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Master thesis

Exploratory research about entry mode affecting factors for Dutch companies entering China

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Foreword

Before diving into the subject matter of this research, I would like to thank a few people.

First of all, I would like to thank the employees of the Dutch embassy in Beijing for their help and the opportunities they gave me. Thanks to them I was able to spread the questionnaire, meet experts that came to embassy gatherings and go to meetings of other organizations related to the subject I'm researching. Most of all I would like to thank them for their support during my internship. I learned a lot during this period and it was a good way to get a solid 'China-context'.

A lot of appreciation goes to everybody who was so kind to have an informal conversation or interview with me or who filled in the questionnaire. This was very useful and I learned a lot due to this and without these data I would not have been able to execute this research.

Summary

In the past, going to China was mainly done for the cheap manufacturing. Nowadays, China has become wealthier because of that and this led towards higher wages. Other Asian and African countries are cheaper than China and therefore most companies will not go to China mainly for production anymore.

Nowadays, China is becoming more and more an interesting market to sell products because of the variety of the population and the increased economic prosperity. Therefore it is important to choose the most suitable entry mode and to know which factors affect the entry mode. Therefore this research is an:
Explanatory research about entry mode affecting factors for Dutch companies entering China.

In chapter 1 some China-context and information about internationalization and Dutch companies is given in order to create a framework. Apart from this, the Born Global View and Traditional Stages View are compared with each other by different authors. Also 4 different strategies are compared with each other: the global, international, transnational and multinational strategy. The first chapter forms the start of the theoretical framework and the information used in this chapter will be used in later chapters as well.

In the second chapter the theoretical framework about the entry modes is built. The entry modes can be divided based on different criteria, like the degree of ownership (Helfat & Lieberman, 2002) and degree of activity (Som, 2009). In this chapter is decided to put the main focus of the research on the acquisition, Greenfield investment, joint venture and exporting. These entry modes were combined with the theory about the BGV & TSV, the 4 different foreign strategies and the PESTEL analysis (especially the social-cultural, political & legal factors).

In chapter 3 is described how the data of this research is gathered; via informal conversations (with employees of Dutch companies, embassy personnel, BENCHAM employees), a business survey (filled in by 174 of the 454 companies in the Achilles database) and expert interviews (with Reichwein and Stratford). Further, the operationalization and the used method is discussed and afterwards the effect this had on the reliability & validity plus the limitations.

In the fourth chapter the findings are presented. First the (dis-)advantages of the entry modes in China are discussed and the theory of chapter 2 is applied on the Chinese context. Then the findings of the questionnaire and after that the summary of the expert interviews is shown. Also the results of the PESTEL analysis is given. These data were analyzed and combined with the theoretical framework of chapter 2 and this led to the discussion and conclusion of chapter 5.

In chapter 5 all the affecting factors (initial investment, degree of access, long-term profit, control over operations, government & operational barriers, market knowledge, start-up time, strategic reasons for China, cultural distance and defending intellectual property) and optional factors (product adaptation/Shanzhuang, partner with/without experience, experience with entry mode and foreign strategy) are shown and ranked for the entry modes acquisition, Greenfield, JV and exporting. This led to a practical framework which is easy to use for Dutch companies that want to go to China for business. The acquisition (+6) had the best score based on the affecting factors (optional factors are not taken into account, because they are company dependent), followed by the Greenfield (+4), joint venture (+2) and exporting (-3).

In order to adapt the framework to the special wishes of companies, the company is able to put higher weights to things that are important for them and lower weights to less important factors. That way different entry modes can be preferred, while using the same framework.

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Abbreviations

BENCHAM	=	Benelux Chamber of Commerce in China
BGV	=	Born-Global View
BO	=	Branch Office
BoP	=	Bottom of the Pyramid
BRIC(S)	=	Brazil, Russia, India, China (South Africa)
CBS	=	Centraal Bureau voor de Statistiek/ Statistics Netherlands
CCP	=	Chinese Communist Party
CEO	=	Chief Executive Officer
ETCM	=	Extended Transaction Cost Model
EU	=	European Union
FDI	=	Foreign Direct Investment
FICE	=	Foreign-Invested Commercial Enterprise
G-20	=	Group of 20 Finance Ministers and Central Bank Governors
GDP	=	Gross Domestic Product
GEI	=	Governance Environment Index
GNI	=	Gross National Income
HQ	=	Headquarter
IMF	=	International Monetary Fund
IT	=	Institutional Theory
JV	=	Joint Venture
MNC	=	Multinational Company
MOFCOM	=	Chinese Ministry of Commerce
NA	=	Not applicable
NBSO	=	Netherlands Business Support Office
NGO	=	Non-Governmental Organization
NL	=	the Netherlands
PESTEL	=	Political, Economic, Sociocultural, Technological, Environmental & Legal
PRC	=	People's Republic of China
PPP	=	Purchasing Power Parity
RMB	=	Renminbi (Chinese currency)
RO	=	Representative Office
R&D	=	Research and Development
SBU	=	Strategic Business Unit
SME	=	Small and Medium Enterprise
SOE	=	State-Owned Enterprise
TC	=	Transaction Cost
TSV	=	Traditional Stages View
UN	=	United Nations
WFOE	=	Wholly Foreign Owned Enterprise (both Merger&Acquisition and Greenfield)
WTO	=	World Trade Organization

Chapter 1: Introduction

1.1 Introduction

The end of the Cold War meant that the former Soviet Union and its allies could be entered by companies. Not only the former Soviet Union became more open, but also India and Latin American countries opened their closed markets to foreign investment in a cascading fashion (Prahalad & Hart, 2002). The 'open door' and 'go global' policy of China ensured that the former closed Chinese borders became more open and that Chinese companies were stimulated to do more international business. By this policy it became possible for companies to do business with the huge Chinese market (Luo et al., 2010). These different occasions caused that companies could reach a rapidly growing amount of markets around the world instead of only their home country.

Another reason for the internationalization of companies is the World Trade Organization (WTO). The WTO was founded in 1995 and had 4 tasks: (1) to provide a forum for negotiations for Members both as to current matters and any future agreements; (2) to administer the system of dispute settlement; (3) to administer the Trade Policy Review Mechanisms, and (4) to cooperate as needed with the International Monetary Fund (IMF) and World Bank, the two other Bretton Woods institutions (Schott, 1994; Matsushita et al., 2006). Although this significant economic and social transformation has offered vast new growth opportunities for corporations, its promise has yet to be fully realized (Prahalad & Hart, 2002).

1.2 China's Internationalization

As mentioned above in paragraph 1.1, China internationalized like many other countries. Since the late 1970s China has moved from a closed, centrally planned system towards a more market-oriented one that plays a major global role. This was mainly achieved by implementing 2 policies: the 'open door' policy in 1978 (Perkins, 1988) and the 'go global' policy in 2000 (Bellabona & Spigarelli, 2007). Since 2001 the Chinese government is using the 'go west' policy to spread the wealth more equally (Moody & Haiyan, 2011). Especially the 'open door' and the 'go global' policy changed the role of China in the world. Therefore these two policies are discussed into more detail below.

The 'open door' policy was the most visible reform of the Chinese government in the 1980s. By implementing this policy China opened up to the outside world. The effect was that China's international trade volume grew rapidly and it attracted tens of billions of dollars foreign direct investment (FDI). Before this reform the foreign trade grew faster than the domestic economy. However, afterwards this changed rapidly and the Chinese economy started to grow faster. Especially the coastal areas had great benefits of the 'open door' policy. Another effect of the 'open door' policy was that Chinese enterprises became more under the authority of their province instead of 'Beijing'. Therefore the trade between different provinces became more similar to international trade (Perkins, 1988).

Since 2000 the Chinese authorities encouraged the local Chinese enterprises to invest abroad by implementing the 'go global' policy. This globalization of enterprises, including the state-owned enterprises (SOEs) and small and medium enterprises (SMEs), is considered to be a critical factor for China's further economic development. The Chinese government aims for conquering new outlet markets for local productions and especially for rapidly acquiring new skills, advanced technologies and intangible high-value assets (e.g. skills and trademarks) in order to raise the country's economic profile to a global standard (Bellabona & Spigarelli, 2007). Also, the go global policy was a way to get rid of the trade surplus that China has built up during the 'open door' (Perkins, 1988). China's trade surplus placed a growing pressure on the exchange rate in the years before implementing the 'go global' policy (Bellabona & Spigarelli, 2007).

Further, the PRC is member of several multilateral organizations, including the WTO, United Nations (UN) and G-20 (Group of Twenty Finance Ministers and Central Bank Governors) nowadays.

1.2.1 Effects of China's Internationalization

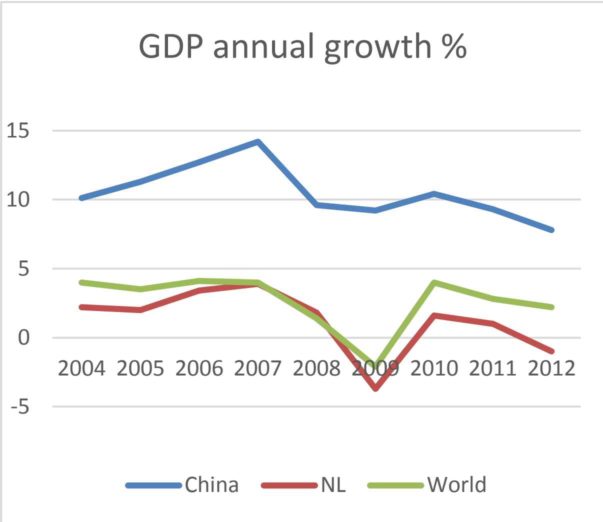

Figure 1: Annual GDP growth in percentages

The 'open door' and 'go global' policy had a positive effect on the Chinese economy; since the introduction of these policies the Chinese economy has become the world's fastest growing major economy. It led to a Gross Domestic Product (GDP) growth averaging about 10 percent a year. This is really fast and especially when it is compared with the GDP growth of NL and the World. However, China remains a developing country with incomplete market reforms. In 2011, China's gross national income (GNI) per capita of $4,940 was ranked 114th in the world over 170 million people still live below the $1.25-a-day international poverty line. (World Bank, 2013; CIA World Factbook, 2013).

On the other hand, the fast GDP growth lifted more than 600 million Chinese people out of poverty. With a population of more than 1.3 billion, China recently became the second largest economy (on nominal total GDP) and is increasingly playing an important and influential role in the global economy; it is the world's largest exporter and importer of goods (World Bank, 2013; CIA World Factbook, 2013).

China is becoming more and more an interesting market to sell products for (Dutch) companies, because of the great diversity in the large Chinese population. Over 170 million people in China still live below the $1.25-a-day international poverty line (World Bank, 2013). On the other hand the luxury German brands BMW, Audi, Mercedes and Porsche sold 959.000 cars in 2012 and China became the largest market for these expensive, luxury products (ANP, 2013). These quite opposing statistics show that a broad range of customers is available and that a lot of segments (from the Bottom of the Pyramid to millionaires) can be targeted for Dutch companies and this makes the Chinese market an interesting market.

China is nowadays among the most attractive recipients of FDI worldwide. However according to Index of Economic Freedom (2013), which measures the economic situation of countries worldwide, China has a low level of economic freedom and high level of corruption. Due to this, China was ranked 136th out of 177 countries with a score of 51.3 on a 0 to 100 scale in 2013. The Netherlands outperformed China with a score of 73.5 and is ranked 17th (Index of Economic Freedom, 2013). One of the consequences is that foreign firms in China face inexperienced bureaucracies, a lack of reliable business information, underdeveloped legal systems and widespread corruption. These factors affect the market entry choice and the timing of market entry (Estrin & Prevezer, 2010). When taking this into consideration, China seems to be a difficult market to enter for foreign companies.

1.3 Companies going abroad

The internationalization of the world caused that a lot of companies went abroad to explore foreign markets. Several authors had different perspectives on what is the best way of going abroad for companies and this led to opposing views.

According to the Uppsala model of Johanson & Vahlne (1977) companies follow a fixed pattern when going abroad: first companies are gaining experience in the domestic market, after that they start exporting towards geographically close and culturally similar markets and later this relation is intensified (by using FDI). Later these companies start exporting towards geographically distant and culturally different markets and this exporting will be intensified with FDI after a while. The OLI-framework of Dunning (1980) rests on three determinants: the Ownership advantage, Location advantage and Internalization advantage. The OLI-framework has a lot of similarities with the theory about Sustainable International New Ventures (Oviatt & McDougall, 1994). Chetty & Campbell-Hunt (2004) compared the Traditional Stages View (TSV) and the Born-Global View (BGV). The TSV is comparable with the Uppsala model, while the BGV is comparable with theory of Oviatt & McDougall (1994). The comparison can be found in Appendix B.

These opposing views lead to different foreign strategies: the global, multinational, international and transnational strategy. These strategies are formed based on the level of local differentiation/responsiveness (high degree in the case of a BGV and a low degree in case of a TSV) and the degree of global coordination/integration (Som, 2009)

1.4 Dutch corporations abroad

Numerous well-known MNCs are founded in the Netherlands like Shell, Philips, ING and Unilever. However, there are also lots of less 'famous' Dutch corporations doing their business abroad. Together they form a whole Dutch network abroad and they are located and represented worldwide. These Dutch corporations are often supported by the Embassy of the Netherlands, who's often present in the countries the Dutch companies are doing business in. The Netherlands has some specialties and these are called 'top sectors' by the Dutch government, because the companies have a lot of experience in these sectors and are the top-performers of the world. The Dutch top sectors are: horticulture, agriculture and food, water, life sciences and health, chemicals, high tech, energy, logistics and creative industry. The goal for the Dutch government is to keep these sectors strong in order to benefit from this advantage in the future.

1.5 Problem definition

The BGV & TSV are opposing and this opposing view leads towards different foreign strategies for companies. In order to carry out this foreign strategy, the market has to be entered. This can be done by choosing one of the several market entries. However, because of these opposing views there is no consensus on what is the 'best' market entry. Apart from that, all the market entries have their own (dis-)advantages and these need to be taken into account as well.

Besides, the market entry should not only fit the foreign strategy. The market entry needs to take into account much more than that, as became clear in this chapter. After focusing on the China context in the first chapter it seems that the government and the geographical & cultural distance are the main influencing factors and therefore this research will focus on that as well. Further this research focuses on Dutch companies and therefore the effects of the influence will be mainly focused on Dutch companies.

Therefore the focus of this research will be on market entry with regard to the Chinese government and geographical and cultural distance for companies from the Netherlands.

1.6 Goal and research subject

The aim of this research is to combine the factors mentioned in paragraph 1.5: (1) the advantages and disadvantages of the market entries (2) in the context of China (3) for Dutch companies. Therefore the research question is:

What are the main affecting factors for Dutch companies entering China?

1.6.1 Main questions

The research question consists of 3 parts and on each part will be focused in one of the three questions below:

(1) Which market entries are available to choose?
(2) Which factors are important to take into account when entering China?
(3) Which Dutch company qualities affect the degree of success?

The first sub question can be answered based on the existing literature, while for the answering of the second sub question literature and gathered data will be needed. The third sub question will be answered mainly based on the data gathered in this research. In order to figure this out a theoretical framework will be build, a questionnaire will be conducted and interviews will be held in order to come trustable findings and to come up with good recommendations. The three questions described in this paragraph will be discussed into more detail in chapter 2.

Interesting would be to find out which factors affect the market entry by combining theory with empirical results. This research is going to try to create an overview for the Dutch companies that want to enter China in order to help them out with the market entry decision in a practical way. Therefore, all together this is an:

Exploratory research about market entry affecting factors for Dutch companies entering China.

1.7 Research method:

First, literature about the different market entries will be gathered. Based on this literature informal conversations will be held with several seniors of Dutch companies and entrepreneurs active in China. After that, a questionnaire for all China-based Dutch companies will be prepared and executed in order to find out in which degree the theory matches the practice. The questionnaire will be made based upon existing instruments and self-developed instruments and in collaboration with the Dutch embassy. The theory and the results of the questionnaire will give direction to the expert interviews. The expert interviews will be conducted with the aim of finding out whether all the factors are being taken into account or not and the experts might be able to give additional information on the questionnaire results. If necessary theory will be searched about the concepts found in the interviews. The aim of the informal conversations, semi-structured interviews and questionnaires is to gather information from different perspectives in order to give an underpinned answer to the research question.

