

KEMI-TORNIO UAS

Enhancing company competence in internationalization process

Company X in Chinese energy market

Anne Parsiala

Master's Thesis of the Degree Program in International Business Management

Master's Degree

TORNIO 2011

ABSTRACT

Parsiala, Anne. 2011. Enhancing company competence in internationalization process. Company X in Chinese energy market. Master's Thesis. Kemi-Tornio University of Applied Sciences. Business and Culture. Pages 86. Appendices 1-6.

The objective of this Thesis is to support the case company, a small Finnish company in bio energy business, in its early phases of internationalization and entrance to China market. This company has scarce previous experience of either going to international markets or experience of cooperating with Chinese business people. Because of the sensitive rivalry in the bio energy business, the company wants to remain anonymous in this research and will be called Company X. The specific research questions are the following: How can the case company enhance its competence in its early phases of internationalization? How should Company X prepare to the opportunities and challenges in the Chinese market? What kind of knowledge is essential for the case company in order to bridge the gaps in its China business?

The research is a qualitative single case study. The company internal data is collected through discussions and e-mail conversations with the case company representatives as well as from the case company's documents. The theoretical framework of this study is based on data from different sources such as books, articles and reports about internationalization and about the Chinese business culture.

The company's resources and capabilities set the frame for its international strength and success. Therefore the company's internal situation and processes have to be very well organized with international attitude and commitment. Knowledge about the Chinese culture and business code avoids misunderstandings and unpleasant surprises.

The case company can enhance its international competence by strengthening its resources such as financial and organizational structure and by investing in information technology and management controlling systems. Adopting even more international attitude enhances the company's profile and image. Preparation to the Chinese culture requires adopting information especially about the Chinese business behavior and negotiation tactics and creating *guanxi*, the net of Chinese relationships.

Keywords: Internationalization process, Chinese business culture, cultural challenges

CONTENTS

ABSTRACT

1	INTRODUCTION	5
	1.1 Research objectives and research questions	6
	1.2 Research methodology and design	7
	1.3 Structure of the Thesis	8
2	COMPANY X	10
	2.1 Company presentation	10
	2.2 Present situation.....	12
	2.3 Company analysis	14
3	INTERNATIONALIZATION OF SMEs.....	17
	3.1 Theories of internationalization	17
	3.2 Main motives and entry strategies	21
	3.3 Pre-requisities, challenges and constrains	24
	3.3.1 Resources, capabilities and core competences	25
	3.3.2 Value chain	29
	3.3.3 Organizational structure and culture.....	32
	3.3.4 Strategy management and control	34
4	OPPORTUNITIES AND CHALLENGES IN THE CHINA MARKET	37
	4.1 Market analysis	37
	4.2 Risk analysis	43
	4.3 Industry analysis	46
	4.4 Competitor analysis	51
5	CHINESE CULTURAL CHALLENGES	56
	5.1 Cultural dimensions	56
	5.2 Chinese cultural features.....	63
	5.2.1 Confucian heritage	63
	5.2.2 Taoism and Buddhism.....	65
	5.2.3 Guanxi	66
	5.2.4 The Chinese business environment and business code	67
6	SKILLS AND COMPETENCES NEEDED IN CHINA BUSINESS	71
7	CONCLUSION AND DISCUSSION	74
	REFERENCES.....	80

APPENDIX 1: TERMS AND APPREVIATIONS	87
APPENDIX 2	90

1 INTRODUCTION

Internationalization requires far more resources, skills and knowledge of a company than operating within domestic markets. Internationalization calls for human, financial, physical, technological and informational resources which unfortunately often may be limited when small and medium sized enterprises (SMEs) are concerned. (Äijö & Kuivalainen & Saarenketo & Lindqvist & Hanninen 2005, 11.)

Besides solid internal situation and a competitive product, service or solution, a company needs a strong, sustainable strategy in order to adapt to and succeed in today's turbulent international business environment. Strategy creation is based on a company's vision, mission and objectives, and aligned with its values. (Sutherland & Canwell (b) 2004, 258.) A company needs to make a thorough evaluation of the company's strengths and weaknesses as well as opportunities and threats in the business environment in order to bridge the gaps and enhance the company's competence.

Cultural differences may raise obstacles in international business if not taken into account. Culture influences people's actions, communication, thinking and believing. Culture is different in different countries. (Bartlett & Davidsson 2003, 16.) Approving, understanding and paying attention to intercultural differences promote competence and success in international business arena. It requires knowledge about other cultures, tolerance and sensitivity in communication and behavior.

The case company wants to remain anonymous in this study, so it is called Company X. The global competition is currently very hectic and the management does not want to give the competitors a chance to connect this research to the case company. The management knows that the competitors constantly search for information about each other in the internet. The background and conclusions of this research are providing sensitive information from the company's profile and competence point of view. (Mr X 2009-2011.)

Company X produces environmental friendly bio power plants which generate both heat and electricity. Their power generation is based on an innovative wood gasifying technology which does not emit greenhouse gases. The technology generates sustainable energy and the plant can be adopted worldwide. Due to the global focus on

sustainable energy production, severe pollution problems worldwide and due to the great interest that Company X has faced towards its bio power plants, the company wants to boost its internationalization process. Amongst other potential markets, Company X sees China as an opportunity because demand for energy is increasing strongly there and China has strong emphasis on sustainable energy production. (Mr X 2009-2011.) Opportunities for bio energy business seem promising there (World Energy Outlook 2008).

Going to China, however, is not that easy. Doing business with the Chinese can be a long and hard process and end up with failure. One of the major reasons for problems is lack of knowledge about the role and significance of the Chinese culture. Personal and organizational values, beliefs, attitudes, expectations and norms bring about cultural differences between Finland and China. From the Finnish point of view China's culture has special complex features which bring challenges for a Finnish company doing business there. Chinese culture is strongly affected by the huge size of the country, its social structure and long history. Knowledge of this culture and its consideration in every intercourse can be a major competence for a business manager for success. (Rankinen 2008, 34.) It is essential to know about the Chinese networks of public relations with Confucian hierarchical structure of social life, *guanxi* and the concept of face. It is also important to be aware of the Chinese code of business and organizational behavior, the Chinese identity and the way of communication. (Rankinen 2008, 182-183.)

1.1 Research objectives and research questions

Company X was an ideal selection for a case company for being in its early phase of internationalization with an objective of entering the Chinese market. Internationalization brings challenges to the company's activities and supporting information is considered welcome. Furthermore cultural knowledge is considered a valuable asset in today's business world. Since cultural differences between Finland and China are expected to bring challenges in business, further knowledge about the Chinese cultural features helps the case company in its negotiations in China. Additionally the topic is aligned with the feature of my studies of international business

and with my interest in the Chinese culture. I am not working in Company X but I have been in cooperation with the company and have familiarized myself with their business.

Company X is a small local firm which constructs bio energy plants. The company has opened negotiations with a potential international customer. The objective of this research is to help the decision makers of the company in the company's international business operations and to act as a competence enhancement and risk reduction tool. This is done through evaluating the company's internal strengths and weaknesses as well as the external opportunities and challenges and through analyzing how to match them. The main factors in internationalization process are defined. The most important audience for the information received from this Thesis is primarily the management and stake holders of the company together with other interest groups such as financiers and subcontractors.

Company X has scarce previous experience of either going to international markets or experience of cooperating with Chinese business people (Mr X 2009-2011). Another objective of this research is to produce further information about the Chinese culture in general and in a business context based on the referred literature and previous researches. This means introducing information about essential features in the Chinese culture which have to be taken into account, prerequisites and competences that a company needs when entering a market like China which is potential but at the same time distant both geographically and culturally.

The expected research output will be reflected through the research questions: How can the case company strengthen its internal resources in its early phases of internationalization? How should Company X prepare to the opportunities and challenges in the Chinese market? What kind of knowledge is essential for the case company in order to bridge the gaps in its China business?

1.2 Research methodology and design

The research is a qualitative analysis carried out both in the field and as deskwork. Qualitative method offers the most effective way for describing and explaining dynamic processes such as international negotiations or management decision-making (Yin 2003).

The research technique includes discussions, e-mail conversations and analysis of data from different sources. The company internal information is based on the kick-off meeting with Company X representative, calls and numerous e-mail conversations as well as the company's documents and web site. In the kick-off meeting the company's backgrounds, the company mission, vision and objectives were discussed. Also the company's resources and plans of internationalization were talked about. After the meeting the discussion continued through e-mails and phone calls with the company's contact person. This person was involved in the Chinese negotiations and he explained the reasons for Company X's decision of choosing China as target market. He described the case company's experiences of the Chinese meetings and business trip to China. He kept me informed along with the development of the negotiations.

Secondary data is collected from books, articles, reports and the Internet. These include reports and articles about SME going international, about bio energy business, about the Chinese culture and about competence creation in the Chinese market. The acquired information is to make a holistic, thorough and exact description of facts affecting the cultural competence in the Chinese market. The information will be used directly to the benefit of the case company.

1.3 Structure of the Thesis

The study is divided into seven chapters. The introductory chapter provides a brief background review for the topic and presents the research objectives and the research questions. It also presents the research methodology. Chapter two includes a presentation and an analysis of the case company. All the information in chapter two is adopted from the company documents as well as conversations with the company representatives. Chapter three provides theoretical framework for internationalization with its features. The next, chapter four, presents opportunities and challenges in China in the form of market, risk, industry and competitor analyses. Chapter five narrows the China market challenges into a deeper analysis of the Chinese culture. The next chapter provides an analysis for the study; information about skills and competences needed in China business. At the end the chapter seven provides outcomes of the research and suggestions for the case company.

Appendix 1 provides a list of terms and abbreviations used in this research. Appendix 2 has a collection of conversations with the case company.

2 COMPANY X

In this chapter the case company, its product, organization and strategy as well as current situation are presented. As mentioned earlier, the case company wanted to stay anonymous in this study for confidentiality reasons. It does not want its competitors to find any further information about the company in the Internet by using the company's real name in the search machines. In the last subchapter the case company is analyzed through its strengths and weaknesses. Also the external environment from the China market point of view is passed with a few words. Deeper analysis of the opportunities and challenges of China market are presented in the chapter four.

2.1 Company presentation

Company X is a small company in bio energy business, owned by two families and located in northern Finland. The company produces and develops further innovative, environmental friendly, non polluting bio power plants which generate combined heat and electricity. The proportion of electricity in the power generation is beneficially 30 per cent from the total which makes the plant an economical and competitive solution for sustainable power generation. The core of the innovation and the core competence of the company lay on its wood gasifying technology. The plant uses biomass such as wood chip, sawing waste or sorted combustible communal refuse as fuel. The size of the plant is moderate and it offers a solution to decentralized, self-sufficient power generation. (Mr X 2009-2011.)

The company's gasifying technology descends back to one of the owner's father's invention in the 1980's, which his son continued to develop further. The first full-size Company X gasifying unit was completed in 1996 and the company was founded the next year. The first commercial plant was completed in 2001. Operations were generally based on research and development in bio power generation up to the year 2008, primarily self-financed by the shareholders but the company received also occasional external funding. In the spring 2008 Company X provided its technology to its first customer, Lestijärvi bio power plant, and since the start up of Lestijärvi bio energy generation, the Company X plant has aroused great interest worldwide. (Mr X 2009-2011.)

Intensive research and development is still one of the core functions in the company strategy. Company X invests in R&D continually in order to keep the technical lead over the competitors. It also cooperates with research institutes and other companies and establishes strategic partnerships in order to strengthen its market position. (Mr X 2009-2011.)

Due to the strong global demand for environmental friendly, sustainable power production technology and due to increasing inquiries for Company X plants the company's goal is to enter global markets strongly and rapidly. The company's objective is to become a notable bio power plant supplier of 1-7 MW capacity in Finland and Sweden within few years and to have 70 per cent of the turnover from global markets. The company considers the most attractive and potential markets for its products within European Union and in Asia, China. This is based on the increasing demand for energy within these areas, concern about the pollution problems which speak up for environmental friendly solutions, a positive attitude towards different kinds of renewable technologies as well as showed interest towards Company X plants. Due to a contact from a highly interested, potential customer from China, Company X has entered to negotiations with this company. (Mr X 2009-2011.)

Company X bio power plant can be easily adopted worldwide. Since it generates power from biomass such as wood chips, this fuel can be found everywhere in the world. Customers for Company X's products are communities which can utilize their power- and heat distribution networks as well as companies which are self-sufficient in fuel such as sawmills, plane mills, carpentry shops and other companies which have abundant biomass resources. Companies with great demand for heat and electricity such as greenhouses are suitable customers. Company X bio power plant can also operate as a secondary or backup system for heat and electricity generation, system for crisis situations, military units or communities which are located far off from centers or which have occasional need for power. (Mr X 2009-2011.)

The company plans and supplies the bio power plants according to individual customer needs and the supply includes analysis of profitability as well as the construction of the plant. Also partial deliveries and agreements of manufacture under license are possible. Modularity allows manufacturing in phases in case a customer wants it to be delivered

in that way. The company pays attention to the plant architecture: the design and the equipment are of high standard and quality. (Mr X 2009-2011.)

Company X's marketing strategy is participating in various energy fairs and seminars both in Finland and abroad. They have produced an own brochure and other kind of marketing material. Successful publicity is gained also through articles about the company in technical journals. Also Lestijärvi bio plant with Company X technology has an important role in marketing, and a lot of potential customers have visited it in order to take a closer look to the technology. (Mr X 2009-2011.)

The company sees internet marketing by company's web pages as an important channel to reach global customers economically, quickly and flexibly irrespective of time and location. Through this channel Company X receives continuous inquiries worldwide and processing of these messages requires constant attention and work. (Mr X 2009-2011.)

2.2 Present situation

Company X's organization is very light consisting of two permanent employees: one person in Production Development and one person in Administration. The company's strategy is to keep the organization light and flexible by having the construction- and electrical drawings, structures and equipment as well as electrifications done by subcontractors. This kind of strategy decreases the company's need to invest in fixed assets. Production of the crucial part, gasifier, coordinating the operations of the network, supervising and technical supporting are done by Company X's staff. The company submits temporary subcontractor tenders from among former and new potential partners, according to projects, which means that the company does not have stable alliance kind of supplier contracts. When an international project is concerned, the company negotiates separately about its features and requirements with the potential supplier or subcontractor. (Mr X 2009-2011.)

However, along with the internationalization process the company has faced a need to strengthen its structure with new positions in Sales and Marketing, Project Management and Research and Development. The company is also seeking for investors to support the process of going to global markets. (Mr X 2009-2011.)

In present situation the company does not have IT department in order to manage all the daily strategic operations or to have a procedure in order to make back-up for the most important and sensitive data and documents. Neither do they have a back-up person for the key person. (Mr X 2009-2011.)

The company is planning to productize the plant by designing it into digital format. This helps the cooperation with subcontractors and the whole production process. Furthermore the company is planning to acquire software for project management. (Mr X 2009-2011.)

A Chinese potential customer contacted Company X with great interested in their bio power plant. Since Company X viewed China very opportunistic for its products, it kicked off negotiations with this potential customer, even though, as they said, they did not have experience about Asian cultures. However, Company X representative told me, that they were warned about the Chinese problems of IP rights and copying culture as well as peculiar interpretation of contracts. Company X based its positive view for the Chinese market on the facts that China's demand for energy is increasing constantly and due to the country's severe pollution problems China is focusing on different forms of renewable energy production. Furthermore China has plenty of raw material for fuel, and Company X' solution serves perfectly China's distant regions in the central and western parts of the country where the communities do not have access to general electricity distribution nets. (Mr X 2009-2011.)

The negotiations started with phone conferences in which the Chinese wanted to hear many kinds of technical details of the plant. Later Company X and the counterpart team of eight members visited each other and negotiated both in Finland and in China. The company was assisted by The Finnish Environmental Cluster for China (FECC), which is a project developed on the initiative of the Finnish Ministry of Trade and Industry to boost Finnish clean-tech exports to China. (FECC, 2010) Also lawyers both from Finland and China were involved in negotiations. According to Company X representative the company chose licensing as an entry mode, because it did not have enough recourses in order to form an own organization in China. (Mr X 2009-2011.)

According to Company X's representative's opinion the Chinese were very friendly and hospitable hosts, they took Company X's persons to several company visits, offered wonderful dinner parties and everything took place tightly according to the schedules.

Company X representative described that he was feeling very important, “almost like being a royal person”, for all this hospitality. They were even brought to meet the Lord Mayor of the city of several million inhabitants that they were visiting. Company X person told that the Chinese were all time highlighting “long-term cooperation” in their meetings. (Mr X 2009-2011.)

Even though the negotiations proceeded very well, the counterparts finally did not reach an agreement. The reason was disagreement over the payment terms. Company X representative described, that obviously the Chinese tactics in negotiations is to knock the prices and terms as down as possible. According to the contract the customer was supposed to settle a fee when receiving the technological details for the plant. However the Chinese insisted for payment only after the plant is completed and working, which would be very unfavorable for Company X. Even though Company X made some concessions in order to reach consensus, the Chinese stayed very tight with their demands, and the negotiations with this customer were frozen. (Mr X 2009-2011.)

2.3 Company analysis

Bio energy business has remarkable opportunities. Demand for energy is growing continuously and the trend is towards sustainable, renewable energy production, also towards decentralized power generation by local smaller plants.

Company X has a highly competitive, innovative solution for renewable energy production. It provides combined heat and energy production with a high proportion of electricity. It produces environmental safe, non polluting energy without greenhouse gas emissions. The company’s technical know-how is high, thanks to long-term research and development work.

Company X bio power plant’s further strengths are also that it can be adopted anywhere because biomass is available worldwide, it represents local power generation and it raises self-sufficiency, decreases distances in transportation and enhances preparedness for crisis situations. Furthermore, the size of the plant is moderate.

The company has a very flexible organizational structure which allows fast growth and decreases a need to invest in fixed assets. However the present staff is too small in order to handle and organize all the company functions and routines including the value

chain. Definitely along with growing business the company needs a new organizational structure in order to attend international market.

In today's business superior knowledge is seen as the most valuable resource in companies. Since the technical know-how is concentrated on one person in Company X, the company functions are vulnerable. It is very important for the key person to transfer his knowledge to a trained back-up person in order to reduce risk, to decentralize the company knowledge and to keep the company operating even in case he is not present.

