



## Thesis

# Foreign Market Entry – The strategic decision of an entry mode to China by an environmental technology firm

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<p>This bachelor's thesis was executed for Wind Power Finland Ltd and it concentrates on the strategic decision of a foreign market entry mode to China, especially to the environmental technology markets. The commissioning company, Wind Power Finland Ltd, is a micro-company with four employees that operates in the environmental technology sector. The company was established in 2013. Now Wind Power Finland Ltd wants to expand its business to China, and is therefore looking for the best market entry mode for that.</p> <p>The objective of this thesis is to focus on the foreign market entry modes and the factors affecting the choice of a certain entry mode/strategy. Chinese wind power as an industry and a market is also discussed alongside with Chinese business customs. The goal of the thesis is to come up with recommendations for Wind Power Finland Ltd on what market entry mode strategy to choose that best would suit the company's purposes.</p> <p>The thesis information is based on the theory part, which is mainly collected by desktop studying. Then, based on the theory found, qualitative research was conducted by interviewing two business professionals face-to-face. The collected data was analysed by using a content analysis process by Mayring.</p> <p>Based on the research results and my own conclusions, the best market entry mode option for Wind Power Finland Ltd is either an equity joint venture or a consortium. These modes are contractual entry modes, also called intermediate entry modes.</p>	
<p><b>Keywords</b> Market entry mode, market entry factors, China, Chinese business customs, environmental technology, cleantech, wind turbine, wind power, joint venture</p>	

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# **1 Introduction**

This paper discusses the findings of an empirical study made for a Finnish micro company called Wind Power Finland Oy (Ltd) regarding the foreign market entry modes, the factors affecting the choice of a market entry mode, the environmental technology market, use of wind power in China and the forecast of it, and the Chinese business customs. The outcome of the thesis is to come up with recommendations on what market entry mode or market entry modes to use that best benefit the commissioning company.

## **1.1 Background for the research**

The research is conducted by me, a third year degree student in International Business from HAAGA-HELIA University of Applied Sciences. The research is done for a commissioning company called Wind Power Finland Ltd, which from this point onwards will be referred to as WPF, the case company, or the client company. WPF is a company operating in the environmental technology sector, and it is based in Helsinki. They want to expand their business to China, because the growing environmental technology markets are there and so are the clients.

There is an increasing interest in environmental awareness across China, which gives an opportunity to Western countries to provide expert knowledge and new technologies in key areas such as wastewater treatment, solutions to air and water contamination, and soil improvement. Another thing is that China relies highly on coal and imported oil as a source for energy; this causes a lot of emissions of carbon, air and water pollutants. Therefore, the Chinese government has emphasized alternative forms of energy as a solution to reduce pollution from these substances. (Export.gov 2014a.)

For this reason WPF needs information on the different market entry mode possibilities they could use that would best benefit them for entering into the Chinese markets with their wind power technology, which is a small scale windmill that creates free energy obtained from the wind without producing emissions.

## **1.2 Research objective**

This research focuses on the following key concepts which are: market entry mode, environmental technology, wind turbine, joint venture, and consortium. The main focus is on the market entry mode and environmental technology industry in China. Wind power as an industry in China and Chinese business custom are also discussed briefly as factors influencing the market entry choice of WPF. Field research and desktop research is conducted regarding these concepts, and after gathering and analysing the results, recommendations for an entry mode choice for the case company will be given.

The research question is:

- RQ: What would be the best market entry mode for the client company, WPF, to enter into the Chinese environmental technology markets?

The investigative questions are the following:

- IQ 1: What are the different foreign market entry modes?
- IQ 2: What are the factors affecting the choice of an entry mode?
- IQ 3: What is the current environmental technology market situation in China, and the predicted development of it?
- IQ 4: How are the Chinese business customs and how does the government intervene in business?

### **1.3 Demarcation**

There is one company which is taken into consideration which is WPF. My thesis gives a review on foreign market entry mode strategies, and focuses to China and WPF's product, which is a small scale wind turbine (SWT) called *MyPower wind turbine*. The emphasis is on business to business market. Even though the thesis is an empirical research, I don't focus too much on neither the cultural differences nor the business customs between the Chinese and the Finnish, or go too deep on the legal issues when entering to a market. I want to focus mostly in the different foreign market entry modes and the factors affecting the choice of one entry mode, and try to find out the best possible entry mode strategy for WPF. As for a last focus point, I discuss briefly the use and the development of wind power in China.

### **1.4 Case company introduction**

The case company WPF is located in Lauttasaari, Helsinki, and it operates in the environmental technology industry. It is a small limited liability company that was founded last spring 2013, consisting of four employees with a turnover of 150 000 € last year. WPF has created a small scale wind turbine which can be attached easily to any building and it can be used by households easily.

This wind turbine creates electricity from the energy of the wind. There are three models which are *MyPower Home*, *MyPower Free-time*, and *MyPower Pro*. *MyPower Home* is especially developed for households, *MyPower Free-time* for free-time houses such as summer cottages, and *MyPower Pro* for different kinds of premises. This wind turbine has a power capacity of 2 kW (kilowatts), weighs 70 kg and has four meters of diameter. Therefore, it can be easily attached to any rooftop. If the average wind speed around the year is 5 m/s (meters per second) the yearly amount of energy produced is around 6500 kWh (kilowatt-hour). If the average wind speed would be 7 m/s, the amount of energy produced in a year would be around 14 000 kWh. This means free electricity to people and a significant amount of energy cost savings for households and companies. Therefore, WPF wants to sell this innovation to China where the markets are big, and the use of wind power energy is increasing constantly. The person with whom I am in contact is Mikael Seppälä, the Chairman of the company. Below a picture of how the wind turbine can be attached to a rooftop. The picture is taken from Mikael Seppälä's (Chairman of Wind Power Finland Ltd) slides.

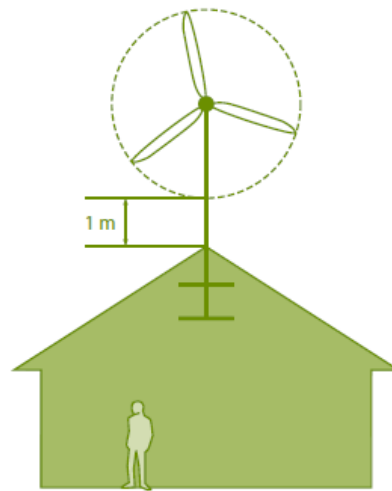


Figure 1. Wind turbine attached to a house.

## 1.5 Key concepts

There are five key concepts I will be focusing on. The first is *foreign market entry mode*, which refers to enter from one country to another, foreign destination country in order to expand the sales of products and/or services there.



The second key concept is *environmental technology* (envirotech), which can be called also green technology (greentech) or clean technology (cleantech). Environmental technology refers to the field of science concerned with lessening the human impact on the environment through technological advances or improvements such as the use of renewable energy sources. Reducing waste and recycling are part of environmental technology as well. Also wind turbines are one area of environmental technology research because they can reduce people's dependence on fossil fuels. (Wise geek 2014.)

The third key concept is *wind turbine*. A wind turbine is, as mentioned in the second key concept, one area of environmental technology research. The wind turbine "is a rotary engine that extracts energy from the flow of wind." (Open EI 2014). So, a turbine converts that energy extracted from the wind into electricity.

A *joint venture* (JV) refers to the situation where at least two companies from distinct countries, with usually one being local, establish a new company to produce products or provide services jointly (Albaum & Duerr 2011, 550).

The last key concept is *consortium*. A consortium, according to Cavusgil, Knight and Riesenberger (2012, 449), is typically a non-equity venture launched by multiple firms to achieve a large-scale project that is formed with a contract, which describes duties and rights of each member company.

In the next page a visualization of the key concepts discussed above.

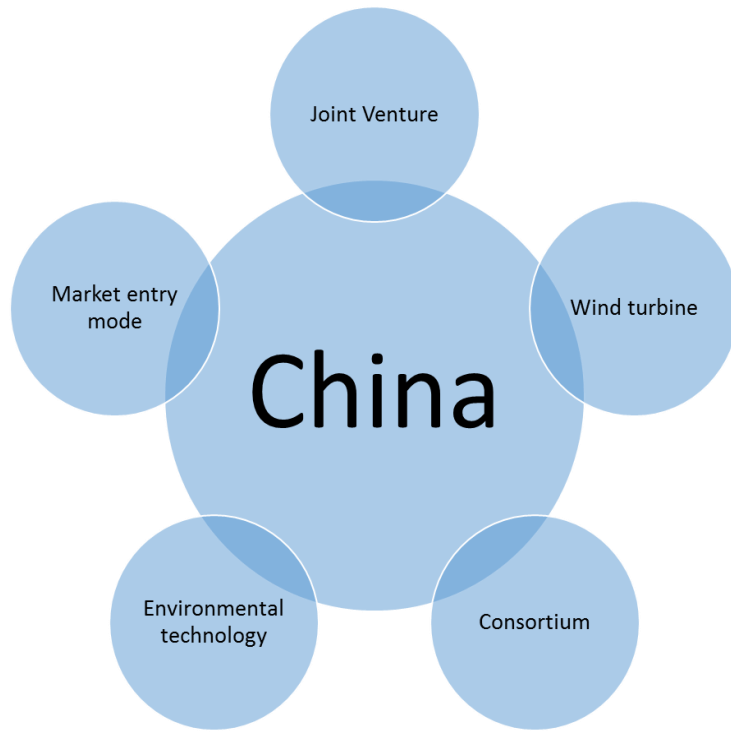


Figure 2. Visualization of the key concepts

## 2 Foreign Market Entry

This chapter discusses the theory, key concepts, and models used in this paper, related to the research study.

### 2.1 Market entry modes

When firms decide to expand and go international they need to decide on a market entry strategy, which comprises of an entry mode and a marketing plan. This might not always be an easy task to do as there are many factors and variables affecting the choice, such as the amount of risk the firm is willing to take, the desired flexibility, the amount of control desired to attain from the entry strategy, the firm's goals and objectives from the foreign venture, the level of competition in that specific market; the financial-, organizational-, and technological resources, and the long-term strategic importance of the market.

Also depending on whether the firm wants to trade products and services, intellectual property, or invest capital and have ownership of a factory, subsidiary, or other facility in the foreign market will affect the final choice. Managers need to think about all of these issues before deciding on the best alternative for their business. (Cavusgil, Knight & Riesenberger 2012, 402-403.)

There are several market entry mode strategies. The modes are divided in three major groups which are export modes, intermediate modes and hierarchical modes.

With an export entry mode, the company's products are usually manufactured in the domestic market or in a third country and then transported directly or indirectly to the foreign host market. (Hollensen 2008, 215-216.)