1.8 Preview of this research

The second chapter is about the Theoretical Framework in which market entries in combination with the theories of this chapter are discussed. In chapter 3 the Methodology is discussed and the Operationalization will be a part of this chapter. In the fourth chapter the China-specific theory is discussed and the Findings of the questionnaire and expert interviews are shown. In the fifth chapter the Practical Framework created in this research will be presented. In chapter six the Conclusions are drawn and there is a Discussion paragraph. In the last chapter the Recommendations are done. An overview of the used literature will be given in the References. The research will be concluded with the Appendix consisting of additional information.

Chapter 2: Theoretical Framework

2.1 Introduction

In the Introduction chapter was shown that countries and companies are doing their business more and more abroad. In this chapter the theoretical framework will be build based upon this. The main focus will be on the market entry in general and this theory will be combined with the theory in chapter 1 about BGV & TSV and the foreign strategies. First, the theories of chapter 1 are discussed in more detail in paragraph 2.2 and 2.3. These paragraphs contain the different leading internationalization theories that are relevant for this research. The theory in this chapter will be used for the gathering of data via informal conversations, questionnaires and expert interviews.

2.2 Companies going abroad

According to Dunning (1980), the propensity of an enterprise to engage in international production rests on three main determinants: the Ownership advantage, the Location advantage and the Internalization advantage. This also known as the eclectic paradigm or OLI-framework (Dunning, 1980). The ownership advantage is the extent in which the company possesses or acquires assets which its (potential) competitors do not possess. The internalization advantage is whether it is in the company's interest to sell or lease these assets to other firms or internalize it in the own company. The advantage of the location depends on whether it is profitable to exploit the assets in foreign countries rather than exploiting those in the home country (Dunning, 1980). The more the ownership-specific advantages possessed by an enterprise, the greater the inducement to internalize them; and the wider the attractions of a foreign country compared to the home country production base, the greater the likelihood that an enterprise, given the incentive to do so, will engage in international production (Dunning, 1980). Rugman & Verbeke (1992) linked the ownership advantage with the location advantage by distinguishing location-bound ownership advantages whose ownership benefits can only be used in that particular location and nonlocation-bound in which the ownership advantage is independent of the location.

Figure 2: PESTEL analysis

The PESTEL analysis takes political, economic, sociocultural, technological, environmental and legal context into account and by doing that the Locational advantage of Dunning (1980) can be found (Johnson, Scholes & Whittington, 2008). After focusing on the China context in the Introduction chapter, one of the conclusions can be that it seems that the government (political and legal factors) and the geographical & cultural distance (social-cultural) will be the main macro-level influencers of the entry mode for Dutch companies entering China. Further the economic development plays a role as shown in paragraph 1.2. The technology and environment are less relevant for the entry mode, because these factors are mainly nonlocation-bounded, while the political, economic, cultural and legal are location-bounded (Rugman & Verbeke, 1992; Dunning, 1980) and therefore the difference between the PRC and NL is relevant for the Dutch companies. The economic factor is already partially discussed in chapter 1.

These PESTEL-factors can be seen as contingency variables (Miller, 1981) to which Dutch companies have to adapt when entering the Chinese market. Therefore this research can be seen as a contingency approach research.

However, there are also popular other points of view on the way that companies go abroad that disagree with the OLI-framework of Dunning (1980). According to Johanson & Vahlne (1977) companies follow a fixed pattern when going abroad for business. First companies are founded and gaining experience on the domestic market. When they become more mature, they start doing business in foreign countries. Companies start in foreign countries that are geographically close and culturally quite similar. From there the companies move to more distant countries that differ more from the domestic market. Companies first enter the foreign market via exporting and later they will use a more intensive and demanding modes like FDI (e.g. joint ventures or acquisitions). The model focuses on the gradual acquisition, integration and use of knowledge about foreign markets and operations, and on the incrementally increasing commitments and is called the Uppsala model (Johanson & Vahlne, 1977).

According to the Johanson & Vahlne (1977) theory the companies follow a fixed pattern when going abroad, while according to Dunning (1980) this pattern is company dependent (ownership and internalization advantage) and country dependent (location advantage). If a high percentage of the Dutch companies goes directly to China that means the locational advantage is high. However, in that case it will counter Johanson & Vahlne, because China is geographically and culturally distant from the Netherlands. According to Johanson & Vahlne's theory, the Dutch companies will go to countries like Germany and Belgium first and then slowly expand eastwards to China.

Oviatt & McDougall (1994) recognize four different elements in order to move from economic transactions towards a sustainable international new venture. The first is the internalization of some transactions to distinguish those transactions that take place in organizations from that are governed by the markets. The reliance on alternative governance structures separates new ventures from those in established organizations. The foreign location advantage makes the distinction between new ventures and international new ventures, while the unique resources makes the difference between international new ventures and sustainable international new ventures (Oviatt & McDougall, 1994).

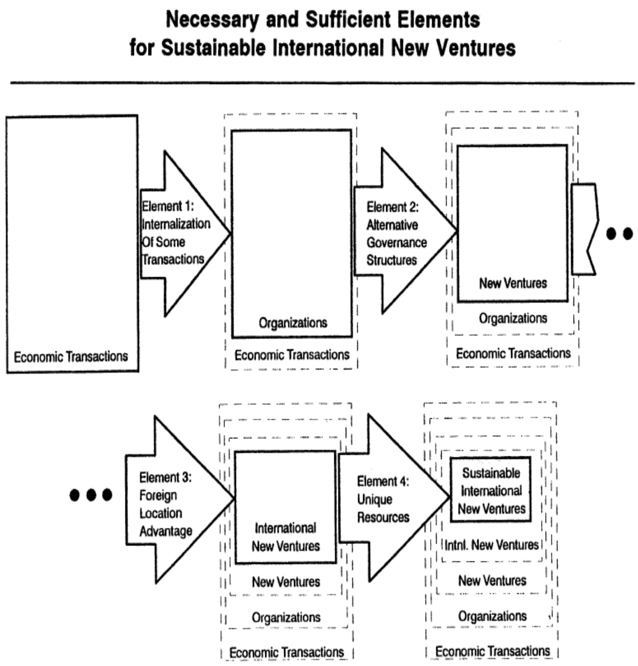

Figure 3: Sustainable international new ventures (Oviatt & McDougall, 1994)

In this Oviatt & McDougall (1994) model the determinants of the OLI-theory of Dunning (1980) are clearly visible. First there is the internalization (advantage) in element 1. Then the foreign location advantage (element 3) can be linked with the location advantage of Dunning and the unique resources, described in element 4, matches with the ownership advantage. Alternative government structure (element 2) is an added element of Oviatt & McDougall and partially described below by the foreign strategies of Som (2009), however government structure is much broader than that. A difference is that in the Oviatt & McDougall model the internalization is not dependent of the ownership advantage, while in Dunning's there is a clear link between the two.

The international new venture (Oviatt & McDougall, 1994) is also referred to by other authors, like Knight & Cavusgil (1996) and Madsen & Servais (1997), as born global (McDougall & Oviatt, 2003). What is meant in both cases is:
"A business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (McDougall & Oviatt, 2003, p. 49).

2.3 Foreign strategies
The opposing views shown by Chetty & Campbell-Hunt (2004) in Appendix B cause that companies choose different foreign strategies. Bartlett & Ghoshal (1998) recognized 3 needs for companies that do business abroad: global efficiency, national responsiveness and developing & spreading innovations internationally. Global efficiency and national responsiveness are conflicting needs and choosing one goes at the expense of the other.

Som (2009) developed a framework with 4 different foreign strategies for companies doing their business abroad based on the global efficiency and national responsiveness of Bartlett & Ghoshal (1998). These foreign strategies were made on the degree of global coordination/integration and the level of local differentiation/responsiveness of companies. The global coordination/integration and the local differentiation/responsiveness are both low in the case of an international organization and both high in case of a transnational firm. A global firm has a high global coordination/integration and low local differentiation/responsiveness, while a multinational company is a company with low global coordination/integration and high local differentiation/responsiveness. Below this is shown in a table.

	Low level of local differentiation/responsiveness	*High level of local differentiation/responsiveness*
High degree of global coordination/integration	Global strategy	Transnational strategy
Low degree of global coordination/integration	International strategy	Multinational strategy

Table 1: Foreign strategies (Som, 2009)

The global strategy is executed by global corporations whose activities are carried out across national borders and have standardized and integrated operations worldwide (Som, 2009). Global companies are centralized, focus on the implementation of strategies set by the parent and develop & retain knowledge at the center (Bartlett & Ghoshal, 1998). The focus is on capturing economies of scope and scale (Harzing, 2002) and it is seen as a low-cost strategy (Forbes, 2007). Subsidiaries are not supposed to respond to the demand of local markets and form a 'pipeline' for the HQ (Harzing, 2002).

Multinational corporations (MNCs) understood and recognized that there are differences across national markets and differentiation was required to be successful in these diverse markets. These corporations were more flexible and were ready to adapt and modify their offerings, strategy, structure and management styles in their respective national markets (Som, 2009). Bartlett and Ghoshal (1990) state that multinational companies prefer decentralized structures which are nationally self-sufficient and identify and exploit the local opportunities and the development and retention of knowledge within national units. Therefore the subsidiaries are relatively autonomous and they are allowed to be responsive to activities on the local market (Harzing, 2002)

International companies contain some elements of the global strategy and the multinational strategy (Bartlett & Ghoshal, 1998); following the international strategy exploit their parent company knowledge and capabilities through worldwide diffusion and adaptation, and centralize their sources of core competencies. It is a pure local adaptation strategy (Som, 2009).

Corporations with a transnational strategy understood that demands to be responsive to local markets and the national environment, together with pressures to develop global-scale efficiency, were more often conflicting than not conflicting (Bartlett & Ghoshal, 1998). Key activities are neither fully centralized in the headquarter (HQ), nor fully decentralized in the strategic business unit (SBU). This duality leads to efficiency and flexibility at the same time and therefore the transnational strategy is cost-adaptive (Som, 2009). The transnational model represents more an idealized type of organization than an actual company (Bartlett & Ghoshal, 1998).

Companies that use a low degree of local differentiation/responsiveness (global and international strategies) use the TSV, because then the HQ remains the most powerful and the decisions and core competences are still in the domestic market of the company. Further this strategy seems to focus on global efficiency and less on national responsiveness.

In the case of a BGV the companies have high degree of local differentiation/responsiveness (transnational & multinational strategy) in order to be able to create a network and make decisions faster. In this strategy there is a higher national responsiveness and less global efficiency.

Johanson & Wiederheim-Paul (1975) note the relevance of firm strategy to internationalization by stating that strategic decisions have a great impact on the path and pace of firm internationalization. Johanson and Vahlne (1990) agree on this in case of a BGV, however they state that the TSV is more skeptical in regard to strategy.

2.4 Entry modes

Companies that want to enter a foreign market have to choose a suitable entry mode. The entry mode can be defined as the institutional or organizational arrangement that is used in order to conduct an international business activity, such as the manufacturing of goods, servicing customers or sourcing various inputs (Welch, Benito & Petersen, 2007). In literature there seems to be an overall consensus about the different ways of entering a market. Even though, different authors have slightly different opinions and this leads to different categorizations and definitions of the entry modes.

In the table below an overview is given of the used authors in this research and how they categorized their entry modes including the different subcategories. After this résumé, the different entry modes will be discussed into more detail and also a comparison between the different entry modes will be made.

Author	Category	Subcategories		
Som	**Foreign Direct Investment**	Acquisition	Greenfield	Joint venture
	Exporting	Exporting	Franchising	Licensing
Helfat & Lieberman	**Diversifying entrant**	Acquisition	Internal growth	
	Parent-company	Parent spin-off	Franchising	Joint venture
	De novo entrant	Entrepreneur spin-off	Start-up	
Slangen & Hennart	**Activity mode**	Exporting *versus*	Foreign production	
	Ownership mode	Joint venture *versus*	Foreign owned enterprise	
	Establishment mode	Acquisition *versus*	Greenfield investment	

Table 2: Entry mode theories

2.4.1 Som and internationalization theories

Som (2009) makes a distinction between 2 types of entry modes: FDI and exporting. These are subdivided in different modes of entry.

Foreign Direct Investment (FDI) can be carried out in different ways and can be a way to benefit from the more favorable circumstances in the host country (Som, 2009) or has locational advantage as Dunning (1980) will state. The FDIs can be categorized in 3 different sorts (Som, 2009). In a joint venture (JV) two or more corporations cooperate and agree to share ownership of an FDI in order to pursue their common objectives in a foreign market (Som, 2009). When the company is aiming for an acceleration of growth, the merger & acquisition (M&A) is the best option. The M&A provides immediate market access and often immediate access to technology, patents, etc. by taking over another company (Som, 2009). When a company does a Greenfield investment it enters the market alone and starts to do their business as they are used to do it at the moment in the home country (Nocke & Yeaple, 2007). Som (2009) put these three entry modes in one category, because the company is represented by an establishment abroad in all three cases. Also a substantial initial investment is needed in all three cases.

Exporting involves the transfer of goods and services to foreign countries for their sale through a company operating in that country (Som, 2009). Exporting completely differs from FDI, because the company doesn't 'settle' in the foreign country. Therefore they will not have the location advantage as described by Dunning (1980). Exporting can be divided in two subcategories: licensing and franchising. The contractual arrangement that involves selling the right to produce and/or sell products to foreign markets is called licensing. On the other hand, franchising focuses on selling the right to use a brand name and/or operating method in order to sell a service to foreign markets (Som, 2009). According to Dunning (1980) licensing and franchising are not in the same category, because the franchiser still has control over the francisee, while the licenser has no control over the licensee. Therefore franchising has internalization advantage, while licensing has not. Both methods do not require an extended investment in another country and that is the reason most firms start their international expansion with exporting. That is in line with what Johanson and Vahlne (1977) stated. Presence in a foreign market can be established easily and quickly and also against relative low entry and exit costs. Disadvantages are the high costs of tariffs and transportation, the loss of control over pricing and distribution and the inability to tailor goods and services to local markets makes it difficult to effectively compete in global markets (Som, 2009). On the other hand, an advantage of exporting is that it is a good way to find whether the market is interested in the companies offered product or not. Based on that, a company can decide to enter the market further or to exit the market without making extended investments.

Exporting involves lower fixed costs, while FDI involves lower variable costs. Firms invest abroad when the gains from avoiding the trade costs outweigh the costs of maintaining capacity in multiple foreign markets. This is known as the proximity-concentration trade-off (Helpman, Melitz, & Yeaple, 2004). Vahlne & Johanson (1977) see exporting as a first step towards FDI, while for Som (2009) exporting is just one of the entry mode options. Further, it seems that Dunning's (1980) ownership advantage does not outweigh the benefits of a partner in case of JV and this means that the company is not fully internalized anymore. In the cases of Greenfield, M&A and exporting the ownership advantage does outweigh the benefits of a local partner, because the companies remain independent of other companies. This implies that the Greenfield, M&A and exporting have location-bound ownership advantages for the home country and the country it is entering, while the JV only has location-bound ownership advantages for the home country. The nonlocation-bound advantages remain similar for both entry modes (Rugman & Verbeke, 1992; Dunning, 1980).

2.4.2 Helfat & Lieberman and internationalization theories

Helfat & Lieberman (2002) categorized the entry modes in a different way than Som (2009) did. They recognize the diversifying entrant which can be divided in acquisition and internal growth. Acquisition matches with the M&A of Som, while the internal growth corresponds with the Greenfield investment described by Som. The acquisition and internal growth form one category, because they both have the same legal entity as the established, home country firm and the parent company has the full ownership.

The two other categories identified by Helfat & Lieberman (2002) are not from the same legal entity, but are legal entities that are shared. The first category is called parent-company venture and consists of the joint-venture (one of the FDIs of Som), franchise (one of Som's exporting modes) and parent spin-off. The parent spin-off can be compared with the licensing of Som (2009). In all these forms the parent company has partial ownership. In a JV two or more companies collaborate and use their expertise in order to achieve a common interest (Helfat & Lieberman, 2002). Franchises are set up by established firms in concert with partners as well, namely the franchisees. Franchisees pay the franchisors royalty based on franchisee sales (Helfat & Lieberman, 2002). In a parent spin-off, the parent firm often retains a financial interest and representation on the board of directors (Block & MacMillan, 1993).

