country by following a key customer. In addition of being close to their customers, Shanghai also offered quality workers and a reasonable level of costs. Despite the Institutional factors such as target market conditions seemed promising and a lot of planning had occurred during the pre-entry phase; the firm underestimated the differences among business culture of China, which caused numerous issues after the WFOE had been confirmed as the entry mode.

The Entry mode choice allowed the case company to have ready-made facilities from the Finnish company. However, problems with institutional factors started immediately as the firm

had problems with registration of the company name and it took six attempts before the name was accepted by the Chinese officials.

Since the firm performance had not been as expected due to the complex institutional factors, the company would experience high mode switching costs and as a result has continued with same mode. They have adjusted their strategy to persuade only the Western firms as clients, because it proved out to be extremely problematic dealing with the Chinese clients.

4.3.2. Case B

The R&D Coordinator of the company B was interviewed on location at the firm's office in Shanghai on 17th of May 2012. The firm is an MNE operating in TPS industry and was officially established in 2007 as a joint venture subsidiary. However, since the firm has had operations from 1980s under its parent company, it can be considered to have entered China in 1985 along with the parent company since they have shared the same production and R&D facilities over the years. Currently the firm has six R&D innovation hubs and three manufacturing facilities in China employing over 7 000 workers. In 2011, it made revenue of 14 000 million RMB. The company has 54 offices across mainland China, Taiwan and Hong Kong and thus it has operations in all the 4 clusters.

The firm initially had exported to China before establishing its first representative office in Beijing 1985. In 1995, the first manufacturing unit was set up in China through joint ventures serving mainly local market with the idea that localization of production can make the China units gradually develop into firm's world leading production base. The first R&D research center was established in 1998 and by the end of 2001 the company already had 22 local offices, 8 JVs and a research center in PRC. This subsidiary was the most important division of the parent company and had 6 JVs in China out of which 3 were production units. In 2003, the company merged 4 of its JVs into a single new joint venture (NJV). According to the firms press release (March 31, 2003) the idea behind this was that by combining their manufacturing operations, the firm stands to gain a significant competitive edge in terms of economies of scale, flexibility and efficiency, which will allow them to compete more effectively in this exciting and fast-growing market of PRC.

The history of the parent company's FOMs in China is very long and complex and impacts greatly with the subsidiary's FOM decisions. Thus, the market entry process and reasons for entering China for the subsidiary joint venture company is the following:

“Basically, this new company started by doing manufacturing and R&D in the 1998 established Suzhou factory and Beijing R&D research center already in the beginning of the century as a division of the parent company. However, as a new company we officially entered China in 2007 by utilizing the Suzhou factory and parent company's 2002 established Hangzhou R&D site. We entered China because of its huge market size, high growth rate, and low-cost labor. It is vital to have your manufacturing, product development and customer support close to the target customers as based to our experiences the more you are present in the target country, the more interested people are of your business. Hangzhou got selected based on the amount of quality workforce due to nearby universities.”

The R&D Coordinator has been working at the Shanghai office for a year now and has no previous international experience. The company has used headhunters for recruiting and some subcontracting for gaining temporary workforce. His reply to on how the strategies have evolved during these years in China:

“We have at least doubled in terms of growth and have tried to create an independent business unit to China by moving the leadership and guidance here from Europe. Also, if we look of the Hangzhou site, we have had tremendous recruitments since 2007 as we have used temp-to-hire and other methods to increase the number of employees. Thus, increasing amount of the products and R&D made in China is designed for global markets instead of focusing solely to the Chinese market. We have also done some collaboration with Chinese competitors by developing a solution to a low volume market area to split the unit one costs. Finally, in 2011 we acquired certain wireless network infrastructure assets of a big American company and got their research and development facilities as well as employees in Beijing.”

The firm has kept enhancing its JVs by jointly addressing new and emerging market opportunities ranging from applications, security, service management, business support systems and customer relationship management, bundling their sales, development and delivery resources to strengthen the combined overall competitiveness of the firm and its joint

venture counterparts. This brings out the question of issues and challenges to which a Finnish manager needs to prepare in China:

“The bureaucracy keeps changing daily in China. For example, the mentioned acquisition took a long time, because it was held back by the Chinese government to provide the best possible solution for Chinese employees. However, this merger was also a treat to a huge local TPS company, so everyone can have their own opinion about the real reasons, since no official reports or studies can be found of the matter. Also, the government just recently started collecting pension contributions from expatriates in Beijing. If this legislation arrives to Shanghai area, we must implement it in whole China and it can mean that the salaries of our foreign employees can decrease by 25%. Moreover, even if the workforce was here, the company’s brains are still located in Europe. The Chinese workers either lack of innovative thinking capabilities or are too shy to bring out their good ideas. They do work hard when someone is telling them exactly what to do, but if there is no strict management, they may wait for days doing nothing as they have not received instructions how to continue.”

Future sights of the industry and company in China:

“The level of costs will increase and the idea of a low cost will vanish. High growth will not be as high anymore, but still stable and China will remain as an extremely significant market area. So, I believe that we are not going anywhere, but also not reinforcing operations either. This is because we have a lot of production here and moving that to a different country would require massive benefits to be affordable.”

Case analysis

Case enterprise B is an interesting case as it entered China together with its parent company already in 1985 by establishing a representative office to Beijing as a joint venture. The company has followed the Uppsala model of internationalization by starting from exporting, then forming a representative office in 1985 before starting the first manufacturing unit in 1995. However, the R&D Coordinator considers the establishment of the manufacturing unit as the entry mode and it was performed as a JV after mode evaluation and comparison choices. This

means that the past experience of the company led to mode bias as it had also used the JV when the parent company entered China.

The JV was chosen because the firm had had experience in working with Chinese counterparties and originally the main reason for establishing the site was to develop software for 3G telecommunication systems, which required highly skilled workforce. Notwithstanding that Chinese software developers were rather inexperienced; the company succeeded to ramp up the site and recruited hundreds of R&D employees to HZ.

Within mode change occurred when the firm decided to merge the existing 8 JVs into 4 new joint ventures (NJVs). The Hangzhou factory was established as a WFOE, which shows that the more international experience the company had from China, the higher control operation modes they wanted to have. The firm will continue to stay in China since the switching costs of the current operations would be very expensive.

