CANADIAN COMPANIES DOING BUSINESS IN CHINA - KEY SUCCESS FACTORS

By

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INTRODUCTION

The Open Door Policy which encourages foreign investment in China has attracted tremendous foreign interests and investment to China since its instigation in 1979. Prior to 1988, full foreign ownership in China was prohibited by Chinese law. Foreign investment was strongly encouraged by the various levels of government, primarily in the form of joint ventures. Other forms of investment included technology transfer, cooperative ventures, manufacturing, and joint exploration (mainly in the resource area). Wholly owned foreign operations in China were very scarce. After 1988, the restriction on 100 percent foreign ownership was lifted (de Keijzer, 1992) to encourage foreign investors to set up wholly owned operations in China. However, it was not until 1990 when many joint ventures experienced cash flow difficulties due to Chinese fiscal tightening that wholly owned foreign operations were encouraged.

The scope of foreign interests in China has been magnificent. In the city of Beijing alone, there are more than 10,000 foreign companies doing business[1]. Championed by Hong Kong and followed by Japan, the United States and Taiwan, such interests show no sign of decaying. Although China ranked in 1993 the fourth (CCBC:1993) largest trade partner for Canada, Canadian investment in China is disproportionate to the trade volume between the two countries. The latest statistics (CCBC:1993) showed that Canada was the 13th main investor in China.

Canada, among all industrialized nations that are doing business in China enjoys an above-average good-will the Chinese have for foreign investors (Beamish, 1993). Though in many ways other industrialised nations such as the United

[1]. World Journal, August, 1993.

States are ahead of Canada in technology advancement, Canadians are not too far behind. In fact, Canadian companies enjoy comparative advantages in many areas of great interests to Chinese, such as energy generation, telecommunication, resource development, transportation and space technology. Many people are raising the question of why Canadian companies are not taking full advantage of the Chinese market[2]?

Canadian companies are known to differ greatly from their counterparts in the United States and Europe (Punnet and He 1988) in many respects, particularly in international business. Abramson, Keating and Lane (1993) for example, found that Canadian managers may adopt different cognitive processes from American managers in decision making. In addition, many[3] people, including both Canadians and Americans have observed that American companies enjoyed more and stronger political support from the US government: the Chinese have to treat the Americans more favourably than others for fear of losing the Most Favoured Nation (MFN) status with the United States. Thus the same set of behaviours that have worked successfully for the American companies may not for Canadians.

Since most existing literature on doing business in China are about American companies' experiences, two questions should be raised:

1. would the American's experience in China be applicable to Canadian companies? and

2. how do Canadian companies differ from the Americans in their experience in China?

Further, many practitioners have raised the question of what makes a venture into the Chinese market successful. For example,

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[2]. The World Journal, March, 1993. Of course, China is not unique in this regard. Canada's investment in Japan, for example, is equally disappointing.

[3]. For example, members and guest speakers at the 13th Canada China Business Council expressed strongly such a point of view.

3. what is the most effective form for doing business in China? Does the use of different entry strategies in China result in different levels of performance?

4. why are some companies more successful than others though all are using the same entry strategy such as joint venture? and

5. what are the main factors that distinguish the more successful companies from the less successful companies regardless of their business form in general?

No existing study has been broad enough to address these questions altogether in the existing literature. From a Canadian company's perspective, answers to these questions could be critical to their doing business in China.

The purpose of this thesis was to answer these questions and address the main issues encountered by Canadian companies doing business in China. The information used in this study was collected from British Columbian companies who sold their products and services in the Chinese market. None of these companies were engaged in manufacturing in China though two were planning to in the near future. This meant that the data focused primarily on the efforts of these companies to sell their products and services in China. The following process was used to achieve this goal:

♦ Literature Review and Proposition Development
• Research Methodology, Design and Data Collection
♦ Data Analyses and Proposition Testing
• Exploratory Findings
♦ Conclusions and Discussion

The seven chapters were intended to answer the questions raised above. Chapter 1 focused on literature review and proposition development. The literature review covered the existing literature describing the experiences of American companies in China. Propositions were then formed for Canadian companies doing business in China based on the experience of these American firms.

Chapter 2 focused on the selection of research methodology and research design, the development of data collecting instrument and the data collection. The multiple case approach proposed by Yin[4] was briefly examined. The Embedded Multiple Case Method was selected, because this method allowed the interviewer to ask detailed questions about many aspects of each business. A 2 X 4 research design was developed that allowed performance comparisons between four key entry strategies and also between high and low performing companies within each entry strategy. A semi-structured interview protocol was developed to collect the information. A total of 13 companies were recruited for detailed interviews.

The following three chapters were intended to test propositions developed earlier using data derived from the series of interviews conducted with British Columbian firms that used a variety of entry strategies in China. Chapter 3 compared the performance and behaviour differences among companies using different entry strategies. It specifically tested the propositions on the relationship between entry strategy and performance among Canadian companies doing business in China.

Chapter 4 compared the performance and behaviour differences among companies using the same entry strategy. Specifically, it tested performance variations among companies and factors causing such differences within same entry strategies. Chapter 5 was intended to identify key performance factors (or Key Success Factors) that distinguished the high performing companies from the low performing companies among all entry strategies. The companies were ranked by their performance level (high medium and low) and behaviourial differences between high, medium and low performing companies were identified.

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[4]. Yin, Robert K. (1988) **Case Study Research - Design and Methods** Applied Social Science Research Methods Series. Volume 5.

Chapter 6 would examine other important issues crucial to Canadian companies doing business in China. These factors and issues did not discriminate high performing companies from low performing companies. Nevertheless, they were important to the companies studied.

The final chapter, Chapter 7 summarized the key findings of this paper. It also looked at the managerial implications for other companies doing or interested in doing business in China. In addition, it discussed the limitations of this research further research needed and some of the key issues to be addressed in such research.

CHAPTER ONE: PROPOSITIONS ON CANADIAN COMPANIES DOING BUSINESS IN CHINA

1.1 FOREIGN MARKET ENTRY STRATEGIES INTO CHINA

Root (1983 & 1987) identified three main modes for foreign market entry, the Export Entry mode, the Contractual Entry mode and the Investment Entry mode. The **Export Entry Mode** was used if a company's final or intermediate product was manufactured outside the targeted country and subsequently transferred to it. Companies using this entry mode could export directly or indirectly through middlemen or agents. As discussed later, Canadian companies have tended to use a combination of both the direct and indirect approaches to enter the Chinese market by hiring an intermediary to help with the market development.

The Chinese never encouraged imports into the country due to foreign exchange problems and for fear of culture pollution (de Keijzer, 1992) except in the areas of commodities, textile yarns, medical equipment, telecommunication equipment and electrical machinery. There has not been much written about exporting to the Chinese market.

The **Contractual Entry Mode** included long-term non-equity associations between an international entity and an entity in a foreign target country that involved the transfer of technology or human skills from the former to the later. Technical, service and management contracts, licensing agreements, franchising and turnkey operations were in this category. This entry mode was referred to as co-operative or contractual ventures. The Chinese often called this entry strategy **Contractual or Cooperative Ventures**. Webster (1989) referred to this type of entry mode as contractual joint ventures. Contractual joint venture differed from equity joint ventures in that funds, equipment, materials and services provided by the partners were not contributed as equity shares. The foreign companies provided the share at a given value and were repaid at a set rate of return (de Keijzer, 1992).

The **Investment Entry Mode** involved ownership by a foreign company of sales units, manufacturing plants or other production units in the target country. The venture could be wholly owned by the foreign investors or jointly owned by an entity of the target country and foreign investors (Equity Joint Ventures).

Czinkota (1991) and Kogut (1988) defined an **equity joint venture** as two or more companies joining in one enterprise in which both parties contribute assets, own the entity and share the risks. This entity was subject to joint control by its parent firms, each of which was economically and legally independent of the other (Shenkar and Zeira, 1987a).