The other group of separate legal entities is called de novo entrant and consists of entrepreneurial spin-off and start-up. With this mode of entry the parent company does not have any ownership (Helfat & Lieberman, 2002). Start-ups are the classic entrepreneurial companies whose founders have no previous employment ties to other firms in the industry. Entrepreneurial spin-offs are stand-alone companies founded by employees of incumbent firms in the same industry (Klepper, 2001). The market entry described as de novo entrant by Helfat & Lieberman (2002) are not entry mode options for existing Dutch companies, because these entities are not part of the company, but are independent. Therefore, the entrant type's entrepreneurial spin-off and start-up will not be taken into consideration in this research. Further, parent-company ventures can be seen as hybrids between diversifying and de novo entrants (Helfat & Lieberman, 2002).

Helfat & Lieberman (2002) categorize their entry modes based on ownership (fully owned, partially owned or no ownership), while Som (2009) focuses more on the activity abroad (high activity in case of FDI and low activity in the case of exporting). Further, Som distinguishes exporting itself as an entry mode, while Helfat & Lieberman does not make that distinction. Both do recognize the franchise part and the parent spin-off can be compared with Som's licensing.

2.4.3 Slangen & Hennart and internationalization theories

Companies must reduce institutional pressures as much as possible. Therefore firms have to select an adequate mode for entering the foreign market. Slangen & Hennart (2008) distinguish three different modes of foreign operation: the activity mode, the ownership mode and the establishment mode.

The decision about the activity mode relates to the value activities that are being transferred abroad by the company; in case of exporting this is the lowest value, while foreign production has a higher valued activity and allows the company to have more control (Slangen & Hennart, 2008). This is comparable with the distinction Som (2009) made between FDI and exporting. Helfat & Lieberman (2002) do not make this distinction. The activity mode choice of Slangen & Hennart is not in line with the theory of Vahlne & Johanson (1977). Vahlne & Johanson state that exporting is always the first entry mode, while Slangen & Hennart oppose that exporting is one of the options a company can choose as an entry mode.

The ownership mode decision is about whether a company enters a market alone (WFOE) or shares ownership with local partners, a joint venture (Slangen & Hennart, 2008). Helfat & Lieberman (2002) made a comparable distinction, however they categorized the WFOE in the diversifying entrant and the JV in the parent-company. One difference is that Helfat & Lieberman (2002) distinguish one other entry (de novo entrant) in which there is no ownership of the company and therefore this entry seems to be not relevant. Som (2009) placed them in the same category, because for both the WFOE and the JV a foreign establishment needed. In the case of a JV the ownership advantage is not large enough to remain independent and the company is not fully internalized, because it is shared with a local partner. For a WFOE the ownership advantage is large enough (Dunning, 1980).

The establishment mode is a decision between acquisition and Greenfield (Slangen & Hennart, 2008). For both Helfat & Lieberman (2002) and Som (2009) the acquisition and Greenfield are in the same category, respectively in the diversifying entrant and FDI. Holtbrügge & Baron (2013) found that foreign firms prefer Greenfield investments over acquisitions. The advantage of an acquisition is the quick local presence and the access to local market institutions and it can lead to synergies (Meyer & Nguyen, 2005). Harzing (2002) adds that acquired local companies can help to tailor products and policies to local circumstances and therefore the companies need to be aware of local circumstances and well-integrated into the local market. However, acquisitions can fail because of organizational and cultural misfits. Especially when the institutional pressures are high the acquisition is not favorable. The restructuring that has to be done in that situation is so costly that it resembles a Greenfield investment (Meyer, 2001). The Greenfield is also preferred in case a low-cost production site needs to be set up from scratch, because then the company can incorporate the latest production technologies and the exact production requirements can be matched (Harzing, 2002). On the other hand, weak institutional pressures may fail to ensure effective markets which causes the impeding of local firm acquisition (Demirbag, Tatoglu & Glaister, 2008). In line with this, previous studies show that Greenfield investments perform better than acquisitions, because of lower integration costs and higher control opportunities (Li, 1995; Woodcock, Beamish & Makino, 1994).

Harzing (2002) found a relation between the foreign strategy and the choice for an acquisition or a Greenfield. In case of a global or international strategy, the company wants the foreign establishment similar to the HQ and then the Greenfield is preferred. An M&A matches with a multinational or transnational strategy (Som, 2009), because then it is easier to align with the host country (Harzing, 2002). As a result acquisitions were, compared to Greenfields, more allowed to operate independently and there was less control from the home market over the operations. This is also one of the reasons that acquisitions were displaying a higher level of responsiveness in the form of local productions, R&D, modification and marketing (Harzing, 2002).

The theory of Slangen & Hennart (2008) can be seen as a combination between the theory of Som (2009) and Helfat & Lieberman (2002), because Slangen & Hennart's activity mode is comparable with the theory of Som and the ownership mode is comparable with Helfat & Lieberman. The establishment mode is added and this distinction is not made by Som and Helfat & Lieberman. All in all, the merger and acquisition, greenfield investment, joint venture and exporting can be seen as the most important entry modes for companies that want to go abroad. With these four entry modes companies can go abroad and make profits, while retaining control and ownership and those are the most important entry mode criteria in this research. Therefore, the main focus of this research will be on these four entry modes.

2.4.4 Entry modes and internationalization theories

It seems that the M&A and the JV matches with the BGV (as described by Chetty & Campbell-Hunt in 2004), because by acquiring or collaborating with a local partner the network will be built faster. Also the pace of internalization will be more rapid than in case of the Greenfield and exporting. The TSV fits better with a Greenfield and exporting, because these entry modes are more gradual and the domestic market remains the most developed market, at least in the beginning.

Further, for exporting a low degree of local differentiation/responsiveness is needed, because the company remains doing business only in the home country. For the other entry modes it is harder to tell, because it is dependent of the interpretation of the company. It would be natural if the M&A and JV have a high level of local differentiation/responsiveness, because in those cases a local partner is acquired or the collaboration partner. It is hard to manage these relations from the home country and therefore the national responsiveness, as described by Bartlett & Ghoshal (1998), is needed. The Greenfield can use all these foreign strategies and the choice is dependent of the wishes of the company and the entered market.

2.5 Extended Transaction Cost Model

Entry mode theory assumes that firms will select the mode that provides the best return on investment (Brouther et al., 1999). Usually, the transaction cost (TC) analysis approaches the entry mode question with the idea that a low level of ownership is preferable until proven otherwise (Anderson & Gatignon, 1986). This is not in line with the contingency approach described by Miller (1981). Unlike the transaction cost perspective that focuses on intentional and rational decisions, institutional theory (IT) underlines the significance of legal, political, economic and cultural factors in the choice of market entry strategies and market success. Institutions define the "rules of the game" and include laws and regulations of the host country (Brouther, 2002), but also norms and beliefs, which together shape the patterns of market exchanges (Davis et al., 2000). In some countries, the IT may create a situation where the TC predicted mode choice may not be the preferred choice. Therefore, Roberts and Greenwood (1997) suggest that firms may "face pressures to adopt designs that are within the subset of social-politically legitimated designs" instead of adopting TC based designs. These social-politically legitimated designs fit within the PESTEL analysis and matches with most important PESTEL factors: the social-cultural, political & legal factors. The IT described here matches with Miller's (1981) contingency approach.

TC regards environmental uncertainty as an exogenous variable and a moderator in policy choice (Anderson and Gatignon, 1986). IT examines the constraining forces exerted by economic, social, and political institutions, with which the organizations have to cope in making decisions (Scott, 1995). The combination of this TC based design with institutional and cultural context theories is called Extended Transaction Cost Model or ETCM (Brouther, 2002).

It appears that an ETCM does a good job of predicting entry mode choice (Brouther, 2002). The results suggest that mode selection appears to be driven by a combination of general transaction cost characteristics, institutional context (legal restrictions) and cultural context (investment risk) variables. Brouther (2002) found that firms reported higher mode performance (both financial and non-financial) when they utilized the entry mode predicted by the extended transaction cost model than firms whose entry mode choice could not be predicted by the ETCM. The financial and non-financial mode performance was higher as well when they entered markets with higher market potential and when they used wholly owned modes.

2.6 Epilogue

In paragraph 2.2 and 2.3 several internalization theories are discussed into more detail: OLI-framework (Dunning, 1980), PESTEL-analysis (Johnson, Scholes & Whittington, 2008), Uppsala model (Johanson & Vahlne, 1977), sustainable international new ventures (Oviatt & McDougall, 1994) and the foreign strategies (Som, 2009; Bartlett & Ghoshal (1998). After that the focus was put on the several entry modes.

In this chapter is, based on the theory, decided to focus on 4 entry modes: the M&A, Greenfield, JV and exporting. In the chapter the (dis-)advantages of these entry modes are discussed. It seemed that the M&A and JV matches with the BGV and the Greenfield and exporting with the TSV. Further, the M&A and JV need a high level of local differentiation/responsiveness and that means that transnational or multinational strategy matches, while exporting needs a low level of local differentiation/responsiveness and therefore a global or international strategy.

The social-cultural, political & legal context is taken into account, because these factors play the most important role. The Chinese government has a dominant role, while the social-cultural part is important because of the cultural distance between the PRC and NL. This makes that the entry mode decision cannot be based on the TC and that the IT has to be involved as well and this results in an ETCM.

Chapter 3: Methodology

3.1 Introduction
In this chapter the methodology of this research will be explained. The used tools to receive empirical data will be described, the operationalization will be shown and limitations of this research will be presented.

3.2 Research context
The Dutch embassy has a large database called 'Achilles', consisting of Dutch companies present in China. In this database a lot of data is gathered, basic information like the name of the company and the main activities, but also personal information like the mail addresses. An online questionnaire will be conducted among the Dutch MNCs that are already established in China.

Apart from this online questionnaire, several formal and informal semi-structured interviews will be held with different experts. The goal of this semi-structured interview and the business survey is to find out what Dutch MNCs can do best when entering the Chinese market. In combination with the theory of chapter 2, this can lead towards a conclusion that is a combination of theory and practice.

3.3 Theory findings China
Before doing the informal conversations, the literature used in the *Theoretical Framework* was applied to the Chinese context in order to bring scope into the research and to be able to ask more specific questions in the informal conversations. All the theories used in chapter 2 are therefore applied on the PRC and the results are shown in chapter 4.

3.4 Informal conversations
Before the questionnaire was sent around to the Dutch companies in China several informal conversations were held. These conversations were with the head of the Economic Department, BENCHAM employees and CEOs & other employees of Dutch companies present in China and several Dutch entrepreneurs present in China. Further, there is a group of 157 Dutch entrepreneurs active on the Chinese market. These Dutch entrepreneurs did not participate in the questionnaire, because the main focus in this research is on the Dutch companies. Even though the entrepreneurs are not taken into account in this questionnaire, they can play an important advising role for companies entering China and therefore for this research. These entrepreneurs are often already based in China for a long time and therefore they know exactly what is going on in the country and are able to come up with good advice, while they are familiar with Dutch culture and companies. Also informal conversations were held with some of these entrepreneurs and these informal conversations gave direction to the business survey.

3.5 Business survey
The questionnaire was spread under all the Dutch companies in China that were in the Dutch Embassy's Achilles database at that moment. The variation in this sample is huge: e.g. from large MNCs to small SMEs, a lot of different sectors and activities are represented. Therefore this research is able to present general findings about Dutch companies, however Dutch companies are also able to see the results of a company that matches for example their size, sector or activities.

The questions in the business survey were based on the theory in chapter 2 and also information was gathered out of the informal conversations. Combined this led to the business survey questions. The questions have a general and broad scope in the beginning. Information about the number of years the company is active in China, the sector the company is active in, the number of employees (both Dutch and Chinese) and the activities in China. A lot of basic information will be received from the companies and that might be helpful for the rest of the research.

In the rest of questionnaire the questions become more specific and aimed for the research and also more complex. For the question about the chosen entry mode a control mechanism is used, because the question is asked twice. However, the formulation is different in both cases. The purpose is that it is important to be sure which entry mode is taken and by asking twice the answer (if consistent) can be seen as more reliable. The question about the profit and the contribution to the overall performance is asked because the goal of companies is often to make profit. It would be interesting to see whether the entry mode affects the profitability. The same reasoning goes for the expectation in the future. Also it would be interesting to see if there is a relation between the entry mode and the different barriers. All concepts described in the theory of chapter 2 are present in the sample and that is positive for the quality of this research.

3.6 Semi-structured interview

A semi-structured interview (sometimes referred to as informal, conversational or 'soft' interview) is a verbal interchange in which one person, the interviewer, attempts to elicit information from another person (the interviewee) by asking questions. Although the interviewer prepares predetermined questions, semi-structured interviews unfold in a conversational manner offering participants to explore issues they feel are important (Longhurst, 2010). Longhurst state that semi-structured interviews are about talking in a self-conscious, orderly and partially structured way. An important quality of semi-structured interviews is that it is flexible and that researchers can adapt and respond to situations that occur. Opposing to the structured interview where being flexible is not possible due to the fixed, predetermined questions (Reulink & Lindeman, 2005). The semi-structured interview is informal and conversational and allows the participants to use their own words, rather than a 'yes or no' answer or a point on the Likert scale (Longhurst, 2010). Due to this flexibility, unexpected information can be received (Moerman, 2010). Moerman (2010) added that not only qualitative, but also quantitative data can be received from semi-structured interviews.

The interviewees have a different angle of incidence and this makes it more likely that all the different factors affecting the market entry are taken into account. The consultant had a lot of contact with several Dutch companies that want to be or are already established in China. Therefore the aim of the conversation was more on the Dutch companies and their strong and weak points and problems that often occurred. The lawyer of the international law firm had a lot of knowledge about the regulations that needs to be dealt with. The semi-structured interview with him was more aimed at the political and legal situation in China with regard to Dutch/international companies. Therefore they know exactly what kind of problems arise for those companies. Altogether, this gives a broad picture of the problem. The results of these interviews can be seen as reliable, because of the high source credibility (Carmines & Zeller, 1979). The interviewees were high placed in the organizations they represent (status) and they all have a lot of experience and good formal education (expertise) on the Chinese market. Both interviewees were objective, because they did not have 'involvement' with the outcome. The results of the semi-structured interview can be seen as additional information to the results of the questionnaire.

3.7 Method

The method used in this research is called Type B: Sequencing (Marsland et al., 2000). The use of informal tools before structured questionnaires is an accepted and common practice. Open-ended diagnostic studies help in the process of formulation of hypotheses, which can then be tested rigorously by structured tools such as a questionnaire administered to individuals selected through an unbiased sampling procedure (Marsland et al., 2000). In the case of this research the informal conversations were used, combined with the theory, to get all the affecting factors. After the questionnaire a double-check is done, in which extra background information is gathered during the expert interviews. This double-check was necessary, because there is no consensus and by doing this the pros and cons will be gathered.

This explanatory research will be both a quantitative as a qualitative study, because quantitative data will be gathered in the questionnaire, while qualitative information will be received from the informal conversations and the expert interviews.

3.8 Operationalization

An operational definition translates the verbal meaning provided by the theoretical definition into a prescription for measurement (Zeller & Carmines, 1980). Therefore the theory needs to be 'translated' towards practice in which the theory becomes measurable.

In this research, the operationalization for the questionnaire is divided in 3 parts based on the sub questions. One part focuses on the company, one on the entry mode and one part is aimed on the China-specific factors. Below this is discussed in more detail.

Company: because there are a lot of differences between companies the questionnaire tries to distinguish them in several ways. In fact, all the questions in the questionnaire are about the company. The first is about the experience in China, measured by the number of years the company is active in China. Then the focus is on the daily activities of the companies by asking about the sector in which it is active and 'what' it is doing in China. The size is measured by asking how much Dutch and Chinese employees are active in China for the company. The reason of the presence in China is investigated and the companies consumers base. If the reason is important then it is significant. If it is not too important, however not unimportant either it is somewhat significant, while it is not significant when it is unimportant. The entry mode of the company is asked twice, because that is a really important factor in this research. The performance of the company is measured on the basis of the loss or profit of the company in China and the contribution to the company's overall performance. Also a prediction of future events is asked in the questionnaire. Further, the governmental and operational barriers of companies are researched. Restrictive barriers are hindering the company a lot, when it does not hinder the company it is not restrictive and everything in between is somewhat restrictive.

For the entry mode question a control question, because it plays a major role in this research and that makes it extra important to exclude measurements errors. Both questions are asked in different words, but still the same theoretical definition is operationalized.