4.3.3. Case C

The Corporate Vice President of Global HR, Quality and Environment of the company C was interviewed at Shekou Seaworld in Shenzhen on 27th of June 2012. The firm is a MNE operating in EM industry and was officially established in 1975. The firm entered China in 1998 and currently employs over 10 000 people, out of which 6 000 are working in China. In 2011, it made revenue of 305 million €. The company is operating solely within the Pearl River Delta cluster and they had done exporting to international customers in other countries and China, but had no direct operations abroad before entering China.

The market entry process and reasons for entering China:

“We initially started with exporting, but began contract manufacturing in Zhuhai with another Finnish EM in 1998. The following year we became a spin-off from a Finnish TPS firm and expanded our customer base to all major mobile phone manufacturers. Because the raw materials were imported to Finland from Asia, we were looking out for different options to expand our operations in a cost-effective manner. Eventually in 2002 we acquired a Swiss ICT-firm from Shenzhen for a future customer base and thus gained their facilities as well as a big customer from them.

According to the firm's news magazine (Volume 1/2002) the firm's strategic aim is to utilize their Shenzhen production facility in China, along with contract manufacturing, to provide price-competitive and efficient products. The VP has been in Shenzhen since 2006 and has experience from China and other Asian countries from year 2002. They have been very satisfied with Shenzhen since suppliers are close and smaller logistic costs cover the benefits or lower cost labor of the Middle and West –cluster. The reply to on how the strategies have evolved during these ten years in China:

“After the production plant was established we started moving our production there and gradually started decreasing our contract manufacturing in China as well as production in Finland. The labor costs have at least doubled during the past 5 years, so the focus of labor issues is on adding automation and developing production technologies rather than hiring extra workforce. Also for the past 3 years we've had a significant market share of our core segment, so we are seeking growth with new products and segments.”

Issues and challenges to which a Finnish manager needs to prepare in China:

“Maybe it is due to our critical mass, but we haven't really had any problems with authorities. In fact, the authorities have secured that we have no power failures etc. as we are a recognized company here. We have also lowered our operative risk by establishing a factory to Chennai, India, which supports our Asian operations and reduces dependency on the Shenzhen factory. However, despite our main factory is here the product development occurs in Taiwan and Finland, since it's easier to modify product platforms here than study new technology. It seems that often on Mondays we start from scratch with our Chinese employees, since they have forgotten what was learned during the previous week.”

Future sights of the company and industry in China:

“We will expand our operations and will stay in China for sure since our main customers are here, but will we cut down on exporting from China and focus mainly on serving the local market. I see we will have fewer products available, but mostly for new categories. Moreover, the requirements for environment regulations have grown, but the Chinese customers are not yet following the latest regulations, so the Western firms are still ahead with those.”

Case analysis

Case Company C decided to enter China, because the raw materials were already imported from Asia the company was looking for different options to expand their operations in a cost-effective manner. They had been exporting to other countries before exporting to China, but the initial entry mode was project operations in the form of contract manufacturing, which started in 1998.

However, the Corporate Vice President mentioned that in fact he only considers that the entry occurred in 2002 in the form of WFOE, when they started establishing their own manufacturing. At the time, the firm was using multiple modes at the same time, because the plan was to keep contract manufacturing going until their own production was strong enough.

Case Firm C acquired the Swiss ICT-firm after they had carefully weighed out all the options. During the 4-year contract manufacturing period, the firm studied the Chinese business culture while developing a strong Finnish organization that was also capable of implementing the Finnish business culture to China. This meant that the firm could overcome many obstacles and it also enabled them to recruit suitable workers once the manufacturing started, so there was no need to use additional consulting services in China.

The mode experience from China could have been leading to mode bias, because after China the company has entered to India and Brazil by starting from contract manufacturing and moving gradually towards establishing an own manufacturing plant.

4.3.4. Case D

The Chief Executive Officer and Founder of the company D was interviewed at their office in Shanghai on 23rd of May 2012. The firm is operating in a SWIP industry and was established as a spin-off in 2009. The firm entered China under the previous company in 2008 and currently employs 52 workers. In 2011, it made revenue of 2 million €. The company is operating within the Pearl River Delta and Bohai Basin –clusters and has also a sales office in Taiwan.

The market entry process and reasons for entering China:

“We wanted to enter Asia and originally were choosing between Japan, South Korea, Taiwan and PRC. Our first Asian customers were from Japan, but as it was hard to get a foothold as the country has such a strong insider culture and the same applies to Korea as well. At the time our SW was too developed for the Chinese market was that we were asked to ‘come back again next year’. As a dramatic change occurred in technology development in less than a year, we started to understand the potential of Chinese market and entered the country. Our internationalization process was a lot like from textbooks. We started with exporting and then contracted a British sales agency that got us a huge Chinese client. Then we hired this agent to work for us a terminated the agency contract and finally in 2011 we established our WFOE. We used Finpro and TEKES to help to study the Asian markets and discovered that we need to be either in Shanghai or Beijing. Once we discovered the sales agent from Shanghai, we initially moved to the Fin-Chi Center. The goal was always to have WFOE to avoid technological leakage.”

The CEO had 7 years of international experience from United States before entering China. The motivations of entering China were that the company has had significant clients in China ever since the establishment of the firm and they had identified a significant potential to expand their business operations within China and whole Asia. Thus, it was a must to stay close of existing and potential new customers to be able to serve them better. The CEO came to China because he has a sales background and likes to stay as close the customers as possible to identify their exact needs. The reply to on how the strategies have evolved during these years in China:

“The firm is new and the business is new to us, so we are constantly learning new things. We perform a strategic review after every 3 months, since the markets are constantly developing and we need to adapt to that. Our product development is still in Finland and here we mostly do customer project deliveries and a little bit of production. In addition to SH and BJ offices we also have a Field Applications Engineer (FAE) in Shenzhen.”