Wholly Owned Investment involved foreign investors (Canadian companies) setting up a wholly owned business by way of greenfield or acquisition of an existing enterprise in the target country (Root, 1987). The local operation could be involved in manufacturing (Hornell & Vahlne, 1986), or simply servicing the local market by setting up a local sales capability (Bartlett & Ghoshal, 1992). In either case, the foreign investors (Canadian companies in this case) took 100 percent ownership and control of the Chinese operation. This type of structure was not allowed in China prior to 1988, as the Chinese law prohibited 100 percent ownership.

Wholly owned operations were once discouraged by the Chinese and detailed implementing regulations were not in force until later 1990, and until that time many western companies avoided using wholly owned strategy (de Keijzer, 1992). In addition, the Chinese taxation law up until 1992 favoured foreign joint venture operations rather than wholly owned operations. Changes in regulations between 1990 and 1992 included the liberalization of the use of wholly owned strategy by foreign investors fostered a rapid growth of wholly owned operations in China. In 1986, there was only 18 wholly owned operations in China. Five years later in 1991 alone, 2696 wholly owned operations were opened in China.

The four entry strategies were dynamic and incremental (Root 1987, Juul & Walters 1987, Johanson & Vahlne 1977, Sullivan & Bauerschimdt 1990) so that a company could change its entry strategies from time to time. Companies often chose entry modes that provided the greatest control over foreign operations. To gain more control, companies would also have to commit more resources and take greater risks. However, growing confidence in their ability to compete in the foreign markets generated a progressive shift of their entry modes from a trade-off between risks and control to more control. Similarly, Johanson and Vahlne (1977) believed that the entry mode a company used at any given point depended to a large degree on the use of knowledge about foreign markets and operations, and the gradually increasing commitment to the foreign markets.

The confidence in and knowledge of the foreign markets were acquired through learning. There were two main types of knowledge to be learned: objective knowledge and experiential knowledge (Johanson and Vahlne, 1977). While the former referred to knowledge that could be taught and learned, the latter included knowledge that could only be learned through personal experience. Judge and MacKillop (1993) added three more methods of learning, vicarious learning, grafting and search process:

- vicarious learning was about borrowing knowledge from other organizations;
- grafting referred to learning by acquiring information sources through hiring new members to the team or by acquiring whole organizations;
- search process referred to intentionally collecting information from established sources outside the organization.

Knowledge about the domestic market could be learned and taught due to the close proximity of the operating conditions within a country. Knowledge about doing business in a foreign market in general could only be gained through direct experience due to limits on existing information and dissimilarities in environments.

Johanson and Vahlne (1977) believed that as firms acquired more knowledge about a particular international market, they would be more inclined to commit more financial resources, accept greater risk to achieve higher control in that market. Beamish et al (1991) developed a similar theory on foreign market entry by arguing that the internationalization process was incremental. A change from the low risk mode such as export mode to a higher risk mode such investment mode was usually a direct consequence of learning about that market. Thus this study proposed that:

> **P1a: Canadian companies using wholly owned and equity joint venture to enter China have learned more about the Chinese market than companies that used contractual ventures and direct exports to enter China over time.**

According to the Eclectic Theory by Hill, Hwang and Kim (1989), the choice of entry mode into a foreign market would have a major impact on the success of a firm's international operations. Companies using the export entry modes were exposed to the least amount of risk but had the lowest potential profitability while those using investment entry modes were exposed to the highest amount of risk while having the highest potential profitability. Companies using contractual entry modes lay somewhere between in the amount of risks and financial performance (tested as sales performance in this paper). The level of financial commitment and risk would increase accordingly as companies moved from the export entry modes to the investment entry modes. Thus this paper proposed that

P1b: Those Canadian companies that used wholly owned strategy to enter China would have the highest level of sales performance, followed by those using equity joint ventures, contractual ventures and direct exports.

Since the inception of its Open Door Policy in 1979 and up until 1988, China had favoured equity joint ventures more than wholly owned operations (de Keijzer, 1992). The open door policy itself was intended to upgrade the Chinese system with help from foreign technology, management skills and investment without giving up much control. Full foreign ownership was discouraged prior to 1988, after which the regulation on wholly owned was relaxed. The credit squeeze implemented in early 1989 created many problems for Chinese joint venture partners as they could not obtain operating credit (Cheng, 1989). This squeeze also forced many local governments to turn to wholly owned to attract foreign investors into their region as wholly owned projects did not require funds from China while offering employment opportunities and foreign technologies. But it was not until 1992 that such wholly owned enterprises received fair tax treatment from the Chinese taxation law (de Keijzer, 1991)

Nearly all of the foreign direct investment in China was through the joint venture organization form (Conely & Beamish, 1986). The dominance of joint ventures among foreign investment in China was evident. In 1992 alone, there were 24,119 equity joint ventures, worth 20.9 billion Canadian dollars. During same year, there were 11,042 contractual joint ventures worth 16.7 billion Canadian dollars. By 1991 there were 6,081 wholly owned operations in China worth 8 billion Canadian dollars.

Based on such information, it was assumed that majority of Canadian companies would follow a similar pattern in their business pursuit in the Chinese market. In response to such assumed dominant uses of joint ventures among

Canadian companies, the following section focused on this particular entry strategy[1].

1.2 RATIONALES FOR USING JOINT VENTURES

Joint ventures in China entailed a broad range of activities in three main forms:

a). equity joint venture with shared investment (often involving hard currency), risks and profits (Robinson, 1978);

b). contractual joint venture where the capital contribution is in kind rather than hard currencies, including land, building and equipment;

c). joint development agreement which is often used in resource development (Zhang and Snyder 1988). This is also known as cooperative joint venture.

The Chinese had become more reliant on using investment-in-kind as their share of capital contribution rather than hard capital[2]. Both a) and b) were classified as equity joint ventures under the current Joint Venture Laws enacted in 1979. Foreign ventures using the c) form were referred to cooperative ventures.

The increasing global competition had forced many firms to source from the cheapest suppliers, and manufacture where the production costs were the lowest (Datta 1988). China, with a population of around 1.2 billion and per capita GNP around US$ 350 fell neatly into this category. In response to the Chinese' preference for joint ventures, research about foreign companies doing business in China had focused on joint ventures until earlier '90s in three main areas:

a). providing strategic guidelines on how to set up joint ventures (Datta 1988, Davidson 1987, Mather et al 1987, Harrigan 1985, Root 1987);

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1. This assumption turned to be untrue as to be discussed in Chapter 2. Of the two studies from which the cases for the current study were drawn, only a very small percentage of the Canadian companies used equity joint ventures. The first study by Abramson and Ai (1993) had 16 companies from the Province of British Columbia, two of which used equity joint ventures. From the second study by Huang (1993), 8 out of 55 British Columbian companies doing business in China used equity joint ventures.

2. The World Journal, August 1992.

b). case studies describing specific joint venture experiences (Aiello 1991 Beamish, Killing LeCraw & Crookell 1991);

c). focusing on specific issues such as negotiation (Stewart and Keown 1989, Kirkbridge and Tang 1990, Eiteman 1990, Adler 1992) and control (Geringer and Hebert 1989, Schaan 1988).

1.2.1 - Rationales for Pairing Up With the Chinese

Some research had studied empirically the motivations for forming joint ventures between partners as diverse as Americans and Chinese:

♦ Caves and Mehra (1986) found that the choice of joint venture was influenced by the characteristics of the industry and by the cultural characteristics of the foreign and home countries;

♦ Kogut and Singh (1986) and Kogut (1988) found that the manufacturing sector had a higher concentration of joint ventures;

♦ Berg and Friedman (1978) found that joint ventures were used predominantly in resource development industries such as mining, petroleum refining, and basic chemicals; and

♦ Stuckey (1983) found that joint ventures in the aluminum industry helped to achieve economies of scale and to reduce costs.

Joint ventures were prone to management conflicts and control problems (Lyles 1988), and might not necessarily guarantee high performances (Berg and Friedman 1981). Why would then anyone use this strategy in foreign market entry? Schuler et al (1991), Webster (1989), Huang (1992) and Harrigan (1987) argued that joint ventures helped the companies involved to:

♦ form strategic alliances to achieve synergy effects in the areas of research and development, manufacturing, marketing and sales; and to better take advantage of the world market.