The China-specific factors will affect the entry mode decision. The activity of the company will affect the entry mode, but also the customers of the company. On the other hand, the entry mode affects the profitability of the company in China and the contribution to the overall performance. Also the governmental and operational barriers will be taken into account, because this will have its effect on the mode of entry.

For the informal conversations and especially for the semi-structured interviews the operationalization was needed as well. The theoretical terms in the questions were replaced by descriptions. In that way the interviewees were able to understand exactly what was meant and therefore they could answer in a useful way. At the end, the relation between the several factors can be measured in order to see whether there is a coherence or not.

3.9 Analysis

The outcomes theory and the informal conversations were compared with each other before the business survey was conducted. Based on this comparison the survey was made and spread under the Dutch companies. The results of the questionnaire will be translated in percentages and put in figures in order to give a good oversight of the situation. After that expert interviews will be held and additional information is gathered if needed. All these sources are considered before the conclusions are drawn. All these data were put together and compared with each other to find out whether the findings are consistent or not.

3.10 Validity and Reliability

The sequencing method as used in this research can be seen as valid and reliable research method. Managers and experts have been involved and therefore different insights and interests are combined. In the questionnaire and interviews the 'original' term is used, followed by an explanation. Apart from this, the terms used in the questionnaire are not difficult to understand and the questionnaire was send out to people with a high position within the company. Therefore they will be familiar with these terms and they also often have more knowledge about the company and its strategy. This makes the answers on the questionnaire more reliable. The fact that the questionnaire was confidential is positive for the validity.

The fact that first informal conversations will be held to point the questionnaire in the right direction and afterwards the results will be 'checked' by experts makes the research more reliable and more valid. The expert interviews can be seen as a 'double-check' of the questionnaire and also additional information will be gathered this way.

3.11 Delineation

The aim of this research is to make a framework applicable for 'all' Dutch companies that want to enter China. These companies can differ a lot from each other; from experienced, large MNCs to unexperienced SMEs. Therefore the scope of this research is broad and not specifically focused on MNCs or SMEs and it does not exclude for example BGV/TSV companies or companies with a certain foreign strategy. By doing this the research remains applicable for 'all' Dutch companies that want to enter China; because no companies are excluded.

Companies can adjust the results of the research more to their own profile by focusing on companies in the same sector or that execute the same activities.

3.12 Methodology limitations

This research also has some limitations, because there are too many factors that can affect the entry mode. For example, maybe a company prefers a joint venture or an acquisition, but that market sector is not explored in China yet. This company is then 'forced' to do exporting or a Greenfield investment. Also, the financial performance in relation with the entry mode is influenced by different factors, like competitors and the ability of the company to adjust to the market and not only the entry mode. These underlying reasons sometimes do not become clear out of the questionnaires, while they can affect the results of the research. On the other hand, the expectation is that the sample will be large enough that these 'incidents' do not have a huge impact on the results. Also, the expert interviews can help to point that out.

Further, it is hard to measure whether something is large or small loss/profit and this comes to the personal judgment of the person filling out the questionnaire. However, by asking it both relating to the financial performance in China and the contribution to the overall performance of the company the role of the China establishment can become clearer. The same personal judgment has to be made in the question about the prediction about the future. Again, the expectation is that the sample of respondents is large enough to provide an accurate picture of the situation.

3.13 Epilogue

The data will be gathered in different ways and from different sources. The informal conversations will be held based on the theory. The business survey is made based on the theory and the informal conversations, while the expert interviews are based on the data of all these sources. This will be done according to the sequencing method.

Chapter 4: Findings

4.1 Introduction

In this chapter the theory used in the Theoretical Framework will be applied to the Chinese context and the context of Dutch companies entering China. Also the empirical findings of this research, the questionnaire and expert interviews, can be found in this chapter.

4.2 Entry modes in China

In chapter 3 several entry modes are discussed by Som (2009), Helfat & Lieberman (2002) and Slangen & Hennart (2008). These authors gave an overall perspective of the entry modes and their advantages and disadvantages. However the (dis-)advantages can also be country-dependent, because governments are not only able to affect the entry mode in an indirect manner (Davis et al., 2000). In the Introduction chapter was shown that the Chinese government has a large impact on business (Luo et al., 2010; Perkins, 1988; Bellabona & Spigarelli, 2007; Moody & Haiyan, 2011). Basically, host governments may restrict foreign firm's entry mode choice to increase domestic ownership. Firms violating these institutional structures face reduced legitimacy and eventual extinction (Davis et al., 2000).

The best way to find out about these restrictions is by using a government source, because as Lubman (1999) stated: *'In China, local governments are empowered with a great degree of discretion and autonomy, because codified laws are underdeveloped and subject to alternative interpretations and varying degrees of enforcement. If the local government's policy toward the distribution business is inconsistent, tax policies are non-transparent or financial transactions are subject to policy interventions, then foreign enterprises are facing high institutional risks.'* The best way to deal with this institutional risk is to have a close look on what the government's policy is on entry mode and other governance matters by using official government sources, because these sources can be perceived as the most reliable (Lubman, 1999).

In China this government source is the Chinese Ministry of Commerce (MOFCOM). MOFCOM made an overview of the entry modes for foreign MNCs that want to enter China. For every entry mode several legal (dis-)advantages were given and also the expected start-up time. However, MOFCOM is not a scientific source. Therefore the information was checked by the China: Company Laws and Regulations Handbook (Rusric, 2012).

4.2.1 Greenfield investment and Merger and Acquisition in China

The Greenfield and M&A together is also called a Wholly Foreign Owned Enterprise (WFOE). It is a form of doing business on Chinese territory, but fully financed by a foreign investor. However, the regulations for them are not different, because in both cases the company is fully owned by a foreign company. Since 1986 is the WFOE possible, because in that year China accepted the 'Law of the PRC on Foreign-invested Enterprises' and in the 'Implementing Regulations' were announced in 1990. It is important that companies know all the laws and regulations and to start in the most optimal way, because it is hard to change things afterwards.

Advantage
100% ownership and full control over the business and no involvement of a Chinese partner
Better protection of technology and intellectual properties
Making profit is allowed (if approved by the local government)
It is possible to use the Chinese currency Renminbi (RMB) with issuing invoices and receiving revenues
No taxes if the company does not make any profit, taxes charged according to the local regulations
Limited shareholder liability compared to the initial investment
Full control of human resources

Table 3: Advantages M&A and Greenfield in China

Disadvantage
Minimum amount of start-up capital is needed for registration
Limited to certain industries – not all the industries are open for WFOEs
Limited to the goal of the organization as determined by the Chinese government

Table 4: Disadvantages M&A and Greenfield in China

Reichwein (2012) adds that a WFOE generally aims at local production because of cheap raw materials and labor and/or to enter a local market.

Start-up time: between 3 and 6 months.

4.2.2 Exporting to China

With a Foreign-Invested Commercial Enterprise (FICE) it is possible to import, export and distribute, but not to produce locally. The FICE makes it possible for MNCs to export their products to China, something that was forbidden in the past. However, it is legal nowadays.

Advantage
Direct hiring of personnel possible
Invoices can be made in RMB
Chinese partner not obligatory
Founding of different establishments is possible – *franchising*
Provides the possibility to remain control over the quality and desired level of services

Table 5: Advantages exporting in China

Disadvantage
Longer start-up time needed
Editing to bought products is not allowed – the nature of the product cannot be changed by the FICE
Production is not allowed
Only certain amount of selling points allowed – if the foreign investor has more than 30 establishments in PRC then a maximum of 49% share of that company is allowed.

Table 6: Disadvantages exporting in China

Start-up time: about 4 till 6 months.

4.2.3 Joint Venture (JV) in China

A joint venture is a collaboration between one or more domestic and foreign companies. Ownership, risk and profits will be divided based on the investment made. Since 1979 it is possible to start a JV in China.

Advantage
Access to network and expertise of the Chinese partner
In some cases it is the only option to become active on the Chinese market
Local partners often have better insight in the local market

Table 7: Advantages JV in China

Disadvantage
Only partial control over the organization
Risk of conflicts with the local partner

Table 8: Disadvantages JV in China

Reichwein (2012) adds that collaborating with a local partner can be a disadvantage if there is a conflict with the local partner, because in that case the Chinese government often choses the side of the Chinese company. On the other hand, if the collaboration goes well it is beneficial for the Dutch company, because the Chinese government is more willing to help the local Chinese firm by arranging licenses, etc.

Start-up time: 3 till 6 months.

The information provided by MOFCOM and the results of Rusric (2012) matched completely and therefore we can conclude that the given information is reliable. The Chinese market is heterogeneous, large, complex and not easily accessible. Therefore it is important that the way of approaching the market and the choice of the entry mode is considered on forehand. The alternative that fits best for a company is dependent of the China strategy and the targets of the company and the laws & regulations of the government. Once a certain entry mode is chosen it is hard to change to a different entry mode (MOFCOM, 2013).

4.3 Modes of foreign operation China

Slangen and Hennart (2008) recognized three different modes of foreign operation: activity mode (exporting vs. foreign production), ownership mode (JV vs. WFOE) and establishment mode (acquisition vs. Greenfield investment). In this paragraph this subject will be applied on the Chinese context.

Holtbrügge & Baron (2013) found that a production facility is preferred over exporting as activity mode in China, because it can be useful in countries with weak institutional environments. On the one hand, this implies that management complexity and exposure to political and economic risks will be higher. On the other hand, long-term profitability is expected to be higher in high potential markets like China with foreign production in comparison with exporting (Luo, 2001). A few explanations for this higher long-term profitability are that economies of scale can be obtained in markets with a high potential, resources (patents) can be protected better and internal operational control will be possible, while with exporting this is not the case (Holtbrügge & Baron, 2013). By stating that a production facility is preferred over exporting for China, Holtbrügge & Baron (2013) agree on the location advantage of Dunning (1980).

Holtbrügge & Baron (2013) learned that more WFOEs than JVs were established in China and therefore the WFOE is the most preferred activity mode for the Chinese market. Advantages of the WFOE in China are managerial autonomy and full control over local operations. Therefore they will be more willing to introduce their latest products and technologies. Intellectual property right and tacit knowledge can be defended better in a WFOE than in a JV. The JV might be favorable in case of a lot of pressures by local institutions or huge investment risks. Kearney (2007) states that the economic and political situation in China is the most stable among the BRIC countries. On the other hand, this does not tell anything about the performance compared to other countries. According to the Index of Economic Freedom China is outperformed by most other countries (which was shown earlier in Chapter 1). Further, joint ventures can achieve legitimacy easier with the help of a local partner and the foreign subsidiary can reduce the problems of the transfer of routine-based internal practices (Xu & Shenkar, 2002). Also, suppliers, distributors and governmental authorities can be accessed easier because of local partners, especially when formal institutions are weak (Estrin, Baghdasaryan & Meyer, 2009).

However, the result of the Pan, Li & Tse (1999) research conducted in 14.446 foreign companies does not match with the results of Holtbrügge & Baron (2013). Pan, Li & Tse (1999) found that JVs achieve a higher profitability and have higher survival rates. A possible explanation for these opposing results is given by China's history. As Wei, Liu & Liu (2005) state, nowadays there is a clearer and faster legal procedure in China because of their experience in attracting FDI. The governmental attitude changed from requiring joint ventures towards encouraging WFOEs. One of the examples of the change in governmental attitude is the liberalized ´Catalogue for Directing Foreign Investment' and the joining of the WTO (Man, Zeng & Sun of Orrick, 2007). This was a positive development, because previous studies have shown that the competence of the Chinese partner and the lack of joint venture management control are often the reason for failure of the JV (Yan & Warner, 2002). As a result, there is growing number of WFOEs; 74% of the FDIs were WFOEs and only 24% JVs (Peng, Wang & Jiang, 2008, p. 923).

4.4 China's ETCM

The findings of Brouther (2002) on the ETCM shown in paragraph 2.6, are quite general and seems to be applicable worldwide. However, there are a lot of differences between countries. In countries where institutions are stable, cost minimization and organizational efficiency are important considerations; therefore TC may provide strong explanatory power (Zhao et al., 2004). However, in a transitional economy where institutions are unstable, the priority of foreign enterprises may be survival rather than efficiency and legitimacy becomes a critical issue and therefore the ETCM will be more relevant (Yiu & Makino, 2002).Therefore in this paragraph the focus will be on the institutional and sociocultural factors of China.

Wu, Li & Selover (2012) classify countries based on the dominant mode of governance into three types: (1) the rule-based with strong public rule of law, (2) the relation-based with a weak rule of law and strong informal networks and (3) the family-based without both public rules and informal networks.

Rule-based countries are countries that have a strong public ordering are usually the ones with mature market systems and advanced democracies (Wu, Li & Selover, 2012). A rule-based governance environment, like the Netherlands, is defined by public rules that govern economic exchanges (e.g. laws, state policies, and regulations) are made in a fair way. Rule-making, rule-adjudication and rule-enforcement are separated in function; rule-enforcement is unbiased and efficient; and the public information infrastructure (such as accounting, auditing and financial rating) is highly reliable, transparent and accurate. Therefore, a well-functioning rule-based system requires a large investment in legal infrastructure, including a law-making body, a court system and a credible and powerful enforcement arm, all of which are costly and time-consuming to build (Wu, Li & Selover, 2012, p. 648).

The rule-based governance matches with the stable countries described by Zhao et al. (2004) and therefore the TC is applicable there.

Countries that lack public ordering and yet have extensive informal relation-based social networks are called relation-based countries (Wu, Li & Selover, 2012). A relation-based society, like China, is defined by the following characteristics: public rules (like laws, government policies and government regulations) are less fair than in a rule-based governance. There are no checks and balances between separate legislative, judiciary and executive branches of the government; courts and judges are controlled by a ruler or small elite and public information is controlled by the state and is not trustworthy. It is vital to a relation-based society that there be closely knit informal networks. People tend to use these personal networks to protect themselves and to settle disputes. Because business can be conducted and governed efficiently by well-functioning social networks maintained by private players, the relation-based governance system does not incur the large fixed costs compared with the cost structure of the rule-based system (Wu, Li & Selover, p. 649). This relation-based country matches with the pattern of an unstable market described by Yiu & Makino (2002) and therefore the ETCM is more relevant in these countries.

Because NL is rule-based and PRC a relation-based country this research will not focus on the family-based governance. The rule-based and the relation-based governance mode are each other's opposites and this makes it harder for the rule-based Dutch companies to adapt in relation-based China. This governance contrast between NL & PRC is confirmed by the Governance Environment Index (GEI) of Li (2009) in which NL ended 3rd with a score of +5.70, while China ended 45th out of 46 with a score of -5.92. This GEI is based on political rights, rule of law, quality of accounting standards, free flow of information and public trust (Li, 2009).

Where legal restrictions exist, firms tend to seek legitimacy, as well as efficiency, by utilizing less integrated modes of entry (Delios and Beamish, 1999). Therefore, firms entering countries with few legal restrictions on mode of entry tend to use wholly owned modes, while firms entering countries with many legal restrictions on mode of entry tend to use joint venture modes (Brouthers, 2002). Holtbrügge & Baron (2013) state that in countries with a lot of legal restrictions it is favorable to collaborate or acquire a local partner.

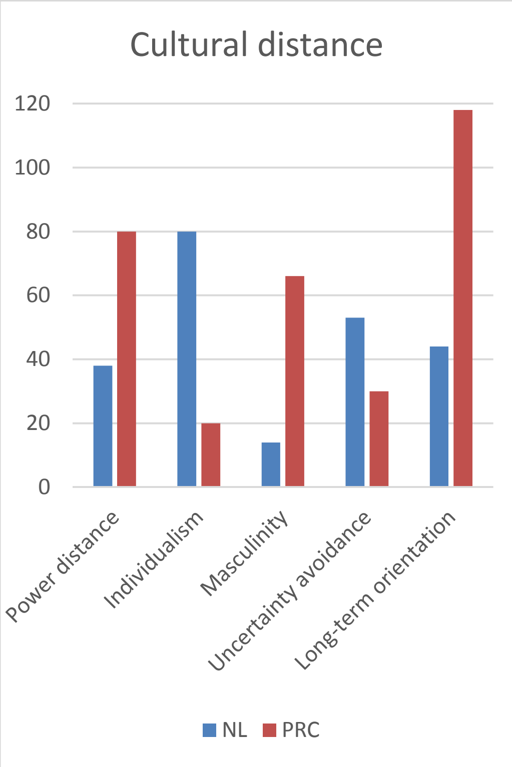

Figure 6: Cultural distance (Hofstede, 1980)

The ECTM does not only focus on political and legal issues. It also focuses on social-cultural matters. The political and legal issues are discussed above and below the focus will be on the social-cultural factor. The cultural distance is part of the PESTEL-analysis. The cultural distance can be measured with the 5 dimensions of Hofstede (1980): power distance, individualism / collectivism, masculinity / femininity, uncertainty avoidance, and long-term or short-term orientation (more details in Appendix D). In the case of NL and PRC the cultural differences are large and this leads to cognitive differences as well. If cognitive institutions of the host country significantly differ from those of the home country, it will be difficult for companies to transfer their routines and/or practices to the subsidiary, because the subsidiary employees might interpret and judge them in different ways (Ferner et al., 2005). This makes the internalization advantage as described by Dunning more difficult and this has a negative impact on the ownership advantage and might even be a reason to not establish abroad (which means no locational advantage).