Issues and challenges to which a Finnish manager needs to prepare in China:

“Receiving cash flows has been a problem, since some customers won’t pay at the agreed time and they must be pressured. This creates challenges because you have expected to receive cash at a certain moment. Moreover, since we are a WFOE and

RMB is still a closed currency in practice, it is very hard to bring capital from our parent company in Finland to China due to a registered capital limitation. This limit of how much loan can we take is calculated from the registered capital, so cash need to be brought from Finland already at the startup phase. In addition, we could not find an innovative Chinese designer even we searched for a year, but luckily we ended up finding and hiring a Spanish person living in SH to become our Senior Designer.”

Otherwise the firm has been very satisfied with its workers who are talented and hard-working. They have outsourced some activities including accounting, legal issues and payroll and have had no problems with these or bureaucracy. Future sights of the company in China:

“We are expecting high growth in China since we don’t want to design user interfaces (UIs), but to license the software enabling customers to design their own. Ever since the touch-technology arrived in all sorts of devises, there has been a growing need for high performance UIs in all kinds of industries including mobile phones, tablets and automotive industry among others.

Case analysis

Case company D’s FOM strategy in China goes directly according to the Uppsala model, which is interesting because the company is a small software firm and the model was criticized especially for not being suitable for this industry (see page 26). What started out as exporting without any regular activities, turned into exporting via sales agent and after establishing the sales subsidiary as WFOE, the company went on to have production in China. Despite the CEO’s previous international experience of establishing a start-up abroad might not have had a direct impact on the entry mode selection, it did help when selecting the target country in Asia, and made the process of establishing the WFOE easier in China. The ultimate goal was always to establish a WFOE to avoid technological leakage.

The CEO thinks the company has benefited for being an international hi-tech company, which is part of China’s 5-year development plan, with Chinese bureaucracy or regulatory issues. The firm sees China as an important market place and is planning to increase the operations there.

4.3.5. Case E

The Vice President Asia Pacific of the company E was interviewed via telephone on 13th of June 2012. The firm is an MNE with diverse operations and it was officially established in 2006, but the production of its core product had started already in the 1972 under its parent firm. The company employs over 2 400 people and made sales of over 1 100 million € in 2011. The firm has seized its EM operations in China during the making of this study, but remains as one of the biggest Finnish players in the PRC market. The company has operations in all other 3 clusters besides the Middle and West.

The market entry process and reasons for entering China:

“We initially started with exporting to China before establishing our first manufacturing unit in Shanghai at the end of 1990s through a JV. At the time, we were in an ‘expansion-boom’ wanting to expand everywhere and thus we also had JVs in Malaysia and Australia for instance. Shanghai got selected, because it enabled us to have a JV with a small Singaporean firm. We started from a small shed with 15 people, but this allowed us to get the necessary business licenses and later in 2000 we established our own factory to SH as a WFOE. We opened a distribution center to Tianjin in 2003 and started a new factory project to Changshu (Yangtse-Delta) in 2005 close to our parent company. The Changshu factory opened at the end of 2006 and we closed the factory in Shanghai. Finally, we established storage to Guangzhou in 2006 to serve the local customers better in the South of China.”

When and why did the company seize its TPS operations in China?

“We sold the RFID business about a month ago. We did have a factory in Guangzhou, Pearl River Delta and we had invested a lot into the business. However, after 14-15 years of trying to grow the business, we finally made a strategic decision to sell it, as we saw the future of the industry being very insecure”.

According to a study of the conducted at University of Uppsala, Sweden, the firm entered China to secure its costly operations in Europe. The company wanted also to secure its smooth production in their European factories; occasional seasonal holidays in production were a costly factor and the entry into China was a solution to this. For example, the European factories’

production was shut down during the summer time and production in China was seen to balance this deficit. Interestingly, according to the same study the company entered China in the mid-1980s via sales agents located in Hong Kong as most of the Chinese market information was gained from Hong Kong with the help of their agency. The first sales office was set up in 1998 to Shanghai with the parent company after approximately three years of planning before the joint venture in 1999. Finally, in 2000 the firm acquired its own factory by buying out the Singaporean partner.

The VP has over 14 years of international experience from France, UK, Malaysia and China, where he was between 2004 and 2007 and returned in 2011. The reply to on how the other strategies have evolved during his years in China:

“Ever since the year 2002 we were experiencing high annual average growth of 30 % and during one of these years in China the sales even grew by 50 %. Naturally this was easier in the beginning when our operations were smaller, but between 2008 and 2011 we did not grow at all which can be considered as a minor disaster, because the Chinese market has grown annually by 15 %. By just growing along with the markets, we would be twice as big of a company as we were in 2007, so this must be one of the reasons why I was hired to run the operations. Last year we did a strategy study of China together with Bain & Company to renew our thinking of PRC market.

Issues and challenges to which a Finnish manager needs to prepare in China:

“The salaries for leaders or managers in China are already at the same level than in Finland. However, the cheapest salaries for line workers are still around 200-300 euros, but also those are increasing by 15-20 % annually and thus many companies are already moving production into Vietnam, Bangladesh and African countries. It is also hard to keep the qualified workers as it is easy for them to change jobs. Otherwise, we have benefited from the strong support of our parent company and managed to avoid the biggest pitfalls. The Chinese business culture requires guanxi and SMEs are often not professionally run.”

Future sights of the company in China:

“We have to start adapting our products to the Chinese taste. We have started to understand the market better and now need to start manufacturing locally mid-range

and fit-for-purpose products that sacrifice the higher quality for lower price. With other issues such as quality and supply we are doing well, so now the key is to find the quality personnel who can implement our vision.”

Case analysis

Case company E started its China operations with exporting already in the 1980s. They entered China in 1985 via sales agents located in Hong Kong and eventually started a JV in 1999. This joint venture was done with a Singaporean counterparty that enabled the firm to get the necessary business licenses and in 2000 they turned into WFOE by buying out the Singaporean company from the JV. After the establishment of WFOE, the firm has rapidly built more facilities all over China.

The personal experience of China and out of other Asian countries has helped the VP to understand the market and the needs of Chinese clients. In addition, the case company E has used an international consulting company to create a market research.

The future sights of the company depend on how the new strategy will start working. The biggest issue has been delivering too expensive and high-quality products to the Chinese market when the market has demanded mid-range and fit-for-purpose products. Therefore, the VP says it is vital to start market-driven product development in China as soon as possible.