Intermediate modes consist of contractual arrangements, such as licencing, franchising, joint venture/strategic alliances, or contract manufacturing. These modes differ from the export modes in the way that they are mainly used as vehicles for the transfer of know-how and skills. Here the parent firm doesn't own the entire foreign entry mode. (Hollensen 2008, 228.)

In the hierarchical modes the parent firm usually owns and controls entirely the entry mode. The hierarchical modes are divided into five different modes, which are domestic-based sales representative, foreign sales branch/foreign sales subsidiary, region centres/transnational organizations, acquisition, and Brownfield- or Greenfield investment. (Hollensen 2008, 242.)

All of these different modes will be discussed more in depth further in the following chapter.

### **2.1.1 Exporting**

Exporting is usually the most common entry strategy choice for firms that are in their baby steps of internationalization, because there is a limited need for knowledge of the foreign market and transactions; expenses are lower, it is very flexible, and risk is not that high compared to, for example, a foreign direct investment (FDI) or a joint venture (Cavusgil et al. 2012, 406-407).

The reason why there is a limited need for knowledge about the foreign market, flexibility, and why the expenses and risks are lower as well is that, the local firm keeps its manufacturing activities in its home market, but the marketing, distribution, and sales activities are managed in the export market, usually by an intermediate organization such as an agent or distributor.

There are several export channels available for firms; however, they can be divided in three major types: direct export, indirect export, and cooperative export. (Hollensen 2008, 216).

#### **Direct export**

Direct export refers to the selling of products and/or services directly to an independent intermediary, which can be either an agent or distributor situated in the foreign target market. (Hollensen 2008, 222).

An agent and a distributor are independent intermediaries in the international supply chain, but they are not exactly the same thing. Both represent an exporting company and sell its products, but an agent gets a commission from its services by the exporter whereas a distributor buys the products from the exporter, stocks them, sets the conditions of sales independently, and sells the products to whoever customer it prefers.

So in other words, the main task for an agent is to find the customers for the exporter and sell their products, and depending on its performance, market's size and importance, and competition among agents and exporters, receive a commission. An agent company does not worry about the financing, promotion, or selling prices; that is done between the exporter and the customer. A distributor buys the product from the exporter on its own account, stocks it and sells it for the price they think is most profitable for them.

Then how does an exporter know what type of an independent intermediary to use?

The exporter should evaluate each candidate company's skills, meaning experience and expertise as well as the ability to promote the exporter's products effectively; also the knowledge about the product and the target market, required margins, credit ratings, and customer care facilities are factors to take into consideration when evaluating a candidate.

According to Hollensen (2008, 222-224) an exporter can find an intermediary company from sources such as:

- through leads: asking potential customers to recommend an agent,
- trade associations,
- Chamber of Commerce and government trade departments such as, for example, FINPRO in Finland,
- commercial agencies,
- trying to get a competitor's agent,
- advertising in trade papers/ magazines
- trade fairs

## **Indirect export**

Indirect export takes place when an exporter uses independent export organizations located in its own country to export its products abroad. Thus, it can be said that the manufacturer is not actually participating in international sales activities as its products are carried abroad by others. The indirect exporting method is usually used by firms that have limited international expansion objectives, want to dispose of surplus production, or have not enough resources to go international by themselves and want to enter carefully without having to commit too much at the beginning. (Albaum & Duerr, 446-447; Hollensen 2008, 218.)

In other words, through indirect exporting a firm has the opportunity to utilize the experience and resources of other more experienced exporters to expand its business internationally with little commitment, control and risk.

There are five main entry modes of indirect exporting which are export buying agent, broker, export management company (EMC) also called export house, trading company, and piggyback which is an abbreviation of 'Pick-a-Back'.

“The export buying agent is a representative of foreign buyers who is located in the exporter’s home country.” (Hollensen 2008, 219).

This agent works for the buyers from abroad as a hired purchasing agent and thus it gets a commission paid by the buyer. The main task of an export buying agent is to scan the market for a specific product it has been demanded to buy, and then send specifications to manufacturers inviting offers. From the point of view of an exporter, using an export buying agent is an easy way to export because the movement of goods is usually done entirely by someone else, rather fast payment is usually guaranteed, and there is very little credit risk involved. The only thing the exporter has to do is to fulfil the order/s according to the specifications. (Hollensen 2008, 219.)

A broker is also an agent situated in the home country of the exporter, and its' main responsibility is to bring a seller and a buyer together, so it basically handles the contractual functions. A broker gets a commission of about 5 per cent from the organization/firm that has contracted it. The downside of a broker is that it concentrates in particular products or types of product so its operating range is not that wide. Thus, for an exporter this is not a good thing as it is not a very practical option.

The export management companies are companies who are specialized in exporting and they work for many companies. This means that an EMC can disseminate its selling and administration over more companies and products, and also reduce transportation costs because of the economies involved in making large shipments of goods from various companies. (Hollensen 2008, 220.)

The trading companies operate in many areas of the international business, yet their trademark is the range of financial services offered, such as loan guaranteeing, issuing of promissory notes, and foreign exchange transactions, to mention a few. Also other operations, such as counter-trade activities are another distinguishing operation they conduct. However, the main activity for a trading company is to find a buyer for the products that have been taken in exchange. (Hollensen 2008, 221.)

As for last, as Albaum & Duerr (2011, 458) explain, a piggyback marketing/ piggyback export method refers to the situation where a carrier (the manufacturer) uses its foreign distribution facilities to sell another firm's (the supplier) products together with its own. The carrier can be paid by commission and so it acts as an agent, or it can buy the product directly and so act as a distributor. This type of method is usually used for products that come from distinct companies that are non-competitive, yet related, complementary (allied), or unrelated.

## **Cooperative export/ export marketing groups**

According to Hollensen (2008, 227) the export marketing groups are formed by a group of manufacturers who want to enter export markets, but who have limited resources and skills to do so by themselves. For this reason these manufacturers form these export marketing groups, which means that each have their own upstream functions meaning R&D and production, but they cooperate in the downstream functions through a mutual foreign-based agent. The downstream functions refer to marketing, sales and services.



### 2.1.2 Contractual entry modes

Contractual entry modes, also called as intermediate modes, consist of a set of settlements, such as franchising, licensing, joint ventures, contract manufacturing, counter-trade, turnkey contracting, leasing and management contracts. As the name already alludes, these entry modes are based on specific contracts between two or more different companies doing business.

#### **Licensing**

Licensing is one of the intermediate mode's entry strategies used usually by high-technology firms. As Cavusgil et al. (2012, 464) state, licensing is an agreement that gives one firm the right to use another firm's intellectual property for a certain period of time in exchange for royalties or other compensation such as know-how or products. Usually the licensee needs to pay a fixed down-payment plus a continuous royalty, which is around 2 to 5 percent of gross sales generated.

Intellectual property refers to the "ideas or works created by individuals or firms, including discoveries and inventions; artistic, musical, and literary works; and words, phrases, symbols, and designs" (Cavusgil et al. 2012, 464). There are several kinds of intellectual properties, such as a patent, a trademark, a copyright, an industrial design, a trade secret, and a collective mark. Royalty is a fee paid periodically by the licensee to the licensor.

Licensing is a good alternative for markets where exporting is very difficult for reasons such as import duties and non-tariff barriers that present obstacles to exporters, or simply the impracticability of using direct selling or selling via intermediaries like agents and distributors (Jobber & Lancaster 2012, 196). However, this kind of an entry mode strategy can be used only by firms who have intellectual property; otherwise there won't be anything to license.

Licensing agreements can be divided in two major types: trade and copyright licensing and know-how licensing. A know-how licensing agreement is a contract where a firm

provides technological or management knowledge about how to manufacture a product. A trademark licensing agreement consists of a contract where a firm gives another firm the permission to use its name, logo or characters in exchange for royalties. Copyright gives the owner the exclusive right to reproduce, distribute, perform, display, or prepare derivative works publicly. (Cavusgil et al. 2012, 467.)

The company that gives the right to another company to use its intellectual property is the licensor and the company who uses that intellectual property is called the licensee. A typical licensing agreement consists of one company wanting to use another company's or person's patented product, know-how, trade mark or copyright. As a good example the Michael Jordan clothing and footwear brand that is a very famous trademark which generates millions of dollars to the former NBA-star Michael Jordan.

### **Franchising**

Franchising is a more developed form of licensing where the owner, the franchisor, gives the right to an investor/entrepreneur, the franchisee, to use a complete business concept, brand goodwill and business strategies in return for compensation, usually royalties, which are a certain percentage of the revenues (Jimenez 2012, 165). As with licensing, a clearly defined contract determines the terms of the relationship. McDonald's and Subway are good examples of enterprises which use franchising for their businesses.

There are two major types of franchising that are product and trade name franchising, and business format franchising. In the product and trade name franchising suppliers make contracts with dealers to buy or sell products or product lines. In the business format franchising the franchisor gives, under the conditions of the contract, a whole business format/ business concept to the host country franchisee or master franchisee. The transfer system of the business concept can be set up to be either a direct or indirect system. In the direct system the franchisor controls and coordinates directly the activities of the franchisees, whereas in the indirect system the master franchisee is the one who has made a contract with the franchisor, and has its own subsystem of fran-

chisees in its own country. The master franchisee can be called as a sub franchisor in this case. (Hollensen 2008, 233.)

The main advantage of using the direct franchising system is that the franchisor has more control over the franchisees in the host country, and so it has more control over its foreign market operations. Another plus is that the franchisor can better evaluate, coordinate, and support the franchisees than with the master franchise system.

The main difference between licensing and franchising is that in licensing the owner gives permission of using its intellectual property, for a certain period of time, to another firm in return for compensation, whereas in franchising the owner gives permission of using an entire business concept in exchange for compensation. Another difference is that in licensing the licensor, the owner, provides information and assistance to the licensee until the licensee completely understands its role, but in franchising the franchisor, on top of remitting an entire business method with production, marketing methods, sales systems, procedures, know-how, and intellectual property; it provides the franchisee with on-going support, training, incentive programs, and the right to participate in cooperative marketing programs. (Cavusgil et al. 2012, 466-471.)

### **Contract manufacturing**

Contract manufacturing is a situation where a firm controls its R&D, marketing, distribution, sales and services of its products in international markets, but gives the responsibility for production to another firm located in the target foreign market.

In other words, as Hollensen (2008, 228) defines it, “manufacturing is outsourced to an external partner, specialized in production and production technology.”