Having an IT-department is essential for the company in order to manage the business information processes in these times where the change is constant. The information technology has to be aligned with the business strategy.

Besides personnel resources, as a small company Company X needs further financial resources. Production of bio energy plants requires heavy investments. Also the plant digitalization and software as well as hardware acquisition require financial resources. Before the global business covers the working capital, the company has to arrange the funds in order to be able to operate. It is important for the company to find an investor to bring support to the company at its state of growth.

China is one of the biggest energy demanders in the world and its need for energy is growing constantly. Because the country has severe pollution problems, it is looking for new technologies for renewable energy production and is investing strongly on these new solutions. This is an opportunity to Company X.

Due to the unique Chinese business culture and little experience of Chinese business behavior so far, it is a matter of great importance for Company X management to orientate into Chinese business culture and behavior, create relationship networks as well as to refine a firm strategy for negotiations. China market means huge opportunities to Company X, but at the same time it means big challenges. The Chinese culture is one of the main challenges.

Company X is competing with other solutions of energy production in the world. Oil is the main source of traditional energy production. There are also other kinds of renewable energy sources such as wind, solar and geothermal which are considered competitive choices to bio energy. However production of these renewable energies

require different kinds of environments than bio power plants – wind turbines are set up on coastal and solar plants on open areas while bio power plants are situated close to raw materials, for example close to forests. When thinking about China, there is plenty of raw material for bio plants in that market.

3 INTERNATIONALIZATION OF SMEs

International business operations are more demanding than domestic operations. It is about expanding a company's activities outside homeland to get finance or know-how, to purchase or to market products, to acquire raw material or to get new customers from abroad. Therefore it is important for a company to know what kind of knowledge, skills, capabilities and resources are needed in internationalization and how they can be acquired. (Äijö & Kuivalainen & Saarenketo & Lindqvist & Hanninen 2005, 11.)

3.1 Theories of internationalization

A traditional definition of internationalization is that it is a gradually increasing process, along which a company acquires, integrates and utilizes its knowledge about international markets and operations and gradually increases its commitment and exposures to risk (Thompson & Martin 2005, 602-603). Most of the theories were developed in the 1970s and 1980s based on industrial organizations. Since then, there have been great changes in the world economy: globalization of markets, the growth of the service economy, Internet, high technology markets, knowledge-based networks and value economy. Therefore internationalization theory has to be reframed and evolved. (Axinn & Matthyssens 2002, 437.)

Johanson and Vahlne (1977) published their internationalization process model, called Uppsala model. It assumes that both market knowledge and experience affect the way how internationalization activities are carried out and how decisions of commitment are made. In turn the current activities and commitment decisions change the level of market knowledge and experience. It is introduced as a kind of feedback loop which creates a learning cycle. (Johanson & Vahlne 1977 cited in Sperling 2005, 48.)

The Uppsala model was based on four case studies of Swedish companies with operations in more than 20 countries: Volvo (automobile and truck manufacturer), Sandvik (industrial tool manufacturer), Atlas Copco (compressor and industrial tool manufacturer) and Facit (electro-mechanical office equipment manufacturer). The findings of the research were that companies often develop their international operations in small steps, expanding gradually and incrementally. The four sequential stages of the

“establishment chain” are as follows (Johanson & Vahlne 1977 cited in Gustavsson 2009):

1. irregular export activities
2. export via independent sales representative
3. establishment of overseas sales subsidiary
4. establishment of foreign manufacturing subsidiaries

According to the Uppsala model companies enter first the markets which they know best, and move further to more foreign markets only after gaining sufficient knowledge. Johanson and Vahlne (1977) introduced “psychic distance” variables such as language, culture, political, legal and educational systems to measure a market’s foreignness. The order of the different stages in the internationalization process relates to the psychic distance between the home country and the target country: the further psychic distance, the fewer resources committed. (Johanson & Vahlne 1977 cited in Gustavsson 2009.)

The rationale behind this model is to minimize risks and investments, to start exporting first to markets within close geographic distance and once experience gained, expand to further distant markets. According to European Network for SME Research (ENSR 2003) a gradual approach offers an appropriate strategy for a SME especially when lack of resources or know-how about internationalization is limiting the company (ENSR 2003, 24; 26).

Many empirical studies confirm that many companies worldwide have followed Uppsala model in their internationalization process. However the model has faced critics for its limitations. Uppsala model is based on export as the starting point of internationalization while there are other kinds of strategies such as importing, licensing and foreign direct investment. The model is also product oriented, based on research of manufacturing industries rather than service sector. (Axinn & Matthyssens 2001.) It is focused on individual companies excluding networks. Furthermore the internationalization process is focused on a company’s internal resources such as market knowledge and experience from foreign activities while external competitive conditions and business possibilities are ignored. The model does not take enough into account that companies are highly exposed to global competition. (Pedersen 2011.)

Inconsistent to the Uppsala model there are a growing number of “Born Global” companies. These are companies “which start their internationalization process from inception without any preceding domestic operations, simultaneously with domestic business or exceptionally soon after domestic operations” (Sperling 2005, 33). ENSR (2003) defines Born Globals as “companies that set up their activity targeting a market that is either global by nature or within a niche field that has a very limited potential on the domestic market” (ENSR 2003, 25). Company X is an example of this kind of company. According to Sperling (2005) Born Global companies implement rapid and parallel market entry strategies, have a global vision and outlook from the very beginning and rapidly implement multiple and advanced operational modes of international business (Sperling 2005, 35). They choose the most attractive markets regardless of psychic distance (Sperling 2005, 39), like Company X chooses the China market, which is both geographically and culturally distant from Finland.

According to Sperling (2005, 36-37) the factors increasing the number of Born Global companies can be categorized into three groups: new market conditions, technological developments and human resources. New market conditions refer to increased role of niche markets and increased global demand as well as homogenization of markets. People demand more specialized and more customized products, and product life cycles are shortening. Governments have decreased protectionist policies, and means of internationalization such as knowledge, technology and facilitating institutions as well as international financing opportunities have become easier to access. (Sperling 2005, 36.) Technological developments refer to advances in process and communication technologies as well as decreased transportation costs which contribute to increase the birth of Born Global companies. From the human resources point of view workers have become more capable, skilful and internationally mobile which is favorable for Born Globals. (Sperling 2005, 36-37.) In Company X’s case, an important driving factor for its early internationalization is the growing demand for renewable energy production worldwide. Another factor is the adoptability of the Company X’s product anywhere in the world. (Mr X 2009-2011.)

Sperling (2005, 37) lists certain characteristics that have been found for Born Global companies in previous researches. Like Company X, these companies are small in size, flexible and move fast and they rely on cutting edge technology. The companies are

managed by entrepreneurial visionaries and have global vision right from the beginning. The products of these companies involve substantial value adding, the companies have genuine customer orientation and they serve global niche markets with unique products and services. The case Company X provides its innovative technology according to individual customer needs. The plant can also be built in phases. (Mr X 2009-2011.) Born Global companies compete in quality and value, and they manage successfully in competition with larger established players worldwide. Often these companies operate as specialized suppliers and service providers for large or medium-sized companies.

Born Globals come usually from technology-intensive businesses (Sperling 2005, 34). These companies are criticized to have relatively low market knowledge and market commitment due to rapid and early internationalization. (Sperling 2005, 39) Based on this argument, further knowledge of the target market and its culture is welcome and advantageous for these companies.

Distinction between different internationalization models may not always be clear or even appropriate. Some SMEs may represent a mix of the different models. For example they are born global but their internationalization is gradual, though proceeds rapidly. Another company may proceed slowly and gradually until a redefinition of the strategy and core activity may make it become a new “reborn” global company. (ENSR 2003, 25.) Instead of going alone some companies choose a collaborative path: they create partnerships and go global in different types of cooperation. (Äijö et al. 2005, 5.) Therefore ENSR (2003) suggests in its study a more holistic approach to internationalization activities for SMEs referring to careful and individual strategic consideration of the optimal choice (ENSR 2003, 26). Axinn & Matthyssens (2001, 445) call for a new internationalization theory which encompass the new realities of economic life and is not dependent on the company’s or its markets’ locations. It is to be flexible enough to explain and predict the evolution of companies, value chains and networks in the global business.

3.2 Main motives and entry strategies

Some factors push, the others pull companies to international markets. Push factors drive a company to exploit its internal strengths or opportunities within overseas markets. These internal strengths refer to innovative products, services and processes, proprietary market knowledge or skills and technology. (Etemad 2004.) In Company X case the company has an innovative solution for the increasing global need for energy and the increasing global problem with greenhouse gas emittance accordingly. Company X's bio energy plant can be adopted anywhere in the world where raw material for fuel is available. The company sees this opportunity of bringing its competitive technological solution to global markets very attractive. The company's attraction of foreign markets, China in this case, is based on profitability and growth prospects through increased sales and market share of the company. (Mr X 2009-2011.) The stronger the company's motivation to grow, the greater the further searching activities for new market possibilities.

Environmental pressures such as declining domestic markets and competitors' example may pull companies to international markets. Furthermore many SMSs face opportunities for internationalization through foreign enquiries for their products from the company's advertisements in global journals or in the Internet. (Etemad 2004.) Company X receives daily several international enquiries about their product through their web site (Mr X 2009-2011). This means that external pull is strong in their case as well. In Company X's China –case the first contact was made by the Chinese who had noticed the case company's product in a fair and familiarized themselves in their web site. Based on above, Company X is exposed both to push and pull factors concerning its motives of internationalization.

Managerial attitude plays a critical role: without strong managerial urge and desire the company lacks the enthusiasm and drive to get involved in global markets. Proactiveness, meaning understanding of markets and their requirements as well as an ability to take risks, commitment and international vision are managerial characters that support internationalization. Managers with previous experience of international activities or managers who either lived or travelled abroad are more aware of the

challenges and opportunities within international markets and they are more willing to take risks. (Nummela & Saarenketo & Puumalainen 2004.)

ENSR (2003) made an Enterprise survey in 2003 covering 15 EU countries plus Iceland, Liechtenstein, Norway and Switzerland. According to this survey the main motive of the studied SMEs was to improve competitiveness of the company based on direct economic parameters such as market size and costs. The most frequent motive for the studied companies was to access to new and larger markets for their products or services and they wanted to access to know-how and technology. The other main drivers were high production costs or strict laws and regulations on the domestic market, additional production capacity and access to labor or capital. (ENSR 2003.)

The choice of entry mode is dependent on external factors in the target country and in the home country: the degree of opportunity, risk association and the competitive structure, the size of the market and the urgency of expansion. Restrictive import policies in the target country, such as high tariffs, and high transportation costs discourage an export entry mode in favor to other modes. High cultural distance favors non-equity entry modes that limit a company's commitment in the target country. Low production costs encourage local production in the target country. (Root 1994, 8-12.)

Choosing the entry mode is also dependent on company's internal factors such as product or service specific factors as well as company resource and commitment based factors. Technologically intensive products, like Company X' bio energy plant, give companies an option to license technology instead of alternative entry modes because industrial-products companies are more inclined to enter licensing arrangements than consumer-products companies. A company with limited resources has to choose a small resource commitment; on the contrary, the more abundant a company's resources, the more numerous its entry mode options. A high degree of commitment to international business means that a company selects its entry mode from a wider range of alternative modes than a company with lower commitment. Regardless of company size, a high-commitment company is likely to choose equity entry modes. (Root 1994, 12-14.)

The three main strategies include export, contractual and investment entry modes. Exporting can be direct or indirect, passive or aggressive. A passive exporter awaits orders or come across them by chance while an aggressive exporter has clearly defined plans and strategy with a product, price, promotion, distribution and research elements.

(Root 1994, 6.) In direct exporting a company may use an agent, distributor or overseas subsidiary or act via a Government agency. Market knowledge is essential since the exporter has to choose the market, find the representative or the agent, set up the physical distribution and documentation. It also has to promote and price its product. A major problem is the control or lack of it when decisions on pricing, certification and promoting are in the hand of others. In order to succeed, direct exporting requires a partnership with detailed contracts between exporter, importer, government and transport. Indirect exporting uses trading companies and export management companies located in the company's own country and who actually do the exporting. (Root 1994, 7.)

Contractual entry modes are long-term non-equity associations between an international company and an entity in a foreign target country. Licensing, franchising, contract manufacture and service contracts are these kinds of entry modes. International licensing means that the licensor company agrees to permit another company in another country to use its manufacturing, processing, trademark, know-how or some other skill. (Root 1994, 7.) The agreement may require payment of a fixed sum only, or alternatively a combination of a fixed fee plus royalties (Woods 1995, 93).

Company X's entry mode to China market was chosen and negotiated as licencing (Mr X 2009-2011). It is good for a small company with restricted financial resource, because licencing requires little expense and involvement, the cost is to sign the agreement and to control its implementation. It is a good way to start foreign operations with low risk, capital is not needed to be tied up and both parts get most out of marketing effort. The disadvantages of licencing are limited form of participation, the licensees become competitors, potential returns from marketing and manufacturing may be lost and licencing requires considerable fact finding, planning, investigation and interpretation. (Root 1994, 7.) Especially in China market, because of the Chinese business culture and problems with Intellectual Property Rights there, companies need to be careful with contracts.

Franchising differs from licencing in motivation, services and duration; the agreement for the right to use the company name, trademarks and technology is intended to be permanent. Franchises present "a common face", standardized features (Woods 1995, 94). Other contractual entry modes involve the transfer of services to foreign entities in

return for monetary compensation or for products manufactured with those services. (Root 1994, 7.)

Investment entry mode is an ownership by an international company of manufacturing plants or other production units in the target country. It can be full ownership and control in the form of a new establishment or an acquisition in the target country, or a shared ownership and control by joint venture. (Root 1994, 7.)

3.3 Pre-requisites, challenges and constraints

Management dynamism and commitment which show an active and a high degree of international orientation are crucial from the very beginning of a company's process towards internationalization (Czinkota & Ronkainen & Moffett 2003, 277). Going international requires a fundamental change in a company's strategy, in the way of doing business and in dealing with new problems (Czinkota et al. 2003, 281).

Company's internal challenges can be attitudinal - a company needs a global mindset and it definitely needs a strong management team. Company's and decision makers' backgrounds and characteristics, the size of the company and international business experience may raise up constraints. It is the decision makers' orientation, expectations and commitment which play the key role in the SME's internationalization. These persons are usually the owners of the company. Their knowledge and learning have an essential importance in this process. Lack of knowledge and experience about foreign markets can either hamper the decision to go global in the first place, or it can result in increased risk due to unfavorable market selection or entry strategy. (Hutchinson & Fleck & Lloyd-Reason 2009.) Attitudes and motivation, decision makers' conception of the company competitiveness, readiness for global markets as well as risks and barriers that they consider to be included in international operations affect the decision, pace and model of internationalization (Chetty & Campbell-Hunt 2001). Management needs to be courageous in entering new markets and have an adequate self-respect and humility to learn new things and new methods (Äijö et al. 2005, 66).

Cultural challenge for managers, like Company has X in its China business, is about dealing with new types of customers who are located far away and who may have different values, attitudes and behavior, as well as different culture and language than domestic customers (Czinkota et al. 2003, 32). Knowledge of and sensitivity to basic

cultural differences are necessary in order to operate effectively in all international activities (Woods 1995, 134). Also tolerance, communication skills, creative thinking and flexibility are needed.

Internationalization brings challenges into company's value chain, logistics and processes, technical issues and services. Companies have to respect different regulations, practices and laws in each market. Therefore it is important in the beginning to evaluate what kind of knowledge, skills and capabilities are needed, does a company have them and how they can be acquired. A company needs to have enough information about the markets, customers and competitors. (Carter & Jones-Evans 2000, 447-448.) Therefore it is important and essential for Company X to have many kinds of analyses about China such as market, risk and competitor analysis.

Certain barriers and constraints have been identified why not all companies can participate in international activities. Companies may have strategic, operational, informational or process-based obstacles. Especially SME companies lack of information and knowledge about international issues and often have negative perceptions of risks. They may lack resources to adapt their products to foreign standards, have difficulties in providing overseas repair and technical services, difficulties in pricing and communicating as well as obstacles in transportation and distribution. (Carter & Jones-Evans 2000, 447-448.)

It is also characteristic that different types of problems are faced at different stages of internationalization. Increased exporting activities may bring more financial problems while marketing related problems tend to decline. (Carter & Jones-Evans 2000, 447-448.)

3.3.1 Resources, capabilities and core-competencies

Resources and capabilities are the frame to enable company's activities and processes. They can be tangible or intangible, highly specific or non-specific and obtained externally by learning or generated internally by experience. Capabilities can be seen as subsets of resources that enable a company to take full advantage of other resources.

Specific resources are important for company's value creation. (Stonehouse & Hamill & Campbell & Purdie 2000, 48.)

Literally anything an organization possesses can be considered its resource. It can be an equipment, reputation, brands or organization expertise. Resources can be categorized into human, financial, physical, technological and informational assets. They can be evaluated by parameters such as availability, quantity and quality, extent of employment, sources, control systems and performance. For example the state of staff size, education, motivation, productivity, attitudes and cultural awareness give picture of company's human resources and capabilities. A global company, ABB, as an example, has expertise in management of multi-business corporations, and it is definitely a capability to the company. Financial resources can be defined by sources and availability of finance, accounts, assets and liabilities as well as accounting and taxation systems. Financial resources are a prerequisite for internationalization. Among others age and location of company buildings; age, capacity and utilization of equipment; sources, quality, costs and availability of production materials tell about company's physical resources. Technological resources include for example facilities for R&D (research and development), IT and communication systems, technology know-how, production systems and patents. For example companies like Dell or Toyota have special resources and capabilities in continual improvements in their production or assembly processes. Informational resources cover customer, supplier and competitor information, internal process information and agreements with suppliers, customers and distributors. (Stonehouse et al. 2000, 48-49.)

In Company X case, as a small company, the financial resources are limited. Therefore it is important to find an investor to support the working capital in the early phases of internationalization. Along with investor's financial help, the company can also strengthen its human resources by employing more people to handle the increased amount of work within international actions. According to the company's strategy Company X has not invested much on physical resources, because many functions such as productions of structures and equipment are outsourced. The core of the Company X's business lay on its technological resources. The company has long experience in R&D and it has created an innovative technological solution for renewable energy production. The company is going to strengthen its informational resources by

productizing the plant into digital format, which makes information processes with its suppliers more efficient. (Mr X 2009-2011.) Implementation of Enterprise Resource Planning system and Customer Relationship Management system could strengthen Company X's informational resources remarkably.