4.3.6. Cross-case analysis

Eisenhardt advised that the cross-case analysis should be separated into different tactics (see page 61). Two of these analysis tactics can be used in this research. The first one is implemented by selecting categories or elements from the cases, which is then followed by searching similarities within-group coupled with intergroup differences. Second way is by pairing the cases by listing the similarities and differences between each pair. This chapter evaluates the cases based on these two tactics.

Major findings of the studied cases are summarized in Table 3. Two of the case companies were operating in SWIP industry, two in EM and one in TPS. None of the five case companies

operated in the DM industry. Three out of the five of the interviewees had international experience before entering China. The number of employees between the firms varied from 52 to 71 000 and the revenues of the case companies varied between 2 million to 14 billion euros. Case firm B entered China already in 1985 whereas the case company D entered last in 2010. The FOMs varied amongst the firms studied and both initial entry modes according to the interviewees and mode actions covered most of the operation mode strategies presented in this study.

All the five case companies had started their internationalization process via exporting despite the companies operate on different ICT sectors and vary in size and entry years. However, none of the directors or managers interviewed really considers exporting as the entry mode, but instead reflects that entry has occurred once the company has had more activities in China, whether it was a sales office or a joint venture with a local counterparty or even a WFOE. After they had gained understanding and experience of the Chinese market, all case companies had switched from exporting, which can be considered as a non-equity and simple foreign operation mode, to more challenging and equity demanding foreign operation modes while eventually establishing wholly foreign owned operations.

The year of entry is an important factor in the operation mode decision. China joined WTO in 2001, which enabled faster creation of WFOEs that were used by case companies' A and D. As pointed out by case company A, when the WFOEs became available it meant that most of the JVs with Chinese parties ended, and they were not even considering partnering with a Chinese firm, since they knew many Western firms have had bad experiences working with the Chinese companies. Case companies B, C and E entered China before 2001, so instead of a WFOE they were collaborating with a partner company in the form of a joint-venture (case companies' B and E) or project operations in the form of contract manufacturing (case company C).

Firm	ICT field	International experience before China	Area(s) in China where firm operates	Number of employees and revenue in 2011	Entry year	Initial Entry Mode according to Interviewee	Why this mode for entry?	Mode actions	Why mode action changes?
A	SWIP	None	Yangtse-Delta	70 5 million €	2008	WFOE	Could acquire Finnish firm's affiliate	Full mode change: Exporting to WFOE	Key customer required local presence. Only WFOE considered
B	TPS	None	All 4 clusters	71 000 14 billion €	1985	JV	Before 2001 only possible to have JV	Mode addition: Exporting to JV Within mode change: JV to NJV Mode addition: WFOE added to NJV	NJVs allowed economies of scale and more control, R&D site as WFOE
C	EM	5 years	Pearl River Delta	10 000 300 million € (2010)	1998	Contract manufacturing	Chance to collaborate with another Finnish firm to lower own risk	Mode additions: Export to project operations (CM) to production plant (WFOE) Mode role change: after WFOE cutting down project operations	Acquired a Swiss firm to create WFOE and cut down on contract manufacturing
D	SWIP	7 years	PRD, Bohai Basin	52 2 million €	2010	Sales office	Contracted a British sales agency with market knowledge to get more sales in China	Full mode changes: Export to sales agent to sales office to WFOE Mode role change: hiring the sales agent to est. own sales office	After gaining experience and more clients could establish WFOE
E	EM (sold out in 2012)	10 years	PRD, Bohai Basin & Yangtse-Delta	24 000 1,2 billion €	1985	Sales office	Sales agents from HK for Chinese market information	Full mode changes: Export to sales office to JV to WFOE Mode role change: buying out JV firm	Bought out JV partner to create WFOE (2000) for more control

Table 3 Major Findings of the Cases Studied

The OLI framework of Dunning can be used as the main operation mode framework in both entry mode and post-entry decisions. Based on the respondents' answers, both market-specific and firm-specific aspects have influenced the choice of entry mode and mode actions. All the respondents mentioned also factors related to psychic and cultural distance, which were expected due to vast difference between Finland and China according to Hofstede's Cultural Dimensions (see pages 40-42).

The framework of this study was built by the factors which have most effect on the operation mode strategy at pre-entry, entry mode and post-entry stages. The factors that affected on the initial entry mode strategy were the field of ICT, international and market experience, entry year and company size and resources. The resources and company size of the case companies varied a lot, but still all the case companies had taken mode actions that increase the control over the host country firms. Company mode concerns, on the other hand, were focusing in the country risk, which is understandable in a physically distant market for ICT firms. The biggest impact on pre-entry and entry mode decision were the Chinese market conditions, resources, government and the business culture. Even though China became the world's second largest economy in 2011, the biggest reasons to enter the market were low-cost labor and resources such as raw-materials. Case company E even announced that they entered China to ensure smooth production during the seasonal holidays in Western countries. However, the market conditions also meant that all the case companies needed to be in China, since either their big clients were already there and they needed to be close to them, or the market had an estimated growth of 15% or more. When considering the governmental issues, the firms had not faced as much difficulties in bureaucracy, corruption, legislation or taxation as the literature suggests. According to the case company D, this was because the companies benefited for being international hi-tech companies, which were a part of China's 5-year development plan. The way of doing business, particularly culture and networking, were considered as a challenge but not as a problem, which could not be solved. Similarly, *guanxi* was not seen as such a big problem that the literature indicates.

In the field of ICT, the most difficult challenges were related to the Chinese workforce, which was described as unable to innovate or needed to be constantly micro-managed. In addition, the labor costs were increasing all the time and the salaries or managers and leaders were already on the same level with Finland. Case companies' A ja D, which are both SMEs, reported that it was also hard to receive money from clients.

5. DISCUSSION AND CONCLUSIONS

The current global importance of China is undisputable as most of the clothes, electrical goods, toys and other manufactured goods we purchase are either produced or assembled in China before being dispatched to our local stores. Since the economic reforms of China started in 1978, an average annual growth rate of nearly 10 % has continued for over 30 years and China now stands as the second largest economy in the world.