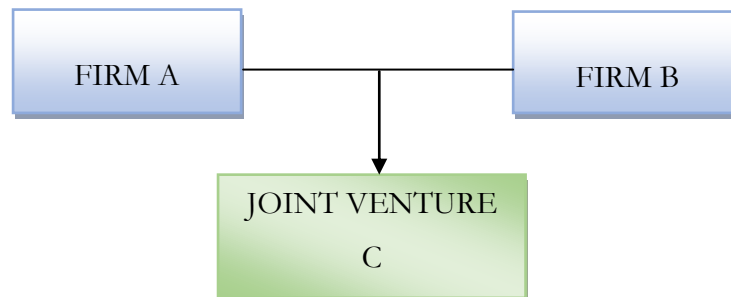
In contract manufacturing the payments from the contractor to the contracted firm are based typically on a per unit basis, so the more units the contracted firm is able to produce the more money will they make. The advantage of this method is that it gives the contractor firm quite a lot of flexibility because if the contracted firm doesn't meet the quality standards, or can't handle the delivery process accordingly the contractor can

just change to another manufacturer, depending of course on the duration of the contract made. (Hollensen 2008, 230.)

### Joint Venture/ Strategic alliance

According to Albaum & Duerr (2011, 550) a joint venture occurs when companies from at least two distinct countries, usually one being local, establish a new company to produce products or provide services jointly. A strategic alliance is more less the same thing. However, the main difference between the two of them is that in a strategic alliance most of the times the parties do not place equity nor invest in the alliance whereas in a joint venture they do. In other words, in an equity joint venture a legal entity, a new shared firm, is created whereas in a strategic alliance partners do not create any legal entity, but separate once they have achieved their objectives. In addition, a joint venture where no equity is committed can be referred to as either a contractual non-equity joint venture or a project-based venture. Because of the definitions mentioned above we can come to the conclusion that a strategic alliance and a non-equity joint venture are the same thing. (Hollensen 2008, 238.)

#### Joint Venture



#### Strategic alliance



Figure 3. Joint venture and strategic alliance (Hollensen 2012, 238)

When talking about international strategic alliances or joint ventures, this means that the different parties are situated in different countries, so clearly this complicates the management process of these kinds of ventures, and may seem to be a difficult way to enter into a new market. However, joint ventures are being found very profitable as cooperation with a foreign partner company may bring new market opportunities and speed up the entry process into a foreign market. It is also seen as a better option than a FDI (foreign direct investment) by the developing countries, and it gives a competitive advantage in the market. (Hollensen 2008, 237.)

Another good reason for entering in a joint venture with another company is that the risks and costs involved in achieving international plans are divided between the companies. Of course, the revenues are also divided, but however, if a company wishes to expand more rapidly into a foreign market, has large-scale goals, or is developing a new technology it will most certainly need help from other companies who may have technology that this focal firm needs to achieve its goals.

According to Cavusgil, Knight and Riesenberger (2012, 447), even though these collaborative ventures can focus on each level of the value chain, they are usually focused on research and development, manufacturing, or marketing, referring to the upstream –or downstream operations.

There are three different types of value chain partnerships: 1. Upstream-based collaboration, 2. Downstream-based collaboration, and 3. Upstream/Downstream-based collaboration. In upstream-based collaboration the companies are collaborating on R&D and/or manufacturing. The second, downstream-based collaboration means that the companies collaborate on marketing, distribution, sales and/or service. In the third type of partnership the companies have different, yet complementary competences at each end of the value chain, meaning that the company who is better at, for example producing the products (upstream operation) focuses on that, and the partner company who is more competent in marketing and sales takes care of that (downstream operation). This is also called an ‘X coalition’, whereas upstream-based –and downstream-based collaborations are called ‘Y coalitions’. (Hollensen 2008, 237-238).

## **Consortiums**

A consortium is typically a non-equity venture launched by multiple firms to achieve a large-scale project that is formed with a contract, which describes duties and rights of each member company. For example, Boeing, Kawasaki, Fuji, and Mitsubishi joined forces to manufacture components of the Boeing 767 aircraft. (Cavusgil et al. 2012, 449).

## **Cross-licensing agreement**

A cross-licensing agreement is also a project-based, non-equity venture where the partners involved agree to use licensed intellectual property developed by the others based on privileged terms (Cavusgil et al. 2012, 449).

## **Other contractual entry strategies**

There are other contractual entry strategies as well, such as turnkey contracts, leasing, build-operate-transfer arrangements (BOTs), and management contracts.

### ***Turnkey contract***

A turnkey contract is an agreement in which one firm or a group of firms “plans, finances, organizes, manages, and implements all phases of a project abroad and then hands it over to a foreign customer after training local workers.” (Cavusgil et al. 2012, 477).

### ***Build-operate-transfer arrangement***

A build-operate-transfer arrangement refers also to a firm or a group of firms that agree to build a facility abroad, usually a significant one, such as a barrage, and transfer it then to the project sponsor, usually the host-country government or public utility. However, this arrangement differs from a turnkey contract in the sense that the firm or

group of firms who built the facility also operate it for a certain amount of years before handing it to the project sponsor. (Cavusgil et al. 2012, 448).

### ***Leasing***

Leasing is a contractual strategy used commonly between firms and authorized car dealers. It refers to the agreement where the lessor rents out machinery or equipment, in these cases cars, to corporate or government clients, which are called the lessees, usually for many years at a time. The lessor maintains the ownership of the machinery or equipment during the whole lease period and receives regular payments from the lessee. (Cavusgil et al. 2012, 448).

### ***Management contract***

Management contracting is a situation where a firm provides managerial know-how to another firm that provides the capital and deals with the operating value chain functions in the foreign country. The custom is that the firm provides the know-how to the local personnel and then leaves. The firm providing the managerial know-how receives its compensation by a fee, which can be fixed regardless of the financial performance or can be based on a percentage of the profit made. (Hollensen 2008, 242).

### 2.1.3 Hierarchical entry modes

When a firm decides to shift most or all of its operations into foreign markets, it goes through different internationalization stages. These stages are the ethnocentric orientation, polycentric orientation, region-centric orientation, and geocentric orientation.

The ethnocentric orientation refers to the situation where a firm is represented by the domestic-based sales representatives, meaning that a sales representative who resides in the home country of the manufacturing company travels abroad to carry out the sales functions. In the polycentric orientation a firm is represented by subsidiaries of the manufacturing company located in the foreign target market. Instead of using domestic-based sales representatives, a firm can have a foreign branch office with resident sales representatives, or establish a wholly owned sales subsidiary. Region-centric orientation refers to the situation where a firm is focusing in a certain region of the world. The geocentric orientation stage is the final stage where a firm is seen as a transnational organization where it tries to integrate and organize operations across national boundaries in a way that would create synergies on a global scale. (Hollensen 2008, 242-249.)

The hierarchical entry modes refer to the modes where the firm entering into a foreign market wants to have full control of its operations abroad. Otherwise, according to Hollensen (2008), they are not hierarchical entry modes, but export modes or intermediate modes. These hierarchical entry modes require a lot of commitment, financial resources, and courage to take risks from part of the firm, but on the other hand, these are the entry modes that yield most profit and give control.

Foreign direct investments (FDIs) can be classified by the form of investment, meaning, whether it is an acquisition, merger, Greenfield investment, or a Brownfield investment; by the nature of investment (wholly-owned subsidiary versus joint venture), or by the level of integration (horizontal versus vertical) (Cavusgil et al. 2012, 444).

#### **Acquisitions**

An acquisition is a direct investment made by a firm to purchase an existing company or facility. This form of investment is favourable to firms that want to have a quick



enter to a market, or want to enter to a market which is already saturated with a lot of competition. Acquisitions are a fast way to start doing business in a foreign country, because when acquiring an existing company the acquirer gets the facilities, equipment, and human resources of the other company as well as access to the suppliers and customers of the acquired firm. However, the downsides of acquisitions are that they are expensive, they entail high risk, and there might be communication and coordination problems between the acquirer and the acquired firm. (Cavusgil et al. 2012, 444.)

### **Merger**

Another type of acquisition is a merger, which refers to the situation where two companies, usually of comparable size, join to form a new larger firm (Cavusgil et al. 2012, 445). As a good example the merge of Disney and Pixar in 2006; Disney bought Pixar with 7.4 billion dollars and made Steve Jobs a board member at Disney (CNNMoney).

### **Greenfield investment**

A firm may also start from scratch and conduct a direct investment to establish a new production, marketing, or administrative facility abroad. This is called a Greenfield investment. A firm may prefer to buy an empty plot of land and build new facilities instead of acquiring another company, because there are no adequate acquisitions targets, there is no financial capability within the firm, or production logistics is a key industry success factor. Also, the fact that when a firm decides to build up a new plant or other facility abroad, they can build and shape it as they prefer as well as integrate the latest technology and equipment into it.

### **Brownfield investment**

Brownfield investment refers to the situation where a firm buys or leases an old facility such as a factory which has been used, to launch a new production activity. As a good example of a Brownfield investment is the purchase of Stora Enso's paper mill building by Google for use as a data centre, in 2009 (Helsingin Sanomat).

## **Wholly-owned subsidiaries versus joint ventures**

A firm may prefer to establish a subsidiary abroad, which means that this subsidiary would be owned and ran by the owner company, but it would need to operate and conduct business according to the laws, norms, and taxation of the host country where it is located (Hollensen 2008, 244).

As told previously, joint ventures can be either equity joint ventures or contractual non-equity joint ventures (strategic alliances). If a company decides to enter into an equity joint venture with a foreign company, a situation where it has to invest money in it, and it wants the majority ownership of the venture, it could be said that this company is using a hierarchical entry mode as it is committing equity directly to this international venture. But, if a company enters into a contractual non-equity joint venture, also called a strategic alliance, then it would be an intermediate entry mode.

## **Vertical integration versus Horizontal integration**

As a last way of sorting foreign-direct-investments, is by looking whether the integration is vertical or horizontal. Vertical integration refers to the arrangement whereby a company owns, or aspires to own, several stages of a value chain for producing, selling, and delivering a product or service whereas in a horizontal integration a company owns, or aspires to own, the activities performed in a single stage of its value chain. (Cavusgil et al. 2012, 445).

## **2.2 Factors affecting the entry mode choice**

A firm's decision on a certain entry mode depends on multiple factors. These factors are divided into four main categories, which are:

1. External factors
2. Internal factors
3. Transaction-specific behaviour
4. Desired mode characteristics

These different factors will be discussed in more detail in the following chapters.

### **2.2.1 External factors**

The external factors affecting the choices of an entry mode by managers are those factors that cannot be controlled or influenced by the firm. These factors consist of market factors, production factors in the target market, environmental factors such as economic, sociocultural, and political factors. Also the target market's degree of risk, direct and indirect trade barriers, degree of competition, and availability of intermediaries are external factors. (Cavusgil & Ghauri 1990, 21-22; Hollensen 2012, 224-225.)

The market factors are very important when determining the mode of entry. If the target market is large and has good growth potential companies will be more willing to engage more resources to it, and consider the option of entering via a foreign-direct-investment, or participate in a joint venture. On the other hand, if the target market size is small and perhaps even in a remote geographical location, companies may prefer to use exporting or contractual agreements such as licensing or franchising as an entry mode. (Hollensen 2012, 225.)