VRIO is a good tool for evaluating a company's internal resources and capabilities. It stands for words Valuable, Rare, Inimitable and Organized. VRIO analysis helps companies to narrow down its unique aspects, the resources and capabilities which lead to company's competitive advantage. (Barney & Hesterly 2006.)

If a resource enables a company to exploit an external opportunity, like Company X's solution of gasifier, or to neutralize an external threat, it is valuable. A resource which increases revenues or/and decreases costs is valuable (Barney & Hesterly 2006). If a resource helps a company in efficiency, quality, customer responsiveness and innovation, it is a valuable resource. In Company X case efficiency can refer to the amount of energy produced with gasifier in the bio energy plant. When a company can prove to be more efficient than its competitors, it has an advantage. Quality means that a product or service is produced exceptionally well. In Company X case, its product development is of high quality and is constantly under further development. Customer responsiveness means that a company meets its customer needs very well, for example by short delivery times or providing individual solutions. Innovation is creating new products or services or new ways of processing them. Product innovation gives at least a temporary monopoly and competitive advantage on a new product. Process innovation refers to efficiency in producing goods or services. (Gallagher 2004.)

A rare resource is not widely possessed by other competitors (Gallagher 2004). Even though some other companies may have it, there is still scarcity and perfect competition has not set in. (Barney & Hesterly 2006.) Bio energy production has not been so widely or for so long recognized as an important form of general energy production, compared to traditional forms of energy production, but it is expanding quickly in the world. Although Company X's gasifier may be rare and unique now, new competitors with new solutions are entering the market constantly. Therefore it is important for Company X to act quickly.

Intangible resources, so called tacit resources or capabilities, like corporate culture or reputation, are very hard to imitate and therefore they are inimitable resources (Gallagher 2004). Barney & Hesterly (2006) present an example of an intangible resource: “Harley-Davidson’s style may be easily imitated, but its reputation cannot”. Generally, a resource is inimitable if it is difficult for another company to acquire or substitute (Gallagher 2004).

Tacit knowledge is defined as personal or company internal knowledge. Gourlay’s (2002) definition for tacit knowledge is the following: “a form of knowledge that is highly personal and context specific and deeply rooted in individual experiences, ideas, values and emotions” (Gourlay 2002 cited in Irick 2007.) Tacit knowledge is an important resource for a company because company’s expertise lays on it and because it is a source of competitive advantage. Furthermore it is critical to daily management activities. (Gourlay 2002 cited in Irick 2007.) Company X’s expertise lays on its innovative solution on how to produce renewable, non-polluting energy efficiently, using raw material that is easily available.

A company’s structure and control mechanisms have to be aligned in order to give its employees possibility to exploit company’s resources. It means company’s formal and informal reporting structures, management controls, compensation policies, relationships and so on. They complement company’s other resources and help to achieve sustained competitive advantage. (Barney & Hesterly 2006.) Unfortunately reporting and controlling systems often tend to be comparatively excessive investments for SME companies and these companies tend to postpone the acquisition of these systems. However, these systems are recognized to be very beneficial for management controlling and they will repay in many ways.

Many kinds of skills, knowledge and capabilities are needed in international business. Lack of resources, financial, knowledge or other, may unfortunately hamper especially SMEs to expand to foreign markets. Furthermore companies need to possess competence, an ability to do better than their competitors in the critical areas. Company capabilities and competences are largely intangible and invisible assets, relationships or organizational knowledge. They are often generated internally or they can be obtained

in collaboration with company's suppliers, distributors or customers. (Stonehouse et al. 2000, 49.)

A core competence is a company's distinctive skill, knowledge and experience which lead to competitive advantage. Prahalad (1990, 8) describes a core competency as "an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity". A core competence has to offer a customer something valuable which strongly influences him or her to choose company's product or skill. It also has to be difficult to imitate, and it has to open up a number of potential markets. (Prahalad & Hamel 1990, 8.) In distinction of core competences, core products are components of a final product that are central to its functionality. For example the gasifier is Company X's core product. Core businesses refer to company units which produce core products. Core competences are people skills, policies and assets managed in the core businesses. (Ketelhöhn 1993, 25.)

Peter Drucker argues that there are no longer competitors in the market, just better solutions and more choices that can be put together in more ways. Companies focused on competitors are focused on the past not a future full of technological and demographic opportunities. (Hass 2007, 3.) Prahalad (1990, 15) confirms that "core competencies are the wellspring of new business development, and they should constitute the focus for company strategy" (Prahalad & Hamel 1990, 15).

3.3.2 Value chain

The term value chain was invented by Porter (1985) and it is used to describe how activities in a company are linked in order to maintain a competitive position within the market. In order to describe and analyze how a company does it, business operations can be divided into a series of value generating activities which form the company's value chain. It considers the organization's employees, available funds as well as machinery and equipment. How well a company creates profit depends on how efficiently it performs these activities. In order to be profitable and competitive, costs of activities in the value chain need to be less than the price that a customer is willing to pay for the product of service. (Porter 1985 cited in Stonehouse et al. 2000, 51.)

Porter's (1985) generic value chain model consists of five primary activities and four support activities. The primary activities include inbound logistics, operations, outbound logistics, marketing and sales and service. They describe activities of receiving, storing and distributing company's inputs such as raw materials as well as manufacturing, assembling and testing activities and outbound logistics of end products which are handled by marketing, sales and services. The primary activities are linked to support activities. These include purchasing functions, technology development, human resource management and the company's infrastructure which refers to management systems, planning, financial controls, quality management as well as information systems. (Porter 1985 cited in Stonehouse et al. 2000, 52-55.)

Each of these activities is crucial for creating and sustaining competitive advantage. The nature of the industry specifies which activities are most essential. Support activities do not directly add value but they promote the primary activities. Certain activities have strong impact on the company's core competence. They add the greatest value, and they add more value than the same activities of competitors' value chains. They become core activities since they reinforce core competencies. (Stonehouse et al. 2000, 53.)

Competitive advantage can be created by company's ability to organize its resources and activities in the value chain so that its performance is better than its competitors (Stonehouse et al. 2000, 51). This can be achieved by providing products at a lower cost than competitors or providing greater value for example through better product differentiation (Thompson & Martin 2005, 256). Each company has different kind of value chain according to its strengths and weaknesses. Some companies may concentrated on design and marketing activities and maybe not in retailing, while others may be centered on manufacturing, little on marketing but not on design or retailing. Since cost advantage relates to the cost of competitors it is essential to monitor competitors and do benchmarking: to compare own performance to the best performing company in the same industry, in similar sectors. (Stonehouse et al. 2000, 55.)

However, a value chain analysis of an individual company does not always tell the whole truth about its performance in value creation because many value-adding activities can be shared with other companies in collaborative networks. Since companies focus on their core competences and core activities, outsourcing of the rest

of the activities in the chain is general. (Stonehouse et al. 2000, 56.) A decision of outsourcing depends on company's strengths and weaknesses in each activity based both on cost and differentiation. Outsourcing may come to question if an activity can be performed cheaper by a supplier or outsourcing will result in business process improvements such as reduced lead time, higher flexibility or reduced inventory. Also if an activity is strongly based on fast changing technology, outsourcing it may be advantageous in order to maintain flexibility and to avoid investing on specialized equipment which may soon become outdated. Thereby the total value system consists of a chain of activities between a company, its suppliers (upstream linkages) and distribution channels as well as customers (downstream linkages). (Stonehouse et al. 2000, 57.)

Company X has its bio power plant construction- and electrical drawings, structures and equipment as well as electrifications done by subcontractors. Outsourcing allows the company to remain flexible for changes as well as competitive and profitable by avoiding further investments on resources such as staff, machinery and equipment. Outsourcing allows Company X to focus on its core activities. Currently Company X does not have fixed outsourcing contracts with its suppliers. (Mr X 2009-2011) It is time consuming and ineffective to reform contracts separately for each project. In order to strengthen and enhance its value chain more effective and reliable, I suggest that Company X should select and define its suppliers and make preliminary contracts of outsourcing. This saves time and allows quicker response to customer orders.

International networks involve constant monitoring of changes in the business environments. These changes refer to availability of materials and labor, transportation costs, fluctuation of prices, government incentives, competitors' actions and so on. Being alert helps a company to coordinate its activities both time and cost efficiently. The more complex configuration, the more challenging it is to co-ordinate. It requires effective management of the total performance in order to maintain competitive advantage. (Stonehouse et al. 2000, 57-58.)

Any activity in the value chain can create differentiation advantage, for example usage of unique materials, new process technologies, new distribution channels or rapid service. Differentiation requires creativity. Key issue is to find solutions which cannot

be easily adopted by competitors and which are cost and price potentials. A diamond cutter may have a low cost but the activity adds much value to the end product: a cut diamond is much more valuable than a rough diamond. (Thompson & Martin 2005, 257.) Company X's means for differentiation is to produce a bio energy plant which is modest in size and easy to be adopted anywhere in the world, it can be provided in phases according to individual customer needs and it is build of materials and equipment of high quality. (Mr X 2009-2011.)

3.3.3 Organizational structure and culture

An organization is two or more people working together in a structured way with a meaning of achieving a specific goal or a set of goals. Structure is the design through which an organization is administered, both formally and informally. (Morrison 2006, 13.) Structures can be defined with two variables: the height and width of the structure and the extent to which hierarchical management is observed. Height refers to the number of layers in the organization. The width of organization describes whether it is centralized or decentralized. (Stonehouse et al. 2000, 310-311.)

The organizational structure and culture are very important because ineffective leadership can ruin a great company. Without organizational structure a company is a chaos where none knows who is in charge of what. Formal organizational structure provides a degree of comfort and security. Employees feel safe and secure because they know the chain of command. Structure also provides clear guidelines for recognition and punishment in order to maintain a positive organizational culture. On the other hand, however, an organization may be more effective if it allows its employees to act with some degree of independence (Stonehouse et al. 2000, 312).

In a centralized organization decisions are made by the top management or on the basis of pre-set policies. It allows direct control over the activities of an organization. It suits well for a smaller company which engages in few products or market segments. In a decentralized structure much of the decision-making is delegated down to the lower levels of an organization. This is advantageous when an organization operates in many markets, and localized, specialized knowledge is seen as important for success. (Stonehouse et al. 2000, 311.)

If a company has less than 15 employees like Company X, it might not need to worry much about business structure. Many small companies operate with a low organizational structure because there are very few managers between the staff and the owner; actually the owner might work as part of the basic staff. In this way an organization remains flexible. Larger organizations are higher. They are more formalized and complex with specialized tasks and clearly defined methods of communication. (Stonehouse et al. 2000, 314.)

Harrison (1972) suggested four main categories of organizational culture: power, role, task and person. Power culture is built on trust and good personal communication. Bureaucracy is not needed because only a few strong key individuals hold power and authority. This kind of organization is dynamic, can go through changes quickly, but depends on the key persons. Focus is on success of the organization which tends to create hard atmosphere for employees. Role culture is bureaucratic containing logical, coordinated and rational processes, rules and procedures. A few persons have authority and they are in charge of control. Role culture is stable, predictable and does not support innovation or bigger changes. Task culture relies on employee expertise, specialized teams. It has often a matrix structure. Task organization is flexible and autonomous. It can adapt fast to external changes. Person culture relies on collective decision making and compromises. Employees are individuals working autonomously on their own specialist area. (Harrison 1972 cited in Sutherland & Canwell (b) 2004, 186.)

There are no two organizations run in exactly the same way. Organizational culture with its values, attitudes and beliefs of the members play an important role in molding the structure. A software house or an advertising agency which are creative in nature often has a flexible, flatter structure with less hierarchy. On the contrary a production-based, standardized manufacturing company is more often strictly defined, formal and hierarchic. Also the national culture of a company influences an organization's culture. For example, prominent traditional Japanese cultural features like loyalty and obedience influence strongly Japanese business organizational culture. (Stonehouse et al. 2000, 315.)

Many other factors determine the structure of an organization. Dynamic, turbulent and complex environment favor a decentralized organizational structure, increased local

responsiveness. On the other hand extreme environmental hostility tends to make companies centralized in structure. Older companies and businesses in mature industries tend to have formalized structure. Information and communications technology (ICT) enables flatter structure because it allows businesses to integrate and manage their activities widely throughout the world. (Stonehouse et al. 2000, 313.)

3.3.4 Strategy management and control

Strategy describes the direction and scope of where a company is trying to get to in long-term, in which markets it should compete and what kinds of activities are involved within these markets (Singh & Garg & Deshmukh 2008). It defines what key competences a company needs in order to build competitive strategy (Bowman 1998, 17) and how a company's objectives are going to be achieved aligned with the company mission and vision (Kaplan & Norton 2001, 90). Strategy reveals how a company is able to perform better than its competitors. It defines the resources, skills, assets, finance, relationships, technical competence and facilities required in order to achieve the objectives (Thompson & Martin 2005, 211-213). It also includes the values and expectations of the company stakeholders (Thompson & Martin 2005, 76-77), and it takes into account external and environmental factors affecting the company's competence (Thompson & Martin 2005, 160).

Strategy exists at different levels: corporate, business and operational or functional levels. The overall corporate strategy defines the scope and purpose of the company and it is set by the corporate headquarters. Business strategy covers strategic competitive decisions such as in what markets a company should compete, what key competences are needed for competitive strategy and how to meet the customer needs. Operational strategy focuses on issues of resources, processes, people and so on such as in the form of marketing and manufacturing strategies, quality assurance, information systems and finance strategies. (Bowman 1998, 3-5)

Besides planning and creating the right conditions, strategy management is about converting the plans into target-oriented and measurable development projects. In order to ensure that objectives will be achieved and major unpleasant surprises prevented, the strategy has to be connected to performance targets. (Tuominen 2000, 23-24.)

Performance means an accomplishment of a given task measured against preset standards of accuracy, completeness, cost and speed (BusinessDictionary 2010). Performance management refers to monitoring, measuring and controlling that the company performance is aligned with the company strategy and recognizing potential gaps between actual and desired performance. Company's performance shows how it accomplishes its objectives in align with its mission, vision, values and strategy, measured by these preset indicators. (Sutherland & Canwell (b) 2004, 203.)

Balanced Scorecard is one performance management tool by Kaplan and Norton (1992). It creates a framework to implement a company's strategy and to control that the strategy is carried out effectively. It helps a company to recognize and understand the key performance indicators that need to be controlled. (Kaplan & Norton 1992 cited in Sutherland & Canwell (a) 2004, 24.) Key Performance Indicators (KPIs) are quantifiable measurements which identify a company's particular strengths and weaknesses, measure efficiency (input versus output), adaptability (reconfiguring time), financial status (return on equity) and effectiveness (trouble-free production). They can also measure a company's behavioral, confidential, ethical, operational and strategic areas and other special features. Behavioral performance refers to management of staff. Confidential performance shows the relationship between a company and its environment, especially with the stakeholders. Ethical performance refers to standards of behavior against the set criteria. Operational performance measures profitability, productivity and output. Strategic performance refers to the overall effectiveness of a company. Specific features can measure for example profit per employee, return on investment, delivery speed and quality targets. In order to get the advantage of the indicators, they need to be monitored and assessed constantly. (Kaplan & Norton 1992 cited in Sutherland & Canwell (a) 2004, 205.)

Key Performance Indicators have to be limited into those factors that are essential to the company reaching its goals. Implementing the Balanced Scorecard system throughout the company should result in improved processes, increased financial usage and greater customer satisfaction. It motivates employees and enhances information systems. A company's progress can be monitored through near-term objectives and activities as well as through drivers that create long-term customer and shareholder value,

differentiate the company from its competitors and bring the desired outcomes. (Kaplan&Norton 2001, 99-100.)

As mentioned earlier, Company X's mission is to provide environmentally safe, non polluting power plants, which use bio fuel. The plant is moderate in size and, as a decentralized, self sufficient solution, it can be adopted worldwide. The company's strategy is to be flexible in several aspects. It wants to outsource many of its functions such as construction of the structures and electrifications of the bio plant. In this way the company's organization can remain light and low and the company does not need to invest on machinery and equipment. However, this kind of solution allows fast growth. Another strategy is also to provide a flexible solution to its customers. The plant is planned and supplied according to individual customer needs, and, thanks to modularity, it can be constructed in phases. Innovation as well as continual research and development are the core functions in Company X's strategy in order to remain competitive. The main target is to become a notable supplier of bio power plants of 1-7 MW in Finland and Sweden within by the next years. Besides the national market, the company's goal is to enter global markets strongly and rapidly. The objective is to gain 70 percent of the profit coming from global markets. (Mr X 2009-2011.)

Implementation of a management controlling system would assist the case Company X to monitor, measure and control the company's performance to ensure that it is aligned with the company's strategy. It would help in reaching the objectives, enhancing efficiency and productivity as well as profitability.

4 OPPORTUNITIES AND CHALLENGES IN THE CHINA MARKET

The external environment provides both opportunities and threats for a company. An opportunity is a chance for a company growth or progress due to favorable circumstances in the business environment. Emerging customer needs, quality improvements and expanding global markets are possible opportunities. On the contrary a threat is a factor in the external environment that poses a danger to a company's well-being, for example new competitors, shifting demand and emergence of cheaper technologies. (Hitt & Ireland & Hoskisson 2000.)

4.1 Market analysis

Market analysis or research is a systematic gathering of the external factors that affect the success of a product in a market. Without analysis a company might enter markets that are not favorable for its products or services. (Woods 1995, 160.) Markets change and evolve constantly. That is why market analysis has to be a living document.

STEEPLE is a useful business measurement tool for understanding a company's position, potential and market direction. It helps to take advantage of the opportunities and to minimize the threats within the target market. The name is an acronym for Sociocultural, Technological, Economic, Environmental, Political, Legal and Ethical factors. Other variations on the same theme have been created under acronyms PEST, STEP, PESTELI or STEELED representing the same factors plus Industry Analysis and Demographic factors. It is an important tool and when used effectively, it ensures a company that it is operating aligned positively with the forces of change that affect the world. It helps a company avoiding actions that are condemned to failure for the reasons beyond its control. Furthermore STEEPLE helps a company to break free of unconscious assumptions and helps it to adapt to the realities of a new environment. (MindTools 2010.)