Wang and Schaan (2008) find that cost of transferring knowledge from the parent company to foreign subsidiaries grows as cultural distance increases and this is in line with Ferner et al. (2005). In this scenario, JVs appear to be the better choice than WFOEs since managers from the local partners facilitate knowledge absorption in the joint venture. Barkema, Bell & Pennings (1996) further note that local partners' unique knowledge helps reduce the risks of entering culturally distant markets. Such local knowledge can effectively compensate for the loss of control in a joint equity arrangement and may encourage companies to choose JVs as their entry mode for China.

Dwyer and Welsh (1985) argue that an organization needs to be characterized by agility and flexibility in order to be effective in coping with environmental uncertainty. This kind of organization tends to be heterogeneous in its affiliations, decentralized in decision making and informal in terms of organizational structure. The transnational or multinational strategy might be the most preferred strategy, because it has the high level of local differentiation/responsiveness that is needed to make decentralized decisions. Further, the BGV seems to be more appropriate, because of the better local networks and the more decentralized structure (compared to the centralized TSV). Another way to deal with the uncertainty is to seek for guidance from predecessors by choosing the same entry mode as its predecessors from the same industry or the same country (Yiu & Makino, 2002).

Further, when doing business in China, firms will face ‘Guanxi’ dynamics. Guanxi refers to the ‘concept of drawing connections or networks to secure favors in personal or business relations’ (Luo & Chen, 1997). This will affect firm’s accounting and market performance positively. From a Guanxi perspective an acquisition might be favored over a Greenfield investment, because then the market will be entered with a partner and in an early stage.

So far, in this chapter the theories of the Theoretical Framework are applied on China. The (dis-)advantages defined by the Chinese government are shown for all the important entry modes. Further, Holtbrügge & Baron found that production in China is preferred over exporting and WFOEs over JVs. The ECTM model of Brouther is also applied to the Chinese context and of the conclusions based on this is that entering with a local partner is preferred, because in that case it is easier to adapt to the local market.

4.5 Locational advantage in China

In paragraph 2.2 was shown that PESTEL-factors influenced the locational advantage of the OLI-framework of Dunning (1980). Especially the social-cultural, economic, political and legal factors are relevant. The technological and environmental factors are less relevant and will not be taken into consideration.

Political: the Chinese government is ‘stable’, because there is only party. Even if there is a change of party leader, the direction of the party will be almost the same. However, for Dutch/foreign companies it is not as stable, which is shown by the theory, questionnaire and interviews. Wu, Li & Selover (2012) show that China has a relation-based governance, while in NL it is rule-based. Yiu & Makino (2002) show the effects on entry mode decision, while Stratford (2013) puts the focus on the practical implications.

Dutch companies really need to be aware of the politics when entering, because the Chinese government can cause a lot of problems. One way to find out in which way the government is planning to change is by reading the latest 5 year plan. In chapter 2 several methods of coping with this political & legal situation are shown, like Guanxi (Luo & Chen, 1997), seeking for guidance from predecessors (Yiu & Makino, 2002) and the agility & flexibility method (Dwyer & Welsh, 1985).

Economic: China’s economy is growing really fast and is already the 2nd largest in the world based on nominal total GDP. However, the GDP per capita is still on a low level, however it is growing fast (as shown in Chapter 1). Chinese consumers will become more and more interesting for the Dutch companies because of the growing wealth, so during the entry companies need to keep this in mind. Another thing to keep an eye is the exchange rates. The figure shows that in 2008 for €1 the exchange is >11RMB, while only 8.25RMB is received for €1 in the beginning of 2014. If a Dutch company invests the same amount of Euro’s in 2014 as in 2008, the company’s investment was in RMB 33% higher in 2008 than in 2014 (ECB, 2014).

Figure 5: Euro vs. RMB

Social-cultural: in chapter 2 it became clear that the cultural distance based on the 5 factors (power distance, individualism, masculinity, uncertainty avoidance and long-term orientation) of Hofstede (1980) is large. This large cultural distance will cause, according to Wang & Schaan (2008) and Ferner (2005), difficulties when transferring routines from the home country to the host country. Therefore in this case a JV is preferred over a WFOE.

Further, China has the world’s largest population, while it is spread over a large surface it still has a lot of big cities. The available workforce is therefore big, however it is not high educated. The population is quite old on average and the population growth rate is low, because of the one child policy. Recruiting competent personnel might be a problem when entering (CIA World Factbook, 2012).

Legal: in paragraph 4.2 the laws and regulations of MOFCOM for the different entry modes are shown. Especially in China it is important to follow the rules of the law. Otherwise the Chinese government has another reason to oppose the company's work next to the ways of counteracting described by Stratford (2013). The employment law and health & safety law in China are not as tight as in the Netherlands.

The PESTEL-analysis will not play a major, decisive role in choosing the entry mode in China, because the effects are quite similar for the M&A, Greenfield and JV, while for exporting it differs a lot. For exporting companies the political, social, technological, environmental and legal factors play a less prominent role, because these exporting companies mainly stay in the home country and will not have the location advantage as described by Dunning. The advantage of the JV is that the Chinese partner often has a lot of knowledge about the PESTEL in their home country.

4.6 Empirical findings
From here on the focus will be on the findings based on the empirical data that was gathered in this research. Note that the informal conversations already took place before the questionnaire was send out towards the Dutch companies in China. However, these informal conversations are not displayed in this chapter/research. Therefore, at first the findings of the questionnaire will be given and after that the summaries of the expert interviews with Reichwein and Stratford will be presented. This is in the chronological order in which it took place during the research. In the last paragraph of this Findings chapter the results of the PESTEL-analysis are shown.

4.7 Findings questionnaire
174 of the 454 companies participated, so that is a response rate of almost 40%. There is a high diversity in the response sample as well as in the database, which will be shown below.

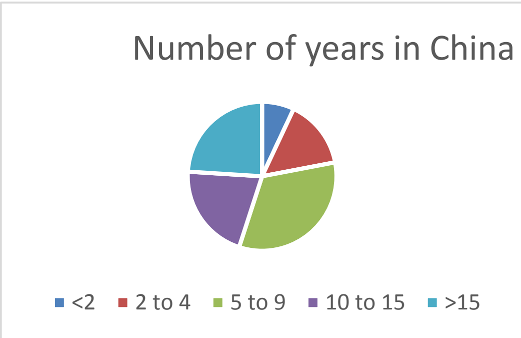

Figure 6: Number of years in China

China is an important market for Dutch companies and this becomes clear when looking at time they have been established there. Over 75% of the Dutch companies in China is longer than 5 years active in the country and almost one out of four companies is active longer than 15 years. According to Reichwein the main reason for companies to enter China was the cheap production, while nowadays it is a combination between the cheaper production and the market that becomes more interesting for selling.

More than half (51%) of the active companies in China chose for the WFOE as entry mode and legal structure, followed by the representative office (18%), the joint venture (10%) and the branch office (9%). The possibilities with the RO, BO, holding and joint stock are quite limited and therefore they are not really seen as entries in this research. Only 13% choses to collaborate with a Chinese partner (JV and joint stock (3%)), while the rest choses to enter alone. The Dutch companies do not seem to appreciate collaborating that much, however for production this collaboration might be not as necessary as for serving customers. No correlation was found between the legal structure and the overall financial performance.

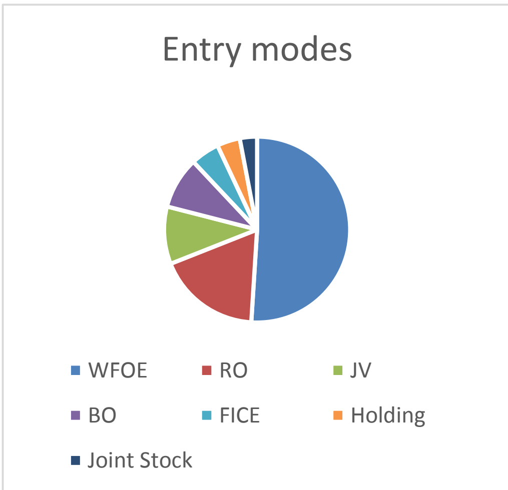

Figure 7: Entry modes

The WFOE, JV and FICE are the most relevant entry modes, because with these modes the Dutch companies are able to sell their products in China.

About half of the companies have only one Chinese foothold, while 17% has more than five establishments. This might be related to the intention as well, because when the company is in China for manufacturing purposes the best solution is one big factory. Companies that want to reach the local customers might prefer to have several establishment in order to be close to the market, because China has a huge surface (see Chapter 1).

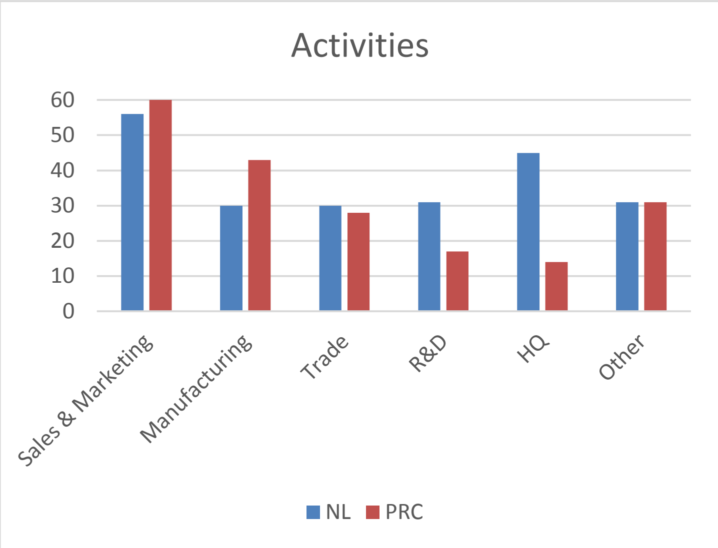

Figure 8: Activities

In the past the main reason for Dutch companies to go to China was to benefit from the low wages and therefore the lower manufacturing costs. Nowadays this pattern is changing, however still a higher percentage of the manufacturing is done in China (43%) compared to the NL (30%). The headquarters (45% NL versus 14% PRC) and R&D facilities (31% NL vs. 17% PRC) are still mostly located in the Netherlands. Sales & marketing (56% in NL and in PRC 60%) and trade (respectively 30% and 28% in NL and PRC) are more or less evenly spread between both countries.

There is a certain overlap between Sales and Marketing and Trade. Further it is not surprising that the Manufacturing is higher in China and the R&D and HQ are more often established in NL, because the companies like to keep control over these important issues. The amount of sales and trade is quite surprising, however the diversity in Chinese customers is so big that there is always a suitable segment (see Chapter 1).

The most companies are active in business to business (86%) and a smaller part business to consumer (34%), business to government (25%) and E-business (5%). However the current trend is more towards business to consumer and E-business, according to Reichwein (2012) and Stratford (2012). A possible explanation for the relative low business to government trade is that the government might prefer Chinese companies.

The Dutch establishments in China are relatively small compared to their Dutch establishments when the employment is taken into account. Only 21% of the sample employs more than 250 people in China, while 60% of the Dutch companies employs less than 50 people. Based on this a conservative estimation was done and according to this estimation the Dutch companies in China directly employ 125.000 Chinese people and 1.500 Dutch expats. China-knowledge is very important and that might be the reason of the large amount of Chinese employees hired by the Dutch companies. Also the low labor costs of Chinese employees might be a reason. The survey proved that large companies perform better in China than SMEs. This might have to with the fact that large companies have more specialized knowledge. Another explanation might be that the large companies are larger simply because they are better than the SME.

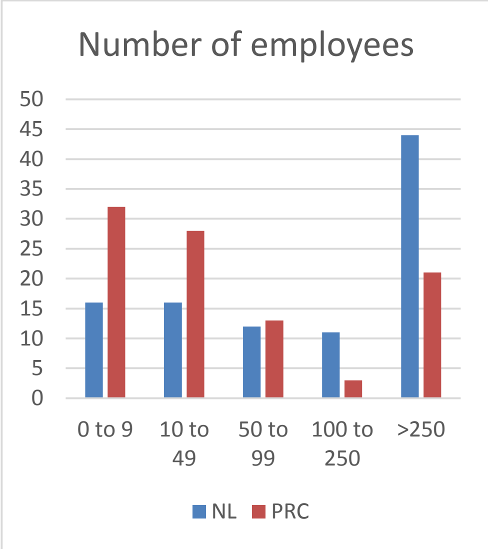

Figure 9: Number of employees

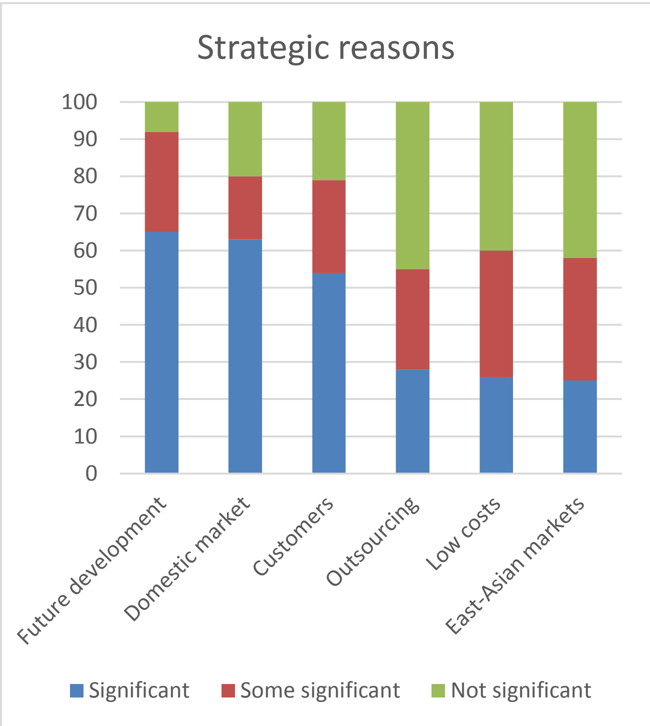

Figure 10: Strategic reasons

The most significant strategic reasons for Dutch companies to operate in China are expected future economic development (65%), the size of China's domestic market (63%) and the demands of customers to operate in China (54%). Outsourcing (28%), low costs (27%) and proximity to East-Asian markets (25%) are less important reasons for operating in China. This proves that the low-cost manufacturing is not the most important incentive anymore, because it is represented by outsourcing (28%) and low costs (27%) and these two strongly overlap. Instead the size of the Chinese market (63%) and the proximity to other East-Asian markets (25%) seems to be more important reasons (also here is a certain overlap). Further, the expected future economic development in China (65%) and the demand of customers to operate in China (54%) are important reasons.

The companies are mainly represented in the sector of Agro-Food (21%), Business Related Services (17%) and the Consumer & Household Goods (13%). The Dutch 'top sectors' represent almost three-quarter of the total amount of companies in China. This is not a coincidence according to Reichwein, because Dutch companies have a lot of expertise in these areas and in China they are quite sensitive for that.

The Dutch companies in China are profitable in 60% of the case and in 20% they play breakeven, while 15% suffers from a small loss and 5% from a large loss. In some cases this has to do with the activities of the company; companies that for example only manufacture will have losses, while it gives a boost to the overall financial performance of the company. However, the smaller sized companies (less than 50 employees) are outperformed by the larger companies. Of the companies that are suffering from losses are 70% the smaller sized companies and 6 out of the 8 companies suffering from large losses are small.