The environmental factors such as the sociocultural distance between a company's home country and the host country have as well a big impact on an entry mode choice. The sociocultural aspect refers to the similarities or differences of two countries when comparing their cultures, educational levels, business and industrial practices, or languages. Hence, if a company's home country differs socioculturally a lot from the host country, the company might not feel very comfortable to invest a lot into that target

country, and therefore favour joint venture agreements or low-risk entry modes such as exporting indirectly instead of direct investments. (Hollensen 2012, 224.)

Other environmental factors that will affect the choice of an entry mode are the economic instability issues like a country's weak balance of payments, which leads to restrictions in imports or devaluation of the exchange rate. Wars, recessions, and political issues such as policies and regulations in tariffs, quotas, and other barriers will have an effect as well. (Cavusgil & Ghauri 1990, 21-22.) In these situations firm's prefer to either use hierarchical entry modes or intermediate entry modes.

Country risk and demand uncertainty are also things that firms face when entering into a new foreign market. As mentioned above, the risks can be economical, political or sociocultural, so firms need to conduct a risk analysis of the market and the method of entry before entering into it. In a situation where country risk is high, firms prefer entry modes that involve low resource commitments, such as exporting. (Hollensen 2012, 224.)

According to Cavusgil (1990, 22) when the production costs are high and the infrastructure such as transportation, ports and communication are poor, local production is not favourable. Here a firm may want to consider using a hierarchical entry mode and establish a subsidiary in the foreign target market where production costs are lower.

Fierce competition in the host market has a great effect on the internationalization decisions of foreign companies, because such markets are typically not so profitable and therefore, heavy investments and commitments are not seen worthy. Therefore, companies will favour export modes as these don't require high resources. In contrary to markets with high competition, there are highly concentrated markets which have only a few "big players" who run the entire show; this leads to small number bargaining possibilities, which leads to a monopolistic situation. In these cases the markets are in the hands of a few export intermediaries. To avoid such opportunistic behaviour, firms

should use hierarchical modes of entry such as acquisitions or Greenfield investments. (Hollensen 2012, 225.)

### **2.2.2 Internal factors**

The aspects concerning things happening within a firm are referred to as internal factors. These factors consist of the size of a firm, amount of international experience, and product and service characteristics.

A firm's entry mode alternatives increase if its resources in management, capital, technology, production and marketing become more ample. A good indicator of firm's resource availability is the size of the firm. Small- and medium size enterprises (SMEs) usually lack resources, such as capital necessary to enter into a market with an entry mode that would provide high amount of control. Therefore, many SMEs start with the export entry modes. (Cavusgil 1990, 22; Hollensen 2012, 223.)

Also the international experience of a company and the physical characteristics of a product or service are important factors which will determine the internationalization process of the company. The degree to which a company has been dealing with international operations and environment, will affect the entry mode choice. Companies that have a lot of international experience know how things work, have good contacts, and therefore, are more comfortable with taking more risks and commit more resources to foreign markets. A company like this is more willing to make a foreign direct investment (FDI) such as, for example, a wholly owned subsidiary abroad instead of using exporting or intermediate modes of foreign market entry. The characteristics of a product or service, such as the value, weight, size and material from which it is made of, define where the production will be conducted. The nature of the product or service may vary a lot and that's why it has also an impact on the choice of an entry mode. (Hollensen 2012, 223.)

For example, when a product is very technical it usually requires after sales services, meaning that, after selling the product the company may need to provide after sales services to the customer, such as installation, training and so on. The marketing and

sales intermediaries in the foreign market may not be able to handle them. Thus, it is better if the company uses a hierarchical entry mode and establishes an own wholly owned subsidiary from where it can offer these services with more ease.

### **2.2.3 Transaction-specific factors**

As the name already indicates, transaction-specific factors refer to the factors related to the transactions made by a company. The transaction-specific factors are divided into transaction costs, and the tacit nature of know-how. The transaction costs refer to “the ‘friction’ between buyer and seller, which is explained by opportunistic behaviour.” (Hollensen 2012, 58.) These can be calculated by the equation: ex ante costs (search costs + contracting costs) plus the ex post costs (monitoring costs + enforcement costs). Search costs are the costs originating from finding and evaluating the best export intermediary candidates. Contracting costs refer to the costs emerging from negotiations and writing contracts between two parties. Monitoring costs are those costs associated with monitoring that agreements are followed. Enforcement costs come from sanctioning procedures against a trading partner who doesn't perform as agreed in an agreement. (Hollensen 2012, 59-60 & 227.)

Transaction costs occur when there is no fair competition in the markets; in other words, there is friction between the buyer and the seller. The fact is that there is, and will always be, some friction between the buyers and sellers because someone will always try to benefit by misleading or lying the other party. To avoid this, parties sign contracts which define clearly the rights and obligations of each party.

Firms use a transaction cost analysis (TCA) framework to calculate the friction between them and another party they are doing business with. Obviously, firms will try to choose the best possible solution that minimizes the sum of costs. However, firms have two main alternatives of governance markets, either externalization meaning that they do business with an external partner or internalization where they integrate an external partner into their own organization. (Hollensen 2012, 60.)

Tacit refers to something that is unwritten or unspoken, something difficult to express in words (business dictionary). Tacit knowledge has often to do with services, where functionality is very hard to express. Because of this reason, companies in these situations prefer to use the hierarchical modes where they can use human capital and insert their organizational routines to organize the transfer problem (Hollensen 2012, 227).

#### **2.2.4 Desired mode characteristics**

Depending on the type and age of a company, the product or service they want to sell, and the management, a company may want and need more control over international operations, which means that more resource commitment will be needed as well. Also, the more control a company wants in international markets, the more risk it will need to take and less flexibility it will have.

If the top managers of a company prefer not to take many risks in international operations, they will vote for the export modes or intermediate modes such as licensing, because these comprehend low amounts of investments financially, and don't require much commitment from part of the management.

When a company strives for a lot of control in a foreign market it prefers to invest in a wholly owned subsidiary or even a Brownfield or Greenfield investment (hierarchical modes). Nonetheless, these require significant commitment of resources. If a company lacks, for example, financial resources to establish a wholly owned subsidiary or a new facility abroad, they may want to enter in a joint venture, where they own the majority; like this they would have most control over the joint venture. Companies need to consider also the flexibility related with a certain mode of entry. The export modes give most flexibility for companies to withdraw from the international market if needed, but the intermediate modes (contractual agreements and collaborative ventures) limit that possibility because of the agreements and involvement of other companies. The least flexible are the hierarchical modes, as they require the most equity investments. (Hollensen 2012, 226-227.)

## **2.3 Chinese business customs**

The Chinese way of doing business has differed in the past significantly from the way of how Westerners do business, and it still does to some degree. Although Chinese business customs are shifting all the time more towards the Western style, and have changed a lot in the past decades, yet some differences can be seen. As from a cultural aspect, Chinese are seen as collectivists whereas Westerners are seen as individualists, and that obviously has made a difference when conducting business activities.

However, according to Chao (2012, 31-32) after the Cultural Revolution in China, the “Confucianism’s teachings and its emphasis on group harmony, education, respect for elders, and honesty” were vanished, and most of the people that are still in the labour market, and with which business operations are dealt, are from the Mao Generation. Therefore it can be assumed that collectivism and group harmony are not the dominant cultural characteristics in China anymore.

Another important issue is that history has had a substantial impact on the Chinese government structure and administration policies. In the following paragraphs these issues will be discussed more thoroughly.

### **2.3.1 Guanxi**

According to Chao (2012, 11) guanxi refers to a person’s connections in general, but specially towards important and influential people in significant positions, who could perform favours for you. This doesn’t differ from the Western culture, as there also having connections with influential people is beneficial, and they are used all the time.

The difference is in the degree of favours made. In the Western societies it is typical to ask for a favour from a friend or relative for something special, such as asking your friend to recommend you to a job, or getting you free tickets for a movie, or a free entrance to an event. In China, the favours have meant much more important things. During the Chinese long history, people lived in poverty and guanxi was used for the basic necessities of life, such as food, shelter and garment. In the Mao-era guanxi was



used for getting good education, good housing, good jobs, and in general a better life. Nowadays, things have changed; *guanxi* is not as important as it was in the past. Nowadays it is more or less seen the same as the connections in the West. (Chao 2012, 11-13.)

### **2.3.2 Other beliefs**

As many may think, the importance of eating, drinking, socializing, as well as trust and harmony are not anymore seen that important compared to the past. Of course these things matter, but they won't ruin your business deal. Good manners, politeness, respect toward the other party, profitable partnerships and contracts of sale, as in the Western countries, are things that will matter the most when doing business in China. Since Mao's communist era ended, things have changed a lot in China. China has been developing fast and it has a huge and rapidly growing market, where creativity and innovations are occurring like in the Western countries.

One thing that has remained very important is *Mianzi* which means face. Not losing face in China is important, because it is the same thing as having a bad reputation, and this will affect the business. So, if a Western company would want to have one important thing in mind when doing business in China, it would be the importance of *Mianzi*. (Chao 2012, 17.)

### **2.3.3 Chinese government structure and administration**

China is divided into 22 provinces, has five autonomous regions and four municipalities which are Beijing, Chongqing, Shanghai and Tianjin; as well as two special administrative regions that are Hong Kong and Macao. The highest organization of state power is the National People's Congress (NPC). The National People's Congress meets once a year every October and, when not in session, a Standing Committee runs its powers. According to Reuvid (2008, 47-48):

The NPC and its Standing Committee have the powers to:

- amend the constitution;

- interpret laws;
- enact decrees;
- ratify treaties;
- appoint ambassadors;
- approve economic plans and reports on their implementation;
- approve the state budget and reports on its implementation;
- declare war and sign peace treaties.

The central administration system in China consists of the central administrative organs that conduct leadership over local administrative organs at several levels. According to Reuvid (2008, 48) these four principle organs of state administration are:

- the State Council;
- the Supreme People's Court;
- the Supreme People's Procuratorate;
- the Central Military Commission.

There are also local National People's Congresses, which are called the local People's Congresses. Local governments are divided at five levels with a hierarchical system, meaning that decision making is conducted by a top-down way and reporting is conducted from the bottom-up. The hierarchical tracks under each provincial government are, as stated by Reuvid (2008, 51), as follows:

- urban track:
  - city governments;
  - district/county governments;
- rural track:
  - municipal-level district governments;
  - county/county-level city governments;
  - township governments.

All the provinces, including the autonomous regions and municipalities have provincial governments; these provincial governments are limited by the State Council, which has

the jurisdiction to decide on the division of responsibilities between the central government and provincial administrative organs. Another important fact is that Chinese cities have different official rankings, meaning that they have a different administrative status and a certain degree of independence from the provinces they belong to. So, these cities, instead of reporting to the corresponding provincial department, they report directly to the central level departments. (Reuvid 2008, 51-52.)