When using the STEEPLE tool, it is important for a company to brainstorm the relevant factors that apply to its operations and which help it to draw the appropriate conclusions and form the picture of the target market. The factors need to have a meaning for the company. Sociocultural factors reveal the living conditions in the target environment. It

tells about the demographics, the growth rate and age profile as well as population health, education and social mobility and attitudes to these. They may also cover the population employment patterns, the job market and attitudes to work. Some companies press an importance to know about the target market's lifestyle choices, press attitudes, entrepreneurial spirit, social attitudes and social taboos. (MindTools 2010.) From bio energy point of view it is important to find out for example what the balance of supply and demand of energy is, how the supply is arranged and what the attitude towards renewable energy production is in the target market.

Technology is a major driver in internationalization. Technological analysis reveals core technologies, new inventions and suggests how the technology markets are developing, what kinds of opportunities are rising and what the future looks like from the research and development point of view. It reveals the knowledge transfer, the impact of information technology, internet and mobile technology; reduction in communications costs and increased remote working. For a technological company it is also important to find out about licenses. (MindTools 2010.)

In order to get a picture about the economic situation within the external environment, it is important to analyze such factors as business cycle, economic growth, inflation and interest rates, and for example energy costs. Level of economic activity and competition, levels of disposable income and income distribution are important factors for companies as well. Economic analysis may also cover the environment's unemployment rate and labor supply as well as labor costs. (MindTools 2010.)

Environmental factors refer to concern about the natural world and how businesses may impact on it. Consideration of ecological factors in companies' strategies is essential. It affects the management style and staff morale, attitudes and engagement. It reflects to consumer values. An example of environmental consideration, companies have to be aware of any endangered species and habitats in locations where they construct facilities. (MindTools 2010.)

To understand the political environment in a country, it is important to feel how it is shaped: who is in power in that country, how open is the system, who participates in it, which are the most important ideologies and how strongly are they supported. It is

essential to find out how the political environment impacts the country's economy and what are the beliefs, values and expected attitudes as well as the international relations like in the country in question. Safety issues, for example presence of terrorism or wars and conflicts, are important to know and to take into account in advance. (Ketelhöhn 1993, 130-131.)

Legal factors include both current and future legislation. They refer to social, employment and consumer-protection legislation as well as tax policy, trade and tariff controls. They cover industry specific regulations and competitive regulations. (MindTools 2010.)

Ethical environment is about ethical beliefs and shared values. It tells for example about an equitable healthcare, advocacy or conflict of interests. Analysis of ethical factors may reveal lobbying and nepotism in a society. (MindTools 2010.)

In the following there is a market analysis for China. Some of the outcomes will be reflected in the risk analysis in the next chapter.

With a population over 1.3 billion China is the largest country in the world, and it continues to grow rapidly. There are fifty-six ethnic groups, 200 dialects and eight major cuisines in China. The country has a large number of working class people. However, due to One-Child Policy introduced in 1979 the country suffers from gender imbalance: it was estimated in 2000 that 119 boys were born for every 100 girls. Because of that in 2004 the country released legislation for banning selective abortions of female fetuses. One child one family policy has also caused an aging problem in China. It has resulted in a fundamental change in China's support ratio, which means the number of people working compared to the number of people over retirement age. Today China's support ratio is more than 5 working people for every older person, but by 2030 it is forecast to be only 2.5. (Coughlin 2010.)

China is in a state of transition from old-fashioned to modern economy, from centrally planned Communism to the market mechanism and from poverty to riches. The change is constant and rapid. Values are changing but there are strong traditional values like the Chinese family, group loyalty, the respect for hierarchy and the presence for harmony which persist. These belong tightly to Chinese culture and are important features to be

taken into account by foreign businessmen. Female subordination has weakened but it is still present to some point. Also many old traditions persist such as traditional bureaucratic ways, superstitions and stressed personal ties and obligations. (Bucknall 2002, 22.) Bureaucracy –issue is another important fact to be taken into account by a company going to China market. It can mean delayed and complicated handling of issues.

The Chinese economical development in the last 30 years has been phenomenal: during that time China's GDP has grown ten times. The annual GDP growth rate from 2000 to 2010 was in average 10.4 per cent which propelled the country from sixth to second place in the world (The Irish Times 2011). The economic reforms, capital accumulation and increasing land and labor productivity have allowed this strong growth. The reforms raised economic efficiency by introducing profit incentives to rural collective enterprises, family farms, small private businesses and foreign investors and traders. Foreign investments allowed new factories, created jobs, linked China to international markets and led to important transfers of technology. Unfortunately China's economic development manifests significant inequality between different regions: coastal regions in eastern China enjoy much higher the per capita GDP than the most inland regions. (Morrison W. 2006.)

There are still 30 million people in China without electricity. These communities are mainly located in the inner land, west of China. (Zhang & Watanabe & Lin & DeLaquil & Gehua & Alipalo 2010) An average family is estimated to consume approximately 200W. In order to provide electricity to all these families, the government has to provide millions of MW annually. Along with this China has faced enormous economical growth with increased demand for energy and severe pollution problems. The Chinese government has set an optimistic objective to obtain 15 percent of its energy resources from renewable origin by 2020. Due to this spectacular growth, the economic crisis in the rest of the world and due to huge investments in the energy technology, China has become very attractive market for providers of renewable energies technology. China's attitude towards renewable energies is very positive. (Zhang et al. 2010)

The technological sources of most China's industries have mainly come from the spread of technologies of west countries. Copying has been a part of the Chinese culture. In the

system of traditional planning economy, the government was a main body for promoting China's technology progress. Since reform and opening and along with better conditions for R&D and developing IPR (Intellectual Property Rights) legislation and enforcement, the role of enterprises in technological innovation and progress as well as investments in science and technology are gradually increasing. However innovation capacity in China is still relatively narrow compared to western countries: the Chinese are more developers than researchers. (Sepetys & Cox 2009)

Thanks to rapidly developing economy, China has built up a modern information network which covers more than 2000 cities of the country and links to all major international networks in the world. However, there is remarkable unbalance between coastal and inland regions: 40.7 per cent of the country's netizens are located in the seven coastal regions. For example Guangdong at coast is one of the pioneer regions in China's economic reform and it has achieved very high levels of IS adoption and informatization development. The Chinese internet is controlled by the government which routinely blocks content that seems to be inappropriate for the general public. These contents include sites that focus on democracy, Tibet or Taiwan. Also the material of China is censored. (Green 2010.)

China is one of the most diverse countries in the world. China is huge mountains and cold plains, poor country sides and gigantic cities with high-tech centers, tropical areas and deserts with nomadic tribes. Two thirds of the country's geography is mountainous which leaves only 13 percent of the land available for farming. This causes food production problems and it has led the population centered in the East on farming lands. The country suffers from flooding and earthquakes. (World Savvy 2010.) Concerning the diversity of the Chinese landscape, the Company X's solution for providing energy is ideal to be adopted in many locations with difficult access in China.

China suffers from enormous pollution problems. China is the world's largest emitter of greenhouse gases contributing to global warming. Chemical plants and overuse of the fertilizers pollute groundwater and rivers making drinking water unsafe largely. Coal-fired plants emit carbon dioxide sickening entire towns and villages. It has been estimated that 750,000 people die prematurely from air- or water-borne pollutants; cancer has become the greatest death cause in China. Desertification from overgrazing, over-farming and deforestation causes the Gobi desert to spread almost 2,000 square

miles annually, creating dust storms and loss of land. In order to decrease the level of environmental damage China needs to employ basic practices and advanced technology. (World Savvy 2010.) China's greenhouse gas problem is an opportunity to companies in clean renewable energy production.

Despite of diversity, China is an incredibly united country. Long tradition of Confucian values unites the Chinese society. Confucianism regulates every social Chinese relationship. China has faced four radically different political systems: imperialism, warlord, republicanism and communism. (Chen 2001, 3.) The Chinese Communist Party controls all government functions on the local and national level through its vast network of 73 million carefully selected Party Members and local Party organizations. It is an authoritarian, hierarchical system with power consolidated in the selected Leader Hu Jintao, who serves as President of China, Secretary General of the CCP and Chair of the Central Military Committee. As in domestic matters, Chinese Communist Party (CCP) tightly controls all aspects of foreign relations. In order to curb any criticism of the government that might interfere with social stability, economic growth and/or the mandate of the CCP to govern, the government has laid some restrictions for the Chinese people. The flow of information is controlled by the Propaganda Department. CCP has invested in technology and manpower to continue to monitor and control what can be said and heard. The right to gather and associate in groups is restricted. All non-state entities such as churches and civil groups must be registered with the state and are subject to regulation. Organizations are routinely banned. Individuals do not enjoy freedom from arbitrary searches and arrests, or from torture or imprisonment. Citizens enjoy few property rights and land seizures are commonplace. Millions of people have been dislocated by public works projects. Freedom of movement around and in and out of the country is controlled by the government. (World Savvy 2010.) Chinese government's presence and involvement in China business is evident and an important fact to be taken into account for foreign companies.

China does not technically have an independent judiciary or a legal system operating outside the influence of the ruling Chinese Communist Party – the hand of the state is involved everywhere, visibly and invisibly, even when disputes seem to involve private companies. This means, China's legal system lacks neutrality. The CCP approves all court appointments and judges are technically responsible to the Party, not to the

people. Also the infrastructure lacks capacity; for example there is one lawyer per 10,000 people in China. Along with the Chinese rapid economic modernization, in the pursuit of economic competitive advantage there have been a wide array of business disputes such as patent infringement, business transactions that are not honored, individuals who have been displaced by private and state-directed construction and labor disputes. The Chinese do not interpret the legislative issues in the same way as in the West: for example a contract is not seen as binding in China as in Western countries. Therefore it is very important for Western companies to know how to negotiate and make contracts with the Chinese counterparts. (World Savvy 2010.)

4.2 Risk analysis

Risk analysis means evaluation of a company's business processes in order to determine their criticality to the business, identification of the most possible threats and analysis of a company's vulnerability to these threats. It requires evaluation of a company's security and controls. By this analysis business functions can be prioritized and all needed contingency plans determined. It requires management's awareness, its ability to develop contingency plans to minimize disruptions of critical functions and capability to recover operations successfully. (VentureChoice 2008; Wold & Shriver 1997.) Furthermore risk analysis helps to decide whether the risk controlling strategies in a company are cost-effective (MindTools 2010).

Business risk can be described as the "perceived extent of possible loss" (MindTools 2010) or the risk that a company will not have adequate cash flow to meet its operating expenses. It can be for example country risk, economic risk, financial/currency/inflation/liquidity/credit or interest rate risk, purchasing power risk or market risk. Companies have different views of the impact of a particular risk: what is a small risk for a larger company may be crucial to a smaller one. (MindTools 2010)

MindTools (2010) categorizes threats that a company may face into human, operational, reputational, procedural, project, financial, technical, natural, political and other threats. Human threat refer for example to individual illness or death, operational threat can include for example loss of access to essential assets or failure in distribution. A company may face damage in reputation in the market or lose business partner or

employee confidence. Procedural threat may include failures of accountability, internal systems and controls, fraud etc. Cost over-runs and insufficient product or service quality are examples of threats in projects. Financial threats cover failures in business, stock market and all mentioned above. Natural threats may be brought by weather, natural disasters and accidents, and changes in tax regimes, public opinions, government policy or foreign influences may bring political threats. For example competition in the market may bring other threats to a company. (MindTools 2010.)

Risks can be considered also from another point of view. They can be seen as business risks in safety, revenues, costs, legal, related exposure or security breaches. Safety risk includes human injuries, accidents such as fire, explosion or environmental damage. Risks in revenues refer to monetary losses either recoverable or unrecoverable, loss of customer base or lost opportunity in time to market. For example costs caused by preventable problems, costs from lost discounts, increased warehousing space, vendor changes and legal defense should be considered as risks to costs. Legal risks are legal actions against the company. Related exposure refers to losses of customer, goodwill, shareholder confidence or investor confidence. Security breaches can mean lost data or a loss of capital or physical security breaches. (VentureChoise 2008.)

In order to determine how probable and how critical these risks are, a company can analyze its business functions and systems as well as third party in a score matrix. This gives a basis for risk management and shows values of the risks. Well arranged risk management is cost effective: risk elimination should not be more costly than the cost of the event if it occurs. (VentureChoise 2008.) It can be handled in a number of ways: through improvements to a company's existing recourses, methods and systems, through changes in responsibilities or through improvements to accountability and internal controls. A company may also accept a risk but develop a good contingency plan to minimize risk effects. A good contingency plan is simple, ensures business operations, identifies the critical point when to implement the contingency plan and identifies everyone's needs throughout the company. It is introduced to everyone in the company and everyone knows their roles and responsibilities related to it. The plan is reviewed and audited on a regular basis. Contingency planning requires an investment of time and resource but if a company fails to do it, costs may be significant in case of disaster. Additionally, with great risks, a company can invest in new resources by paying to someone else to carry part of the risk, insurances. (MindTools 2010.)

The world is not stable and surprising things happen. It is important for a company to evaluate internal and external threats and risks and pay attention to risk management. The process of managing risks never ends.

China provides foreign companies with enormous business opportunities, but also with enormous risks. Companies may face legal, financial, political, social and environmental risks. Regulatory risk in China is high; numerous restrictions and a massive bureaucracy may hinder full implementation of regulations and make approval processes unpredictable. Furthermore interpretation of regulations tends to vary from place to place and the system is confusing because several authorities of departments may be responsible for implementing the same regulations. All this leads to frequently higher costs than foreign companies may expect of doing business in China. That is because they have to consult all the relevant authorities with additional costs. These policies, which are aimed at protecting domestic companies from foreign competition, create risks and obstacles that few foreign companies are aware of until too late. (Hoenig 2007.)

China recognizes increasingly overseas arbitration awards and rulings thanks to its WTO membership, and there is growing pressure from foreign investors for greater transparency and rule of law. However it is still risky for companies to rely solely on the China judicial system to protect their interest. Not all judges in China understand or have significant experience in handling commercial disputes and many judges are exposed to pressure from local interest groups and governments. Hoenig (2007) advises companies minimize risks by careful preparation. Companies should analyze legal and financial backgrounds and reputation of its key partners, acquisitions, senior managers, vendors and suppliers before entering a formal relationship. (Hoenig 2007.)

China's business environment breeds grounds for fraud, corruption, nepotism and unethical behavior. The concept of business ethics is still fairly new in China. In the changing economy, people pay little regard for how individual success is gained. It is not exceptional that in companies only one person is responsible for all corporate governance issues. Rank-and-file employees obey management without question, which has led to an environment without internal control or with control that is routinely overlooked or circumvented. The legal system is ill-equipped to handle misdirected entrepreneurship. (Hoenig 2007.)

Chinese businesses operate often behind closed doors, out of view of the justice system, investors, and potential partners. Many financial, human resource, procurement and subcontracting transactions lack transparency and documentation. It is difficult to determine what given information is accurate and what is exaggerated or even false. Hoenig (2007) suggests foreign companies, before signing contracts, to verify that the individual's and company's history and reputation is in align with what has been presented. Foreign negotiators also should find out the true nature of a potential partner's ownership structure, political connections and hidden power brokers. (Hoenig 2007.)

Despite China's WTO entry and the WTO Agreement on Trade-Related Aspects of Intellectual Property (IP) rights, both Chinese and foreign companies still suffer of weak IP protection in China; the problem is likely to persist for some time. Chinese business partners often look to foreign partners, to supply capital and technology and it is not unusual that they collude in corrupt practices. Therefore foreign companies need to conduct a thorough IP risk assessment to determine the likelihood of IP leakage and they need to create a solid IP protection system for their business. (Hoenig 2007.)

4.3 Industry analysis

The meaning of industry analysis is to define skills, intensity and nature of competition, companies' value adding activities and technologies, strategic groupings as well as companies' entry and exit in an industry. It helps an individual company to define its competitive position in the line. Since industry dynamics are constantly exposed to environmental changes, industry analysis should be repeated regularly. (Stonehouse et al. 2000, 84; 96.)

Porter's (1980) framework for industry analysis is the most widely used tool to explain the forces that determine a competitive intensity and profit potential for companies within an industry. He defines five determining competitive forces: potential threat of new entrants, threat of substitute products or services, bargaining powers of buyers, bargaining powers of suppliers and the rivalry among the existing competitors in the industry. The stronger these forces are, the greater the threat they pose. According to Porter (1980) companies' goal within an industry is to create a competitive strategy to best defend itself against competitors and to gain advantage to a company itself. This

requires a profound examination and analysis of these forces. (Porter 1980 cited in Morrison 2006, 103.)

Threat of new potential entrants is high when barriers to entry or expectation of reaction are low and vice versa if barriers are high, the threat of new entrants is low. Barriers to entry refer to economies of scale or experience effects, capital requirements, product differentiations and brand loyalty, access to distribution channels, government policies and resistance by existing players like price cuts and advertising campaigns. New entrants have to put effort in marketing in order to break through which may require a lot of extra money. Existing successful relationships and agreements between producers and key distributors may create barriers to entry. The easier for new competitors to enter an industry the greater is the level of competition. Therefore one objective for company strategy is to create and increase barriers for new competitors to entry. (Porter 1980 cited in Stonehouse et al. 2000, 86 and in Morrison 2006, 103-104.) In energy production industry companies in waste-to-energy –line or companies providing bio-fuel can be considered as new entrants in the industry.

A substitute is a product or service that is considered by consumers as an alternative for another product or service meeting the very similar customer needs in question. The substitution may vary depending on for example price or availability. In renewable energy business wind, solar and bio energy are substitutes to each other. Competition increases if substitutes meet the specific customer needs effectively and their price and performance are favorable, if buyers are willing to purchase substitutes and the cost of switching is favorable for them. Companies can protect themselves from the threat of substitutes by differentiating their products and enhancing their performance in order to create customer preference and loyalty and thereby making their product or service less price sensitive. They also can take actions to increase switching costs for buyers. (Porter 1980 cited in Stonehouse et al. 2000, 87 and in Morrison 2006, 104.)

Manufacturers, service companies, retailers, wholesalers, distributors and retail consumers are considered buyers for companies. The strongest buyer groups are those who purchase a large proportion of the seller's volume or those who may change to alternative sellers with ease. These buyers can be powerful in forcing down prices or demanding higher quality or better terms in the industry. They may be strong enough to

play off one producer to against another. In order to strengthen their position within an industry the companies should try to reduce the power of their buyers by differentiating their products and taking actions to increase costs of switching to substitute products. (Porter 1980 cited in Stonehouse et al. 2000, 87-88 and in Morrison 2006, 104.)