♦ reduce investment risks through sharing with others;

♦ gain market access in countries where restrictions on other business forms such as wholly owned and imports full foreign ownership existed;

♦ transfer technology.

1.2.1.A Strategic Alliance and Synergy Effects

The conventional wisdom of pairing up the complementary competitive strengths of the partners to achieve what they could not achieve individually (Datta 1988, Morris & Hergert 1987) may not apply to China. Pairings such as marketing and manufacturing, R&D and production, technology and production are common among industrialized nations. For most Chinese enterprises, however, their competitive strength in these areas are yet to be developed. The synergy for investing in China seemed to come from mainly the marriage of western technology, investment and management know-how and China's vast supply of low cost labour, land and raw materials, and potentially large market.

The main attraction of investing in China from an investor's perspective was the availability of low cost labour, inexpensive materials and low land costs (Greene, 1991). Without proper technology, adequate investment and management know-how to put them to work, most of these would be under-utilized. On the other hand, most western countries faced almost the opposite situation of increasing production costs and diminishing returns. There seemed to be a natural match which would generate mutual benefits to both the Chinese and foreign investors. Thus this study proposed that

> **P2a: Canadian companies that invested in joint ventures without such synergy effects would have lower performance than those with such effects.**

Joint ventures, as strategic alliances, were set up to improve the overall competitive position of the partners in the increasingly global market (Datta 1988, Harrigan 1987, and Shenka & Zeira 1987). Since several nations in the Asia Pacific region had become industrialized, the region as a whole represented a major market for consumer goods. By year 2000, it has been predicted that Asia would produce about 29 percent of world manufactured products and Asian GNP by year 2011 would equal to that of North America(Cragg, 1993). By teaming up the Chinese low production costs and access to the regional markets with Canadian companies' capital, technology and management, Canadian companies could better take advantage of the large regional market.

1.2.1.B Reduction of Investment Risks

For many North American companies, doing business in China imposed some immediate threats including an unfamiliar business environment, government regulations and policies, and changing consumer tastes. These uncertainties might seem too risky particularly for smaller companies with limited international experiences. Furthermore, it was difficult to obtain reliable market information in China as such information might not exist at all for some industries, or it might be too costly to gain access to even if it did exist. The rapidly changing market may also have made available information obsolete within shorter time.

By pairing up with local business partners, agents, distributors or brokers who are familiar with the local business environment, a company would be able to reduce the business risk. Since such individuals are located closer to the market, foreign companies could have market information conveniently. Additionally, such individuals are likely to be well connected and have good Guanxi in the local business community. Such connections can be harnessed to greater advantage for foreign investors (Davidson, 1987). Therefore, this paper proposes that

> **P2b: Canadian companies that hired local partners, or distributors or agents were more informed about the Chinese market and likely to have higher sales performance than those that did not.**

1.2.1.C Gaining Market Access

Joint ventures in China were frequently used and created due to government pressure and with government partners and often formed with partners from ethnically related countries (Beamish, 1993). The Chinese market remains partially closed to foreign companies for a number of reasons. First, foreign exchange shortages among Chinese enterprises limited these enterprises from buying foreign products and services. Second, China was unlikely to give away control in strategic sectors such as telecommunications, transportation and energy generations to foreigners. Foreign companies may have to cooperate with the Chinese government to tap into these markets.

Third, Chinese emphasize "mutual benefits" strongly. Joint ventures, by allowing the partners to share both the ownership, management and control, might be perceived as fairer to the Chinese than other entry modes. They might otherwise felt exploited by foreign investors and foreign devils (Purves, 1991).

Joint ventures offered a convenient vehicle to penetrate such markets (Datta 1988, Gones-Casseres 1989, Shenka & Zeira 1987, Berlew 1984, Morris & Hegert 1987 and Tichy 1988). Shared ownership and control were one way to overcome the hurdle of nationalism. Further, joint ventures offered a solution to the foreign exchange problem for the Chinese government. With few exceptions[3], the Chinese Joint Venture Laws required all joint ventures to balance their foreign exchange budget during the life span of the projects. Thus the Chinese government did not have to provide foreign exchange to such operations.

In fact, government related reasons are the major rationale for joint ventures in less-developed countries four times more often than in developed countries (Beamish 1985). Thus this paper proposes that:

> **P2c: joint ventures with the Chinese were the only way for some Canadian companies to gain access to the local Chinese market which was otherwise closed to Canadian companies.**

[3]. Such requirement could be loosened for projects of great interests to the Chinese.

1.2.1.D Joint Venture As A Means To Transfer Technology

Using joint ventures to transfer advanced technology has been a common practice in developing countries (Datta 1988, Lesserre 1983 and O'Reilly 1988). The Chinese preferred to acquire technologies through joint ventures rather than licensing (de Keijzer, 1992). Outright purchase of technology has been sporadic in recent years due to domestic austerity programs, questionable protection of proprietary knowledge and lack of foreign exchange.

Furthermore, without adequate training and services provided by the supplier, such imported technologies may not be as productive as they could be. For example, in order to market a special mining technology to China, the supplier may have to demonstrate the effectiveness of such technology in China. To do so, the supplier has to set up an operation in China using this equipment and technology with Chinese supporting system. If, after a testing period such as of a year, this technology was proved successful in China, other Chinese mining operations may decide to buy it. Thus this paper proposes that,

> **P2d: Joint venture with the Chinese was more effective in transferring technology to China than direct exports and wholly owned operations, as it shared control and expertise between the Chinese and the Canadian partners.**

In joint ventures, the Canadians learned how to be more effective in China and the Chinese learned Western business and management techniques. This learning was assumed to increase the effectiveness of joint venture operations.

1.2.5 Summary

Canadian companies might have several motivations for forming joint ventures with the Chinese, including forming strategic alliances to better take advantage of the regional markets, reducing investment risks, gaining access to the Chinese market, and transferring technologies. However, the decision of foreign market entry strategy, including joint venture, could not be accomplished in isolation of the internal and external factors related to the decision. Root (1987) identified six categories of such factors, including factors related to:

- target country
    - market;
    - environment;
    - production;
- home country;
- company
    - products
    - resource/commitment.

The next and following sections will discuss the Chinese business environment to identify factors related to Canadian companies doing business in China. These factors were not only related to the selection entry strategy, but also critical to the performance of these companies.

1.3 THE CHINESE BUSINESS ENVIRONMENT

Since 1979, the economic priorities of China have been to modernize production facilities, absorb foreign technology and use foreign capital to develop its infrastructure. Several steps have been taken to facilitate this process. First, numerous Special Economic Zones (SEZs) were set up along the coastal cities and provinces in 1979, offering tax breaks and other preferential treatment for foreign investors. Second, since 1984 more coastal cities were allowed to provide similar incentive programs and policies to encourage foreign investment and technology transfer. Third, various regulatory measures have been taken to improve the business environment for foreign companies including the implementation of the Joint Venture Law in 1979, and the standardization of taxation laws in 1992.

Such economic policies appeared to be working. Real GNP growth averaged more than 10 percent per annum, and real per capita GNP growth averaged growth rate of more than 9 percent since 1979. Two things emerged as a result and fuelled each other. First, to maintain this growth, more investment and technologies were needed to improve the basic infrastructure. Second, a consumer group ready and capable of consuming was created. The end result was a stronger demand for foreign investment, technologies, products and services. This perhaps explained why there has been an increasing number of foreign companies doing business in China.

Despite such success, China is still a developing nation, and faces many problems and difficulties. These in turn translate into problems and frustrations for foreign companies doing business in China. Foreign firms often attribute the difficulties they experience in China to problems in the Chinese investment climate (Lieberthal and Prahalad 1989). In an attempt to understand the problems of American companies doing business in China, Lawson (1988) concluded that the Chinese market was attractive, but the costs were often high too. The high cost might be a result of a number factors related to the Chinese business environment which will be discussed next.