The business activities of Finnish enterprises in China continued modest for a long time and the larger Finnish enterprises began their market entry to China after 1980s, while they were expanding similar activities to the other parts of Asia at the same time. As the China phenomenon became stronger, the rush of Finnish companies to China started in the late 1990s where the investments were directed to the coastal regions that have been steadily growing in the number of firms and value of investments.

In 2012, around 350 Finnish companies have entered the Chinese market out of which half have their own production and the other half only has a sales office as a branch. The Finnish companies have invested altogether over 10 billion Euros to China where they also employ over 60 000 people. In 2011 Finland exported goods to China worth of 2 661 million Euros.

The biggest motivation for a foreign company to invest in China has been the huge market potential. China is the largest ICT market in Asia and with its 642 million mobile phone users in 2008 it already was the biggest market for mobile phones in the world. Finally, with more than 420 million Internet users, China is the largest Internet market in the world too.

This chapter acts as a conclusion of the research and it includes summary of the major findings, managerial considerations and limitations of the study as well as suggestions for further research.

5.1. Summary of major findings

In the previous chapter the major findings of the empirical study were discussed using within-case and cross-case analysis. Table 3 on page 76 summarized the major findings of the study.

The initial research question was following:

What have been the operation mode strategies of Finnish ICT-companies in the Chinese market and how have they changed over the years?

The results of this paper indicate that the initial entry mode strategy of all the studied Finnish ICT firms has been exporting and the ultimate FOM goal has been to establish a WFOE as their international experience and knowledge of the market has increased. The mode actions vary from establishing a joint venture (company B) to hiring a sales agent (companies' D and E) or starting project operations in the form of contract manufacturing (company C). The case company A went directly from exporting to WFOE by acquired another Finnish ICT company that was already operating in China.

Sub questions of this study were following:

Q1. Which foreign operation modes were initially used by Finnish ICT firms to enter China and why these modes were chosen?

Q2. How the operation mode strategies have changed after the entry to the Chinese ICT market and why they have changed?

Despite the difference of case companies in size, field of ICT and entry year, all the five case companies had started their internationalization process via exporting. However, none of the interviewees considered exporting as an entry mode, but entry to China was considered to happen when the firm had a physical location in the country. Thus, the initial entry mode decision for this physical location was largely based on the year of the entry, as WFOEs were not possible for case companies B, C and E that entered before the China WTO membership in 2001.

All the studied case companies studied in this paper have either switched or combined different foreign operation modes after entering China. Luostarinen & Wiedersheim-Paul (see pages 26-27) noted that firms have the practice of changing their foreign operation methods as their level of international involvement increases. Benito et al. (see pages 38-39) showed in their analysis that businesses not only struggle with the question of deciding which mode to use, but which combination of modes to use. Welch et al. (see page 38) continue that mode combinations can be used to enter or develop a given foreign market for various reasons. This was especially shown with case company B that had a large within mode change by merging its existing 8 JVs

into four new joint ventures. Therefore, the results of this thesis are in line with the previous studies concerning operation mode strategies. All case companies' mode actions are described below with more details.

Case firm A started its China operations via exporting and physically entered China in 2008 as a WFOE by acquiring a Finnish firm's affiliate. Their key customer required local presence and the firm did not even consider any other options that WFOE after hearing bad news from other ICT companies about working with a Chinese counterparty. This meant the mode actions of case company A was a full-mode change from exporting to WFOE.

Case company B entered China already in 1985 with exporting and their first mode action was a mode addition when they started a first manufacturing unit in 1995 through a joint venture. The joint venture FOM was chosen, because at the time the other methods of operations were banned by the Chinese government. In 2003, the company made a within mode change by merging four of its joint ventures into a single new joint venture. The NJV was done because managing a single NJVs instead of 4 JVs was easier and enabled the firm to gain a competitive edge in terms of economies of scale, flexibility and efficiency. Finally, a mode addition occurred in 2007 when the company established its own R&D site as a WFOE. The R&D site was established as a WFOE for maximum control and the location was chosen close to university to gain suitable workforce. There is no full mode change as in the case of case firm A, as the existing joint ventures keep operating along the new WFOE.

The case firm C physically entered China in 1998 with contract manufacturing where the used FOM was project operations to a bigger Finnish company already operating in China. However, the company had also had export prior to the physical entry. In 2002 the firm performed a mode addition and established its own WFOE production plant by acquiring a Swiss ICT company. The contract manufacturing did continue also even when the WFOE was established and thus it was a rather mode addition than a full mode change. The WFOE was established to move production away from Finland to low-cost China. WFOE was needed to get a better control of manufacturing process and to provide more price-competitive and efficient products. This also led to a mode role change with the project operations, since after the WFOE was established, the firm started cutting down its contract manufacturing.

Case company D started with exporting, but officially entered PRC in 2010 via a British sales agency who started selling their software. After one of the sales agent got them a big Chinese

client, the firm hired this agent, which led first to a mode role change and eventually to a full-mode change by ending the collaboration with the agency and establishing an own sales office. In 2011 the company performed another full-mode change by establishing its own WFOE to Shanghai to prevent any technological leakage for competitors.

Finally, the case firm E also started its China operations from exporting, but added a mode by entering China physically in 1985 through a sales agency in HK. Hong Kong counterparty was chosen due to their market knowledge and lower cultural distance compared to mainland Chinese. Eventually this ended in 1999 when they established a JV to create a full mode change. The JV was established with a Singaporean company again due to smaller cultural differences and this enabled a faster physical entry to China. A mode role change occurred in 2000 when the company bought out the JV partner, which led to being in control own an own WFOE. After this they continued with the same mode establishing new WFOEs in 2003 and 2006. Eventually, in 2011 the firm ceased its ICT operations in a strategic decision due to lack of growth.