Industry suppliers consist among others of providers of raw materials, components, labor, energy, plant, equipment and finance. Dominating suppliers in energy industry such as oil providers can threaten to raise prices or to reduce quality. When suppliers are large in size and few in number, they are important to the industry and when switching costs to substitutes are high, the supplier power is strong. (Porter (1980) cited in Stonehouse et al. 2000, 88 and in Morrison 2006, 104.)

Rivalry is high when there are a lot of competitors in the industry, competitors are of similar size and of equal power, the extent of differentiation and brand loyalty are low and exit costs to companies are high. Rivalry leads to intensive observation of each other's strategies and moves in the business. Companies have opportunities to expand while an industry is growing, but when growth is slow the competition concentrates on gaining market shares. This leads to price competition, product development and innovation, product differentiation, promotion and strong advertising. (Porter 1980 cited in Stonehouse et al. 2000, 88-89 and in Morrison 2006, 104.)

It is important to any company to understand its competitive environment in order to adopt the most optimal strategies, to meet its objectives and to be successful. Analysis of the five above discussed forces guides a company to adjust its strategy accordingly and gives a stronger basis to defend itself against threats within the industry. Business environment is constantly changing so companies need to stay aware and monitor the development in regular basis. (Thompson & Martin 2005, 173.)

Global demand for energy is growing and expanding due to increase in population and due to rapid economic growth in developing countries. According to scenarios, global demand for primary energy grows in average by 1.6 per cent annually in 2006-2030 which means an increase of 45 per cent from the situation in 2006 on. China, India, the Middle East and other non-OECD regions are expected to increase strongly their proportion in demand for energy. Oil is the main source of energy and is expected to

remain so for many years to come but the sources of it, costs of producing it and the price that customers are to pay for it are extremely uncertain. (World Energy Outlook 2008.)

The traditional power generation has caused and is constantly causing severe environmental impacts especially in the atmosphere. Increasing energy-related emissions of carbon-dioxide (CO₂) and other greenhouse gases are expected to raise the average global temperature by six degrees in the long term. This has brought the power generation into a turn point, and several international and national agreements have been drawn up in order to limit greenhouse gas emissions and to increase use of the renewable power resources. The Kyoto Protocol was adopted in 1997 and came into force in 2005. It was designed to assist countries in adapting to adverse effects of climate change. (World Energy Outlook, 2008.)

The most important means to secure energy supplies and limit greenhouse gas emissions are enhancement of the total efficiency of power generation. This can be attained by combined heat and power production, better efficiency in electricity generation and an increase in the use of the renewable nonpolluting power resources. (World Energy Outlook, 2008.)

Chinese energy market offers great opportunities since it is one of the biggest countries whose demand for energy is increasing rapidly. At the same time China is also amongst the countries with the largest greenhouse gas emissions. China has acknowledged its environmental problems and has taken measures to reduce polluting and to increase the use of renewable energy resources by introducing several national programs. China is predicted to invest hundreds of billions of dollars in energy technology in the next few years. This makes the Chinese energy market very attractive for companies in renewable energy production. (World Energy Outlook 2008.)

The traditional chain of power generation consists of several phases starting with acquisition of the fuel, transporting, storing and refining it, the power generation itself and ending up with waste management. Decentralized power generation, smaller plants and locality are features that support sustainable energy production. The use of renewable energy resources such as bio mass enhances locality, its use raises self-sufficiency, decreases distances in transportation and enhances preparedness for crisis

situations. Bio energy is clean and environmental friendly, renewable energy. The fuel consists of crop stalks, forestry residuals, oil plants, energy crops, garbage and other organic wastes like agricultural residue. Bio power generation is still quite a non-competitive field and it requires innovation, modern technology and high automatism. In order to enhance use of bio power its generation should be competitive and easy to use. Reliability of the equipment is an essential criterion. Besides fossil-fuels biomass competes with other kinds of renewable energy sources such as water power, wind power, solar energy and geothermal heat within the energy markets. (Wang & Li 2009.)

Renewable energy is an important component in China's long-term energy strategy. The Chinese government has set plans to stimulate renewable energy commercialization and industrial development by policies and different programs and by promoting modern biomass energy technologies. The government of China has adopted Renewable Energy Law and National Development and Reform Commission has completed the 2020 Renewable Energy Development Plan. The Plan has a national target of increasing the present 7 per cent up to 15 per cent of all electricity to come from renewable sources by 2020 and targets for key renewable energy technologies such as wind and biomass. (Owens 2007.)

<u>Sector</u>	<u>Present situation</u>	<u>Objectives 2020</u>
Wind	740 MW	20-30 GW
Small Hydraulics	30 GW	75 GW
Pave Photovoltaic	55 MW	30 GW
Pave Thermal	52 million m ²	270 million m ²
Biomass	2 GW	20 GW

(Owens 2007)

China has abundant renewable energy reserves and sources of biomass are multiform: agricultural residue, firewood, forestry residue, organic waste and industrial waste. Agricultural residues are gathered from processes of crops such as rice, wheat, corn, beans, tubers, cotton and sugarcane. Forestry residues and industrial biomass from paper and timber mills, food processing and bio-industries such as wineries, sugar refineries and food factories are other important resources for biomass. Municipal

domestic waste includes household, commercial and service rubbish as well as construction waste. (Owens 2007.)

However, according to Wang and Li (2009) China's renewable energy technology is still in the transitional period from research and development to industrial production. They argue that China's development of renewable energy sources still needs strong government input, including funding and policy support. Furthermore they suggest that the country needs establishment of a series of technical experiments and demonstration projects to analyze and investigate the resources, the conversion and market development experience. China needs to form complete sets of equipment design and manufacturing, cultivation and collection of biomass resources and technology development capabilities. (Wang & Li 2009.)

Undoubtedly the Chinese are willing to adopt many kinds of new and innovative technologies available to enhance their development in the use of renewable energy resources according to the set plans. This provides an opportunity also for small companies operating in alternative sustainable energy business.

4.4 Competitor analysis

Competitor analysis is a vital part of company's strategic planning. It gives a strong market understanding and drives company's own strategy formulation, strategic thinking and strategic planning. It impacts on how a company acts and reacts in its business.

Competitor analysis means obtaining information about important competitors and their strategies and planned actions. The collected information is utilized to predict and influence competitors' behavior to the company's own advantage. Simultaneously it helps a company to learn further about the competitive environment, customers, distribution channels, suppliers, technology and other competitive dynamics. Furthermore it supports a company to define its own capabilities, limitations and vulnerabilities. It strengthens company's ability to build its own strategy, to compete effectively, to improve its performance and to enhance its market share in the business. (Fahey 2007.)

Porter (1980) presented a framework for analyzing competitors with four critical key aspects: competitor's objectives, assumptions, strategy and capabilities. Through the knowledge of competitor's objectives a company can better predict its reactions to different competitive moves. Objectives may be financial or a competitor may want to expand its market share, to gain technology leadership or to increase growth rate. For example a company that does not have short term profitability objectives could be predicted to participate in price competition. On the other hand a company that has financial goals might not spend much money in such competition. Competitor's organizational structure, its management incentives, board of directors, executive backgrounds and any other feature may provide clues about priorities in its objectives. Also knowledge about competitor's assumptions helps a company to predict its moves within the industry. These assumptions may be beliefs about its competitive position, regional factors, industry trends or purely rules of thumb. (Porter 1980 cited in NetMBA 2010.)

Information about competitor's strategy can be acquired in its annual shareholders reports, interviews, management statements and press releases. Often, however, stated, general information differs from what a competitor actually does. Competitor's hiring activity, R&D projects, capital investments, promotional campaigns, strategic partnerships, mergers and acquisitions provide clues about the competitor's actual strategy. (Porter 1980 cited in NetMBA 2010.) Competitor's marketplace strategy shows up in the way a competitor provides value to its customers, in the company's product feature and price, functionality, service, availability, image and reputation, selling and relationships (Fahey 2007).

Knowledge about competitor's resources and capabilities tell about its ability to respond to a competitive attack. SWOT analysis tells about competitor's strengths and weaknesses and financial analysis shows its sustainable growth rate. It is also important to evaluate competitor's ability to react to changes in turbulent environment. Some companies are able to adapt quickly to changes but others may have difficulties due to low cash reserves, large investments or stiff organizational structure. (Porter 1980 cited in NetMBA 2010.)

Besides traditional energy generation by nuclear power, oil, coal and natural gas, bio energy competes with other renewable energy modes. Surging oil prices have led many countries to research on the exploration and application of renewable energy and alternative energy resources. Use of fossil fuels has led to serious greenhouse effects and environmental pollution. In China demand for oil increased strongly along with the economical raise and the country became a net importer for oil. China's future incremental oil demand depends mainly on foreign resources, which brings severe challenges on Chinese oil supply security. Coal is one of the main energy resources in China, but the exploration of coal becomes more and more constrained by ecological environment and water resources. There are also uncertainties about whether it is feasible for China to make use of natural gas on mass scale because of the price of it and because it is uncertain whether the infrastructure construction is ready for mass scale utilization. According to Liu & Jiang (2009) China should depend on domestic resources, promote diversified energy resources development and encourage the exploration of and investment on new energy and renewable energies (Liu & Jiang 2009).

Development of renewable energy has become a major strategic issue in China's energy security, economic development, environmental protection and social stability. China's hydropower resources are widely distributed, mainly in the west area from the geographical viewpoint and mainly in the major rivers. The country's hydropower investigation, design, construction, installation and equipment manufacturing have reached international standards and formed a self-contained industrial system. The main problem for the future development is ecological damage and related social impacts. (Wang & Li 2009.)

Biomass is significant source of energy in China, particularly in rural areas. As mentioned earlier, it consists of agricultural residue, firewood, forestry residue, organic waste and industrial waste. Biomass is an important component of China's long-term energy strategy for rural development. (Owens 2007.)

China is abundant with wind power resources, and its wind capacity has ranked number 5 in the world at the end of 2007. Domestic companies have mastered the manufacturing technologies of megawatt-class wind power equipment and begun large-scale production. Sinovel Group, Zhejiang Yunda Corporation, GoldWind Technology

Company and Harbin Wind Equipment Corporation have received special support from the government for the establishment of wind power equipment. However, current wind power development is faced with a series of problems from the electricity price to power grid construction of domestic wind power equipment manufacturers. (Liu & Jiang 2009.)

China is rich in solar energy. The most widely used solar energy technology is solar water heater to provide hot water. Besides solar water heaters, China is developing and expanding the area of solar energy including solar heating, refrigeration, air-conditioning, sea water desalination and industrial heating. According to 2007 statistics, solar water heaters take up more than half of renewable energy use in China. (Liu & Jiang 2009.)

China's geothermal energy is divided into power generation and direct use, and it is mainly distributed in Tibet and mountainous areas in Yunnan. China's ocean energy includes tidal and wave energy. The country has built eight tidal power stations. (Wang & Li 2009.)

There are several providers of biomass technology both in Finland and abroad competing with Company X. There is a Dynamic Bioenergy cluster (Bioenergiasta elinvoimaa BEV) in Central Finland with over 50 companies operating in the field of energy and energy raw-material and companies offering machines, equipment and expertise. The cluster gives an advantage to the member companies; it develops and executes state-of-the art bio energy systems which build unique expertise and strong marketing arguments for the participating companies. It also helps the companies in financing. Furthermore the cluster co-operates with the national Energy Technology Center of Expertise Program managed by the Jyväskylä Innovation Co. (Sauranen 2007) MW Power is a remarkable national competitor, belonging to the BEV cluster and operating both in national and international markets. It provides medium- and small-scale combined power and heating plant solutions with capacity 3 to 10 MW. MW Biopower solution uses, like Company X bio power plant, a wide variety of wood based raw material such as harvesting residue, sawdust or plywood cuttings. It has a joint venture with globally operating power technology leaders Metso and Wärtsilä which is a remarkable benefit for the company. MW Power has provided a Biopower plant

among others to Finnforest Oyj in Vilppula, Savon Voima and Virrat municipality. It is active also in international markets; it has provided among others two Biopower plants to Renogen, Belgium, two plants to UK and one to Oü Helme Energia in Estonia. (MW Power 2011.)

Sweden is a forerunner in the development of combined heat and power plants (CHP) and there are numerous companies on the line. For example NBE Sweden is a company jointly owned by Chinese NBE, Dragon Power, Swedish Härjedalen's Miljöbränsle (HMAB) and Härjedalen municipality. It cooperates with Lund University to optimize the extraction of ethanol on an industrial scale from various raw materials such as wood chips, straw and industrial hemp. The company's business is to build renewable energy plants in China. Having such a joint venture with a Chinese company is a huge opportunity to the Swedish part. It reduces entry risks, provides access to the wide Chinese energy market and along with that it provides fast growth for the Swedish company. (NBE Sweden 2011.)

The biomass sector is in vast and rapid expansion in Europe and in the rest of the World. For example E.ON is the largest privately owned energy company in Europe and its subsidiary, E.ON Sweden with significant experience in gasification of biofuels, is responsible within the E.ON Group for developing bioenergy and hydrogen gas. (E.ON 2010.) An UK company, Havana Energy Ltd. is launching a renewable energy project in Cuba in order to establish biomass power generation plants adjacent to sugar mills (HE 2011). Spanish Acciona has built several biomass energy plants in Spain (Acciona 2010), and German technology for using solid biomass in energy generation has undergone continuous development. There are several companies in Germany in bio energy business such as Seeger Engineering Ag, AGO AG Energie + Anlagen and TerraNova Energy GmbH. (dena 2010.)

The more companies coming to the bio energy industry the harder becomes the competition. There are many companies seeking entrance to the Chinese energy market. Company X has a very compatible solution for renewable bio energy generation and it should act quickly and enthusiastically to get its product to international markets and especially to China.

5 CHINESE CULTURAL CHALLENGES

It is important to understand what cultural competence means and how to obtain such a cultural knowledge and behavior which enhance communicating effectively with others in a multi-cultural environment. Knowledge of other cultures minimizes unpleasant surprises and promotes successful interactions with persons from different cultures. (Lewis 1996, 2.) It is the same as when traveling to a foreign country, a person finds out about certain facts in advance in order to make a more enjoyable stay. With cultural knowledge a person receives better welcome and totally different business experience in the target market (Chen 2001, 181-182).

5.1 Cultural dimensions

Culture, in broad definition, is learned and shared, interrelated set of symbols which join people in a society and describe their orientation. Culture includes many kinds of aspects: values and beliefs, both moral and religious; communication, both spoken, written and body language; norms of behavior like eating and drinking habits, clothing; customs; art, music, dance and sports. Nations differ from each other by language, religion, ethnic or racial identity and by a shared cultural history. National cultures have the strongest impact in family life, education, organizational culture and economical and social structures. (Morrison 2006, 169, 172.)

Morrison (2006) lists elements of national culture as follows:

- common language
- shared religious and moral values
- national symbols and rituals (e.g. flags, national festivals)
- shared history
- patterns of family life and family values
- roles of males and females
- attitudes to education
- relationship between the individual and group, including the work organization and the state
- ways of resolving conflicts
- geographic homeland

Dutch culture researcher Hofstede (1997, 4), who studied groups and national cultures, writes about “mental programs” or “software of the mind” when referring to cultural patterns of thinking, feeling and acting. He identifies three levels of uniqueness in human mental programming: personality, culture and human nature. Personality is inherited and learned, specific to a culture. It is the difference in clothes, buildings, art and so on. It is manifested in symbols, heroes, rituals and values. Symbols are words, gestures, pictures or objects with a particular cultural meaning. Heroes are persons, alive or dead, real or imaginary, who represent a culture’s highly respected characteristics and provide a model for behavior. Rituals are socially essential activities such as greeting and paying respect to each other, ceremonies and business meetings. (Hofstede 1997, 4-8.)

Culture is learned, specific to a group of people. It includes norms that tell what is ethically right and wrong, and values which affect the behavior in the group. Values are the core of a culture, preferred tendencies, learned unconsciously in the social context. (Hofstede 1997, 7-8.) Some cultures value individual success while others value group harmony. Differences in norms and values cause cultural clashes between people. (Bartlett & Davidsson 2003, 16.)

The third level of culture, human nature, the level of assumptions, is inherited and universal, and completely hidden. A question of equality between sexes results in different answers; to a Dutch person yes answer is obvious, but an Arab man probably gives a different answer. Basic assumptions can easily lead to conflicts between persons from different cultures. (Bartlett & Davidsson 2003, 15-17.)

In his profound research of national cultures Hofstede (1997, 13-14) defined certain work-related cultural values which show differences between nations. These key cultural dimensions deal with social inequality, the relationship between the individual and the group, concepts of masculinity and femininity, ways of dealing with uncertainty and perspective on time. He named these dimensions of cultures by “power distance”, “collectivism/individualism”, “femininity/masculinity”, “uncertainty avoidance” and “long-term/short-term orientation”.

Power distance describes how unequally power is distributed in a country, to which extend employees accept their superiors have more power than they have. In countries with high power distance, such as China, organizations are very hierarchical and employees are afraid of expressing doubts or disagreements with their autocratic or paternalistic bosses – authority matches obedience. Relationship between the boss and subordinate is strictly ruled and dependent on the decision of the boss. Inequality is visible through social classes, and it is considered normal. Superiors enjoy privileges. (Hofstede 1997, 28; 35.) Finland has a low power distance which means that hierarchies are flat and unequal treatment is reduced to minimum. Subordinates and superiors consider each other as equal despite of different educational levels and subordinates are expected to be consulted within decision-making processes. Privileges for higher-ups are generally undesirable. (Hofstede 1997, 27; 36.)