1.3.1 Multi-level Bureaucratic System

Dealing with Chinese bureaucracy could be extremely frustrating and time consuming due to a number of reasons. First, duplication of function both horizontally and vertically often caused confusion and delay for foreign companies trying to do business in China. For example, approvals or chops from every department and at each level are required before doing anything. Lack of communication, common between government departments, only worsened the problem. Second, few bureaucrats were willing to take responsibility for timely decision making because punishment for mistakes far outweighed the reward for efficiency. Third, the government usually had goals (e.g. job creations) different from those of foreign companies. Delays might be caused by such hidden disagreement between the Chinese and foreign businesses. In addition, the Chinese culture seemed to value time differently from Western cultures (Abramson and Ai, 1993)[4]. This paper proposes that,

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[4]. Work in Progress on "Differences in Work Related Values Between Chinese, Canadian and Americans".

P3.1a: the slow bureaucratic system is a major source of frustration for Canadian companies doing business in China.

The delay caused by the Chinese bureaucracies was a reflection of the Chinese inexperience with standard Western business practices. However, there were indications that the length of delay was correlated to industries and locations of the projects. Hi-technology and export oriented industries had higher priority and thus received better and speedier treatment (Grub and Lin 1991) from the government. Special Economic Zones (SEZs) were known for their assimilation of Western business practices. All such zones were located along the coastlines and had easier access to transportation. Therefore, operations located in highly publicized areas such as Beijing, or other well developed areas like in the SEZs, may experience less frustration and achieve higher levels of satisfaction and performance. Thus this paper proposes that in relation to other companies,

P3.1b: hi-tech Canadian companies located in SEZ or open cities may experience less frustration, and achieve higher levels of satisfaction and sales performance than low-tech companies located in other areas.

Corruption among Chinese officials seemed to have increased despite the senior leader Deng Xiao Ping's determination to crush down this deep-rooted problem (December 1993, Far East Economic Review)[5]. Ming Pao, a daily Chinese newspaper published in Hong Kong reported lately that some researchers argued that if China were to change colour, if could only be caused by corruptions among officials, their relatives and families. Many foreign companies felt lost when confronted by Chinese officials asking for personal benefits. Given the severity of such corruption among Chinese, the amount of foreign investment in China had been growing rapidly. The rapid increase in foreign investment suggested that

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[5]. There have been an increasing number of reports on corruptions among the Chinese officials on the popular press, including both Singh Tao Daily, World Journal, Economist, and The Far East Economic Review.

foreign companies were learning how to adapt to this situation. This issue of corruption and bribing would be discussed later in Chapter 5.

1.3.2 Foreign Exchange

Rapid foreign investment in China had added to the foreign exchange problem in China. More joint ventures meant higher demand for foreign exchange to obtain the needed technology and equipment. The Chinese were extremely sensitive to and concerned about the projected foreign exchange performance of a joint venture (Davidson 1987). The current Joint Venture Law requires a balanced foreign exchange flow over the life span of a joint venture. The sensitivity over balancing foreign exchange for a joint venture translated into restrictions on foreign investors.

First, the foreign partner was expected to contribute hard currency as part of the initial investment while the Chinese partner often used investment in-kind such as equipment and machinery as their contribution. Second, the Chinese often wanted the joint venture to export as soon and as much as possible. Priorities were given to export oriented projects or projects related to import substitution. The pressure for exports might be in conflict with investors' goal of developing the local Chinese market.

Third, payment of dividends and royalties could be delayed due to insufficient export sales. Fourth, the Chinese might inflate the value of land, buildings and equipment so that foreign companies had to contribute more to maintain the desired share of ownership.

The problem of foreign exchange shortages was well recognized. Cases such as the Chrysler - Beijing Jeep joint venture (Aiello 1991) were widely publicized[6]. It became increasingly clear that foreign exchange was critical to both the Chinese and foreign companies in China. It was thus no wonder that companies were turning to producing for import substitution and purchasing for exports to combat this problem (Frisbie 1988). This paper therefore proposes that,

> **P3.2: Foreign exchange is a critical factor related to satisfaction and sales performance of Canadian companies doing business in China.**

Although the foreign exchange problem was universal to all foreign investment in China, it seemed that certain industries were affected more than others. The hi-technology industry for example, faced a dilemma rooted in foreign exchange shortages: imports versus high retail price. On the one hand, the support industry in China was not sophisticated enough to provide the required components (Shea 1988) for production, so these parts had to be imported. On the other hand, the need for imports drove up the production costs, making the end products more expensive and less competitive.

1.3.3 Staffing and Employee Training

Recruiting skilled and capable manpower from the labour force represented the most challenging task for foreign companies doing business in China (Epner 1991). Joint ventures were more vulnerable since many of them were upgrading their level of technology or transferring more decision making to local staff (Cheng, 1989). Despite the plentiful supply of low cost labour, finding capable employees was still a major task for many companies doing business in China for several reasons. First, the Chinese workers were not as mobile as their counterparts in Canada and the United States. For many Chinese, their employment with their "Danwei" (working unit) was life-long. Their life style, including housing and schooling of their children were often provided by the employer. Permission and

[6]. The company ran into serious problems, because the Beijing government was unwilling to allocate millions of dollars of hard currency for BJ to import CDP Kits from the United States for production in Beijing.

compensation to the employers were often required in order for the individual to free himself from this life-long contract[7].

Second, though the nominal salary for the average worker was low in China, bonus and employment benefits such as subsidised housing and health care could be very costly. Such fringe benefits could be worth more than the actual wages. Third, low labour costs were more or less offset by labour quality. Chinese workers usually did not have the drive to excel and were unwilling to take responsibility. Chinese managers in general were less concerned about costs, and very reluctant to make any mistakes. The managers and workers often had poor relationship.

Training was often required and not just to improve productivity. It was important by itself for the Chinese management and employees. For the Chinese, acquiring technology via training programs, sharing of designs, materials engineering, or management skills were important training goals. Training often was provided by the foreign partner, preferably in a third location, or at the head office location. Such training was often written into the employment contract for the Chinese and requested for a large number of employees. This paper thus proposes that,

P3.3a: finding capable and qualified local employee is a major challenge for Canadian companies setting up joint ventures in China, and

P3.3b: training, preferably in a foreign country is an important factor in persuading the Chinese to do business with Canadians.

Training could become a major cost component of the operation. For example, training in the United States can easily cost about $25,000 to $30,000 per year per capita.

[7]. A close family member of the author is currently facing this dilemma.

1.3.4 Guanxi, Face and Other Cultural Aspects

Acquiring materials and parts for production in China was a complex task (Davidson, 1987). Sourcing locally was less costly but the quality was usually not up to standards of Western companies. Even when the quality was acceptable, the supply was not reliable. Quality materials were usually as costly as sourcing from international suppliers. Even when quality and supply were acceptable, the delivery time could still be a problem as the Chinese transportation system was significantly behind the demand. Critical raw materials were usually allocated centrally with important and influential "guanxi" often holding the key to get the needed raw materials.

Guanxi was a fundamental component of the Chinese business culture (Purves, 1991), and the two were interrelated. Guanxi was built on family connections and constantly taking and giving favours and help. It was needed virtually everywhere: to obtain business permits, source supplies, and even to obtain staff. Developing and maintaining such guanxi and connections would be costly. To secure a material supply, for example, one may be forced to take on a relative of the supplier, which would add to the labour costs. Some Western firms found that hiring someone (a broker, an agent or a local partner) with wide and influential guanxi was invaluable to joint ventures (Lawson 1988).

Some (O'Reilly, 1987) stressed that having the right kind of guanxi and connections was the most important factor for a smooth and successful operation in China. This view was not shared universally. Others have found that guanxi was unreliable (Grub and Lin 1991) because it was built on personal relationship. After some fair amount of investment of time and resources to develop guanxi with a certain individual, the individual leave his position and had little influence in the area of concern to the foreign company. Nevertheless, this paper proposes that,

P3.4a: Canadian companies that have well established connections in China were less frustrated about doing business in China and have higher sales performance than companies without such connections.

Giving and preserving "face" was another important aspect of the Chinese culture that foreign companies doing business in China should be aware of (Kirkbridge and Tang 1990). Liu (1993) defined face as reputation or respect from others based on one's own efforts. To give and preserve face for the Chinese, direct confrontation with the Chinese should always be avoided.