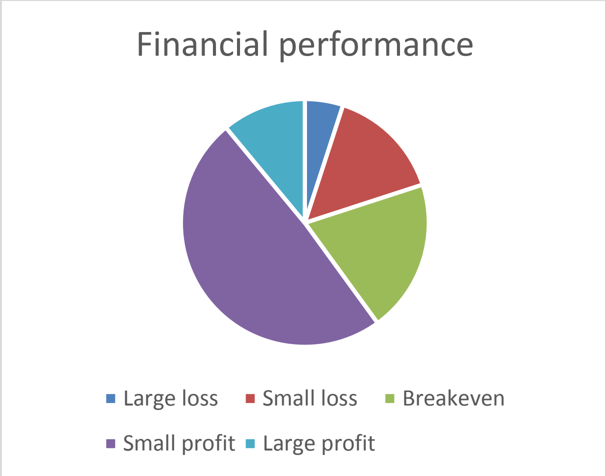

Figure 11: Financial performance

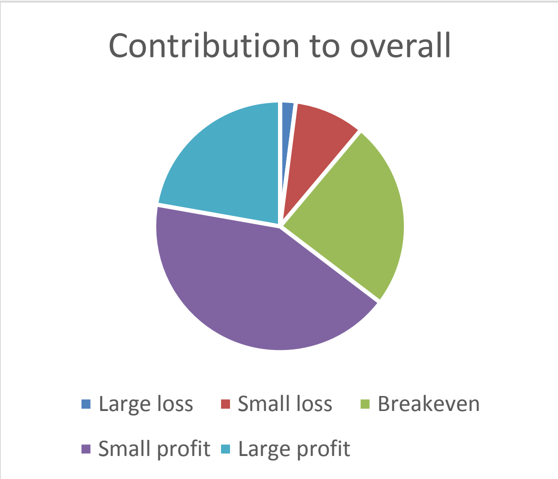

Figure 12: Contribution to overall performance

In only 11% of the time the presence in China lead towards an increased loss on the overall performance, while in 64% it did lead to an increased profit and there was no significant contribution in 25% of the cases. The contribution to the overall financial performance is better than the financial performance in China, because manufacturing companies contribute to the overall performance, while they 'lose' money in China. Start-up companies need some time in order to become profitable and therefore are less profitable than companies that are already established for a longer period. This has to do with the initial investment and also with the adaptation.

The Dutch companies expect to have a bright future in China. A higher turnover is expected for 2012-2013 in 70% of the companies, 60% expect a higher profitability, 53% expects to do a higher investment and half of the companies expect to hire more employees. In the period 2010-2011 this was 65% for turnover, 52% for profitability, 47% for investment and 48% for employees, so the Dutch companies are even more optimistic than 2 years ago. Only the expected growth on number of establishments (13% in 2012-2013 versus 18% in 2010-2011) and the number of expats (12% in 2012-2013 and 14% in 2010-2011) is expected lower than before. This shows that companies perform better as they are longer in PRC.

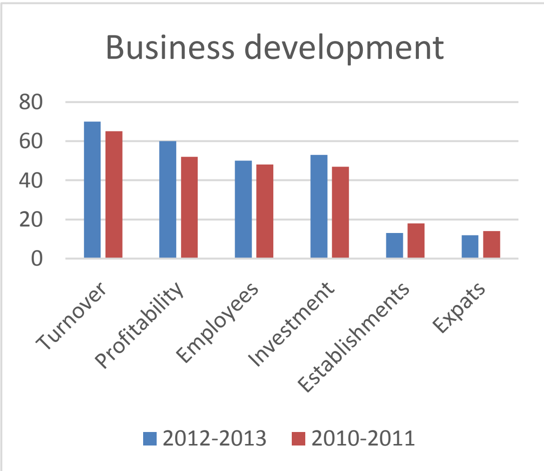

Figure 13: Business development

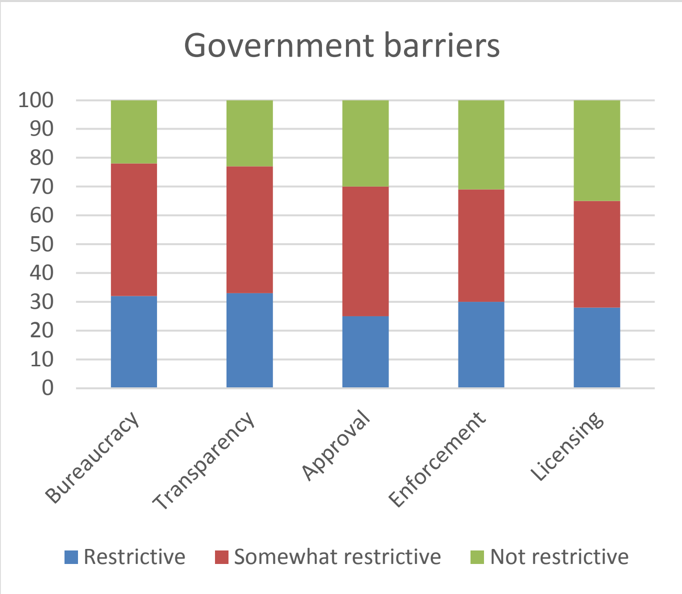

Figure 14: Government barriers

There are several barriers when entering the China as a foreign company. The top 5 is formed by bureaucracy (78%), transparency of Chinese legislation (77%), obtaining government approvals (70%), perceived lack of enforcement of laws and regulations (69%) and licensing procedures (65%). All these barriers have to do with the Chinese government relations and the regulatory environment. The obstacles are both formal and informal, according to the Dutch companies. However, there are differences between industries and regions. Most Dutch companies state that the best way to improve is that WFOEs and local companies are treated equally.

The largest operational barriers are to find and retain competent personnel (64%), import & export procedures and tariffs (56%), labor costs (51%) and repatriation of profits (43%). The import and export tariffs might be a reason to choose for one of the other entries. If a certain Chinese company has competent personnel the Dutch company might prefer a JV or M&A, because that way the company has benefits from that. Labor costs might influence the number of employees and will not have a huge impact on the entry mode.

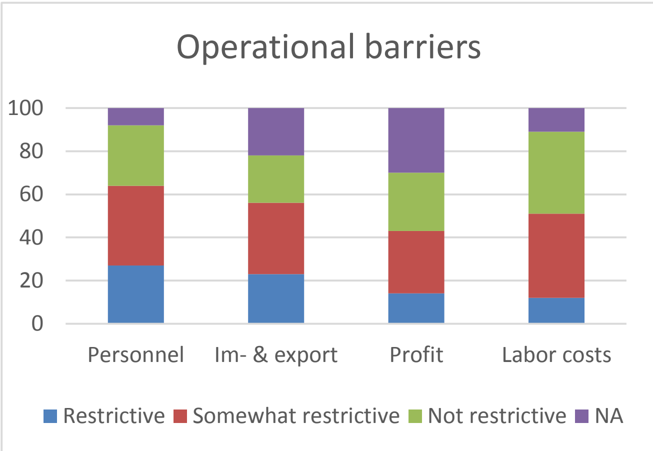

Figure 15: Operational barriers

The activity of the Dutch companies is mainly concentrated around the coastal regions, mostly in respectively Shanghai, Beijing, Guangdong and Jiangsu. There are also a lot of establishments in Hong Kong and the provinces in Western China are growing steadily.

It turns out that smaller companies face more barriers than the MNCs and therefore predominantly smaller sized companies suffer losses. Companies need a long-term approach and a significant investment in order to become successful on the Chinese market.

The Chinese market is becoming more and more a strategic market for the Dutch companies. In 2012 the Netherlands rose to rank eight of investors in China and became second in the EU after Germany. This is mainly caused by the larger companies that invest in production centers and R&D facilities.

4.8 Findings expert interviews

In this paragraph the summaries of the expert interviews with M. Reichwein and T. Stratford can be found. Reichwein will mainly focus on the China context and the Dutch companies, while Stratford will focus mainly on the government role and the law and regulations. This distribution of roles is made based on the experience of the experts.

4.8.1 Interview Reichwein

This interview was held with Miss M. Reichwein on February 4th 2013. She studied the Chinese language at the Leiden University. She lives in Beijing (China) now for several years and she's the owner of China Consult Beijing Co. Ltd. With China Consult she has been involved with several projects of Dutch companies and the fact that she speaks fluent Chinese makes that she has a great insight in the developments and regulations. Therefore Reichwein can be seen as an expert in the field of Dutch companies active in China and the country itself.

A lot of things changed in China in the last 20 years. In the 1980s, before the restructuring, Chinese people were 'equally poor'. After the restructuring, the Chinese population became more like a pyramid with some very rich people at the top, a middle-class and a 'Bottom of the Pyramid' with the poor people instead of only a BoP in the 1980s. Since there are so many people in China, this means that all these different groups are represented by a huge amount of people. Unless the huge surface of China, most people live in the east of China in one of the several metropolis that consist of millions of people.

The economic development took more place in the coastal cities than in the rural villages. These coastal cities are located in the east of China. Normally there would be a lot of movement of employees (from the poor villages to the rich cities), but the Chinese government tries to control this movement with the Hukou system. The system makes it economically less attractive to move from the rural villages to the urban cities, because people who move have to pay expensive penalties. However there are rumors that this might change in the near future.

Which entry mode is 'best' for a company is dependent of several factors, like the goals of the company, the sector in which it is active, etc. Each entry modes has its own advantages and disadvantages; the WFOE makes the company independent, while the JV makes the company less independent. On the other hand the JV makes it easier to access valuable market information via the local firm. An M&A has the advantage that a company can start its business immediately, but on the other hand it's costlier than a Greenfield investment. Exporting is cheap, however the degree of access is limited.

Apart from the choice for the entry mode also the choice for the way the market is entered is important. Reichwein: *'It is very important that companies adapt to the Chinese market, because of the market differences between the Netherlands and China. One typical Chinese adaptation method is called 'shanzhuang', which means 'copy and make it cheaper'. China is well-known for this copying skill and also a lot of foreign MNCs or other companies fear that their product will be copied by Chinese producers. 'Shanzhuang' companies have the advantage that they don't have to invest money in R&D and that they can make 'copies' of the original product and replace the expensive parts by cheaper alternatives. This way of producing can be really cheap and therefore the products become affordable for the Chinese BoP and it can also be adjusted to other consumers. The advantage of the company that made the 'original' product is that they know exactly how they build it and they have exact knowledge over the technology and the production process. Also, the new and adapted product can be brought back from the Chinese market to the home country, because it might fit a new group of customers. The M&A or JV is a suitable entry mode for companies that want to do the 'shanzhuang' adaptation, because then the Dutch company is able to benefit from the Chinese experience with this kind of adaptation.'* This is only one way of adapting to the market. There are several other ways that would also fit in China like selling smaller sizes, other 'selling unit', cost cutting, lower quality, less profit margin and using cheaper components*1.

MNCs have to come up with a good quality/price ratio. In order to succeed it's important to come up with a low price, because most Chinese people are quite price sensitive. On the other hand, the Chinese people still expect a certain quality, so companies need to find a balance for that. There is a great potential in the business to consumer and E-business market. At this moment only 34% of the Dutch companies serves the Chinese consumer and only 5% is doing E-business. However this is going to change fast. The visible trend is that a couple of years ago Dutch companies came mainly for the cheap manufacturing to China. Nowadays the Chinese population is getting wealthier and therefore they become more interesting for product selling. The prediction is that the 34% and 5% will become much higher in the coming few years, based on the current trend.

Another prediction is that in particular the Dutch 'top sectors' will grow fast in the coming years. These companies have a long history with their specialty and therefore they gathered a lot of valuable expertise. The Chinese are attached to expertise, because in their opinion expertise stands for reliability. For the company the experience it has with a certain entry mode might be an important factor as well. If a company already entered Brazil with a Greenfield or Russia with a JV, this experience can make it easier to use the same 'routine' in China.

Also the experience and knowledge of the Chinese partner can influence the entry mode decision. If the Chinese partner has a lot of experience and knowledge, then the Dutch company can learn something of the Chinese partner. In that case the acquisition is most favorable, followed by the JV and the Greenfield. If there is barely any experience, then the Greenfield and exporting is preferred over JV and M&A.

Overview
The Chinese society went from a flat society towards a piramid
Coastal cities had most economic development; Hukou causes that moving is unattractive
Each entry mode has its own (dis-)advantages
Market adaptation is important; Shanzhuang is one of the several options
In the past Dutch companies came for manufacturing; consumer market is option now as well
For Dutch companies their own experience and knowledge is important
The experience and knowledge of the Chinese partner influences the decision as well

Table 9: Overview interview Reichwein

*1 In the appendix E 'Adaptation' several other ways to adapt to the Chinese market are discussed in order to give overview of existing methods.

4.8.2 Interview Stratford

Mr. T. Stratford is a partner in the law firm Covington & Burling (Beijing office) and a member of the International Trade, Corporate and Public Policy and Government Affairs Practice Groups. Mr. Stratford's practice is focused on advising international clients doing business in China. During a meeting in January 2013 he was speaking on behalf of the American Chamber of Commerce about the Business Climate Survey and this was combined with his vision from the laws and regulations point of view. The fact that Mr. Stratford was Chairman of the American Chamber of Commerce in China and that he now works as a partner of an international law firm makes him an expert, especially in the law area.

The treatment of the Chinese government versus Chinese companies and foreign companies differs. The Chinese government has a preference for Chinese companies and often the large enterprises are state owned. This gives the government an incentive to give these state-owned enterprises (SOEs) a preferential treatment, because that will give the SOE a better position and that is an advantage for the government. However, this preferential treatment of the 'own' Chinese companies is not contrary to the rules of the WTO and can be described as 'counteracting'.

If we take a look at top ranked business challenges of United States firms it is true that a lot of them have to do with the Chinese government. The top 5 of business challenges is: management- and non-management level human resources constraints, inconsistent regulatory interpretation/unclear laws, obtaining required licenses, corruption and bureaucracy. 4 out of 5 of these challenges have to do with the government. However these barriers are not contrary to the WTO agreement. The inconsistency and unclearness of the laws have to do with the inaccurate translation and the fact that there are different rules for different sectors with several exceptions, additions and details. This makes it also hard to obtain the required licenses. Especially with the corruption and bureaucracy. The bureaucracy stalls projects and causes delays which makes project less profitable. The US firms complain about the corruption, however the corruption is hard to prove because it is never down on paper. This 'counteracting' of the government is frustrating for the companies. On the other hand, it is hard to make a strong case, because it is hard to prove. Therefore the companies did not go to court so far and another reason that they are not going is that they are scared for reprisal. However there are exceptions, namely in the case that entry is also in the best interest of the Chinese government. An example of this is the dairy industry, because there was a big scandal in China with contaminated milk. This caused a huge demand for foreign dairy products and in order to be able to receive that large the rules for foreign dairy producers became less tight. Especially the Dutch company Friesland Campina benefited.

The Chambers of Commerce of the EU and the US are negotiating with the Chinese government to change this situation and this might lead to (small) improvements in the near future. Giving the Chinese companies the same treatment is not the solution, because this will make things only worse in the future. Stratford: *'The EU and US have to show that the way they are doing things is the best way and once that is proven the Chinese will follow that good example. An equal treatment for Chinese and foreign companies seems to be the best solution for the foreign companies, however it is expected that the privileges for the Chinese companies will not be given up easily. Therefore major changes are not expected to happen on short notice. The advice for companies that enter the market is to enter with a Chinese partner, acquire a company that already possesses these licenses or to hire a specialist in this area. In all the cases the foreign companies should be prepared for these barriers and it is important to take that into account.'*

Based on this the JV seems to be the best entry mode, because in this case the foreign and Chinese partners are equal. The acquisition might be a good alternative, because in that case a lot of licenses are already possessed. However the business is fully foreign owned and that is a disadvantage. Exporting is easier than doing a Greenfield investment, because for exporting less licenses are needed. The Greenfield investment is the worst option in this case, because you have to start from zero and the company is fully foreign owned. In this case an expert is a 'must'.

Overview
The Chinese government prefers SOEs over foreign companies and give SOEs a better treatment
4 out of 5 business challenges of US firms are caused by the Chinese government
Due to negotiations of EU & US small improvements are expected
The advice is to acquire or enter with a Chinese partner or hire an expert
Stratford states that JV copes best with government, followed by M&A, exporting & Greenfield

Table 10: Overview interview Stratford

4.9 Epilogue
In this chapter the theories of chapter 2 are applied on the Chinese context based on literature. Further the findings of the questionnaire and the summaries of the expert interviews are shown. The questionnaire shows that the Dutch companies in China differ a lot from each other on a lot of different

perspectives (sector, activities, etc). However, it is clearly visible that China is an important country for Dutch companies; in 60% it causes a better financial performance (20% breakeven), while the contribution to the overall performance (64% profit and 25% breakeven) is even better, but also the expected business development for the future is positive and companies have several strategic reasons for entering the Chinese market. However, the government and operational barriers remain a problem.