Individualism and its opposite collectivism describe the relationship between the individual and the prevailing society. It is reflected in the way people live and behave together, tied to value systems with strong moral impress (Hofstede 1997, 210). In an individualist society, such as Finland, ties between individuals are loose: everyone is expected to take care of him- or her-self and the immediate family only. On the contrary, China is a collectivist society where people are strongly integrated into strong, cohesive in-groups. It often means extended families with uncles, aunts and grandparents. These groups, in which people are integrated since their birth, give constant protection to its members in exchange for unquestioning loyalty. (Hofstede 1997, 225.) “We”-consciousness, group decisions, company responsibility for its employees and importance for knowing the right people for career are characters for a collectivistic company. In a Finnish “I”-conscious company individual decisions are considered better, employees are responsible for themselves and a person’s ability is most important for career. (Hofstede 1997, 226-227.) Individualistic cultures are self-centered and emphasize individual goals. They prefer clarity in their conversation to communicate more effectively and come directly to the point. In business they try to improve their connections and to gain more value out of them, not for establishing good relationship. China, as a collectivistic culture, have great emphasize on group, harmony and loyalty within a company. Disagreement in public is out of question, it will be done in private not to lose “the face”. Relationships between employer and employee or

business partner are based on trust and harmony and a deep understanding of moral values. (Hofstede 2001, 237-238.)

The Masculinity and Femininity dimensions describe how cultures differentiate between gender roles. Masculinity stands for a society where social gender roles are very clear: “men are supposed to be assertive, tough and focused on material issues while women are supposed to be more modest, tender and concerned with the quality of life”. On the contrary gender roles overlap in feminine cultures: both men and women are supposed to be modest, tender and concerned with the quality of life. (Hofstede 1997, 82-83.) Masculine cultures tend to be ambitious - big and fast are appreciated and there is a need to compete with others. Employees emphasize their work to a great extent and they admire achievers who accomplished their tasks. Feminine cultures value quality of life and helping each other, work is considered as necessary for earning a living. These cultures look for consensus and feel sympathy for people in trouble. Small and slow are appreciated. According to Hofstede’s scores China scores high masculinity while Finland scores to be a femininity country. (Hofstede 2001, 314.)

Different cultures adapt to uncertainty in different ways. In cultures with high uncertainty avoidance everything different is seen dangerous, there is resistance towards changes and people worry about the future. These societies have strong need for laws, rules and regulations, defined work processes and detailed contracts. (Hofstede 1997, 120-121.) People in high uncertainty avoidance tend to be busy, emotional, aggressive and active, while in countries with weak uncertainty avoidance people seem to be quiet, easy-going, controlled and lazy. (Hofstede 1997, 116.) Cultures with low uncertainty avoidance are open for new things and changes, and do not feel uncertain about the future. They stimulate innovations and emphasize new ideas. They are more flexible in changes. According to Hofstede Finland ranks higher score for uncertainty avoidance than China. (Hofstede 1997, 113.)

The fifth Hofstede’s dimension indicates to which extent a society is future/long term or past/short-term orientated. Long-term orientation is characterized by dynamic future orientation, stable relationships valued by status, thrift and sense of shame. Thrift means availability of financial resources and saving money. Having a sense of shame refers to care for others as well as loyalty and emphasized trustworthiness. (Hofstede 1997, 165-168.) Short-term orientation on the contrary is past and present oriented. It refers to

personal steadiness and stability, protection of “face”, respect for tradition and exchange of greetings, favors and gifts. (Hofstede 1997, 169.) This dimension is slightly misleading because both long and short term dimensions refer to Confucian values. To a Western observer, the East Asian countries seem to be more oriented towards traditions and face than the West. However these countries score, with China on the top, very high long-term orientation. Eastern people value tradition, but they value thrift even more. The Asian Five Dragons’ secret for economic success is the ease of accepting and adapting Western technological innovations – in this respect being less traditional than many Western countries. That explains the Dragons’ relatively low scores on this value. It is important to understand that the index measures the relative value given to one side over the other. (Hofstede 1997, 168-169.) Finland scores lower long-term orientation than China.

Dutch researchers, Tompenaars and Hampden-Turner (1997) developed other seven dimensions to describe cultural differences. The dimensions cover relationships between people, time orientation and relationship to nature. Their research proves that culture is an important aspect in doing international business and worth of taken into account in order to achieve competitive advantage. However the model does not take into account the influence of personal characteristics on behavior. (Tompenaars & Hampden-Turner 1997 cited in Salo-Lee 2004.)

The dimension universalism/particularism defines which is defined more important in a culture: rules or relations. Universalism believes in rules and laws that can be applied to everyone. Agreements and contracts are seen as basis of business, rules tell what is right and contracts which should not be changed. Particularism on the contrary places emphasis on relationships and on situations that are right or ethically acceptable or deals that are made based on friendships, changeable agreements and different views about reality. (Tompenaars & Hampden-Turner 1997 cited in Salo-Lee 2004.) Universalism belongs to Finnish culture while China is a particularistic culture where people look at relationships and circumstances in a specific situation in order to decide what is right. This goes to legal contracts too: for the Chinese a contract is a starting point for an agreement, which terms can be changed according to changes in circumstances. (Tompenaars & Hamden-Turner 2010.)

Tompenaars and Hamden-Turner (2010) define dimension of individualism/collectivism as whether people act as a group or as an individual. Individualism means frequent use of “I”, decisions that are made on the spot by representatives, achievements done alone, personal responsibilities and for example vacations taken in pairs or even alone. This is typical in Finland. Collectivism characterizes frequent use of “we”; decisions which are made by the organization; group achievements and joint responsibility; vacations taken in organized groups. Collectivism is typical for China. (Tompenaars & Hamden-Turner 2010.)

Dimension neutral/affective tells whether people show their emotions. Neutral refers to hidden emotions; only accidental revelation of tension in face and posture; cool and self-possessed conduct which is admired; lack of physical contact, gesturing or strong facial expressions; monotone communication. Affective is characterized by display of thoughts and feelings; transparency and expressiveness; easy flow of emotions; admiration and display of heated, vital and animated expressions; fluent communication. According to Tompenaars and Hamden-Turner (2010) Chinese culture is affective while Finnish culture is seen more neutral. (Tompenaars & Hamden-Turner 2010.)

Dimension specific/diffuse tell how deep people will go, whether the degree of responsibility is specifically assigned or diffusely accepted. In specific culture like Finland analyses are done first individually and are then put together – the whole is the sum of parts. Concentration is on hard facts, standards and contracts. In diffusely orientated culture individual acts are seen from the perspective of the total and everything is related to one another. Relationships are seen more important than individual acts. This goes to the Chinese culture. (Tompenaars & Hamden-Turner 2010.)

Dimension achievement/ascription means whether people have to prove by themselves that they are worth of the status given to them. Status is derived from what persons have accomplished and it has to be proven continuously in a culture of achieved status. This goes to Finnish culture. On the contrary people derive their status from birth, gender of wealth in a culture of ascribed status; it is not based on achievements but on the basis of the persons’ being which is typical for Chinese culture. (Tompenaars & Hamden-Turner 2010.)

The dimension of time orientation includes past, present and future orientation as well as sequential/synchronous. People do things one at a time in sequential culture and several things at once believing time is flexible and intangible in a synchronic time culture. Past-oriented culture like Chinese culture views the future as a repetition of previous events and experiences. Ancestors and collective historical events are respected. On the contrary in a present-oriented culture people do not pay much attention to the past or future; the daily demands of everyday life are what matters. In future-oriented culture like Finnish culture focus is on future prospects and planning is a major activity. (Tompsonaars & Hamden-Turner 2010.)

Dimension internal/external relationship to nature defines whether people control their environment or cooperate with it. Internally-directed culture has a mechanistic view of nature; people think that they can control it. Externally-directed culture, like the Chinese culture, sees mankind as a part of nature, which should live in harmony with the environment. (Tompsonaars & Hamden-Turner 2010.)

On the basis of what Hofstede suggests, cooperation between Finnish and Chinese companies is prone to face challenges: “Culture is more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster” (Hofstede 2009). He also points out that international business means handling both national and organizational culture differences at the same time.

Rankinen (2008) has written a doctoral thesis about cultural competence which Finnish companies need in order to operate in the market-area of China. She points out that the Chinese culture is strongly present in all intercourse in the country and because of the characteristic of the Chinese culture, knowledge and consideration of it is a major competence for businessmen. (Rankinen 2008, 18.) Kettunen & Lintunen & Lu & Kosonen (2008) have written a report about challenges which Finnish companies have faced and strategies created within the Chinese business environment as a part of series of researches of CEMAT (Center for Markets in Transition).

Blackman (2005) argues in her book about negotiations in China that Western businessmen have certain expectations towards the Chinese business culture but simultaneously the Chinese businessmen have prejudice against western business culture (Blackman 2005, 55-57.) Culture collisions are easy to arise if business partners are not aware of each others' cultural features. Wilenius (2006) argues in his study that

culture and cultural competence are becoming more and more important assets for business. He talks about a new alliance of corporate and cultural worlds, which means partnerships exchanging skills and competencies with each other to develop their own operations. (Wilenius 2006.) Additionally continually changing environment brings further challenges to companies operating in China (Kettunen & Lintunen & Lu & Kosonen 2008).

5.2 Chinese cultural features

The Chinese culture descends back to 5000 years. It has strongly been influenced by religions and philosophies like Confucianism, Taoism and Buddhism which all have intertwined over time. The main feature of Confucianism is to give the society the ethics and moral while Taoism defines a person's relations with the nature and Buddhism defines a person's relations to himself in order to achieve peace in mind. Confucian virtues to be followed are the sense of impartiality, unselfishness, respect of elder people, gentleness, essence of open heart and generosity. (Rankinen 2008, 66-67.)

5.2.1 Confucian heritage

In the modern society of China there are four special main ideas by Confucianism which are highly important for an outsider to identify. These are the demand for harmony, the importance of the five relations, the idea of the "junzi" and the idea of the "face". (Rankinen 2008, 67-69.) The five basic human relationships in the Confucianism are ruler to ruled; father to son; husband to wife; elder brother to younger brother and friend to friend.

Harmony is an important part of the Confucian heritage. It is believed that when everyone in the society acts in a proper way with self-discipline and moderation, overall harmony will be preserved. Confucianism stresses the importance of avoiding conflict and emphasizes correct behavior. Desire is suppressed and people are expected to live by an elevated moral code. Avoiding confrontations, maintaining temper, not raising the voice and preferring to smile rather than to look angry are a good start for a foreigner in the way of preserving harmony in China. (Rankinen 2008, 67.)

Five cardinal virtues are recognized: 1) benevolence in terms of sympathy for others; 2) duty reflected in the shame felt after doing something wrong; 3) manners, propriety and feelings of deference; 4) wisdom, in terms of discerning right and wrong and 5) loyalty and good faith. Confucius was not interested in individual salvation or individual rights, but collective well being of society. He promoted virtues such as courtesy, selflessness, obedience, respect, diligence, communal obligation, working for a common good, social harmony and empathy. Person's worth is determined by public actions. (Rankinen 2008, 67-68.)

The five basic human relationships in the Confucianism are ruler to a ruled person, father to son, husband to wife, elder brother to younger brother and friend to friend. The dominate person receives respect and obedience from the subordinate person without being a dictator. He is expected to reciprocate with love, goodwill, support and affection towards the subordinate person. (Rankinen 2008, 68.)

Confucius' role model is junzi, a person like a western gentleman or superior man, meaning an opposite to narrow-minded, selfish, petty or aggressive person. Confucius declared: "The gentleman understands what is moral. The small man understands what is profitable." Junzi always acts in sincere and earnest way from the internalized principle of harmony and seeks the good of others as well as the self. (Warren 2010, 184-185.)

The idea of face refers to correct, moral and ethical behavior and to person's reputation and social status. The face can be kept through respect, patience, moderation and with correct manners. It can be lost by bad behavior, criticism, losing temper or ignorance. (Rankinen 2008, 84.) To lose face is similar to becoming embarrassed, but losing face is more serious. If a person loses face or a family loses face by the worst it can mean that a person cannot face people again. That is why keeping the face is a strong target in Chinese life and it has an impact in daily life as well as in negotiations where it shows in a Chinese way of unwillingness to deal about problems. An outsider has to pay special attention to this in order not to make a Chinese person loose his face in any situation. (Blackman 2009, 48-54.) A loss of face could be caused for example by saying no to someone in public, rejecting a proposal without at least considering it, criticizing someone in public, interrupting anyone, ignoring the Chinese leader or greeting an underling before a person in higher status and giving a too cheap gift to an

organization. To rectify such an accidental behavior, the best approach is to employ an intermediary to go and convey apologize with explanations to the insulted person or even better to his immediate supervisor to ask him to pass the apology down. The apology becomes more powerful when coming through the hierarchy. (Bucknall 2002, 30.)

On the contrary, giving a face to someone is an excellent and favorable act. It can be done through complimenting someone in public, praising and giving public recognition to someone's achievements, using titles like "Chief Engineer Wang" instead of "Mr. Wang", giving someone the seat of honor, presenting a person with a gift – generally anything that boosts a person's ego. Because dealing with large well-known international companies gives face to Chinese companies and managers, they tend to prefer cooperating with big Western companies over small or little-known ones. (Bucknall 2002, 30.)

The idea of face can also be strongly connected to the respect for hierarchy. The Chinese do not find jokes about their country's political leaders or policy in any way funny, such irreverence shocks them. Foreign visitors should never make jokes about these things or even about their own government or its policies – such disrespect would be demeaned. (Blackman 2009, 48-54.)

5.2.2 Taoism and Buddhism

Taoism and Buddhism play an important role in the Chinese culture. The purpose in both Taoism and Buddhism is to reach the ultimate goal, to transcend life on earth as a physical being, and to achieve harmony with nature and the universe. (Rankinen 2008, 64.)

The Yin-Yang symbol of Taoism represents the balance of opposites in the universe. Only when both sides are equally present, everything is calm. If one prevails over the other, confusion is caused. Without understanding Taoism, there can be no understanding of Chinese culture. Lao Zi was the creator of Taoism. Tao is the origin of the eternal world. It is boundless in time and space. Taoism pursues immortality and preservation of health; its uttermost goal is to become an immortal being. This can be obtained through cultivating one's moral character and perfecting one's moral integrity. Taoism emphasizes also humbleness and tenderness. Tao is the essence of everything

that is right. Desire, ambition, fame and selfishness are seen as hindrance to a harmonious life. Unlike Buddhism, Taoism does not advocate asceticism. It pursues longevity and holds an open view toward sex. Taoism teaches persons to go along with nature, to seek harmony in life and to meditate to achieve mental calm and “emptiness”. (Chen 2001, 88-89; Rankinen 2008, 80-81.)

Buddhism’s highest goal is to seek spiritual emancipation. The followers of the Buddha believe that life goes on and on in many reincarnations or rebirths. The wheel of rebirth, know as Samsara, goes on forever until one achieves Nirvana, the highest state of spiritual bliss, an absolute immortality through absorption of the soul into itself but preserving individuality. One major difference between Taoism and Buddhism is the concept of Karma. It determines the Buddhist actions and position in life. A person’s Karma limits the goals that he can achieve. Buddhists believe in gods, destiny, fate, luck and afterlife. (Rankinen 2008, 81-82.)

5.2.3 Guanxi

Guanxi is fundamental in the Chinese culture. There is no direct translation for it. Guanxi means a social network which is based on benefits, mutual reciprocity and dependence (Lewis 1996, 23), exchange of services and debt of gratitude. Ideally it refers to sense of goodwill and personal affection. It is grounded in trust and shared experiences. Because the Chinese prefer to do business with people they know, they put a lot of energy to establishing relationships with people they find respectable. This commitment of time in building relationships truly defines guanxi. (Chen 2001, 47.)

Guanxi is promoted by gifts and favors. Sometimes these relationships are abused and misused. This is why Western people often associate it with bribery and corruption. (Chen 2001, 46.)

There are three levels in guanxi. The first type, *jiaren*, denotes relationships with extended family members. Blood relations constitute the strongest bonds, but the Chinese will consider highly trusted non-blood relatives as family members as well. Powerful family members can provide guanxi possibilities. The second type of guanxi occurs among *shuren*, non-family members with whom a person shares a significant connection such as people from the same town or village, former classmates, members

of the same clubs or societies or friends of friends. The third category involves strangers, shengren. (Chen 2001, 48.)

Guanxi is nurtured and maintained through relationships among individuals, not organizations. It is a chain of one-to-one personal relationships, and the chain is as strong as its weakest link. That is why it is important to know and trust the people with whom a person is establishing guanxi. Guanxi can be defined as a kind of game of power and it is in connection with the idea of face. The Chinese have an ambition to strengthen their personal guanxi in order to enhance public image. (Rankinen 2008, 85-87.) But it is important for a foreigner too to create guanxi, a supportive network of Chinese officials, in order to strengthen company's influence and reputation to promote the business (Blackman 2009, 84). In the early phases of a relationship, showing interest in business partner's background can facilitate the development of guanxi (Chen 2001, 53). With guanxi, a person and a company can open doors and achieve surprising a lot of things – it brings constant flow of people and information to a company (Chen 2001, 62). It is a powerful asset, like a valuable bank account of favors owed and owing. People with larger networks tend to do it better. To keep guanxi working, after receiving a couple of favors in a row, a person has to be ready to repay when approached. (Chen 2001, 63.)

In different markets the actual influence of guanxi can vary greatly. High-tech industries rely little on the power of human connections while in more traditional business such as real estate it remains an important factor. However, according to Chen (2001) “guanxi is extra insurance for the deal, but not the deal itself”. Understanding guanxi, what it is and how to cultivate and manage it, is a valuable tool in doing business in China. (Chen 2001, 65.)

5.2.4 The Chinese business environment and business code

Chinese business culture is organized in steep hierarchies with paternalistic attitude to employees and their dependants, top-down obligations, bottom-up loyalty, obedience and blind faith which reflect to business behavior. Management places strong importance to form, symbolism and gesture in organization's activity and respect for superiors in speech and actions is highly expected. (Lewis 1996, 82; 84.)

Most senior Chinese officials and business people are traditional in approach, old-fashioned and conservative in manners. Ignorance of formality can cause serious problems for foreign businessmen on the bargaining table. Formality refers to status, hierarchies, power and respect. While formal business negotiators may be offended by too familiarity from the counterpart, a person from informal culture may see the formal person as stuffy, distant, pompous or arrogant. Scandinavians are ranked the world's most egalitarian people, and they have sometimes a special problem in doing business with strongly hierarchical cultures. (Gesteland 1999, 46.)

Jokes or humorous anecdotes do not belong to Chinese negotiation. The idea of face, which was discussed earlier, is taken seriously by the Chinese. From foreign point of view Chinese business conduct may be complicated because feelings and problems are not showed and dealt openly. For example even though the Chinese may be nodding at answers, it does not necessarily mean that they agree or want to sign a contract. It merely means that they are hearing or they want to be polite. Therefore foreign negotiators have to be alert and able to follow wordless language, gestures and signals in meetings, and they have to be very cautious with the face issue. (Salo-Lee 2004.)