In analyzing the nature of these different foreign operations, one useful matrix is the Decision-Making Mode model in Appendix 7 presented by Ahi et al. (2017) in their study of international market entry decisions of SMEs originally presented by Child and Hsieh in 2014. (Ahi et al. 2017, 4)

Child and Hsieh (2014) proposed four models that range from a low to a high level of planning and rationality: reactivity, incrementalism, bounded rationality, and real options reasoning (ROR). Reactivity model implies that decisions are made in a short period of time with no planning by reacting to internal and external factors. In a reactivity model only a few (or none) entry modes and post-entry modes are considered before entering the market. Incrementalism implies a process more rational than reactive where decisions are made in short to medium term period and limited planning is involved with some initial entry modes and post-entry mode options considered. In bounded rationality model, the assumption is that the decision makers have constraints on their cognitive capabilities and limits on their rationality. (Rindfleisch & Heide 1997) Thus, decisions are made in medium to long term period and some initial entry modes and post-entry mode options considered based on more decision-making criteria. Finally, the highest form of rational decision making in Child and Hsieh's (2014) model is ROR where systematic plans are made long term with many entry mode and post-entry mode alternatives rigorously analyzed. These four decision-making modes are not categories in the

strict sense of the word because they differ in some dimensions but overlap in others. For instance, bounded rationality and ROR-type decision making both include rational planning and decision-making rules. (Ahi et al. 2017, 4-5)

Another useful matrix was presented by Lassarre in 2007 (see table 2 on page 36). The table summarizes the main features of each FOM based on 8 different criteria that are: upfront financial and managerial investment, speed of entry, market penetration, control of market, political risk exposure, technological leakage, managerial complexity and potential financial return.

These two matrixes could be useful for Finnish ICT firms that are considering to enter China as they can be used to compare control, commitment and risks related with each foreign operation mode. This way the firms can evaluate the pros and cons of each type of FOM and choose the best entry mode as well as mode action strategy.

5.2. Managerial considerations

Managers have an important role in choosing the foreign operation mode strategy not only in entering the country, but also when changing the FOM strategy afterwards. Thus, it is vital that managers acquire and improve their knowledge and management skills to gain sustainable competitive advantage. While the high-control operation modes are more effective and allow firms to reduce their costs and risks related with the foreign market, MNEs can also use low-control entry modes to diminish risks and maintain flexibility. This can be done especially if the features of the target country with unstable environment and increased uncertainty will impact management control and investment risks. Ultimately the foreign operation mode selections depend on the features of a foreign market such as increasing ownership levels by the greater market size and growth. (Chen & Mujtaba 2007, 334)

The operation mode decision is a very important part of international management. The selection of the FOM type will define the essence of the whole management process and it includes elements that are driven by the FOM type including control, coordination and staffing. A firm can for example control and integrate a WOS in a totally different way than a licensing agreement. This is because the degree of proper control over the actions of the licensee

depends on the terms of the licensing contract. In addition, the movement of employees between the parent firm and the wholly-owned subsidiary is a method of maintaining control and coordination within the subsidiary and this can be impossible to organize with a foreign licensee. Consequently, it is possible that informal control methods might be more productive. On the other hand, management contract agreement suggests that the contractor will have its own employees inside the foreign company. (Welch et al. 2007, 5-6)

Welch et al. (see page 37) concluded that adding one or more modes to a current one can either be a momentary adjustment due to an overlap of modes or alternatively a long-lasting or even a permanent arrangement. Nevertheless, the mode combination strategies bring out several questions for management, especially the challenge of coordination in the foreign market.

Before entering China, a proper pre-emptive research should be made whether the entry should be done at all. Despite the attractive market size, the first phase of China phenomenon is over as the production costs have risen and thus the cost advantages are marginal when compared to manufacturing in the cheapest countries of Europe. Kosonen (see page 53) claims that the country now wants to transform from the world's workshop into a knowledge industry driven by innovations. This means that China now wants to develop new products itself instead of just manufacturing them to others and this new direction shows as increase of protectionism where the Chinese government is creating legislation that favors Chinese companies.

Nojonen (see pages 46-47) added that China is about to experience its most serious economical and structural challenges in over three decades. The economic growth of PRC is entirely dependent on investments, and the investment rate rose to a record high level of around 48 percent. Several industries are suffering from overcapacity, which has an impact on production of for example metals and concrete production as well as housing and real estate. In addition, the economic productivity is low as the productivity of China is only about a fifth of the productivity of the United States. Moreover, the domestic demand has remained low, which is approximately 35% of the GDP. State enterprises and the public sector have remained as crucial actors in several sectors, such as finance, energy and land use. This means there is an estimated 800 billion euros worth of gray economy, which has not yet been tackled. Finally, there has been a very little progression in decreasing corruption and dealing with environmental problems.

Finally, it is important to know the legislation as there can be operational limitations for foreign companies, which may vary between provinces or even cities. Registering a company and recruiting of workers is slow and thus it may take years before the company is profitable, which needs to be prepared in advance. Talented Chinese workers are also very popular, which makes it easy for them to change the employer. Pages 55-57 present some common pitfalls of the Chinese business environment and suggestions on how to avoid them.

5.3. Limitations and suggestions for further research

The biggest restrictions of this paper are methodological. The selection of qualitative research as the research methodology formed the main restriction as it does not enable statistical generalizations. Patton (1990, 461) claims that the credibility of qualitative research relies on well-planned procedures of collecting first-class data, which is then thoroughly examined by emphasizing the validity, reliability and triangulation. The methods for collecting data that were used in this research were an e-mail questionnaire and recorded on-location interviews in China except for case company E whose representative was interviewed via telephone due to his changed schedule. In addition, after the interviews the respondents received a copy or the answers via email and if there were uncertain, inaccurate or too brief answers, the interviewees were requested to clarify them via e-mail. Thus, at least two points improve the credibility of this research. These are the openness between the questioner and the respondent, which decreases the chance for misunderstandings and the transcript of the documented interview, which allowed both parties to go through the answers and make corrections later, if that was necessary.

However, despite the studied case companies operated in the same industry, suitable pairs could not really be formed due to companies' different industries, resources and time of entry. For generalization, it would be more useful to study for example five companies that are of the same size, operate in the same ICT cluster and have entered China around the same time. Additionally, since the interviews were conducted in 2012, it would be interesting to see how the mode operations of the case companies have evolved after that. There might have been major changes in their strategies and even exit patterns.

Finally, a cross-national comparison of the mode operations of foreign ICT firms in China could reveal differences related to the cultural context or behavioral aspects. According to Hofstede's Cultural Dimensions willingness to take risk and uncertainty varies between countries and therefore have an impact on the foreign operation mode decisions in every stage.