Since the Chinese business environment was intertwined with the Chinese culture, an understanding and appreciation of the Chinese would help foreign investors to get along with the Chinese more smoothly. Therefore, this study proposes that,

P3.4b: awareness and appreciation of the Chinese culture in general was critical to Canadian companies doing business in China.

1.3.5 Stability of the Chinese Business Environment

The fast economic growth, especially in the opened areas and large cities had fuelled inflation and had many people worried (The Economist, 1993). Fast growth and higher return in the more developed regions attracted capital away from less developed regions where investment was desperately needed. Such diversion of capital had created some imbalance of economic wealth and power among the different regions of China. Thus while the rich got richer, the poor got poorer, with widening gap between the two[8]. Without proper measures to close such gap, social unrest might become inevitable.

Politically, many believed that the stability of China depended on the aging "Godfather" of China's current economic policy, Mr. Deng Xiao Ping. His death might cancel his economic policy and create chaos in China. The political risks

[8]. South China Morning Post December 29, 1993.

were highly speculative since no one knew for sure what would happen if the current political leader of China suddenly passed away. Some[9] believed that there might be chaos within a year of the leader's death, and should there be no chaos within this period, there would be none at all. This paper nevertheless proposes that

P3.5: Canadian companies that were deeply concerned about the potential instability of China were more likely to use less involved and less risky entry modes such as direct exports rather than more involved strategies such as joint ventures and wholly owned operations.

1.3.6 Lack of Formal Procedures and Legal System

Some business managers have expressed their concerns over frequent changes in fees and taxes imposed by local authorities on foreign invested companies (China Outlook, March 1993; World Journal April 1993). User fees for the road system, different utility fees and local taxes were often levied on foreign invested businesses without formal justification. Yet it was difficult to appeal such decisions as legal protection for investors and proper regulations over extra levies and surcharges were lacking. To protect themselves in China, many companies depended on maintaining good terms with the Chinese rather than legal protection. Thus this paper proposes that

P3.6: Canadian companies doing business in China relied on developing and maintaining good relationship with the Chinese to protect themselves rather than seeking legal protection.

1.3.7 Summary

Understanding the Chinese business environment and assessing the market potential might be standard business practice in developed countries. Accessing and assessing market information in China were not easy tasks. For example,

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[9] Such as Canada's former Ambassador to China Dr. Earl Drake. The issue was raised during the 13th Canada China Business Council Annual Meeting in the Fall of 1993 in Vancouver.

creating a cost profile in China was difficult since the pricing system for foreign companies differed from that for local companies. Foreign invested companies were often charged substantially more than the Chinese (Lawson 1988). Further, costs of travelling, negotiation, training in both countries were important parts of the over-all cost profile. Yet these cost items were very difficult to assess: no one seemed to know for sure how long it would take to do anything in China, as time did not seem to mean much for most Chinese (Cheng, 1989).

However, there have been positive signs that the business environment in China has been improving. One such sign was the proposed abolishment of regulated exchange rate[10] by January 1, 1994. It seemed that the Chinese had been learning and the level of bureaucracy was gradually coming down.

At the same time, interaction with the Chinese and exposure to information about other foreign companies doing business in China may encourage learning among foreign investors as well. For example, some foreign investors learned that in order to do business in China, foreign companies needed to have good connections and close guanxi with the Chinese in China (Purves, 1991). Due to such learning and increased exposure to information about China, foreign firms developed more practical understanding for the requirements of doing business in China, and set more realistic expectations about the Chinese market.

As foreign investors and companies learn what to expect from China, they might be less frustrated about doing business in China. Thus this paper proposes that

P3.7a: the level of frustration Canadian firms doing business in China experienced may have been reduced as a result of learning

[10]. China Daily August 27, 1993. This policy has been implemented to a large degree starting January of 1994. However, instead of abolishing foreign exchange altogether, it has been gradually phased out of circulation according the floating market rates. Foreigners are no longer required to purchase FEC at a discriminatory rate.

by both sides, leading to higher sales performance and lower frustration.

Further, as investors become more confident about doing business in China, they may become more willing to take control over their market or their investment in China. Naturally, one would expect that the percentage of wholly foreign owned investment has increased over the years because of this. Thus this paper proposes that

P3.7b: Canadian companies are now more willing to use joint ventures and wholly owned in China than before due to learning and increased confidence in the company's ability to compete in the Chinese market.

Certain problems and frustrations experienced by foreign companies in China were caused by the inexperience of both Chinese and foreign investors. Such problems could be resolved by learning over time. Other problems, such as the Chinese negotiation style, might have their roots in the Chinese culture and thus would change little over time. In her longitudinal research on the United States-China business negotiation, Tung (1982, 1989) observed that the Chinese changed little in their negotiation style. In her own words, "the more things change, the more they remain the same.". Thus this paper further proposes that

P3.7c: The amount of frustration experienced by Canadian companies negotiating with the Chinese did not change much as the Chinese way of negotiation remained constant over time.

1.4 SUCCESS OR FAILURE: WHAT CAUSED IT?

The overall attrition rates of joint ventures were high, ranging from 45% to 70% (Schuler et al 1991, Harrigan 1987, Levine and Byne 1986). No reliable information on attrition rates for joint ventures in China was available. Mendenhall and Oddou (1991) suggested that only 1 in 10 foreign investments in China were profitable. According to The World Journal, (March and April 1993) joint venture performance in China in certain areas had been less than satisfying, resulting in many foreign investors scaling down their initial plans of investment.

Some of the variation in performance might be caused by the various performance measures used. Different measures would undoubtedly yield different performance levels. Further, a joint venture's goals and objectives are often used as performance criteria against which the performance of the joint venture is measured. Since foreign investors often set up joint ventures to achieve varying objectives, it was not surprising that different companies used different performance measurement criteria. The issue of performance evaluation was further complicated by transfer payment and different accounting standards (Hornell and Vahlne 1989, Porter 1991).

A number of performance indicators have often been used to measure joint venture performance. Some used financial indicators such as pay-back period (Davidson 1987) or the effects of the joint venture on the profitability of the parents (McConnel and Nantell 1985). However, financial performance of joint ventures was sometimes insufficient for evaluating joint ventures. Joint ventures that score poorly financially may still be deemed successful (Schaan 1988). The parents companies may have other ways of achieving profits such as transfer pricing, or charging management fees, consulting fees, or royalties. Thus Matsuura (1989) evaluated joint venture performance based on whether firms were willing to stay longer in the joint venture, and changes in the level of investment. As diverse as the existing measures might be, most measures were based on the belief that performance evaluation should be based on whether a joint venture has met its expected goals.

The difficulty of defining joint venture success or failure was compounded by a number of confounding variables. First, the success rate may be industry and sector specific, as discussed earlier. Second, the location of a joint venture may also influence its level of performance. Third, time of entry could have some impact on the difficulties experienced and the level of performance (Lyles, 1988). This is largely the result of the learning effects: regions that opened earlier to the outside are ahead of the rest on the learning curve. Fourth, in relation to the learning effect, the previous level of experience each partner has in international joint ventures could also have some influence on the joint venture performance. If the partners are experienced in joint venture management, they may avoid previous mistakes and obtain a more efficient joint venture.

1.4.1 Critical Success Factors

Aside from the environmental factors that are critical to joint venture success, there seems to be a set of variables internal to joint venture partners that are equally important. These variables include defining the joint venture goals, selecting the right partner and proper management control of the joint venture.

1.4.1.A Understanding of the Chinese's Goals and Concerns

For a joint venture to be successful, the partners involved should have clearly defined short and long term goals. Such goals will help the partners to develop a framework for operational control and performance evaluation. Furthermore, such goals should be clearly communicated to each other.

Goal congruence between partners was critical to joint venture success (Datta 1988, Davidson 1988). However, this was not required for joint ventures between companies from the developed economies and the developing economies, such as the Chinese (Beamish et. al 1991, Kogut 1987). According to the platform theory, as long as each partner was receiving some benefits, not necessarily the same from the joint venture, then a platform was created to keep the joint venture afloat. The goals for foreign companies entering joint ventures with the Chinese as discussed earlier were often evident easy to understand. The Chinese goals were usually masked and not easy to understand. They may include training, acquiring modern management skills, job creation and protecting national interests.