As mentioned in the previous chapter, China is strongly a relationship-based culture, where *guanxi* -relationships play a very important role. This leads to longer negotiations while building trust and developing personal relationships. This also reflects to contracts: while deal-oriented cultures like Finnish culture rely on agreements to prevent misunderstandings and solve problems, relationship-oriented people rely more on personal relationships rather than lawyers and detailed contracts. (Gesteland 1999, 31.) To the Chinese written agreement is less important than the strength of the relationship with the business partner. For them, a contract is more an expression of intent. (Rankinen 2008, 156-157) Finnish negotiators can get down to business after just a few minutes of small talk, which does not come to question in China. (Gesteland 1999, 19.)

Relationship-focused and strongly hierarchical culture tends to create "corrupt" atmosphere to some point (Gesterland 1999, 96). Exchanging gifts and favors is an important part of the Chinese business culture; it contributes relationship building and the development of *guanxi*. (Gesterland 1999, 156.) In hierarchical cultures, power for

making decisions and respect goes with status, and knowing a higher-ranking official is essential to get decisions made. Bureaucrats in hierarchical cultures tend to move slowly, and knowing or bribing the right people speed things up. The English word “tip” goes there for the phrase “To Insure Promptness.” (Gesterland 1999, 99.)

Chinese identity is very strong and patriotic, and it is based on an idea of China being a center of the universe, Chung-Kuo, the Middle Kingdom, the centre of the universe and the venue of the world’s oldest lifestyle. All Chinese are proud of their nation and race. (Rankinen 2008, 107.)

Even though it does not necessarily show in their behavior the Chinese are suspicious of foreigners and do not feel comfortable with them (Rankinen 2008, 107). The Chinese think foreigners are inferior, corrupt, decadent, disloyal and volatile, even barbaric (Lewis 1996, 274). Things about foreigners that most irritate the Chinese are greed and profit seeking, overly sharp business practices, noisy behavior and loud pop music and generally anything connected to sex and drugs. However the Chinese respect foreigners for their achievements and especially for their advanced technology which could be utilized in China. (Bucknall 2002, 24.)

The Chinese are tough negotiators, partly thanks to the Chinese bureaucracy, but also because their negotiating skills are deeply rooted in their cultural and social values. Business equals war in the Chinese mindset, and Sun Zi’s strategic classic from 500 B.C., Art of War, is an important source of inspiration and guidance for Chinese management. Punctuality is appreciated. (Hodgetts & Luthans 1994, 103.) The Chinese have certain tactics of influence in negotiations, which include for example psychological pressure, appealing to rules, sticking to inessential issues and emphasizing the importance of price instead of quality (Blackman 2009, 120). They change negotiators and location, levels and specialists; they reopen closed issues and stand on fixed positions. They may be threatening to do business with someone else or showing anger, if their demands are not met. They also may use friendship as a way of gaining concessions or they may be flattering. (Hinkelman 1995, 169.)

Time is viewed as cyclic in China, not as linear as Westerners see it. This affects that time is not seen as a scarce commodity by the Chinese; on the contrary they will make decisions in their own good time and often this requires several business trips for

foreign businessmen before a deal is finally concluded. (Salo-Lee 2004.) Also the administrative structure of the Chinese government slows the negotiation process. All the proposals and agreements have to be reviewed with a host of interested ministries, committees and bureaus at the municipal, provincial and federal level. The Chinese negotiators possess little or no actual decision-making authority. The negotiations are prolonged also because the negotiators are very serious, writing down everything, forgetting nothing and doing their homework very nicely. They are obstinate and repeat the same questions a hundred times to ensure the maximum security for the negotiators – and to break the nerve of the other party, who usually is in a hurry. Often meetings seem not to have clear objectives. That is because meetings are exercises for relationship-building. Patience is therefore essential when doing business in China. (Rankinen 2008, 157.)

Technical competence is a major criterion for doing business in China. It is important to send experienced engineers and technical people to negotiations because they have to be prepared to answer precise details about their products. Lots of statistics, graphs, tables and overhead transparencies are essential to bring along to give an effective impact. (Hodgetts & Luthans 1994, 102-103.) Therefore Company X, selling bio energy plants, is expected to be questioned throughout about the machinery, capacity, repairs and maintenance of the plant. It is essential to define before negotiations, how much technical information can be given without endangering the product or process. It is typical for a Chinese negotiator that he tries to get all the technical information in order to copy the product for free (Blackman 2005, 88).

6 SKILLS AND COMPETENCES NEEDED IN CHINA BUSINESS

Chinese energy market is huge and due to its national renewable energy favoring programs China provides a great opportunity for companies in renewable energy business (Owens 2007). On the other hand, rivalry is high and the Chinese business environment contains threats and challenges such as regulatory and judicial risks and insufficient IP protection (Hoenig 2007). It is not an easy market to enter. The primary prerequisite is that a company possesses an innovative and competitive solution of technically high quality in order to raise the Chinese interest. (Hodgetts & Luthans 1994, 102)

As discussed earlier, a company's internal situation has to be solid and well organized to meet the external challenges. A company has to possess versatile resources and capabilities that are valuable, rare and inimitable by its competitors (Barney & Hesterly 2006). China is not a neighbor country to Finland and transportation, different rules and Chinese protectionist regulations, bureaucracy and cultural differences create obstacles. (Hoenig 2007). Good knowledge about China market is essential and foreign businessmen need a web of Chinese relationships, *guanxi*, in order to promote business, to have more chances and to have things flow more smoothly (Blackman 2009, 84).

Language is a central aspect in intercultural cooperation. It allows communication to flow but it also is a source of misunderstandings and has its limits. Most often in Finnish–Chinese cooperation the language used is English, which is not negotiators mother-tongue. Negotiators' articulation and accent may cause misunderstandings and may be a hindrance for communication. Business partners may make simple mistakes in speaking non-native languages: "Thank you for your kidneys (*kindness*)", "What is your death line (*deadline*)", "I work hardly ten hours a day (*hard*)" or "We are sitting in the glass room (*classroom*)". (Lewis 1999, 98-99.) Therefore in order to be competent in communication point of view, the case company negotiators need to develop strong English skills and strategies such as paying attention to articulation, giving and asking feedback and repetition of messages for being understood. Adopting a mind that idiomatic expressions or humor may not be understood by the counterpart and awareness of cultural influences in communication such as use and value of silence and acceptability of interruptions are competences. (Bartlett & Davidsson 2003, 61-63.)

Social competence is very important in intercultural intercourse. It means an ability to select and control the most matching and desirable behavior in a given context in order to achieve objectives. (Bartlett & Davidsson 2003, 127.) It requires social skills such as emotional intelligence, communicative and intercultural competence. Emotional intelligence is about recognizing and managing person's own feelings and those of others in relationships. They are skills that can be developed such as self awareness, self control, trustworthiness, adaptability, empathy and organizational awareness. Communicative competence is all the skills mentioned in the previous paragraph. Intercultural competence covers human relations skills such as social interaction, cultural curiosity and empathy, tolerance for uncertainty, patience and respect for different customs, a strong sense of self and sense of humor as well as an ability to adapt one's behavior according to the context. All this requires cognitive, affective and behavioral skills. Additionally it requires knowledge of oneself and person's culture and awareness of different ways of doing things. (Bartlett & Davidsson 2003, 129-132.)

Cultural diversity is vast. "For a Finn, the truth is the truth. In Japan and Britain it is all right if it does not rock the boat. In Italy it is negotiable. In China there is no absolute truth." (Lewis 1999, 8.) In order to manage international relationships it is important to be aware of the cultural differences, to value them and to remain culturally sensitive. In China everything is contextual. Understanding of cultural symbols, gestures and signals as indirect, nonverbal communication is important. They represent significant meanings in communication. In Finland handshaking freely without hierarchy is natural, but in Chinese business context there is strict precedence according to persons' status and seniority. This applies further to seating, serving and positioning. In China red color is highly valued since it represents joy, wealth and happiness. Plants, animals, objects and forms carry nonverbal symbols in China. For example a vase given as a gift is not just a vase but symbolizes peace and wealth to a Chinese person. Contextual cues such as clothing or facial expressions are other forms of nonverbal communication. A Chinese smile may be a cue of happiness, embarrassment or even anger or bitterness. (Salo-Lee 2004.)

Cultural knowledge can be general, specific or cross-cultural. General cultural knowledge refers to explicit and freely available knowledge that can be learned from several sources such as books and internet. It is objective and formally classified. Specific cultural knowledge can be considered as subjective in the sense that it is

collected for a certain purpose, and it can be tacit or explicit. Cross-cultural knowledge is active, practical knowledge, gained through intercultural interactions and experience. It is passed from person to person. Besides cultural knowledge, an international businessman has to have contextual market know-how, for example legislation and lines of action in the target market. Knowledge about counterpart's procedures and behavior in business meetings is very valuable. (Bartlett & Davidsson 2003, 166-167.)

International success means that a person is able to interact in many ways with various people from different backgrounds. Open-mind attitude, trust, an understanding of how to communicate, flexibility, adaptability and willingness to form partnerships with different people are competences in international relationships. (Bartlett & Davidsson 2003, 168-169.)

7 CONCLUSION AND DISCUSSION

International operations are more demanding than domestic ones and they bring challenges to Company X. As a Born Global company, Company X wants to enter the international markets strongly and rapidly. Therefore it is important that the company's internal situation is strong, solid and well organized for international actions. Resources and capabilities set the frame for company's activities and processes. I suggest Company X to pay attention to following resources in order to enhance its readiness for international environment.

Financial resources: Financial resources are a prerequisite when going global. A company has to plan and strengthen its resources carefully to gain competitive advantage. In Company X case, it is important to find investors in order to secure financial resources, working capital, in the early phases of company's internationalization.

Human resources: Also along with going global, the company has to consider carefully, how to strengthen the organizational structure and human resources. More people with international profile and experience are needed to manage the increased number of functions, either by new employees or by outsourcing services. In order to be more functional and operational the company should initiate a delegation process. Furthermore it is very important for the Company X key person to transfer his knowledge to a back-up person in order to secure the company operations in case he is limited to work.

Information resources: Informational resource which is aligned with the company strategy and objectives is important in today's business. It is also important that the company procedures are standardized. The company should also define what kind of information and how the company should collect from its customers, how it has to be processed and who is in responsible of it.

Information Technology: Company X should implement a light Enterprise Resource Planning (ERP) system designed to smaller companies for internal process information in order to give the management crucial information for planning. The flow of information has to be reliable, accurate, timely, secure, promoting accountability, promoting operational efficiency and promoting operational effectiveness. Also implementation of Customer Relationship Management (CRM) system would be very valuable for the company in order to handle customer issues. It has operational, analytical and cooperative benefits for the company. It automates the basic processes of the business such as marketing, sales and services. It gives support to the analysis of customers and implements the intelligence of business. Furthermore it assures the contact of customers by telephone route, email and contact information. The company should also make a contract with Data Security Service in order to secure and back-up the company confidential and sensitive data and documents.

Management Controlling: In order to create the right conditions, to design the right instruments and to make sure that they are aligned and used to influence the company's behavior in the desired way, according to the company's strategy, it would be beneficial for Company X to implement a management control system. Balanced Scorecard is one example of it. I also suggest the company to contract annual auditors to have neutral check that everything is going according to the policies.

Value chain: Since Company X is outsourcing many of its activities, it is very important to plan carefully its internationalized value chain processes in order to gain the best advantage of it. It would be beneficial for the company and it would allow faster responses on customer orders as well as faster moves in operations if the company had defined preliminary contracts with its subcontractors. Project management system will be of great help in enhancing value chain activities. Also digitalization of the bio plant is of great advantage for the company's value chain. Matching software with its subcontractors would enhance and strengthen Company X supply chain activities giving competitive advantage.

Internationalization is a process where regional economies, societies and cultures are integrated through a global network of commercial ideas by communication, transportation and trade. The conduct of international operations depends on companies' objectives and the means with which they carry out them. The operations are affected by the physical and societal factors and the competitive environment.

As discussed earlier about the prerequisites for internationalization, it is important for Company X managers to have a global, proactive mindset which shows up in courageous attitude, activeness and orientation to global markets. It includes good English skills, social competence and emotional intelligence. It also means acting as a solid global company and selling even better image of the company to the world.

Cultural competence includes knowledge that can be gained from different sources and skills that can be developed. Therefore it is important for Company X managers to orientate into the Chinese culture in general and into the Chinese business conduct. For example since the Chinese are not willing to cooperate with strangers, negotiations and all business in China have to be reviewed as a long-term involvement. Company X should pay special attention to relationship-building, *guanxi*, because it is a fundamental aspect of strategy in Chinese business policy. Relationships are a key to success; they bring a constant flow of people, information and other assets to the company – *guanxi* is a way to facilitate business processes within legal boundaries.

When negotiating with Chinese businessmen, it is very important to be well prepared. The Chinese are very formal, bureaucratic and hierarchical and they are tough negotiators who use various tactics to get what they want. This includes for example psychological pressure, appealing to rules, sticking to unessential issues or emphasizing the importance of price instead of quality. However, even in tough negotiations, keeping face is very important to Chinese businessmen. It is essential for Company X negotiators to adopt the Chinese idea of face and to pay special attention in order not to make a Chinese person lose his face in any situation.

The Chinese attitude to time is cyclic while Finnish view is linear. This means that the Chinese make their decisions in their own good time without hurrying which may prolong negotiations. This is good to take into consideration. Company X has to be also

prepared to give detailed presentations about technical issues because technical competence is very important in China. Simultaneously Company X also has to be very cautious not to release any sensitive information before reaching a full agreement because of the IPR problems in China.

Within past few years China has faced an enormous economic growth which has increased the power consumption. In order to maintain the rate of growth without undergoing an energy crisis, China has to duplicate its present energy production by the year 2020. Due to this increased demand for energy as well as due to the country's severe pollution problems and high global price for fossil fuels, China has recognized that energy production based on renewable resources is a highly beneficial alternative for the country. Even though renewable energy production is expanding strongly, it still lacks weight within the Chinese total energy production. However, as discussed in the chapter 4.3 Industry analysis, the government of China has set an ambitious goal to duplicate the use of renewable energy resources from the present seven percent up to the total of 15 percent by the year 2020. (Owens 2007) This provides an enormous opportunity to foreign companies within renewable energy business such as Company X. China is looking for western technologies and is willing to adopt various kinds of solutions for renewable energy production in order to bridge the gap between the country's demand and supply.

Besides opportunities, Chinese business environment provides risks. Therefore it is important for Company X to pay attention to risk management in order to minimize disruptions in functions and to ensure continued operations. Contingency plans need to be developed and insurances need to be defined for its China business. As discussed earlier, regulations and policies may vary and change in different parts of China, and foreign companies need to get accurate, confidential information about them. It is very important to use lawyers' services in transactions with Chinese businesses to ensure legality. Every detail of a contract has to be covered carefully, and it has to be assured that all parties understand their duties and obligations.

Another risk to be taken seriously into consideration is the Chinese copying culture. Even though China belongs to WTO the country still has had problems with Intellectual Property rights. Therefore companies need to make plans for IP protection. Chinese bureaucracy may also bring obstacles to and may raise costs of business operations of foreign companies.

When considering the vast opportunities that the China market provides to Company X and even with awareness of the risks and barriers in the Chinese market, I think that Company X has very good chances to succeed in China and to make profitable business there. I suggest Company X to adopt and following Travis' "Six Tenets" (Travis 2007) in its process of entering to international markets.

1. Take advantage of trade agreements: think outside the border. Seize opportunities when they arise. Participate in the process. Familiarize yourself with trade agreements.
2. Protect your brand at all costs. You must protect your intellectual property both at home and abroad. You must protect your reputation.
3. Maintain high ethical standards. Become involved with the international business self-regulation movement. Understand corporate accountability laws.
4. Stay secure in an insecure world. Security requires transparency throughout the supply chain. Participate in trade-government partnerships. Secure your data and keep your personnel safe.
5. Expect the Unexpected.
6. All global business is personal. Keep communication open. Be available to your overseas clients 24/7.

Regarding the Chinese national programs for reducing greenhouse gas emissions and increasing the usage of renewable energy resources, Company X provides an ideal and easily adaptable solution to be added into the Chinese renewable energy palette. China is a huge opportunity for Company X. It also represents a great challenge which Company X can prepare to and protect against and can find the best way to get the Chinese commitment. In order to understand better the Chinese business culture Company X top management should adopt Sun Tzu's philosophy in the Art of War.

Knowledge of Chinese culture is an extremely valuable asset for doing business in China.

REFERENCES

Printed

- Axinn, Catherine N. & Matthyssens, Paul 2002. Limits of internationalization theories in an unlimited world. *International Marketing Review* 19 (5), 436-449.
- Bartlett, C. & Davidsson, A. 2003. *Improve Your Global Competence*. 1st edition. FINTRA-publication. Multikustannus.
- Blackman, Carolyn 2005. *Kiinalaiset neuvottelut. Strategiast ja tapausesimerkit*. Hakapaino Oy, Helsinki.
- Bowman, Cliff 1998. *Strategy in Practice*. Biddles Ltd King's Lynn, Norfolk, Great Britain.
- Bucknall, Keven 2002. *Chinese Business Etiquette and Culture*. Boson Books, the United States of America.
- Carter, Sara & Jones-Evans, Dylan 2000. *Enterprise and Small Business. Principles, Practice and Policy*. Ashford Color Press Ltd., Gosport.
- Chen, Ming-Jer 2001. *Inside Chinese Business. A Guide for Managers Worldwide*. Harvard Business School Press, Boston, Massachusetts.
- Chetty, Sylvie & Campbell-Hunt, Colin 2001. Paths to internationalization among small- to medium-sized firms. A global versus regional approach. *European Journal of Marketing* 37 (5/6), 796-820.
- Czinkota, Michael R. & Ronkainen, Ilkka A. & Moffett, Michael A. 2003. *International Business: Update 2003*. Thomson, the United States of America.
- Etemad, Hamid 2004. *Internationalization of Small and Medium-sized Enterprises: A Grounded Theoretical Framework and an Overview*. *Canadian Journal of Administrative Sciences*.
- European Network for SME Research (ENSR) 2003. *Observatory of European SMEs No.4. Internationalization of SMEs*. Office for Official Publications for the European Communities, Luxemburg.
- Gesteland, Richard R. 1999. *Cross-Cultural Business Behavior. Marketing, negotiating and managing across cultures*. Reproset, Copenhagen.
- Gustavsson, Peter 2009. *Process View on Management – Strategy and internationalization from a Scandinavian Perspective L6. The Uppsala Model*. Linköping Universitet.