This separation of powers between the central government and the provincial or local governments leads to the inconsistency that exists between laws that just sit on the books and the ones that in fact are enforced. In other words, the central government proposes and makes the laws for China. However, whether the laws will be enforced or not, is up to the provincial governments. The provincial and local governments may monitor all the laws, but it is unusual, because often these local governments have not enough resources to do so, or then they just choose the laws that are convenient to their city's best interest or to them. Another thing is that in Chinese law legal principles such as punitive damages, indemnification or force majeure are either non-existent or seldom promoted and enforced, because the judicial system lacks the experience and interpretative skills to interpret the law on daily business situations. Finally, the fact that the Chinese central government has great influence on the court's decisions, makes it really hard for a foreign company, especially a small- or medium size company, to win any case in China against, for example a Chinese company, which usually are state owned companies. (Chao 2012, 79-87.)

For foreign firms, especially small-and medium size, it must be very confusing to understand how things really work, and how should they conduct their operations in China as there are so many different administration and government levels which have to be taken into consideration, in addition to the corruption. Furthermore, for the small- and medium size enterprises it is hard to enforce Chinese contracts as they don't have neither the sufficient financial nor political power in China, compared to multinational enterprises (MNEs). Therefore, it is important for foreign firms to familiarize themselves with these issues well before starting a venture in China, and if possi-

ble have contracts written down in English, and stating that which country court system will be used in situation of conflicts.

As mentioned in the Tekes' magazine *Groove* (2014, 5) "Knowledge of legislation and the decision-making process is a must when entering China."

## **2.4 Wind power usage and development in China**

The first wind farm in China was established in 1986 in Rongcheng, in the Shandong Province. Since then there has been a lot of progress in the development and usage of wind energy. In fact, nowadays China is one of the largest producers of wind power that has a current installed capacity of 75 gigawatts (GW), and their aim is to achieve 200 GW by the year 2020. China has also set up a law called the "Renewable Energy Law" which focuses on building a sustainable energy system based on renewable energy and encourages companies and people in China to act in a sustainable and eco-friendly way. As a clean renewable energy, wind power has the most economic value compared to all the other renewable energies, and China has great wind resources. (Bao & Ni 2007, 371; BBC News 2014a.)

According to the study of Bao and Ni (2007, 372) "the estimated value of wind energy resource nationwide means the wind potential at a height of 10 m above the ground." After calculations the total wind energy potential at a height of 10 m in China has been estimated to be 3226 GW, and the practical wind energy potential at a height of 10 m has been estimated to be 253 GW. In addition, in the coastal areas where wind speed is much higher, the wind energy potential is around 750 GW. The feasible annual energy production of wind power has been estimated to be 632.5 terawatt hours (TWh). Thus, 750 million tons of carbon dioxide (CO<sub>2</sub>) can be reduced each year if all of the wind energy resources are utilized.

The windiest areas can be found in the grassland or Gobi of northwest, north and northeast China, or in the coastal areas and islands in eastern and south-eastern China (Bao & Ni 2007, 372).

As mentioned before, there is constant development in the wind power sector in China as well as in the Cleantech (clean technology)-sector in general, so there is need for new technologies in that sector, and there is market for foreign manufacturers. In fact, most on the manufacturers are from countries outside China having a market share of 70.6 per cent. Domestic manufacturers cover 29.4 per cent of the market. (Bao & Ni 2007, 373.)

As we can see, the figures of the division of the market between domestic and foreign manufacturers are from 2007, meaning these figures are seven years old which makes one think that the situation may have changed after that.

Now the Chinese government has set renewable energy as a strategic priority and through subsidies supports the push for wind. Chinese companies are catching up in technology and the market share difference between foreign companies and Chinese companies is narrowing (BBC News 2014a; CCTV 2013). I believe that even though the market share difference is narrowing, there will still be need for Western technology in China in the future.

### **3 Methods**

This chapter describes the methodology and methods used in this research process; in other words: what was done; how and why.

The methods used to collect information for this empirical research were the use of secondary data from desktop studies and primary data gathered through qualitative research. The desktop study refers to gather information from already existing data, such as from books, journals, articles, and other public domains; data that has already been collected by others for another primary purpose than the research project at hand (Burns & Bush 2014, 122).

These research methods and the results gathered, as well as issues that came up during the study will be discussed more in detail in this chapter.

#### **3.1 Primary data**

A qualitative research refers to gathering information directly from a person or a group of persons by observation or interview, and then analysing and interpreting it (Burns & Bush 2014, 146). The reason why a qualitative research method was chosen is that it gives a better understanding of people, their sayings and ways of doing things. It permits the researcher to see and understand the context within which decisions and actions take place. (Myers 2013, 5.)

Cohen, Manion & Morrison (2011, 219) refer to it as a method that provides an in-depth, complex and detailed understanding of actions, attitudes, behaviours, intentions, meanings, and perceivable and non-perceivable phenomena.

As mentioned previously, the primary data was collected by qualitative research, more specifically, by conducting face-to-face interviews. The reason for that was that like this the researcher could gain more in-depth information about the reasons behind the choices made by Finnish managers when deciding to internationalize. Choices of an entry mode strategy, and understanding which factors affected the choices and why.

The researcher could see and better understand the thoughts which explain why some decisions and actions take place (Myers 2013, 6).

According to Wolcott (1992, in Cohen et al. 2011, 223) naturalistic researchers should focus on the stages of experiencing, enquiring and examining. Hitchcock and Hughes 1989, 57-71; Bogdan and Biklen 1992 & LeCompte and Preissle 1993 give an even more detailed set of stages in the book *Research methods in education* by Cohen, Manion & Morrison, that can be followed. These are presented in the following figure 5.

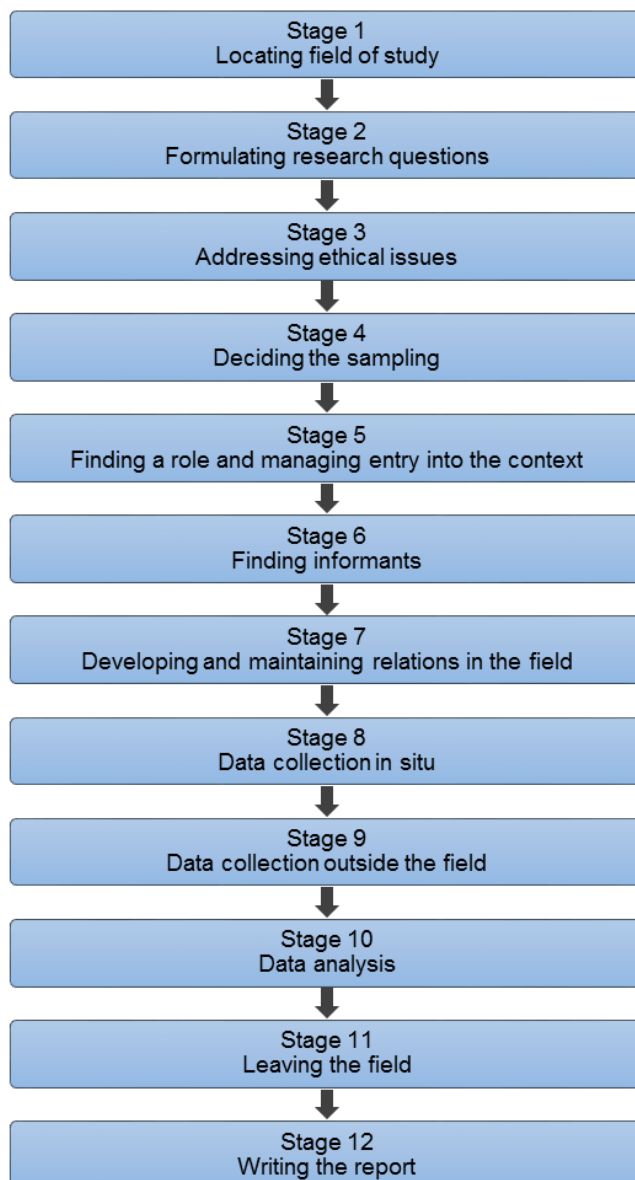


Figure 4. Stages in the planning of naturalistic, qualitative and ethnographic research (Cohen et al. 2011, 223)

As can be seen above in figure 5, there is linearity in the stages. However, Flick (2009, in Cohen et al. 2011, 223) explains that the process might not be like this in real life situations as different elements might arise at different times and come into focus during the research process. Therefore, the process can be seen also as a circularity of elements which belong to qualitative research. The following figure demonstrates this circularity of elements.



Figure 5. Elements of a qualitative research design (Cohen et al. 2011, 224)

Nevertheless, in small-scale qualitative researches such as this one, not all of the stages mentioned above necessarily apply. The researcher may not need to go through all of them, if the field work does not take much time. For example, the researcher may collect qualitative data on a 'one shot' basis by conducting qualitative interviews or quali-



tative surveys. (Cohen et al. 2014, 223-224.) Conduct qualitative interviews is what was done in this research project to collect primary data.

### **3.1.1 Qualitative interviews**

As Myers (2013, 5) defines it, a qualitative interview gives a better understanding of people, their sayings and ways of doing things. It permits the researcher to see and understand the context within which decision and actions take place. “It gives voices to participants, and probes issues that lie beneath the surface of presenting behaviours and actions.” (Cohen et al. 2011, 219).

Therefore, the persons who were interviewed were Ilkka Homanen and Juri Virkki. Ilkka Homanen is the head of industry energy, environment, forestry and cleantech in Finpro. Finpro is an organization that helps Finnish companies to go abroad by giving them advice on internationalization. They act like consultants for the companies and businessmen. For example, a Finnish company can go and buy a marketing research service for a certain market they would like to enter from Finpro.

Juri Virkki is the former Chairman of a medium size company called Konepaja Ceiko Oy (Ltd), which operated in the machine engineering industry. They produced goods such as engine blocks for ships. This company went bankruptcy in 2012.

The first interview took place on the 16<sup>th</sup> of April in Salo, the interviewee was Juri Virkki. The second interview was scheduled for the 5<sup>th</sup> of May with the interviewee being Ilkka Homanen. Both interviews took around 40 minutes; both were recorded with a recorder so that the interviewer could fully concentrate on the actual discussion and not have to be writing notes down constantly, just some key words and phrases.

The following table illustrates the questions that were asked during the interviews from both interviewees.