Greene (1991) and Frisbie (1988) concluded that the level of success the Chinese had in achieving their joint venture goals was far below what one would expect. For example, while exports and localization of production were set out as primary goals for most joint ventures in China, few were able to achieve this within the planned period. The explanation may lie in the differences between the stated and true purpose of the joint venture.

The Chinese were primarily interested in obtaining knowledge from foreign firms (Campbell 1989). Though the short term financial performance may look bleak, knowledge acquired through joint venturing with foreign companies provided long-term benefits for the Chinese. It was never the Chinese intention to leave control of the high-technology industry, or the development of its infrastructure to foreigners. The short term losses were prices paid for long term benefits. That was why some foreign companies were allowed to enjoy certain non-traditional ways of making profits (Aiello, 1991) such as higher transfer pricing.

Though the partners did not have to share the same goal, companies that understood the Chinese' goals and concerns would have a better understanding of the Chinese mind. Further, companies that demonstrated their willingness to help the Chinese achieve their goals, and learned to cope with the reality of China would certainly find it easier to do business in China. Failing to do so was likely to result in high levels of frustration doing business in China. Thus this paper proposes that

> **P4.1a: Canadian companies that understand and appreciate what the Chinese are trying to achieve are less frustrated about doing business in China, especially during negotiation with the Chinese.**

1.4.1.B Selecting the Right Partner

Finding the right partner is closely connected with the goals each partner has. The right partners would have similar organizational cultures, administrative styles, and management philosophies and goals (Davidson, 1987). Western theory has stated that partners should have an orientation and objective in common, and should bring complementary and relevant benefits to each other. These requirements may not be realistic given the differing organizational cultures, administrative styles and management philosophies that are common in a capitalist country such as Canada and a developing socialist country like China. However, the platform theory (Aiello, 1991) suggests that Chinese and Canadians may develop a level of trust and commitment, without joint goals, because each partner is benefitting from the relationship in a different way.

Three attributes appear to be very important in selecting a Chinese joint venture partner. First, the Chinese partner(s) should be experienced in dealing with foreign companies. Second, the Chinese partner should be well connected and capable of delivering what is expected of it, such as recruiting and sourcing locally for the joint venture. Finally, the Chinese partner should have been successful in the Chinese market.

Conversations with people who had been doing business in China revealed that there was a concern about the decreasing business ethic in China. " It is easy to run into people who appear to be committed. But when time calls for real commitment, very few are left". Technical competence seems to be of less importance as the foreign partner will be responsible for this aspect. The major role of the local partner was to help deal with business environment and to help the foreign partner learn about doing business in China. Finally, the partner should be committed to the joint venture. This paper proposed that

P4.1b: Canadian companies with experienced, committed and well-connected Chinese partners are more successful than companies without such partners.

1.4.1.C Control

China has experimented with different variations in joint venture ownership, resulting no apparent optimal combination of structure and ownership (Ye 1989). Control was not synonymous with ownership, though, and control over the daily operation was more important than ownership. Even partners with minority ownership could install an adequate amount of control through the appointment of key management personnel and board members (Schaan, 1988). Strong and continuing interests and commitment by senior management from both partners was an effective way to control and manage a joint venture.

China has undertaken vast changes to its economic structures by privatizing most of the government controlled business enterprises. As the country develops economically, the focus and emphasis of its economic policies, including policies guiding foreign investments may shift as well. Many companies have already experienced the impact of such changes in the areas of foreign exchange control (Cheng, 1989).

Foreign partners from powerful industrial countries such as the United States might be able to influence this situation by relying on the bargaining power that the American government had in relation to the Chinese. Companies could contact either the American Embassy or the State Department to press their case.

Companies from smaller industrial countries such as Canada would not be able to rely on pressure by the Canadian government to improve their situation. However, it was suggested that these foreign partners may have had informal influence that was more effective with involved Chinese government agencies or regulatory boards than the influence of the Chinese partners. Therefore, foreign investors should not leave the Chinese partners entirely responsible for dealing with the Chinese business environment. The company should closely monitor any changes to the Chinese business environment so as to maintain control over the situation. Thus this study proposes that

> **P4.1c: Canadian companies that relied on their Chinese partner to take full responsibility for harnessing the Chinese business environment are likely to have lower sales performance than those taking full interests in the entire operation.**

1.5 SUMMARY

The main purpose of this chapter was to form propositions on Canadian companies doing business in China using existing information about foreign companies doing business in China. At the beginning of this study, it was assumed that majority of Canadian trade with China would be performed through joint ventures because of the emphasis of Chinese government policy on that form of entry strategy. This expectation was reinforced because the majority of business literature on doing business in China was related to joint ventures. This literature review was, therefore, dominated by issues related to joint ventures. It was subsequently discovered that Canadian companies did not use joint ventures as commonly as other entry strategies. Wholly owned, and particularly exports strategies seemed to be popular choices.

Joint ventures were formed for several main reasons. These included to reduce investment risks in an alien environment, to gain market access to otherwise closed market, to achieve synergy and economies of scale, to form strategic alliances, and to transfer knowledge.

The main motivation of forming joint ventures was rooted in the business environment of China. The slow and bureaucratic system, problems with foreign exchange, with sourcing, with staffing, and cultural differences often proved to be too much for a foreign investors to cope with on their own. These coupled with social and political instabilities seemed to make the alternative of joint venture more attractive. The main advantage of such joint ventures was that the local partner would help smooth out problems, and provide stability to the joint venture.

Joint venture performance was dependent upon several critical factors: whether the partners can achieve a certain platform of benefits so that each received what they wanted; the ability to single out a right partner, and resolve conflict. Much of the unhappiness about joint ventures centred around conflicts between partners, ownership and joint management.

The major propositions about Canadian companies doing business in China are summarized in the following Table 1 (page 35).

Table 1 - Key Propositions About Canadian Companies Doing Business in China

P1a	Canadian companies that used wholly owned and equity joint venture to enter China have learned more about the Chinese market than companies that used contractual ventures and direct exports to enter China over time.
P1b	Canadian companies that used wholly owned to enter Chinese would have the highest level of sales performance, followed by those using equity joint ventures, contractual ventures and direct exports.
P2b	Companies with local partners, or distributors or agents were more informed about the Chinese market and likely to have higher sales performance than those that did not.
P2c	Joint ventures with the Chinese were the only way for some Canadian companies to gain access to the local Chinese market which was otherwise closed to Canadian companies.
P3.1a	The slow bureaucratic system is a major source of frustration for Canadian companies doing business in China.
P3.1b	Hi-tech Canadian companies located in SEZ or open cities may experience less frustration, and achieve higher levels of satisfaction and sales performance than low-tech companies located in other areas.
P3.2	Foreign exchange is a critical factor related to satisfaction and sales performance of Canadian companies doing business in China.
P3.3a	Finding capable and qualified local employee is a major challenge for Canadian companies setting up joint ventures in China.
P3.4a	Companies with well established connections in China were less frustrated about doing business in China and have higher sales performance than companies without.
P3.4b	The awareness and appreciation of the Chinese culture in general was critical to Canadian companies doing business in China.
P3.7a	The level of frustration Canadian firms doing business in China may be reduced as a result of learning by both sides. This in turn may lead to higher levels of satisfaction and sales performance and lower level of frustration.
P3.7b	Canadian companies are now more willing to use joint ventures and wholly owned in China than before due to learning and increased confidence in the company's ability to compete in the Chinese market.
P3.7c	The amount of frustration Canadian companies experienced in negotiating with the Chinese did not change much as the Chinese changed little in their way of conducting business with foreigners.
P4.1a	Canadian companies that understand and appreciate what the Chinese are trying to achieve are less frustrated about doing business in China, especially during negotiation with the Chinese.
P4.1c	Canadian companies that relied on their Chinese partner to take full responsibility for harnessing the Chinese business environment are likely to have lower sales performance than those taking full interests in the entire operation.