- Hass, Elisabeth Edersheim 2007. The definitive of Drucker. An article by Peter Drucker "Challenges for tomorrow's executives." McGraw-Hill, Mexico.
- Hitt, Michael A. & Ireland, Duane R. & Hoskisson, Robert E. 2000. The External Environment. Opportunities, Threats, Industry Competition and Competitor Analysis. South-Western College Publishing.
- Hodgetts, Richard M. & Luthans, Fred 1994. International Management. McGraw-Hill College, USA.
- Hofstede Geert, 2001. Culture's Consequences. Comparing Values, Behaviors, Institutions and Organizations Across Nations. Sage Publications Ltd, the United States of America.
- Hofstede, Geert 1997. Cultures and Organizations. Software of the Mind. Intercultural Cooperation and Its Importance for Survival. The McGraw-Hill Companies Inc, the United States of America.
- Hutchinson, Karise & Fleck, Emma & Lloyd-Reason, Lester 2009. An investigation into the initial barriers to internationalization. Evidence from small UK retailers. *Journal of Small Business and Enterprise Development* 16 (4), 544-568.
- Irick, Michael L. 2007. Managing Tacit Knowledge In Organizations. *Journal of Knowledge Management Practice* 8 (3), September 2007.
- Kaplan, Robert S. & Norton, David P. 2001. The Strategy-focused organization. How Balanced Scorecard companies thrive in the new business environment. Harvard Business School Publishing Corporation, the United States of America.
- Ketelhöhn, Werher 1993. International Business Strategy. Thomson Litho, Great Britain.
- Kettunen, Erja & Lintunen, Jyri & Lu, Wei & Kosonen, Riitta 2008. Suomalaisyriyten Strategiat Kiinan muuttuvassa toimintaympäristössä. Helsingin Kauppakorkeakoulun julkaisuja.
- Lewis, Robert D. 1996. When cultures collide: managing successfully across culture. N.Brealey, London.
- Liu, Xiaoli & Jiang, Xinmin 2009. China's energy security situation and countermeasures. *International Journal of Energy Sector Management* 3 (1), 83-92.
- Morrison, Janet 2006. The International Business Environment. Global and Local Marketplaces in a Changing World. Palgrave MacMillan, China.

- Morrison, Wayne M. 2006. China's Economic Conditions. Congressional Research Service. The Library of Congress, the USA.
- Mr X 2009-2011. Representative of Company X. Company X Presentation, Present situation and Company analysis. Kick-off meeting discussion in 2009 and further discussions and e-mails in 2009-2011.
- Owens, Gene M. 2007. Analyzing impacts of bio energy expansion in China using strategic environmental assessment. *Management of Environmental Quality: An International Journal* 18 (4), 396-412.
- Prahalad, C.K. & Hamel Gary 1990. The Core Competence of the Corporation. *Harvard Business Review*. Product 6528.
- Rankinen, Arja 2008. Kulttuurinen osaaminen Etelä- ja Itä-Kiinassa toimittaessa. Illustraationa eräs tulkinta suomalaisjohtajien Kiina-kokemuksista. University of Jyväskylä, School of Business and Economics.
- Remenyi, Dan & Trinity College, Dublin 2007. ECRM 2007. 6th European Conference on Research Methodology for Business and Management Studies. Universidade Nova de Lisboa, Lisbon, Portugal. Academic Conferences Limited Reading, UK.
- Root, Franklin R. 1994. Entry Strategies for International Markets. Jossey-Bass, the United States of America.
- Salo-Lee, Liisa 2004. Asian Communication: Verbal and Nonverbal Communication. Lecture of language and communication in East and Southeast Asia. University of Jyväskylä.
- Singh, Rajesh K. & Garg, Suresh K. & Deshmukh, S.G. 2008. Strategy development by SMEs for competitiveness: a review. *Benchmarking: An International Journal* 15 (5), 525-547.
- Sperling, Gilad 2005. Product, operation and market strategies of technology-intensive Born Globals. The case of Israeli Telecommunication Born Globals. Helsinki School of Economics, HeSE print.
- Stonehouse, George & Hamill, Jim & Campbell, David & Purdie, Tony 2000. Global and Transnational Business. Strategy and Management. John Wiley & Sons, Ltd, England.
- Suárez-Ortega, Sonia M. & Álamo-Vera, Francisca R. 2005. SMES' internationalization: firms and managerial factors. *International Journal of Entrepreneurial Behavior & Research* 11 (4), 258-279.

- Sutherland, Jonathan & Canwell (a), Diane 2004. Key Concepts in Business Practice. Creative Print & Design, Great Britain.
- Sutherland, Jonathan & Canwell (b), Diane 2004. Key Concepts in Strategic Management. Creative Print & Design, Great Britain.
- Thompson, John & Martin, Frank 2005. Strategic Management. Awareness and Change. 5th Edition. C & C Offset, China.
- Travis, Tom 2007. Doing Business Anywhere: The Essential Guide to Going Global. John Wiley & Sons Inc., Hobocen, New Jersey.
- Tuominen, Kari 2000. Managing change. Practical strategies for competitive advantage. ASQ, the United States of America.
- Wang, Zhongying & Li, Junfeng 2009. China's renewable energy development. International Journal of Energy Sector Management 3 (1), 50-61.
- Warren, Mathews 2010. World Religions. Wadsworth, the United States of America.
- Wilenius, Markku 2006. Cultural Competence in the Business World: A Finnish Perspective. Journal of Business Strategy 27 (4).
- Wold, Geoffrey H. & Shriver, Robert F. 1997. Risk analysis techniques. The risk analysis provides the foundation for the entire recovery planning effort. Disaster Recovery Journal 7 (3).
- Woods, Margaret 1995. International Business. Clays Ltd, St Ives plc, England.
- Yin, Robert K. 2003. Case study research. 3rd Edition. Design and methods. Sage Publications Inc., California.
- Zhang, Qingfeng & Watanabe, Makiko & Lin, Tun & DeLaquil, Pat & Alipalo, Melissa Howell 2010. Rural Biomass Energy 2020. Cleaner Energy, Better Environment, Higher Rural Income. Asian Development Bank, the Philippines.
- Äijö, Toivo & Kuivalainen, Olli & Saarenketo, Sami & Lindqvist, Jani & Hanninen, Hanna 2005. Internationalization Handbook for the Software Business. The Model of Internationalization Paths & Internationalization Workbook. Centre of Expertise for Software Product Business, Espoo.

REFERENCES

Not Printed

Acciona 2010. Biomass. Long-standing experience in the construction of and operation of biomass plants. Read November 1, 2010.

<http://www.acciona-energia.com/activity_areas/biomasa.aspx>

Barney, Jay B. Hesterly, William S. 2006. Strategic Management and Competitive Advantage. Chapter 3: Evaluating a Firm's Internal Capabilities. Downloaded September 5, 2010.

<<http://www.divandari.com/88b/b6st.ppt>>

BusinessDictionary 2010. Performance. Read August 18, 2010.

< <http://www.businessdictionary.com/definition/performance.html> />

Coughlin, Joseph F 2010. China's Gray Revolution: Why China May Invent the New Business of Aging. Downloaded February 12, 2010.

<http://www.disruptivedemographics.com/2010/02/chinas-gray-revolution-why-china-may_21.html>

dena German Energy Agency 2010. Renewable – Made in Germany. Read October 5, 2010.

<<http://www.renewables-made-in-germany.com/en/start/bio-energy/solid-biomass/companies.html>>

E.ON 2010. We are Growing Fast in Biomass Generation Too. Read October 15, 2010

< <http://www.eon.com/en/businessareas/35159.jsp>>

Fahey, Liam 2007. Focus On: Competitor Analysis – Turning Data to Insight. Downloaded February 5, 2010.

<http://www.bnet.com/article/focus-on-competitor-analysis-turning-data-to-insight/53003?tag=mantle_skin;content>

FECC 2010. Finnish Environmental Cluster for China. Read January 9, 2010.

< <http://fecc.fi/esittely/> >

Gallagher, Scott 2007. Why does firm performance differ? Internal Analysis. Downloaded January 17, 2010.

<<http://www.google.fi/#sclient=psy&hl=fi&site=&source=hp&q=Gallagher%2C+Scott+2007.+Why+does+firm+performance+differ%3F+Internal+Analysis.+&aq=f&aqi=&aql=&oq=&pbx=1&fp=c3aea9cf3ec8bc/>>

- Green, James 2010. China Internet Network Information. Downloaded November 25, 2010.
<http://www.ehow.com/facts_6931038_china-internet-network-information.html >
- HE. Havana Energy 2011. What We Do. Read January 15, 2011.
< <http://havana-energy.com/whatwedo/index.php> >
- Hoenig, Jay 2007. China Business Review Online. Managing Business Risks. Downloaded September 7, 2009.
<<http://www.chinabusinessreview.com/public/0611/hoenig.html>>
- Hofstede, Geert 2009. Cultural Dimensions. Read September 3, 2009.
<<http://www.geert-hofstede.com>>
- MindTools 2010. PEST Analysis. Understanding “Big Picture” Forces of Change. Also PESTLE, PESTEL, PESTLED, STEEPLE and SLEPT. Downloaded March 17, 2010. <http://www.mindtools.com/pages/article/newTMC_09.htm>
- MW Power 2011. Read February 2, 2011.
<http://www.mwpower.fi/mwpower/mwpower_pages.nsf/WebWID/WTB-090422-22575-21586?OpenDocument >
- NBE Sweden 2011. Biopower solution. Modular biomass power plants. Read February 8, 2011.
<http://www.nbesweden.com/index.php?option=com_content&view=article&id=72%3Aamorgondagens-bioenergianlaeggnig-tar-form&lang=en>
- NetMBA 2010. Competitor Analysis. Downloaded February 10, 2010.
< <http://www.netmba.com/strategy/competitor-analysis/>>
- Nummela, Niina & Saarenketo, Sami & Puumalainen, Kaisu 2004. A Global Mindset – A Prerequisite for Successful Internationalization? Canadian Journal of Administrative Sciences. Mar 2004. Downloaded November 25, 2010.
<http://findarticles.com/p/articles/mi_qa3981/is_200403/ai_n9399254/pg_10/>
- Pedersen, Torben 2010. The Internationalization Process of Danish Firms –gradual learning or discrete rational choices? Copenhagen Business School. Downloaded May 4, 2010.
<<http://www.scribd.com/doc/32248438/internationalisation-as-progressive-knowledge-the-UPPSALA-model>>

- Sauranen, Tapani 2007. Bioenergiasta elinvoimaa – klusterin kehittämisohjelma Pohjoinen Keski-Suomi. Downloaded August 3, 2009.
<http://www.viisaankivi.fi/fi/kunnat_ja_seutuinfo/kehittaminen_ohjelmakaudella_2007_-_2013/?id=151 >
- Sepetys, Kristina & Cox, Alan 2009. China: Intellectual Property Rights Protection in China: Trends in Litigation and Economic Damages – Part 1 of 2. Downloaded November 18, 2010.
<<http://www.mondaq.com/article.asp?articleid=74520>>
- Tompensaars, Fons & Hampden-Turner, Charles 2010. Riding the waves of culture. Downloaded July 19, 2010.
<<http://www.via-web.de/affective-versus-neutral-culture/>>
- VentureChoice, 2008. Business Risk Analysis. Downloaded May 15, 2010.
<http://www.venturechoice.com/articles/business_risk.htm>
- World Savvy 2010. China: The Promise and Challenge of an Emerging Superpower. Downloaded June 15, 2010.
<http://worldsavvy.org/monitor/index.php?option=com_content&view=article&id=105&Itemid=368 >
- World Energy Outlook 2008. World Energy Outlook 2008 Edition. Downloaded January 26, 2010.
<<http://www.worldenergyoutlook.org/2008.asp>>

APPENDIX 1

TERMS AND ABBREVIATIONS

Auditor

A person who evaluates procedures, policies and internal control of a company.

Confucianism

An old philosophy influencing the Chinese culture. The main feature of Confucianism is to give the society the ethics and moral.

Core Competence

A company's distinctive skill, knowledge and experience which lead to competitive advantage. It offers a customer something valuable which strongly influences him or her to choose company's product or skill. It also has to be difficult to imitate, and it has to open up a number of potential markets.

Customer Relationship Management (CRM)

Software for managing company's interactions with customers.

ENSR

European Network for SME (Small-to-medium size enterprise) Research

Enterprise Resource Planning (ERP)

Computer software that integrates internal and external management information across an entire organization.

Guanxi

A social network based on benefits, mutual reciprocity and dependence. One of the basics in the Chinese culture.

Intellectual Property Rights (IPR)

IPR refers to a number of distinct types of creation of the mind, which property rights are recognized. Common types of intellectual property are copyrights, trademarks, patents, industrial design rights and trade secrets.

Key Performance Indicators (KPI)

Quantifiable measurements of identifying a company's particular strengths and weaknesses, measuring efficiency (input versus output), adaptability (reconfiguring time), financial status (return on equity) and effectiveness (trouble-free production). They can also measure a company's behavioral, confidential, ethical, operational and strategic areas and other special features.

Performance

An accomplishment of a given task measured against preset standards of accuracy, completeness, cost and speed.

SMART

Characteristics of good objectives: **specific or stretching**: the objective is clear and understandable, straightforward and challenging, **measurable** by quantity, quality, time, money, **achievable**: the objective is challenging but within the reach of competent and committed person, **relevant**: an individual objective is aligned to corporate goals, **time framed**: the objective is completed within an agreed schedule.

SME

Small-to-medium size enterprise.

SWOT

A commonly used planning tool for scanning company's strategic profile; for goal setting, strategy formulating and implementation. It stands for strengths, weaknesses, opportunities and threats.

Tacit Knowledge

A form of knowledge that is highly personal and context specific and deeply rooted in individual experiences, ideas, values and emotions. It is an important resource because company expertise lays on it and because it is a source of competitive advantage.

VRIO

A tool for evaluating a company's internal resources and capabilities. It stands for words Valuable, Rare, Inimitable and Organized.

APPENDIX 2

Kick-off meeting and discussions through phone and emails with Mr X, Company X representative (Mr X 2009-2011).

1. What are Company X's business idea and objectives?

“The company's business idea is to provide environmentally safe power plants which use bio fuel (such as forest processed chips or sawing waste), have capacity of 1-7 MW and generate combined heat and electricity (CHP). The plant generates non-polluting power and does not emit greenhouse gases.

The plant's size is moderate and it is planned according to individual customer needs. The supply includes analysis of profitability and construction of the plant. Also partial deliveries and license agreements come to question. Modularity allows the plant to be constructed in phases.

The company's objective is to become an important supplier for 1-7 MW capacity bio power plants in Finland and Sweden. Another objective is to enter global markets strongly and rapidly so that 70 percent of the turnover will come from global markets within few years.”

2. What is Company X's strategy?

“We want to keep the organization light in order to be flexible and not to invest on heavy assets. We are using subcontractors for the automatics and the engine works. The core part and the core competence, gasifier, is produced by the company itself. We have former contractors but we have been looking for new contractors too. We want to give a chance to other subcontractors to show their knowhow and to choose the most suitable for us.”

“Intensive research and development are core functions in the company's strategy.”

“We want to enter international markets strongly and rapidly.”

3. Why did you choose China as target market?

“We were contacted by a Chinese customer who is very interested in our product. As there is strong and increasing demand for energy in China and the attitude towards renewable energy production is very positive due to the country's severe pollution problems, we have defined the market very attractive and opportunistic for our product. We can offer them an ideal solution that can be adopted anywhere in the country where raw material is available.”

4. What are your experiences concerning the Chinese negotiation and business culture?

“We are just about opening doors there, but we sense cultural differences. We do not have any relations -webs in China and we have only a slight idea about what is ahead. We are hoping to reach face-to-face meetings with the Chinese. So far we have been dealing only with an agent. Maybe this is due to the bureaucracy and government involvement. Fortunately we get a lot of help from FECC –persons who are very businesslike and friendly.”

“Many have warned us about the Chinese copying culture and their peculiar way of interpreting contracts.”

later:

“Chinese business culture seems to be peculiar. The Chinese increase trust little by little. Negotiations proceed very slowly and we cannot bring new issues to discussion freely. If we were dealing with American people, we would have signed a contract long time ago.”

Telemeeting with the Chinese:

“We had a telemeeting of 1.5 hours about technical issues with our Chinese customer. They were pleased with our technical details and they expressed their willingness to come to negotiate in Finland and to visit Lestijärvi plant.”

“Licensing seems to be the best choice for us. We do not have resources to set up an own organization in China right now. The details will be defined strictly in the licensing contract, which makes it a demanding job since all has to be dealt with in black and white.”

Chinese visit to Finland:

“Chinese negotiation tactics seem to be including as much bargaining about the price as possible. This became obvious when we started to negotiate about prices. In spite of different point of views about licensing terms the negotiations proceeded very well. The Chinese counterpart invited us to negotiate in China after a couple of week. All time they are talking about and highlighting long-term cooperation.”

After a business trip to China:

“Negotiations in China proceeded generally very well but we did not sign any contracts. We could not come to an agreement about the payment terms. The Chinese had a different point of view and they kept tightly their demands even though we were flexible in many ways. A lawyer from Helsinki and another lawyer from Peking and a couple of men from FECC were assisting us in negotiations. There were eight persons in the Chinese negotiation group.”

“It was a little difficult to negotiate without Chinese-Finnish translator. We spoke in English and a person translated it into Chinese.”

“The trip was generally very good. Everything was very well organized, at a scheduled time. Hosts were very hospitable – we were feeling like royal guests - and they had arranged many kind of program, wonderful hotel and exotic food at wonderful dinners. We went to meet the City Mayor of this big city – we were told that this was a very important meeting. Obviously they need City Leadership’s support for their investment. We visited many companies, also those which would be utilizing energy by Company X bio power plant. It was a unique experience.”