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Appendix 1

QUESTIONNAIRE

Dear respondent.

My name is Jukka-Pekka Toivonen and I am studying international marketing management in Lappeenranta University of Technology. Currently I am writing my Master's Thesis about "Operation Mode Strategies of Finnish ICT Firms in China". The study consists of an empirical part where I interview the representatives of each company on location in China, so I am asking what would be a suitable time for you for an interview during May or June 2012.

Before the interview I would like you to fill the questionnaire below as it acts as the foundation for the discussion. I would also need some preliminary information that is mentioned below as well. Your answers are extremely important for my study and they are handled confidentially. The name of your company is not mentioned in the study. The last day to respond is May 18th 2012.

Thank you very much for participating!

Preliminary information

Field of ICT where the company is operating in:

Position of the respondent in the company:

Revenue of the firm in 2011:

Number of personnel:

The year the company entered China:

International experience before China (the number of years and years of entries to these markets):

Area of China where the company is operating in:

Operation mode strategies

How was the initial entry mode strategy formulated?

- a) What were the original reasons for investing in China?
- b) How have you changed (adapted) your products/services offering to the Chinese market?
- c) Have you used experts in examining the Chinese business environment? If yes, what kind of experts?
- d) Which market entry mode or modes you used (exporting, licensing, franchising, management contracts, international subcontracting, project operations, alliances, joint ventures, foreign direct investments)?
- e) Why did you choose that (or those) specific entry mode(s)? What were the aspects favoring that exact decision?

How has the mode strategy changed after the entry?

- f) How have you adjusted or modified the operation mode strategy after entering China? If you haven't please explain why not.
- g) What were the reasons behind changing the mode strategy?
- h) Have you used intermediates, partners or agents in your internationalization process? Please explain why or why not.
- i) What kind of challenges and problems have you faced in entering to Chinese market?
- j) Have you been able to overcome the possible challenges? If yes, then how?
- k) Are you using Chinese workforce? If yes, then what are the advantages and disadvantages of it?
- l) How do you perceive the future of your company and industry in China?

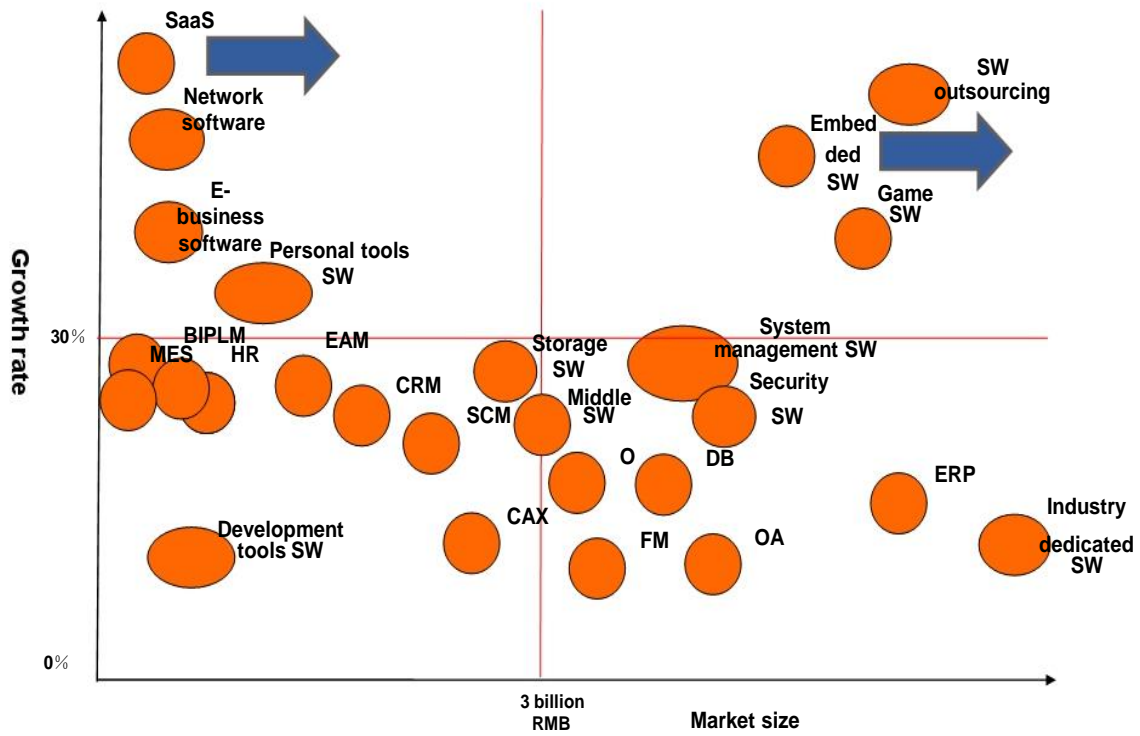
If you have any questions concerning the filling of the questionnaire, please don't hesitate to contact me:

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 Lappeenranta University of Technology
 School of Business
 International Marketing Management
 +86-13120532108
jukka-pekka.toivonen@lut.fi