CHAPTER TWO: RESEARCH METHODOLOGY AND DESIGN

2.1 RESEARCH METHODOLOGY

The Case Method has been used frequently in social studies and management research (Yin, 1992). It allows the researcher to not only test pre-formulated theories (propositions), but also to explore issues further by asking questions such as "who", "where", how" and "why" about the issue. Five components are often involved in case studies:

- a study's questions;
- its propositions;
- its unit(s) of analysis;
- the logic linking the data to the propositions; and
- the criteria for interpreting the findings.

A Single Case Design is similar to a single experiment, with the case chosen being critical and representative of the situation. Alternatively, this method is often used in clinical psychology where the case is often "unique" and not repeated. The main drawback of this method is the "potential vulnerability of... turning out not to be the case it was thought to be at the outset." (Yin, 1992).

A Multiple Case Design on the other hand overcomes this weakness by replicating the original experiment. Each case to be examined must be carefully sorted out so that it either

- ♦ predicts similar results (a literal replication) or
- ♦ produces contrary results but for predictable reasons (a theoretical replication).

The Embedded Case Method is usually used when more than one important issues are involved in the case study. This methods allows the researcher not only to examine multiple but specific issues (sub-units) related to the case, but also maintain the integrity of the case.

The **Embedded Multiple Case Method** was selected for this study for a number of reasons. First, the case method was the most appropriate for testing certain pre-formulated theories (Yin 1992). Part of the purpose of this study was to test several pre-formulated theories about Canadian companies doing business in China using propositions based mainly on the experience of American companies in China.

Second, the Case Method allows the researcher to explore issues which have not been predicted by existing theories. For example, there might be other factors of equal importance to the performance of Canadian companies doing business in China in addition to the pre-formulated theories. These might be factors either unique to Canadian companies or unique to the Chinese business environment that could not be predicted by Western management theories. This method allows the researcher to identify such factors by following the lead provided by the interviewee during the interview.

Third, the Multiple Case Study is more robust than single case studies though both could be used to achieve the same goals. The logic of using the Multiple Cases Method is the same as doing multiple experiments (Yin, 1992). The replication of one's findings over a number of cases or experiments leads greater confidence in the conclusions drawn. For example, it is believed that joint venture with the Chinese helps reduce the amount of uncertainty and risk Canadian companies experience in China. This theory might be supported by the case of one company. A series of cases producing similar outcomes would provide logical confirmation of the theory.

Fourth, the Embedded Method would allow the researcher to examine multiple issues rather than a single issue. In the current study, this method would allow the researcher to focus on not only key success factors, but also on specific issues including entry strategy, negotiation process, day-to-day operations and the performance of the firm. Such multi-focus allowed this study to look at the entire process of doing business in China rather than a single issue of the process. The central over-arching theme of the project was to determine what distinguished more and less successful companies in the context of developing the Chinese market.

Prior to this study, two other studies about Canadian companies doing business in the People's Republic of China were initiated in the Faculty of Business Administration at Simon Fraser University. The first study examined the entry strategies used by British Columbian companies doing business in China[1]. A list of about 100 companies were approached with a questionnaire, of which about 55 returned the questionnaire.

The second study examined a number of issues related to Canadian companies doing business in China[2]. A total of 132 companies across Canada were approached by a questionnaire and 77 companies returned the questionnaire of which 14 were from the Province of British Columbia. There was very little overlap (2 companies) in the samples of the two studies. These two studies provided the current study with a sufficient pool of companies to draw the interviewees from.

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1. This study was a MBA project conducted by Mr. Yi Huang under the supervision of Professor Neil Abramson, Faculty of Business Adminstration, Simon Fraser University.

2. N. R. Abramson, J.X. Ai (1994) "Key Success Factors Affecting the Performance of Canadian Companies Doing Business In the People's Republic of China" Published by Industry Canada.

A summary of the number of companies using each entry strategy available to be interviewed was provided in Table 2.1.

Table 2.1 B.C Companies Doing Business in China

Entry Strategy	Number of Companies
Direct Export	41
Contractual Ventures	7
Equity Joint Ventures	11
Wholly Owned	3

As shown in the table, the investment pattern among B.C. companies doing business in China differed from that of over all foreign investment in China. Equity joint ventures were not as widely used among B.C. companies. By contrast, a majority of companies from this province used export to penetrate the Chinese market. Preliminary examination of the questionnaire data revealed that companies using equity joint ventures were much smaller in size and had marginal performance in comparison to companies using other entry strategies. After initial contacts with some of the companies using equity joint ventures is was revealed further that a number of them were not in active operation in China.

2.2 RESEARCH DESIGN: 2 X 4

The selected research design had to enable this study to best achieve its main objectives delineated in the introduction section. As discussed earlier, this paper had three main objectives:

- to test whether Canadian companies using joint ventures with the Chinese to enter the Chinese market have higher performance than companies using other entry strategies;

- to identify the set of key variables that help distinguish higher performing and lower performing companies using the same entry strategy to do business in China; and

- to identify key success factors that separate high performing companies from low performing companies regardless of their entry strategies.

In order to achieve these goals, the selected research design had to allow comparison among the following categories of Canadian companies:

- grouped by entry strategies;
- grouped by performance; and
- grouped by both entry strategy and performance.

The selected design is shown in Table 2.2. Ideally, there should be at least two companies in each cell. With this design, this study would be able to first compare the performance of companies using different entry strategies. For example, companies using joint ventures could be compared to companies using other entry strategies in general to test propositions developed earlier on the effects of entry strategy over performance.

Table 2.2 - Research Design

	Higher Performance	Lower Performance
Direct Export	Companies	Companies
Contractual Joint Venture	Companies	Companies
Equity Joint Venture	Companies	Companies
Wholly Owned	Companies	Companies

Secondly, this design would allow this paper to make comparison among companies using the same entry strategy. For example, why did some Canadian companies using joint ventures achieved better financial performance than others?

Thirdly, by ranking all the selected companies by their performance and examining their commonalities, this study would be able to identify key performance factors that helped separate higher performing companies from lower performing companies.

The key here was the selection of a performance measure against which the companies would be compared. This measure had to take a few main factors into consideration:

♦ **Goals** - different companies may have different goals for entering the Chinese market. Companies with lower performance using one performance measure (such as financial performance) might to out to be higher performing companies if measured using a different measure such as the amount of learning;

♦ **Sizes** - companies of different sizes may have different amount of financial resources and international business experiences, both of which would likely to affect the performance of the company in the Chinese market;

♦ **Industries** - different industries may have different profit margins; or more or less encouraged to do business in China, as discussed earlier;

♦ **Importance of the Market** - the importance of the market would affect the level of commitment the company has for that market.

The next session will examine the process of selecting and developing the performance measure.

2.3 PERFORMANCE MEASURE AND DATA COLLECTION

2.3.1 Performance Measure

The performance measure to be developed was used as the criteria to select both high performing and low performing companies for each entry strategy from both studies. Performance here referred specifically to Canadian companies' sales in the Chinese market. This measure had to allow comparisons to be made between companies of very different sizes since the firms measured in the Huang study were smaller and the firms in the Abramson and Ai study were larger on average.

Companies of different sizes are very likely to have different fiscal and management strengths and limitations. Larger companies, for example, are more likely to have deeper pockets to help them develop the Chinese market. A few million dollars of sales from China, however, may have marginal impact on the overall performance of the company. In contrast, smaller companies might have limited financial resources they could tap into to help develop the Chinese market. By the same token, a sales increase of CAN$100,000 might have greater impact on the overall performance of the company. To allow for meaningful comparison among companies of different sizes, this paper had to ensure that the companies' performance are comparable level. As such, adjustment needed to be made about company sizes.

Both of the two prior studies had collected information on the annual sales of the companies in China for the years of 1990, 1991 and 1992 in Canadian dollars. Additionally, information on company sizes (measured by number of employees and total sales) was collected for these companies. A performance measure that was an index of average sales per employee between 1990 and 1992 was used to measure performance in those studies. This index, known as the **Average Additive Performance Measure** (AAPM), was derived using the following procedure:

♦ The two studies measured the actual and perceived sales performance of companies doing business in China using approximately 15 different measures, including

- annual sales in China, in 1990, 1991, and 1992;
- annual sales in Chinese for 1990, 1991 and 1992 adjusted by company size (sales divided by number of employees); and
- cumulative sales in China, 1990 through 1992;
- average cumulative sales per employee for 1990-1992 combined; and
- world wide sales adjusted by company size.