Table 1. Interview framework

Investigative questions	Questions asked during the interviews
<p>IQ1: What are the different foreign market entry modes?</p>	<p>Q1: “What was the reason behind the decision to go to China?” → “Which entry mode did your company use and why?”</p> <p>Q2: “What have been the typical entry modes to China by small Finnish cleantech-companies, which have worked with Finpro?”</p>
<p>IQ2: What are the factors affecting the choice of an entry mode?</p>	<p>Q3: “Which factors and/or what things affect the choices of an entry mode?”</p>
<p>IQ3: What is the current environmental technology market situation in China, and the predicted development of it?</p>	<p>Q4: “How do you see China as a market for new environmental technology solutions?”</p> <p>Q5: “What is the situation of the Chinese wind power industry now?”</p>
<p>IQ4: How are the Chinese business customs and what is the government intervention in business?</p>	<p>Q6: “Which challenges did your company face when entering to the Chinese market?”</p> <p>Q7: “In which ways can a foreign company protect their IP, in this case technology, when entering into a joint venture with a Chinese company?”</p>

### 3.1.2 Responses

#### *First interview*

The questions made for the first respondent, Juri Virkki, were: “What was the reason behind the decision to go to China?”, “Which entry mode did your company use and why?”, “Which challenges did your company face when entering to the Chinese market?” and “How do you see China as a market for new environmental technology solutions?”

According to Juri, the reason was that all their clients knew that the markets were in Asia, so in a way the customers demanded it. Therefore, they (Konepaja Ceiko Oy) decided to contract a firm to do them a market research about the Chinese market. After this there was the big question of how to enter into the Chinese market? What entry mode to choose? After thinking about it they decided to enter with the Greenfield investment instead of acquiring a Chinese company, or entering into a joint venture with a Chinese partner, because they didn't know what type of risks they would face. They didn't know with what type of laws they would have to deal with, if they would acquire a Chinese company; and with the joint venture, they didn't believe that they would find a reliable Chinese partner with whom they could do business with. Therefore, they invested in establishing a completely new factory of their own that they could control and operate completely by themselves and knowing the risks.

After deciding the entry mode with which to enter the Chinese market, the next step was to face and overcome the challenges that came with establishing a company, which was completely foreign-owned, to China.

The first challenge was to get the business license, which can take several months to get. In China it is quite complicated, because there a company needs to have first a premise before it can apply for the business license and start its business. The premises in China consist of only walls, windows and doors, so the infrastructure such as electricity, water system, heating, ventilation system, etc. all needs to be taken care of completely by the foreign company.

Then, as China's 22 different provinces all have different interpretations of the official laws set by the National People's Congress of China, it is really hard for a foreign company to know how to proceed and whether a law that is said to be in force really is in force. In other words, dealing with the local authorities is a challenge.

Corruption is another challenge as it is really happening all the time in China, according to Juri. Many companies give bribes to the authorities to get things done faster and easier, but companies that decide not to pay anything illegally, face a lot more difficulties to get the legalities and paperwork done.

Meetings with the local authorities can also be challenging because if a big boss from the local government comes to a meeting, also a boss of equal importance from the foreign company needs to be present even though they wouldn't say a word in the whole meeting. It is just about the credibility and respect towards each other. However, for the foreign company it may seem useless, and a way of stupidly spending money to have a Chairman of its company to fly all the way to China just for one meeting.

The Chinese authorities are constantly watching and evaluating whether the foreign company's operations are going according to the business license. Thus, as a foreign company you must follow the different clauses of the labour code just by the book. However, the Chinese companies don't have to follow them as accurately.

In China the provinces and the business parks have their own tolls, which means that the custom duties and ways a company can import goods in one place vary from another place. For example, the quotas, tariffs, and payment amounts for the customs in Shanghai vary totally from Peking or Suzhou, so it is very hard or even impossible to trust in anything promised. Predictability is really hard in China; companies must be prepared for the unexpected.

As for a last thing that could be seen as a challenge is the payment of invoices. In China it is normal that a Chinese company pays an invoice with a lot of delay, even two

years! But, on the other hand a foreign company can also benefit from this and act in the same way, and according to Virkki, sometimes they did.

Virkki says that in his opinion China will definitely need new technologies related to environmental technology solutions and renewable energies, because of the constant growth of the Chinese economy, which causes a lot of emissions that pollute the environment.

### ***Second interview***

The second person interviewed was Ilkka Homanen. The questions asked to him were similar as for the previous respondent. However, as Homanen was representing Finpro, which is an organisation helping Finnish companies to internationalize; the questions asked were more ample, focusing in the majority of small Finnish companies. The questions asked were: “What have been the typical entry mode strategies to China by small Finnish cleantech-companies, which have worked with Finpro?”, “Which factors and/or what things affect the choice of an entry mode?”, “What is the situation of the Chinese wind power- and Cleantech industry now?”, “In which ways can a foreign company protect their IP, in this case technology, when entering into a joint venture with a Chinese company?”

According to Homanen, Finpro works mainly with small- and medium size companies, not so much with micro-companies such as WPF Oy. Nevertheless, what Finpro suggests to companies is to have a solid base in Finland before going international. Also the value proposition has to be in order. After this, it is time to start thinking about the internationalization. However, there are some born global companies, usually information technology- and entertainment media companies that are ready to step into the international world of business from the very beginning.

For the rest, it is very important to have a partner in China who knows how things work, how the legislation works, how business is conducted, and most important, meet the right people and build the right relationships and connections with the local gov-

ernment officials and politicians. So, having a partner, a consultant for example who knows to do business in China, is crucial.

Another common way small companies enter to foreign markets is by consortiums, which refers to a group of companies all entering together to a foreign market, and like this help each other as well as share the risks. For example, there might a be a company that produces cars who wants to enter to a foreign market, and its´ suppliers who supply components and parts for it enter with it at the same time. Also exporting by using distributors or agents is a way that has been used by Finnish companies to enter the Chinese market.

Overall, it is really important to have contacts in China, like in any country. A foreign company can´t just go there alone. There needs to be a person, a contact, who will arrange meetings with people who have influence; the so called top-down method. First you meet the top managers, politicians and people who control how things work, and then you meet less important people in the sense of the influence they have. This is because of the Chinese mentality and way of doing business. They are authoritarian according to Homanen.

Protecting the technology and the know-how that a foreign company brings to the Chinese market is hard and very expensive, says Homanen. “It is hard because Chinese will copy any product, technology or invention in general if they can, and they don´t care about the copyrights or patents; and if a foreign company decides to go to the court to solve these kinds of disputes it will take time and a lot of money.” However, there are some things a foreign company can do to at least reduce the risk of being a victim of infringements with respect to its intellectual properties.

One very important thing is to find the correct partner with whom a win-win situation can be established. Secondly, market adaptation, meaning that the price level is attractive to the Chinese market, is important even though the technology would be superior in relation to the price. According to Homanen, many times Finnish companies believe they can ask a really high price for their technology because it is so good, but that is

not the case. The price has to be as high as it can be in China even though the technology would be worth much more in Western countries.

Thirdly, combining the Finnish and the Chinese know-how by finding a product development partner in China is a good way to start working in China as well as be more cost-efficient. With a Chinese partner other sources for components and parts needed to produce the main product can be found, and they might be cheaper to get.

As a market, China is one of the biggest countries looking for clean technology-solutions, because the economic growth speed has been tremendous and so has the urbanization. A lot of new buildings have been built during the past years, and this has had an effect on the country's environment.

Nowadays China has a lot of problems with contaminated water and soil, as well as with polluted air; and the biggest problems are culminated in the big cities such as Beijing and Shanghai. Therefore, the need for clean technology-solutions is big.

### **3.2 Secondary data**

The secondary data refers to the information collected and produced by others for some other primary purpose than the research project at hand. It can be used for forecasting, corporate intelligence, international data, public opinion, market performance, and historical data, among others. Secondary data can be used to support a project or a study, and for understanding a topic more in detail. It is classified into two categories: internal secondary data and external secondary data. Internal secondary data is data that has been collected within an organisation whereas external secondary data is collected from outside an organisation. (Burns & Bush 2014, 122-124.)

Secondary data has its pros and cons as everything does. The most significant advantage is that it saves time and money, and is nowadays, rather easy to access because of the advanced technology; everything can be found on the Internet. Secondary data can be also used as a comparison tool to support or compare the primary data gath-

ered. However, a researcher must keep in mind that not all the sources of information are reliable, and hence, be critical and collect secondary data from trustworthy sources.

The secondary data collection in this research focused on gathering information about the different foreign market entry modes, the most general factors affecting entry mode choices, and the Chinese business customs and its governmental structure. The data was collected from topic related books, articles, and studies founded in the Internet.

Data from the Chinese wind power industry/Cleantech-market was mainly collected from articles, online sources, and studies of professional organizations such as Finpro and Tekes.

### **3.3 Data analysis**

“Qualitative data analysis is the interpretation and classification of linguistic (or visual) material with the following aims: to make statements about implicit and explicit dimensions and structures of meaning making in the material and what is represented in it.” (Flick 2014, 370)

According to Huberman, Miles & Saldaña (2014, 12-13) data analysis has three simultaneous flows of activity. These are data condensation, data display, and drawing and verifying conclusions. The process of selecting, focusing, simplifying, abstracting, and/or transforming the data that arise from the field notes, interview transcripts, and other empirical materials is called data condensation. Data display refers to an organized aggregation of information that allows conclusion drawing and action. The last activity is drawing conclusion from the data that has been collected, analyzed, interpreted and elaborated. (Huberman et al. 2014, 12-14.)



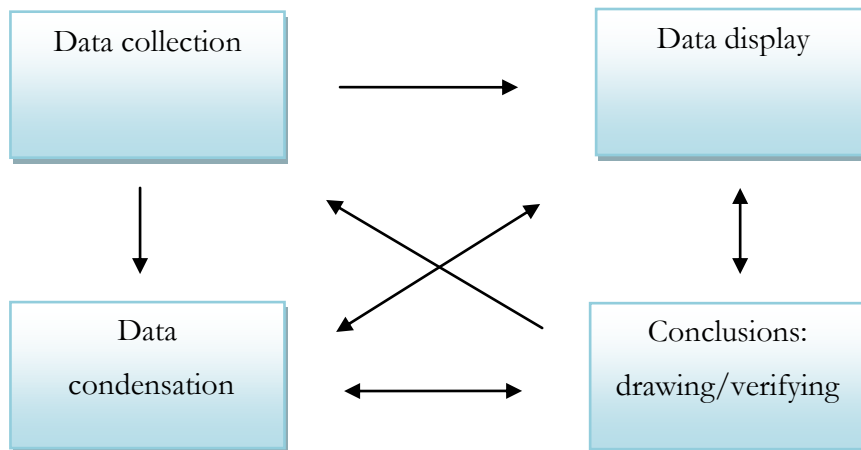


Figure 6. Components of data analysis: Interactive model by Huberman & Miles (1994, in Huberman, Miles & Saldaña 2014, 14).

In this research work, a data analysis model providing a basic guide for the content analysis process by Mayring (2004, in Flick 2014, 429-431) was used for analysing the obtained data. The process contains five steps, which are the following:

First thing to do is to ***define the material*** and understand what things are relevant for answering the research question. In this thesis that was done by checking the research objective and the focus of this research process, and then going through the data collected from the interviews and secondary data sources.