Chapter 5: Practical Framework

5.1 Affecting factors

Based on the theory and the empirical data there are several factors that affect the entry for M&A, Greenfield, JV and exporting. An overview of these affecting factors are given below. At the end of the chapter the affecting factors will be ranked from ++ to -- and put in a framework.

5.1.1 Initial investment:

The acquisition has the highest initial investment, because a whole company needs to be purchased. Greenfields have a lower initial investment, because the company just have to start an establishment abroad. The same goes for JVs, they can share the costs of going abroad with a local partner. However, theory pointed out that if there is a mismatch with the local company, this brings extra costs (that is one of the main reasons for the Dutch embassy to offer a matchmaking). Exporting is the cheapest, because the company does not establish itself abroad.

5.1.2 Degree of access

When a company choses for an M&A its degree of access is the highest, because it already has a market share and a network. However the degree of trust of the local network can be an issue for the Dutch companies. Also with a Greenfield the degree of access is high, because you enter the market independent of another company. With a JV the access is shared with a local company, however this local company might have a good network already which can benefit the Dutch company. With exporting the company does not establish itself on the market at all and therefore the degree of access is low.

A relationship between the initial investment and the degree of access is found. A high initial investment leads to a high degree of access (M&A), while a low investment leads to a low degree of access (export). It can be argued that the degree of access is 'bought' to a certain extend.

5.1.3 Profit (long-term)

Most Dutch companies that are already doing business in China make profits, however the contribution to the overall performance is even better. Companies that want to make short-term profits should chose for exporting, because a low initial investment is needed. Companies that want to make long-term profits should chose for one of the other options, because then you will be able to build relationships. The advantage of the Greenfield investment is that no high purchase costs will be made as with the M&A. On the other hand, one of the findings of the questionnaire was that start-up companies need some time to become profitable and with an M&A you are already a little bit further in that development. An advantage of these entry modes is the full ownership and this makes that the profit does not need to be shared as in the case of a JV.

On the other hand, in the survey there was no relation found between the entry mode and the long-term profitability. One of the reasons of this lack on relation might be the fact that those companies are doing different activities and are active for a different amount of years.

5.1.4 Control over operations:

In the case of the acquisition, Greenfield and exporting there is full control over operations, because the company remains the only owner. Therefore they can make decisions on their own, however the companies still need to adapt to the rules of the government (more about this in the next paragraph). In the case of a JV this is not possible, because the ownership is shared with a local company. Theory sees the shared ownership of the JV as one of the main disadvantages for this entry mode.

5.1.5 Government barriers:

In the survey and the expert interview with Stratford it becomes clear that there are several government barriers. However if we take a close look at these outcomes it seems that there is an advantage for companies that are not fully owned by foreign firms (in this case only the JV). When there is a Chinese firm involved the Chinese government does not seem to cause too much problems, because that will slow down the development of those Chinese firms as well. Acquisitions need less licenses, because that company is already founded. However the acquiring process can bring difficulties. With a Greenfield the company needs to secure that all the licenses will be received, which might cause problems. When a company is exporting towards China, the company is dependent of the government, because when the government decides to protect a certain industry by using import tariffs and barriers the product of the foreign company becomes much more expensive. Exceptions will be made if there is a high need for the Chinese government.

Several authors (e.g. Wu, Li & Selover, 2012; Yiu & Makino, 2002) and organizations (World Bank, 2013; Index of Economic Freedom, 2013) report about the difficulties in China (as shown throughout this research). Therefore it might be not as clear-cut as described in the paragraph above.

5.1.6 Operational barriers:

The main barrier for exporting companies is the import and export procedures and tariffs, while for the M&A, Greenfield and JV the main obstacles are finding and retaining competent personnel, profit repatriation and labor costs. Therefore the exporting companies have less obstacles to deal with than the other entry modes. These results were both found in literature as in the data gathered in this research.

The barrier outcomes are in line with the findings of a similar research executed by the US Chamber of Commerce.

5.1.7 Market knowledge:

The M&A has the most market knowledge, because a company that is already doing business in that industry is acquired. With a JV the Dutch company collaborates with the Chinese firm and in that case the information will be shared (if there is enough trust between the parties). During a Greenfield the company is going alone, however it will benefit from the knowledge of the Chinese personnel, because in the survey was found out that the employees of the Dutch companies are mostly Chinese and relatively a low amount of Dutch expats. Exporting companies do not have market knowledge, because it does not cooperate with a Chinese firm, has no Chinese employees and does not even enter the market with an establishment. However, Dutch companies are not always fully dependent of Chinese partners or personnel for gathering market knowledge, because they can do their own research as well.

5.1.8 Start-up time:

According to MOFCOM is the start-up time for the M&A, Greenfield and JV 3-6 months, while for exporting it is 4-6 months. This information is gathered from an official Chinese government source (MOFCOM), however it does not seem to be very logic. Because for exporting only the transportation and selling needs to be arranged, while in the other cases the company needs to establish itself abroad before starting to sell their product.

5.1.9 Strategic reasons for China:

Exporting has the worst score, because in this case it is not present in China. Therefore it is harder to benefit from future economic development and the size of China's market, while the demand of customers to operate in China is not met at all and there are no benefits of lower costs and it is not closer to other East-Asian markets. With a WFOE it is easier to get the benefits of the strategic reasons to enter China, because it is established in China and the advantages are not shared with a local partner of the company.

5.1.10 Cultural distance:

In the theory became clear that when cultural distance is high that a JV is preferred over a WFOE, because the partner can help with the knowledge absorption. In that regard an M&A is preferred over a Greenfield, because a local company is acquired and this helps for the knowledge absorption. On the other hand, it can be argued that companies doing the Greenfield investment are able to organize their business abroad exactly how they prefer it without coping with other parties. Exporting companies are not hindered by cultural distance, because they stay established in their home country and only sell their product abroad.

5.1.11 Defending intellectual property:

Chinese companies are quite known for their copying skills and that is why a lot of companies are anxious that their idea or patent will be 'stolen'. This risk can be avoided by choosing the right entry mode. With exporting it is hard to defend your rights, because it is not established in China. The company is quite vulnerable when it collaborates with a Chinese partner, because that partner is able to have a close look to that idea or patent during the collaboration. The WFOE is the most save entry mode for protecting intellectual property rights. However it is always remains difficult to protect intellectual property in China, according to specialists like Ben Beune (2013).

Optional factors:

5.1.12 Shanzhuang and other product adaptation:

If the Dutch company wants to adapt using the 'Shanzhuang' as described by Reichwein (2013), then collaborating with Chinese firms via a JV or M&A might be the best option since the Chinese have experience with this method. When doing 'Shanzhuang' with a Greenfield the company can still benefit from the experience of the employees, however the benefit of a collaborating or acquired company is bigger. For export there is no advantage, because they are alone and 'can' not hire Chinese employees with that experience.

The other adaptation methods, as described in the Appendix E: Adaptation, are easier for acquisition, Greenfield or exporting companies, because then the business is independent of other companies and can chose its own path. The disadvantage for exporting companies is that they do not the market really well. In case of a JV the company is dependent, however the collaborating side might have good ideas as well.

If the company does not use any adaptation method this factor should not be taken into consideration. Otherwise the company should choose one of the other option, either Shanzhuang or 'other'.

5.1.13 Partner with(out) experience and knowledge

Also the experience and knowledge of the Chinese partner can influence the entry mode decision. If the Chinese partner has a lot of experience and knowledge, then the Dutch company can learn something of the Chinese partner. In that case the acquisition is most favorable, followed by the JV and the Greenfield. If there is barely any experience, then the Greenfield and exporting is preferred over JV and M&A. On the other hand, this experience might also cause that a company is not able to think outside the box anymore.

5.1.14 Experience with entry mode:

If a company has experience with a certain entry mode, this might be a reason for them to do the same in China. However, when a certain entry mode is already done it can make doing another entry mode easier. For example, when a Greenfield is done before this might make it easier to do an acquisition as well, because when a company knows how to build up something from the start is also knows something about continuing an acquired company. On the other hand, exporting does not have this effect, because companies that have only exported so far will have no experience with establishing abroad.

5.1.15 Foreign strategy:
A JV or M&A fits better for companies with a high level of local differentiation/responsiveness (transnational or multinational strategy), because then these companies collaborate with a local partner and local differentiation/responsiveness is needed for collaboration. When the degree of local differentiation/responsiveness is low (global or international strategy) these companies can easily chose to enter without a Chinese partner, so with a Greenfield investment or exporting.

5.2 Practical framework
As shown above, there are several factors affecting the choice of entry and this can be very confusing for companies. Therefore a framework is presented in order to simplify the choice of the entry mode. This framework consists of all the important entry mode influencers. Then, based on the theory, questionnaire and expert interviews these entry modes get a rating for all those factors varying from ++ to --.

Practical framework about entry mode affecting factors for Dutch companies entering China

Entry modes → **Affecting factors**	**Acquisition**	**Greenfield**	**Joint venture**	**Export**
Initial investment	--	=	+	++
Degree of access	++	+	=	--
Long-term profit	+	++	=	=
Control over operations	++	++	=	++
Government barriers	=	-	+	-
Operational barriers	-	-	-	+
Market knowledge	++	=	+	--
Start-up time	=	=	=	-
Strategic reasons China	+	+	=	--
Cultural distance	=	-	+	++
Intellectual property right	+	+	-	--
Total	**+6**	**+4**	**+2**	**-3**
Optional factors				
Product adaptation *or*	+	+	=	=
Shanzhuang	+	=	+	--
Partner with experience *or*	++	=	+	--
Partner without experience	=	+	=	+
Experience with entry mode	?	?	?	?
Foreign strategy	?	?	?	?
Total	**?**	**?**	**?**	**?**

Table 11: Practical framework

-Weak --Below average =Average +Above average ++Good ?Company dependent

Illustration:
The best performances are ranked with ++, while the worst are ranked with -- star (e.g. the high initial investment of an acquisition is seen as negative and therefore it is ranked with --, while the high degree of access of the acquisition is seen as positive thing and therefore it is ranked with ++, etc.).

Note that this framework is only applicable for companies if there is no government restriction for their industry.

The framework combines the TC (Anderson & Gatignon, 1986) with the IT (Scott, 1995) and these theories together form the ETCM (Brouther, 2002) of this framework. This is done because the government plays a major role in China as shown by e.g. Wu, Li & Selover (2012) and Stratford (2013), but also the culture plays an important role (e.g. Wang & Schaan, 2008; Hofstede, 1980). Therefore it is important that these factors are taken into consideration within this framework.

5.3 Company-specific framework
Not all the factors are equally important for companies. That's why the companies are able to adjust the framework to their situation and their desire by putting a weight on each factor. The companies can put a high weight on what is important for them and low weight on the side issues.

Illustration:
An example in which a company thinks initial investment and degree of access are equally important is given below. In this situation the company should choose for a Greenfield or a JV.

Entry modes → Influencing factors	**Acquisition**	**Greenfield**	**Joint venture**	**Export**
Initial investment	--	=	+	++
Degree of access	++	+	=	--
Total	=	**+1**	**+1**	**=**

Table 12: Old situation illustration

However if a company thinks that the initial investment is twice as important as the degree of access (initial investment stars of the entry modes multiplied by 2) shows a preference for JV or exporting.

Entry modes → Influencing factors	**Acquisition**	**Greenfield**	**Joint venture**	**Export**
Initial investment (x2)	----	=	++	++++
Degree of access	++	+	=	--
Total	**-2**	**+1**	**+2**	**+2**

Table 13: New situation illustration

Chapter 6: Discussion and Conclusions

6.1 Discussion:

The + and - scores given in the practical framework of paragraph 5.2 are made based on the theory, informal conversations, questionnaire and expert interviews, which is quite broad-based. However there is still room left for discussion, because there are opposing views among the different theories (like the opposing BGV and TSV) and differences in performance within companies. Changing the score on one factor might change the outcome of the most favorable entry mode, because another entry mode might end up with a higher amount of +'s.

There is a certain overlap between several affecting factors and this might affect the final results. If one single result affect two factors, in a positive or negative way for both, then the outcome might be less reliable. However, tried was to exclude this duplication as much as possible.

Not all the relations could be measured, because the Embassy did not want the confidential information about the Dutch companies in the 'outside world'. Otherwise more relation could have been measured, for example the relation between the sector the company is active in and the financial performance or the market knowledge and the adaptation method. Since the results are confidential it is not possible to show the relations between the questions. Only the results of the questions can be presented.

6.2 Theory and results

Based on the results of the business survey and the expert interviews it seems that the theory of Johanson & Vahlne (1977) is outdated. Dutch companies moved from the Netherlands to China in one instance for production, while PRC and NL are culturally and geographically very distant. This is not in line with the more gradual theory described by Johanson & Vahlne. Nowadays, some companies make the same step to China, however for selling their product instead of manufacturing. Most companies prefer WFOEs and JVs over exporting from the beginning, which is also not in line with the theory of Johanson & Vahlne (1977) and therefore the companies seem to prefer a BGV (Oviatt & McDougall, 1994). The transnational and multinational strategy in which there is a high level of local differentiation/responsiveness (Som, 2009) seems to be more appropriate for that view. A possible explanation is given by Oviatt & McDougall (2003) as they describe firms that are seeking for competitive advantage in multiple countries, the born global. These companies tend to make more culturally and geographically distant steps in order to accomplish competitive advantage.

The theory of Dunning (1980) is still applicable to a large extend. However, one side note needs to be made. Most Dutch companies in China have internalized ownership-specific advantages, however they also want China-specific information (in order to achieve location advantage). This consideration brings some tension for some companies, because this advantage can be achieved by acquiring or collaborating with a Chinese company, but this goes at the expense of the ownership and internalization advantage. One way of solving these problems is by hiring a specialist that has got some expertise in this area (Stratford, 2013).

The results of the research executed by Holtbrügge & Baron (2013) match the results of this research to a large extend. In both researches exporting does not seems to be preferred by companies and WFOEs are chosen over JVs. However, the results of Holtbrügge & Baron (2013) are more TC based, while this research is using the ECTM as described by Brouther (2002).

6.3 Conclusion

In this research a practical oversight of all the influencing factors that Dutch companies need to cope with when entering China is given. First of all, the entry modes have their own advantages and disadvantages, like the degree of ownership, control, access to the market and initial investment needed. Based on these criteria some of the entry modes were not taken into consideration and the other entry modes (JV, M&A, Greenfield and exporting) were compared with each other.

Also the Chinese context was taken into consideration. This was done based on specific theory on China, informal conversations, a questionnaire and expert interviews. Based on these data it was found out that the Chinese government and the social-cultural differences are the main influencing factors for Dutch companies entering China. The influence of the government and social-cultural differences have different implications and had an influence on different factors.

All together this led to 15 different factors that had an influence on Dutch companies that entered the Chinese market: initial investment, degree of access, long-term profit, control over operations, government & operational barriers, market knowledge, start-up time, strategic reasons for China, cultural distance and defending intellectual property. These 15 factors were ranked from – (weak) to ++ (good) on all the four different entry modes and put in a framework. The acquisition (+6) had the best score based on the affecting factors (optional factors are not taken into account, because they are company dependent), followed by the Greenfield (+4), joint venture (+2) and exporting (-3). However, companies can adjust the framework to their situation by adding more weight to important factors and less weight to unimportant factors. The entry mode that ends up with the highest amount of +'s after that is the most favorable entry mode for that company.

Chapter 7: Recommendations

6.1 Recommendations for practice

For Dutch companies that are about to enter the Chinese market the practical framework can be very useful. All the factors a company needs to cope with are in one simple overview and ranked for each entry mode and this will make the entry mode decision easier. Choosing the right entry mode is important for the company, because once chosen a certain entry mode it is hard to change it into another.

In this research it became clear that China is a country with a lot of growth and potential. On the other hand, China has some characteristics that makes it difficult to do business there. First, the relation with the government can cause difficulties. Difficulties with the government are hard to solve, because the company is dependent of the government to a large extent. Therefore it is really important for Dutch companies to have good government relations and delve into the laws and regulations. This can be done by collaborating or acquiring a local Chinese company or by hiring an expert in this area. The relationship with the government is one of the main influencers for Dutch companies entering China.