Appendix 2

Figure 4 The Software Industry Development Trend in China

Software Industry Development Trend



Source: CCW Research

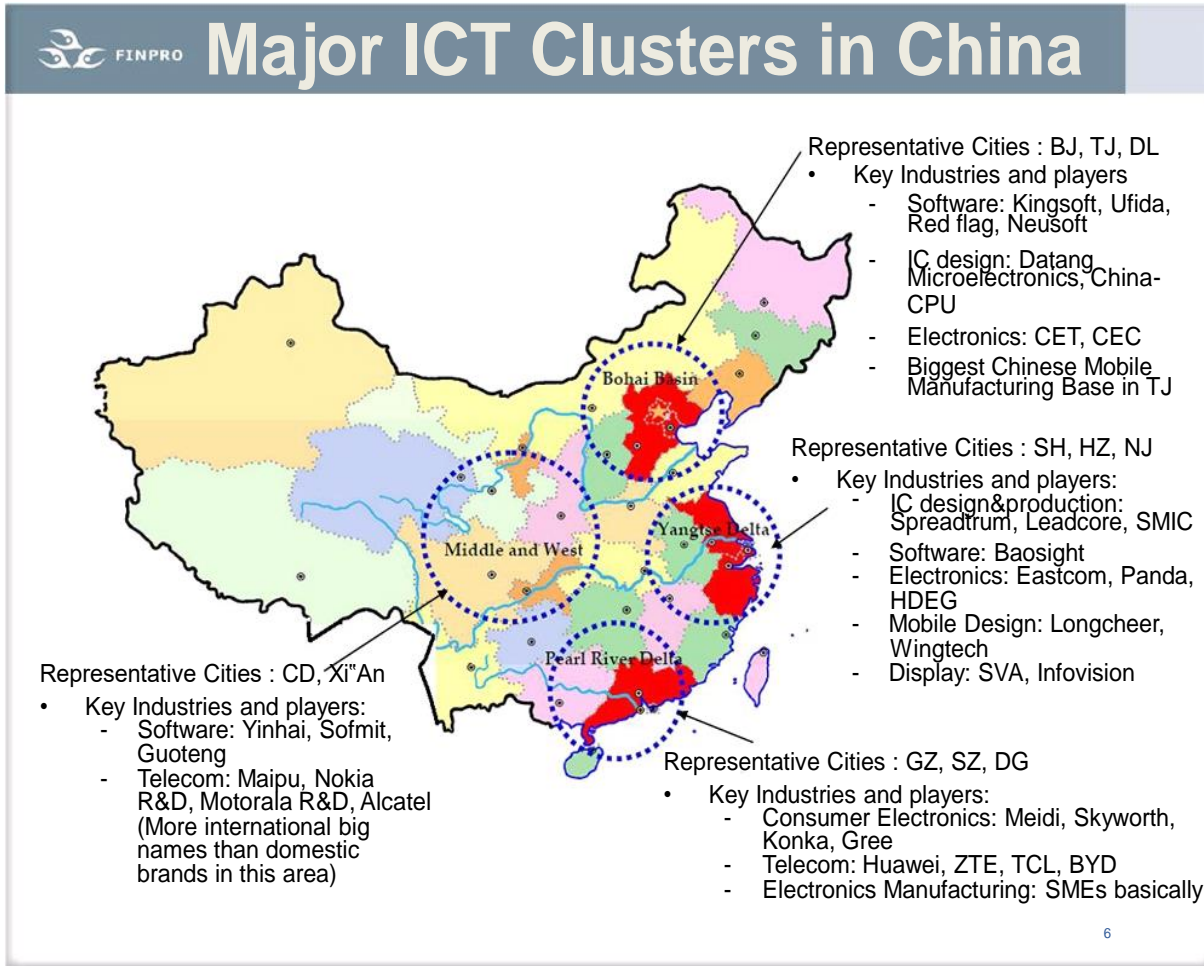
Appendix 3

Figure 5 The Map of China



Appendix 4

Figure 6 The Major ICT Clusters in China



Appendix 5

Table 4 Trade between Finland and China in 2002–2011

Year	Imports			Exports			Balance
	EUR million	Share %	Change %	EUR million	Share %	Change %	EUR Million
2002	1 252	3,5	+14	1 215	2,6	-3	-36
2003	1 582	4,3	+26	1 283	2,8	+6	-298
2004	1 978	4,9	+25	1 965	4,0	+53	-14
2005	2 820	6,0	+43	1 556	3,0	-21	-1 264
2006	4 109	7,4	+46	1 974	3,2	+27	-2 135
2007	4 458	7,5	+9	2 161	3,3	+9	-2 297
2008	4 371	7,0	-2	2 060	3,1	-5	-2 311
2009	3 475	8,0	-21	1 857	4,1	-10	-1 617
2010	3 797	7,3	+9	2 733	5,2	+47	-1 064
2011	4 386	7,3	+16	2 661	4,7	-3	-1 725

Appendix 6

Table 5 Main products in trade between Finland and China in 2011

Imports from China	EUR	Share	Change
	million	%	%
Telecommunications equipment, parts	991	22,6	+4
Automatic data processing machines	445	10,2	+37
Articles of apparel, of textile fabrics, n.e.s.	250	5,7	+16
Electrical machinery n.e.s.	166	3,8	+10
Toys, sporting goods, etc.	166	3,8	-3
Women's or girls' clothes, woven	123	2,8	+21
Office machines	104	2,4	+3
Footwear	102	2,3	+16
Electric power machinery	86	2,0	+1
Switchgear etc. parts n.e.s.	85	1,9	-1
Total imports	4 386	100,0	+16

Exports to China	EUR	Share	Change
	million	%	%
Pulp and waste paper	344	12,9	+80
Paper mill and pulp mill machinery	242	9,1	-55
Furskins, raw	170	6,4	+109
Other machinery for special industries	163	6,1	-5
Switchgear etc parts n.e.s.	143	5,4	-22
Paper and paperboard	104	3,9	-8
Electric power machinery	103	3,9	+21
Copper	92	3,4	-24
Civil engineering plant etc.	85	3,2	+55
Measuring, controlling and analyzing instruments	83	3,1	+4
Total exports	2 661	100,0	-3

Appendix 7

Table 6 Decision Making Modes and their Key Features (Child and Hsieh, 2014)

Dimensions	Decision-Making Modes			
	Reactivity	Incrementalism	Bounded Rationality	ROR
Approach to Planning	Unplanned	Limited planning	Some planning	Systematic planning
Alternative analysis	Limited analysis	Little analysis	Some analysis	Rigorous analysis
Decision-making criteria	Limited number of criteria	Small number of criteria	Some criteria	Many criteria
Path Dependency	High	Medium	Low	Limited
Number of alternatives considered	Few (or none)	Some	Some	Many
Number of initial entry modes considered	Few (or none)	Some	Some	Many
Number of postentry modes considered	Few (or none)	Some	Some	Many
Time	Short term	Short to medium term	Medium term	Long term
Goal time	Short term	Medium term	Long term	Long term
Long-term approach	Short term	Medium term	Medium term	Long term
Decision-making length	Short term	Medium term	Medium term	Long term