The second step is to ***analyse the way the data was collected*** by asking questions such as: how was the material generated, who was involved, who was interviewed, and where did the documents to be analysed come from? For this research the data was collected, first, from books, articles and web-sources. This was secondary data that was used for the theory. The primary data was collected by interviewing two business professionals by a traditional face-to-face method.

During the third step ***the material is formally designated***, meaning that, how was the material documented and was there an influence on the transcription of the text when it was edited? Here the main purpose of the thesis and the research objective was

reviewed once again, and then, based on that the data collected from the interviews and desktop study, the obtained data/material was written down to the paper to answer the investigative questions and the main research question.

The fourth step deals with the *actual interpretation of the analysis*. In this part the research question of the analysis is defined again and the researcher defines what he/she aims to do with the material in the analysis. Here the focus of this research based thesis was reviewed again and the data collected was categorized in a way that it would be useful for answering the main research question of this research. In other words, after the data was collected and written down, the relevant information was taken to answer the investigative questions, and through that the main research question.

In the last step the *analytic units are defined and the results are interpreted*, so at this phase the results obtained from the data were interpreted and based on these, conclusion were made, and recommendation were given to WPF.

### **3.4 Results**

In this chapter the results gathered from the interviews will be discussed to see how they answer the investigative questions.

#### **3.4.1 Market entry modes and factors**

The results collected from the interviews and the theoretical part address that small-, and especially micro-sized companies such as WPF should have a local partner in the foreign country they intend to enter, who would then help them to get started. This kind of partner could be a consultant who has been doing business a lot in the focal market, or it could be a local partner company. Like this the company wishing to enter into the foreign market could get things done easier by getting advice on how things need to be managed, and get appointments with important people in the government and local authorities. Thus, things such as finding the premises, getting the business license, establish logistic operations, finding potential customers and local suppliers

would become much easier to get as well. This would lessen the risk of failure in the foreign market. Therefore, a joint venture or a strategic alliance would be a good entry mode option. Other market entry mode strategies that could be used are consortiums or exporting through distributors or agents because of the lower amount of risk and financial resources these entry modes entail. Also the amount of commitment needed in exporting would be lower compared to a FDI.

A micro-sized or small company should not try to internationalize before having a partner and a solid base in its home country, unless it is a born global-company, such as many IT-companies and entertainment companies usually are. Also, it should have the value proposition in order to convince the foreign market that their products, or they as an organization, will generate value for the customers. Market adaptation of the product/s to the foreign market, meaning that the price level is attractive in the foreign market is, as well, important.

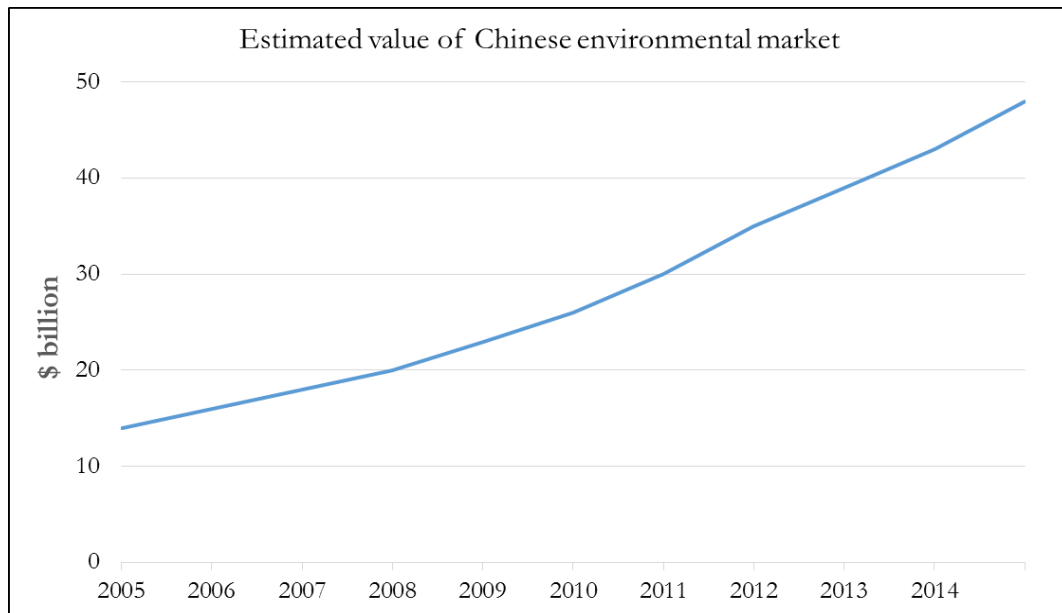
Medium sized (over 250 employees) companies as well as large companies (over 500 employees) usually have already a solid base in the countries they originate from, have more capital, and have more resources to enter into foreign markets compared to the small ones, so the need for them to have a partner is not so important. However, having a reliable partner in the country you intend to enter is of a great help for them also, because then “the getting started-phase” becomes easier.

### **3.4.2 Environmental technology market situation**

The need for new technology related to wind energy solutions as well as environmental technology solutions in general is clearly high in China. There is demand for it. As mentioned previously in the beginning of this study, China is increasingly more and more interested in technologies that will conserve the environment as well as in alternative energy sources. This gives an opportunity to Western countries to provide expert knowledge and new technologies in key areas such as wastewater treatment, solutions to air and water contamination, and soil improvement. (Export.gov 2014a.)

In the following table (Table 2.) there is presented the estimated value of Chinese environmental market from the year 2005 until 2014, and it clearly shows that the market value has been increasing year by year and will continue to increase. Thus, we can assume that there definitely is demand for environmental technologies.

Table 2. Estimated value of Chinese environmental market. (Export.gov 2014b)



### 3.4.3 Business customs in China

The Chinese businesses, mostly state-owned, have an advantage in their own country and are treated better than the foreign ones in the way that apparently they are not being controlled by the authorities as closely as the foreign companies. The Chinese government has a big influence in business life so dealing with the government and local authorities is very common, and having a good relationship with them is preferable. Getting the business license in China may take several months, and interpreting the laws can be really frustrating as all the 22 different provinces interpret the law differently, usually in their own favour. A foreign company needs to be prepared for the unpredictable all the time. Also corruption is something that is widely seen in China. The best option for a foreign company is to find a reliable partner in China with whom to make business; like this, things will run much more smoothly.

### 3.5 Summary

As a summary, micro-sized companies as well as small companies should have a solid base in their home market before thinking to internationalize their business. They should also have a clear vision of what they can offer to the foreign market and in which way; in other words, have a clear value proposition as well as understanding in which way best adapt their products to the foreign market. Having a partner company or a contact person in the foreign target country where one intends to enter is very helpful and almost crucial for companies with neither much international experience nor financial strength, as it will ease the process of entering and getting started, and lessen the risk of failure. This is, especially, essential for the micro-and small companies which don't have a lot of resources, do not create that many jobs, nor have that much of an influence towards the local authorities of the foreign country compared to large corporations.

The need for new environmental technology solutions is high as there is an increasing interest towards the protection of the environment among the Chinese people and the government. Also the market forecasts show potential growth in this sector.

## **4 Research description**

In this section, the overall research experience is discussed by covering the different steps that were taken in the research process. Also the most time consuming steps of the process are discussed briefly.

### **4.1 Research overview**

The whole research experience was very interesting and pedagogical. There was a lot of information to search for, and the research topic was very recent in the world, so finding information such as articles and studies related to the topic was not very hard. Actually there was much interesting information that could have been added to this thesis, but then this work would have been too vast and demarcation would not have worked as planned. The hardest part of the research was to get the interviewees for the interviews, and then compress the important things they said to this work so that it would make the most sense.

### **4.2 Reading literature and conducting the interviews**

The theoretical part of this research was based on the literature about international - and global business, Chinese business customs, and articles related to clean technology and wind power as well as other information found from the Internet. The process of searching, finding and reading the literature was done during January and February, and written down during March. The interviews were conducted in April and May. The data (answers) was analysed and written down in May after which conclusions and recommendations to WPF were made.

### **4.3 Understanding Chinese business customs**

For this part, most of the information was found from books that were consulting books explaining the ways how to conduct business in China, and how and why Chinese people behave in the way they do. However, much new information about the Chinese business mentality came to light during the interviews, yet a lot of similarities

that had been found from the books could be seen in the answers that the interviewees gave.

#### **4.4 Coming up with recommendations**

After analysing, combining and understanding all the information gathered, conclusions were made and recommendations to WPF were thought. The recommendations to WPF are based on my own thoughts and conclusions about the information found from the literature, articles, and from the interviews.

## **5 Discussion**

In this chapter key findings of the empirical research are discussed followed by the benefits of this thesis for the company and the author's professional specialization track. Then the recommendations for the commissioning company, final conclusion, and an overall self-evaluation of the thesis project by the project manager is presented.

### **5.1 Key findings**

The foreign market entry modes can be categorised in three main groups, which are the export modes, intermediate or contractual modes, and the hierarchical modes. The export modes entail lowest amount of risk and control, require the least amount of capital, and in most cases commitment, but are the most flexible.

The intermediate modes are more or less in the middle, between the export- and hierarchical modes and so, they are a bit more risky and give more control, require more capital and commitment than the export modes, and are not so flexible.

The hierarchical modes are the most risky ones with much control, commitment and costs, and usually the least flexible. Nevertheless, the hierarchical modes bring the biggest profits to a company.

Getting a business license in China may take several months to get. In China it is quite complicated, because there a company needs to have first a premise before it can apply for the business license and start its business. The premises in China consist of only walls, windows and doors, so the infrastructure such as electricity, water system, heating and ventilation system needs to be taken care of completely by the foreign company.

Then, as China's 22 different provinces all have different interpretations of the official laws set by the National People's Congress of China, it is really hard for a foreign company to know how to proceed and whether a law that is said to be in force really is in force. In other words, dealing with the local authorities is a challenge.



Corruption is another challenge as it is really happening all the time in China. Many companies give bribes to the authorities to get things done faster and easier, but companies that decide not to pay anything illegally, face a lot more difficulties to get the legalities and paperwork done.

In China the provinces and the business parks have their own tolls, which means that the custom duties and ways a company can import goods to one place vary from another place. For example, the quotas, tariffs, and payment amounts for the customs in Shanghai vary totally from Peking or Suzhou, so it is very hard or even impossible to trust in anything promised. Predictability is really hard in China; companies must be prepared for the unexpected.

It is very important to have a partner in China who knows how things work, how the legislation works, how business is conducted, and most important, meet the right people and build the right relationships and connections (*guanxi*) with the local government officials and politicians. Thus, having a partner, a consultant for example who knows to do business in China, is very important.