Also the culture is completely different compared to NL. Therefore Dutch companies have to adapt to the Chinese market and the people. When a company collaborates with or acquires a Chinese partner it can learn from that partner. Otherwise the company can hire a professional in this area or ask the other Dutch companies for advice.

Next to these factors the company needs to cope with the (dis-)advantages of the entry modes itself as well.

Further, the Dutch embassy can assist you by finding a partner, mediate in conflicts with the government, etc. There are a lot of specialists working at the embassy and a lot of disciplines are represented with a department, like the economic department, political and cultural department. This can be very useful for Dutch companies.

7.2 Future research

The main drawback of this research is that the data of the responding companies could not be viewed into detail. As a result the different sectors, activities and experiences of the Dutch companies in China could not be compared with each other. The results shown are all the results lumped together and show the general results, while the results of companies in the agro-food might be completely different than the results of companies in consumer & household goods and the manufacturing companies might perform completely different than the trade companies. Therefore it would be interesting to investigate these differences in future research.

It will be interesting to see how the companies develop in the future. At this moment there is only one point in time. When there are more points in time it will be interesting to see how the number of years will affect the results, whether the company grows or not, etc.

Further, it would be interesting to see what the impact is of choosing a suitable entry mode versus choosing a non-suitable entry mode. However this difference would be hard to measure since there is no control group to compare the results with.

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Appendixes

Appendix A: Additional information

Context China
The People's Republic of China (also called PRC or China) is a sovereign state located in East Asia. The population in China consisted, according to the CIA Fact book, of more than 1,349 billion people in July 2013 and that makes the PRC the most populated country in the world. China has an area covering 9,596,961 square kilometer, which makes the PRC 4th largest country in the world based on total area. PRC consists of 23 provinces, 5 autonomous regions, 4 municipalities and two mostly self-governing special administrative regions (Hong Kong and Macau). The capital of China is Beijing, also called Peking (CIA, 2013). Mandarin is the official language in China.

From 221 BC different dynasties reigned China, but this ended on 1 January 1912. In 1912 the Qing Dynasty was replaced by the Republic of China and the country became independent since 1 October 1949. Nowadays there is only one political party, the Chinese Communist Party (CCP). The chief of state is Xi Jinping and he is member of the CCP.

China's Internationalization
China is now perceived as one of the fastest growing developing economies called the BRIC(S): Brazil, Russia, India, China (South Africa). The BRIC countries become more and more an interesting place for Foreign Direct Investment (FDI) inflows. In 2000 this accounted for 5.69 percent of the worldwide FDI inflow and this share increased more than threefold in 9 years to 17.44 percent in 2009. The BRIC countries are attractive for FDI primarily because of the high economic growth and the huge market potential (Holtbrügge & Baron, 2013). In terms of import and export is China the most important BRIC-trader for the Netherlands, because $24 billion (56,9%) is imported to NL from PRC and NL exported for $4 billion (40,7%) to the PRC (Internationalization Monitor, 2012).

This FDI inflow changed the status of China. The PRC is not the low wage country that it used to be and therefore a lot of production is moving from China towards other Asian and African countries (Voordouw, 2013). Based on this trend of rising wages in China on the one hand and the lower wages in those other countries on the other hand, it can be concluded that companies that want to enter China nowadays do not especially go for production, but also for the consumer market (Voordouw, 2013).

Future of China's Internationalization
Rapid economic ascendance has brought on many challenges as well, including: high inequality for citizens, rapid urbanization of cities, challenges to environmental sustainability and external imbalances. China also faces demographic pressures related to an aging population (as a result of the one-child policy) and the internal migration of labor (unless the existence of the Hukou system). Significant policy adjustments are required in order to make China's growth sustainable. Experience shows that transitioning from middle-income to high-income status can be more difficult than moving up from low to middle income (World Bank, 2013).

China's 12th Five-Year Plan (2011-2015) forcefully addresses these issues. It highlights the development of services and measures to address environmental and social imbalances, setting targets to reduce pollution, to increase energy efficiency, to improve access to education and healthcare, and to expand social protection. Its annual growth target of 7 percent signals the intention to focus on quality of life, rather than pace of growth (World Bank, 2013).

Go West policy
Another policy of the Chinese government is the ‘go west’ policy. The policy aims for more development in the West part of China and the policy was implemented in 2001. The ‘open door’ and ‘go global’ policy created lots of opportunities for the coastal regions, however not that many opportunities were created for the more ‘Western’, inland regions. The ‘go west’ policy creates chances for these inland regions, mainly by investing in the infrastructure. Still, the ‘go west’ policy has some way to go. The West's share of GDP was only 17.8% of China's total in 2008, with the East still accounting for 41.1% (Moody & Haiyan, 2011).

Internationalization of Dutch companies
The Netherlands has a long trading history with Asia. It started back in 1602 when the Dutch founded the ‘Verenigd Oost-Indische Compagnie’ (VOC or East India Company) and started trading with Asian countries, especially with Indonesia. The VOC went bankrupt in 1798. In the same period, and also in the period afterwards, the Netherlands owned several colonies in Asia, Africa and South-America (Gaastra, 2009). Therefore the Netherlands is a trading country and Dutch people are used to trading and are open-minded towards it. Dutch people are educated in speaking different languages and therefore language does not form a barrier, however only a small part of the population speaks Chinese (Internationalization Monitor, 2012).

Another advantage is the location in Europe – the harbor of Rotterdam is the Gateway to Europe. Approximately 44% of the Dutch imported goods will be re-exported. Apart from this, there are a lot of big Dutch MNCs and SMEs active and successful in foreign countries. Also a lot of different foreign MNCs and other companies have their headquarter in the Netherlands (Internationalization Monitor, 2012).

The way of doing business in the 17th and 18th century completely differs from the business nowadays. However the similarity is that the Netherlands is very active and also quite ‘successful’ abroad in both periods.

Dutch top sectors
In these ‘top sectors’ the Dutch companies have ownership advantage, because they have several years of experience and therefore they possess assets which the competitor do not possess. This in combination with the presence of a Dutch network and the Embassy causes that a lot of local knowledge can be gathered on forehand. That causes that a local partner is not as necessary anymore and the inducement of internalizing. These advantages can be extended by the locational advantage of Dunning if they establish themselves in China.

Research gap
The largest and most cited research done based on foreign market entry in China was conducted by Tse, Pan & Au (1997) between 1979 and 1993. However, since then a lot has changed in China: they joined the WTO, they became wealthier, they introduced the go global policy, they have a new party leader, etc. Therefore the research of Tse, Pan & Au is outdated. Also, the research was focused on investing firms from the U.S., Europe, Japan and other Asian countries and no specific attention was paid to factors affecting the market entry. Recently there was not conducted a large research based on market entries for China and a research specific focused on this subject in combination with Dutch companies was never conducted so far.

The research executed by Holtbrügge & Baron (2013) do not take affecting factors into to account. They focus mainly on the (dis-)advantages of the several market entries based on theory and not on empirical data, while this research is going to do both.

The research gap described is the gap that this research is trying to fill for Dutch companies. Expected is that there is not one single 'best' answer on this explanatory research. Most probably the market entry is affected by several factors and therefore the aim of this research is to find out which market entry is 'best' at a given situation. In order to give an answer to that and to come up with a framework that makes the choice of market entry easier for Dutch companies.

Appendix B: Traditional Stages View vs. Born Global View

Chetty & Campbell-Hunt (2004) made a comparison between two leading, however opposing internationalizations views; the Traditional Stages View (TSV), which is comparable with the view described by Johanson & Vahlne (1977) and the Born-Global View (BGV) as described by Oviatt & McDougall (1994).

Internationalization Attributes	Traditional Stages View	Born-Global View
Home market	Domestic market developed first	Domestic market largely irrelevant (this study requires 75% export ratios)
Prior internationalization experience	None expected	Founder has extensive experience in relevant international markets
Extent of internationalization	International markets developed serially	Many international markets developed at the same time
Pace of internationalization	Gradual	Rapid
Psychic distance	In order of psychic distance	Psychic distance irrelevant
Learning to internationalize	At a pace governed by the ability to learn from (slowly) accumulated experience	Learning occurs more rapidly because of superior internationalization knowledge
Firm strategy	Not central to the firm's motivation to internationalize	Realization of competitive advantage requires rapid, full internationalization; product-market scope is focused/niche
Use of information and communications technology	Not central to internationalization	Key role as enabler of global market reach and learning
Networks of business partners	Used in early stages of internationalization and gradually replaced with the firm's own resources	Rapid development of global reach requires rapid, comprehensive network of partners
Time to internationalize	Not crucial to firm success; slow	Crucial to firm success within a few years of inception (e.g., two years)

Figure 3: Traditional Stages View vs. Born Global View

Apart from all these differences, the TSV and BGV also have similarities. Both theories assert that prior experience and knowledge are important for successful entry into new markets (Chetty & Campbell-Hunt, 2004). Further, for both the BGV and TSV the networks are important, however for the BGV it is more important than for the TSV, because in the TSV the internationalization pace is more gradual and the domestic market 'stays in charge' (Johanson & Wiederheim-Paul, 1975).

Appendix C: Questionnaire

How long has your company been in China?

< 2 years	2-4 years	5-9 year	10-15 years	> 15 years

In which sector is the company active? *More than 1 answer possible*

Horticulture & Base materials	Agro-food	High-tech
Business Related Services	Electronics	Water
Consumer & Household Goods	Manufacturing	ICT
Logistics/Transport	Retail	Chemicals
Creative Industry	Energy	Tourism
Marine/Off shore	Life sciences	Finance
Other, namely …………………………		

Which activity is your company doing in China? *More than 1 answer possible*

Research & Development	Manufacturing	Trade
Headquarter (Domestic, Regional)	Sales and marketing	Other, ……………………

What is the overall number of employees (in China) of your company?

0 to 9	10 to 49	50 to 99	100 to 250	>250

How many Dutch employees are active in China?

1	2 to 4	5 to 9	10 to 25	>25

Why is your company present in China? *More than 1 answer possible*

Demand from customers	For future developments	Outsourcing
Size of the domestic market	proximity to other markets	Low costs
Other, …………………		

Who are the company's customers? *More than one answer possible*

Businesses	Consumers	Government	E-business

How is the company represented in China?

With a Representative Office, that is only aloud to do liaison activities
Wholly Foreign Owned Enterprise, that is fully owned by a foreign company
A Foreign-Invested Commercial Enterprise, that is able to import, export and distribute to/from China
A joined venture, collaborating with one or more domestic (or foreign) companies.

What is the financial performance of the company in China?

Large loss   Small loss   Breakeven   Profitable   Very profitable

How does this contribute to the overall performance of the company?

Increased losses considerably	Increased losses somewhat	No significant contribution
Increased profit somewhat	Increased profit considerably	

When taking a look in the future, do you expect an increase in……. *(more than one answer possible)*

Profitability	Turnover	Investment
Employees	Establishments	Expats

Which of these barriers have caused trouble for your company? *More than one answer possible*

Transparency of legislation	Licensing procedures	Bureaucracy
Obtaining government approvals	Enforcement of laws and regulations	
None of them		

Which of these operational barriers caused trouble?

Profit repatriation	Find and retain competent personnel
Labor costs	Import and export procedures and tariffs
None of them	

How did your company gain access to China?

By sending finished products to China	By taking over a Chinese company
By starting a new facility	By working together with a Chinese company
By doing liaison activities	Other way, by…………………………………………….

Appendix D: 5 dimensions of Hofstede (1980)

Power distance:
This dimension deals with the fact that all individuals in societies are not equal – it expresses the attitude of the culture towards these inequalities amongst us.

Power distance is defined as *the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally.*

Individualism:
The fundamental issue addressed by this dimension is *the degree of interdependence a society maintains among its members.* It has to do with whether people´s self-image is defined in terms of "I" or "We".

In Individualist societies people are supposed to look after themselves and their direct family only. In Collectivist societies people belong to 'in groups' that take care of them in exchange for loyalty.

Masculinity / Femininity:
A high score (masculine) on this dimension indicates that the society will be driven by competition, achievement and success, with success being defined by the winner / best in field – a value system that starts in school and continues throughout organizational behavior.

A low score (feminine) on the dimension means that the dominant values in society are caring for others and quality of life. A feminine society is one where quality of life is the sign of success and standing out from the crowd is not admirable. *The fundamental issue here is what motivates people, wanting to be the best (masculine) or liking what you do (feminine).*

Uncertainty avoidance:
The dimension Uncertainty Avoidance has to do with the way that 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? This ambiguity brings with it anxiety and different cultures have learnt to deal with this anxiety in different ways**.** *The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these* is reflected in the UAI score.

Long term orientation:
The long term orientation dimension is closely related to the teachings of Confucius and can be interpreted as dealing with society's search for virtue, *the extent to which a society shows a pragmatic future-oriented perspective rather than a conventional historical short-term point of view.*

Appendix E: Adaptation

The average PPP in China is lower than the mean PPP in the Netherlands. Therefore if Dutch companies offer their products for the same price in PRC as in NL it might be too expensive for Chinese customers, unless people with the same absolute wealth are targeted. Otherwise the Dutch companies have to find a way to lower the price in order to make it more interesting for the Chinese market and therewith increase their sales. At the end the entry mode that fits best with that particular adaptation method will be given.

Selling smaller sizes: sometimes buying a whole package is too expensive or impractical for a customer and therefore selling the product is smaller sizes might be a solution for the producer. By doing this companies encourage consumption and choice (Prahalad & Hart, 2002). However the price per unit does not change by this, so it does not lead to increased 'affordability' (Karnani, 2006). There does not seem to be an entry mode that is more suitable than another.

Karnani (2006) states that if companies want to sell to poorer people they can lower the prices of goods consumers buy, because that will in effect raise the consumers income. This can be executed in three ways: (1) reducing profits, (2) reduce costs without reducing quality and (3) reduce costs by reducing quality.

Reducing profits: when a company takes less profit margin the price of the product will decrease. If the company on the other hand sells more products, the overall profit can still increase. In that case it is a win-win situation for both the customer and the company. A WFOE or exporting is preferable, because in a JV the partner has to agree on it as well and this can cause problems.

Reduce costs without reducing quality: in that case the cost reduction has to come from the overhead. When a Dutch company was used to produce in the Netherlands, then reducing the overhead expenses is easy, because rent, gas, electricity and wages are lower in PRC than in NL. That way it is easy to lower the costs. If that is not possible, then the company has to come up with a more innovative solution, like being more efficient. A WFOE or a JV is preferred over exporting, because when the production facility is in China the company can benefit from the lower costs.

Reduce costs by reducing quality: this can be compared with the 'shanzhuang' method described by Reichwein (2013). If the expensive parts of the product will be replaced by cheaper the overall price of the product will be lower. However, these cheaper components will usually be a lower quality and that will lead towards a reduced quality. A M&A or JV is preferred here, because then the Dutch company can benefit from Chinese 'shanzhuang' experience.

Frugal engineering: an overarching philosophy that enables a true 'clean sheet' approach to product development. Cost discipline is an intrinsic part of the process, but rather than simply cutting existing costs, frugal engineering seeks to avoid needless costs in the first place (Sehgal, Dehoff & Pannee 2010). A JV might be the best entry mode in this case, because the partner might have a refreshing view on the process.

Working with credit: Other solutions include using credit (when available) to reduce up-front payments and accepting payment in installments. An example of this is *Casas Bahia:* it makes the majority of its profit by charging interest on installment plan purchases, making it possible for low-income customers to purchase products which they would not be able to pay off in a single payment. Another sales technique of the store is to locate cashiers in the back of the store, which requires clients to pass by all the products on the floor each month in order to pay their next monthly payment. For this method you need be 'close' with your customers, because you need to trust them. Therefore a M&A or JV is preferred.

Other 'selling unit': instead of trying to sell each consumer one of the company's products, a company can also try to sell the product to 'a public place'. The owner can buy the product and then make money out of it by renting it to people. This is a good solution in the case that people do not have much money or in the case that the product will not be used that often by one single customer. This can be done in with all 4 entry modes.

Pay-per-use: instead of selling the product a company can also chose to rent it to customers. In that case it does have several small inflows of money instead of one big. Further, the company is still responsible for maintenance. Here is a M&A or JV most suitable, because for every rent you need to have personal contact with the customer.