Protecting the technology and the know-how that a foreign company brings to the Chinese market is hard and very expensive. “It is hard because Chinese will copy any product, technology or invention in general if they can, and they don’t care about the copyrights or patents; and if a foreign company decides to go to the court to solve these kinds of disputes it will take time and a lot of money.”(Homanen, I. 15 May 2014.)

Combining the Finnish and the Chinese know-how by finding a product development partner in China is a good way to start working in China as well as be more cost-efficient. With a Chinese partner other sources for components and parts needed to produce the main product can be found easier, and they might be cheaper to get.

As a market, China is one of the biggest countries looking for clean technology-solutions, because the tremendous economic growth-speed, and the urbanization. A lot

of new buildings have been built during the past years, and this has had an effect on the country's environment.

Nowadays China has a lot of problems with contaminated water and soil, as well as with polluted air; and the biggest problems are culminated in the big cities such as Beijing and Shanghai. Therefore, the need for clean technology-solutions is big.

## **5.2 Benefits**

After handing in this thesis to Wind Power Finland Ltd. they will be more secure to make their final decisions on their market entry mode to China, as they'll have more information regarding the different entry modes, and have another point of view about the main factors they should be focusing on, that will affect their choice. WPF will also have the opinions of two business professionals who have worked in China, with one of them having personal experience of starting from scratch in China. All this information will provide more evidence and perspective to WPF for it to make its final choice.

For me as a student specializing in marketing and communication, this project has taught me many things from searching reliable information to conduct interviews and concisely use the information collected from them. I was able to use critical thinking when deciding what information to use and what not, evaluate what was relevant and what not. Also the different market entry modes were learned very well, and I believe it will be from a great use in the future when working for an international company, or as an entrepreneur wishing to expand the business abroad.

Considering future plans, I would like to work in an international environment either for an international company, or as a consultant for companies. This thesis, I believe, has given me the first taste to what kind of things it would require from me, as a consultant, to be able to work properly and effectively.

### 5.3 Recommendations

Based on the theory read, the interview results and my own personal thoughts, the things that should be taken into consideration are the following:

As mentioned previously, the external factors deal with market conditions, production in the target market, and environmental issues such as economic, sociocultural, and political factors. Also the target market's degree of risk, direct and indirect trade barriers, degree of competition, and availability of intermediaries are factors to look at.

China's environmental technology sector market is growing and there is demand as discussed in the *results* chapter (pages 47- 48). Production capacity in China is high and the country is stable economically, and for now, politically as well. However, there has been tension with the West because of the fact that China has kept its currency cheap on purpose to increase its exports, and with Japan because of a dispute about the control over a group of islands in the East China Sea called *Senkaku* in Japanese and *Diaoyu* in Chinese. There has been also some social discontent within the country because of corruption, land seizure, evictions and environmental contamination. (BBC News 2014b; BBC News 2014c.)

The degree of risk in China politically and socially is rather high, because of the things mentioned above and the fact that Chinese customs still differ in some degree from the Western ones. The quotas, tariffs, and payment amounts for customs vary from one city/province to another, so it is hard to predict and make sense of the costs related to these. In general it is hard to deal with local authorities in China, therefore a joint venture or a low-risk entry mode such as indirect export would be a good option in this case.

As discussed in the *internal factors* (chapter 2.2.2), usually the size of the firm is a good indicator of the resources it has; WPF is a micro company. They don't have much capital to invest in expensive foreign ventures, and they lack international experience. Their product is a small-scale windmill, which can be either transported via ship or airplane (very expensive) to China, or it can be produced there after finding the correct

material suppliers. As their product is an environmental technology product it most probably requires that WPF provides after sales services for its clients such as certain maintenance, instalment or customer care services. This would require them to be located in China. Thus, if taking these internal factors into consideration, good market entry modes would be exporting modes as these are less costly and don't require much international experience. However, if WPF wants to find the right suppliers in China, deal with the local authorities with the least effort possible and be able to be present and provide the after sales services to its clients, then again a joint venture would be a better option. A joint venture (JV) would require more capital obviously, but less than a Brownfield- or Greenfield investment, acquisition or merger, and it would give the possibility for WPF to have local production in China as well as local distribution facilities. Also the risks would be split by the parties involved.

The third major factor to consider would be the Chinese customs. According to the writer and consultant, Chao (2012, 11-13), *guanxi* which refers to one's connections with influential people, is as important as in the Western culture, yet not so important anymore in China as it was back in the past. However, Albaum & Duerr (2011, 417) discuss that relationships, or *guanxi*, are very important to Chinese people and that stakeholder relationship marketing, which entails "creating, maintaining, and enhancing strong relationships with customer, employee, supplier, community, and shareholder (owner) stakeholders of a business with the goal of delivering long-term economic, social and environmental value to all stakeholders in order to enhance sustainable business financial performance" (Murphy et al. 2005 quoted in Albaum & Duerr 2011, 417.)

For this reason, if WPF would enter into a JV it would enable it to build a closer relationship with the local community, stakeholders and shareholders, and strive to build a long-lasting relationship that could be beneficial in the future when considering future business ventures.

## 5.4 Conclusion

As a conclusion, the best option for WPF is to find a partner in China with which they could start to do business together; enter into a joint venture (JV). This local Chinese partner would know how to do things in China and could advice WPF on any issues concerning the way of conducting business there, would help to build a network with potential suppliers and clients, could help with the logistics, and would not either have a language barrier with the local authorities or clients. On the other hand, this kind of entry strategy would require quite a certain amount of equity, time (commitment), and would entail rather high risk, if it would be a 50/50 ownership JV agreement. However, depending on the agreement and contract with the other partner, there could be less equity needed from part of WPF, and as a consequence less risk in losing much money.

For example, a situation where the Chinese partner would invest more money in the JV and WPF less, but WPF would bring the technology and the know-how to the venture and perhaps, for example, promise to have them (the Chinese partner) as product development partners for other future projects. In a situation like this the Chinese partner company would have the majority ownership of the joint venture in terms of capital invested, but they would still need WPF because of the technology and know-how.

This kind of agreement might also lead to some problems later on, if things wouldn't go as planned, but on the other hand WPF would not need to risk that much money into the venture, and as said before, would have a better chance to build a long-lasting relationship with the stakeholders. Also the fact that if things start proceeding well and there is a lot of demand, WPF would need a factory established in China where they could produce their products and perhaps some distribution facilities as well.

A second option could be entering into a consortium. Here WPF would need to find similar, preferably Finnish companies or companies in general that operate in the same industry with which they could enter to the market together, and then establish facilities to operate in China. Like this they could help each other and also share the risks

involved. For example a supplier of wind turbine parts could be a good company to join forces with.

## **5.5 Self-evaluation of the process**

This thesis study has been developing throughout the entire process, and it has produced an ending with useful information for WPF on the Chinese wind power and environmental technology sector, market entry modes and Chinese customs.

Throughout the whole process, it was quite clear for me what I wanted to get out of this research study, so the proceeding was quite straightforward. The thesis planning workshop was very helpful and useful when starting to work on the actual thesis. Also the planned timetable for the thesis was followed almost as planned except one brake in producing text occurred due to my internship, which took place during the summer. Besides that, work on the thesis was done constantly alongside the rest of courses, and the final modifications to this thesis were done in autumn 2014.

The structure of this thesis follows the guidelines set by HAAGA-HELIA, with the first half covering a bit over half of the thesis with background information and theory, and the second half covering rest of the thesis with the methods, research description and discussion parts.

The theory part has been covered quite well, but the implementation of that theory into practice might not have been done as accurately. I believe that the depth of implementation of theory into practice has not been excellent. The reason for it is that when writing down my thoughts and recommendations for WPF, I felt it sometimes hard to explain myself clear enough, because I knew what I was writing and for what reason, but forgot that maybe the reader has no clue at all about this topic. Another reason is that, unfortunately, I was in contact with the commissioning company only a couple of times because apparently they were too busy, so I were not able to ask them if they wanted me to investigate in more depth some parts; I just focused and proceeded with what I thought was important. However, as said in the beginning, I believe this thesis has good and important information that will guide WPF to choose the right market entry strategy for them.

In the methods part qualitative research was conducted by interviewing face-to-face two foreign business professionals. Afterwards the answers were analysed and implemented to the results part. I would have preferred to interview more than two persons but I couldn't get more interviewees even though I tried. My goal was to interview at least three persons. However, the ones I interviewed were very good interviewees with professional background and experience related to this topic, so the information collected from them is certainly accurate and trustworthy.

The entire thesis process has taken quite a lot of time and effort, but it has also taught a lot, and it has been a true learning experience. Things such as planning, time-management, decision making, research skills, and writing skills have all been tested during this project. I did well in planning, time-management and decision making. The parts where I believe I could have done better were research and writing, so those ones need more practicing hours. Overall, I believe this experience will be of a valuable asset for future projects and workplaces.

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## Attachments

### Attachment 1. Overlay matrix.

Research Problem (RP)	Investigative Questions (IQs)	Theoretical Framework	Measurement Questions (Question number in interview frame)	Results
What would be the best market entry mode for the client company, WPF, to enter into the Chinese environmental technology markets?	1. What are the different foreign market entry modes?	Chapter: 2.1	Q1 & Q2	Exporting, Contractual entry modes & Hierarchical entry modes
	2. What are the factors affecting the choice of an entry mode?	Chapter: 2.2	Q3	External factors, internal factors, transaction specific factors and desired mode characteristics
	3. What is the current wind power industry situation in China, and the predicted development of it?	Chapter: 2.4	Q4 & Q5	Environmental technology solutions are widely used and markets are developing & growing all the time.
	4. How are the Chinese business customs, and how does the government intervene in business?	Chapter: 2.3	Q6 & Q7	Building relationships, <i>guanxi</i> , is quite important as well as not losing face, <i>mianzi</i> . Government intervenes a lot in the business life and many Chinese companies are state-owned.

## Attachment 2. Interview framework

Investigative questions	Questions asked during the interviews
<p>IQ1: What are the different foreign market entry modes?</p> <p>IQ2: What are the factors affecting the choice of an entry mode?</p> <p>IQ3: What is the current wind power industry situation in China, and the predicted development of it?</p> <p>IQ4: How are the Chinese business customs and what is the government intervention in business?</p>	<p>Q1: “What was the reason behind the decision to go to China?” → “Which entry mode did your company use and why?”</p> <p>Q2: “What have been the typical entry modes to China by small Finnish cleantech-companies, which have worked with Finpro?”</p> <p>Q3: “Which factors and/or what things affect the choices of an entry mode?”</p> <p>Q4: “How do you see China as a market for new environmental technology solutions?”</p> <p>Q5: ”What is the situation of the Chinese wind power- and cleantech industry now?”</p> <p>Q6: “Which challenges did your company face when entering to the Chinese market?”</p> <p>Q7: “In which ways can a foreign company protect their IP, in this case technology, when entering into a joint venture with a Chinese company?”</p>