♦ The 15 items were factor analyzed producing three measures of sales performance including average sales per employee, actual sales and perceived sales performance. It was a concern of this study that the company size might be a confounding factor for comparing performance given that the sizes of the companies interviewed varied greatly. It was believed that actual sales measurement was more important than any measures of the perceived performance, given the expectation that the key success factors would be identified. Therefore, the factor that represented the sales per employee was selected as the measure for defining higher and lower performing companies to be used in this study.

♦ 4 items loaded on the Average Sales Per Employee factor including the accumulative average sales per employee for the three-year period and the sales per employee for the years of 1990, 1991 and 1992 respectively;

♦ The reliability of the four items was tested using the Cronbach's Alpha. The four items had an alpha of .715, which was considered reasonable in a study such as this;

♦ The four items were factor analyzed to determine whether they represented a unitary performance construct. These items loaded on a single factor with an eigenvalue of 2.421 which explained 60.5 percent of the variance of the four items. Sales per employee loaded at .997, sales per employee in 1990 loaded at .559, sales per employee in 1991 loaded at .633 and sales per employee in 1992 loaded at .845.

This measure is an index representing the average annual sales (CAN$) that each company had reached in the Chinese market over the three-year period between 1990-1992. The strength of this measure is that it has already taken out the effects of company sizes on the attained performance in the Chinese market. Since it is a measure based on the three-year period, it has also help take out the annual fluctuation, making this measure more solid.

There are a number of drawbacks in this performance measure. First, it does not take into account the level of experience the companies have. Companies that are experienced in other international markets might be able to benefit from their prior experiences in developing the Chinese market. Second, it fails to take into account the importance each company attaches to developing the Chinese market. In other words, companies that are highly committed to the Chinese market may achieve higher performance level than companies less committed to that market. As will be discussed in later chapters, if these two concerns were proved to be valid, they would certainly help to explain why some companies perform better than others in the Chinese market.

The major concern over this performance measure was over the time period during which the sales performance data were collected, between 1990-1992. Due to the political turmoil in 1989 in China, many foreign companies may have scaled down their operations or planned investment volume in China. Canadian companies might also have been affected by this event. Further, the Chinese government had been trying to improve the business environment in China by improving investment policies affecting foreign investment in China. Such policy changes might also affect Canadian companies doing business in China. The performance measure developed earlier failed to catch such impacts.

2.3.2 Selection of Companies

Preferably, two companies should be selected for each cell of the 2x4 grid. Furthermore, the companies selected should represent all geographic regions in Canada to allow for direct and balanced comparison. This posed some problems for the external validity of this study: all the companies selected for this study were from the same province, British Columbia. It was not, however, possible to travel around the country to collect data given the budget limitations of an MBA thesis.

The nation-wide study (Abramson & Ai 1994) on Canadian companies doing business in China had provided some reassurance that it would be sufficient to focus on companies from British Columbia. This study found that, among other things, the investment and success patterns among companies from different regions of Canada were almost identical across Canada. This finding allowed the current study to use information collected from British Columbian companies doing business in China.

But before such conclusions could be drawn, further investigation is required to verify the findings across Canada. Using a similar study design and structure, such investigation would allow the researcher to study the investment and success patterns of companies from other parts of Canada. Results from the latter could then be compared to the findings of the current study. It seems that a follow-up study in other regions of Canada would not only help verify the current research, but also bring some insights into issues companies from other parts of Canada that are doing business in China face.

Ideally, two companies should be selected for each cell (category). This design called for a total of 16 companies to be interviewed. As shown in Table 2.1 (page 36), this was not feasible as there were not companies using wholly owned first of all. Second, all companies using joint ventures seemed to have lower performance. After initial evaluation and consideration, a total of 13 companies were identified as suitable for this study, as shown in Table 2.3.

Table - 2.3 Selection of Companies

	Higher Performing Companies	Lower Performing Companies
Direct Exports	1	2
Contractual Joint Venture	1	2
Equity Joint Venture	2[3]	2
Wholly Owned	1	2

2.3.3 The Data Collecting Instrument

Several sources were used to develop and validate the data collecting instrument. First, the investigator had participated in a number of meetings organized by different business associations on Canadian companies doing business in China. These included:

- ♦ a breakfast meeting hosted by the Canadian Chamber of Commerce around April, 1993, where a number of Chinese trade delegations were present;
- ♦ Richmond Asia Pacific Business Association's meeting on the Canadian companies doing business in China around August 1993;
- ♦ Taiwanese Business Association's Breakfast Meeting on Doing business in the Asia Pacific Region;
- ♦ Mainlanders' Business Association's annual meeting in August, 1993;
- ♦ Canada China Business Council's (formerly Canada China Trade Council) annual meeting.

In addition, the author had met with numerous other individuals related to Canadian companies doing business in China, including people who were involved in the business.

Based on these interactions with people related to doing business in China and the information gathered through literature review, a semi-structured interview

[3]. Two of the four companies selected were eliminated after initial interview (lasted for about half an hour), as these companies were not actively engaged in the Chinese market at the time of interview.

protocol was developed (see Appendix 1). Structured questions were raised first to collect information for proposition testing. This was followed by open-ended questions that could change depending on the responses of the interviewees to get out what seemed to be the most important information and details for each interview.

The protocol was structured to follow the internationalization process that Canadian companies used in developing business in China. It began by asking what motivated the company to look at the Chinese market followed by what the company did to move into the market. The questions then moved on to doing business in China, including how the company dealt with the various issues of doing business in China. The protocol ended by asking for the company's evaluation of their operation in China.

2.3.4 Data Collection

The Chief Executive or person in charge of China Projects for the 13 companies were recruited for interviews. They were offered two benefits for participating in the interview study. First, they were offered a summary of the findings of the project. Second, participating companies were offered a discussion session of the findings. All thirteen companies agreed to participate in the study and agreed to an interview.

All but two of the interviews were conducted in August, 1993. One interview was conducted in July and a second in September, 1993, because the interviewees were both in China in August. On average, each interview lasted for about an hour and half. One company was interviewed twice for a total of two hours. The executive of this company was very experienced in doing business in China, and was very receptive to this study.

Three companies were eliminated after interviewing, two of which being companies using equity joint ventures. This was based on several considerations. First, the two equity joint ventures seemed to be in the most preliminary stage of joint venture formation, and had little to contribute to this study. Second, the other company was almost inactive in the Chinese market at the time of interview, and the reasons could not be tracked down. The interviewee claimed that he did not know.

This process left ten companies from which this study collected its data. Table 2.3 listed these ten companies by their entry strategies and financial performance. The identities of these companies were protected as a condition of the interview. Each was given a number, so that company number 1 to 10 represented the 10 companies interviewed.

Table - 2.4 Companies Being Interviewed and Their Performance Using the Average Additive Performance Measure

	High Performance	Low Performance
Direct Export	Company 1 - \$6,675	Company 2 - \$5,163 Company 3 - \$4,964
Contractual Joint Venture	Company 4 - \$16,392	Company 5 - \$0,016 Company 6 - \$0,180
Equity Joint Venture	Company 7 - \$0,236	Company 8 - \$0,000
Wholly owned	Company 9 - \$31,313	Company 10 - \$14,607

2.4 COMPANY PROFILES

2.4.1 Company Sizes

As shown in Table 2.5, all the companies studied were small to medium sized firms with total annual sales ranging from less than \$2 million in annual sales to more than \$100 million. Ideally, comparison should be made among companies of similar sizes. Due to limitations discussed earlier, this was not feasible for this study. However, the performance index developed earlier allowed this study to compare performance differences among companies of different sizes, as the effect of the size was already taken out.

Table 2.5 - Company Sizes

Co.	Number of Employees	Annual Sales in 1992	Percent of Sales From the Chinese Market
9	< 100	<$2 million	26% - 50%
4	251 - 500	$51 - $100 million	1% - 25%
10	1,001 - 5,000	> $100 million	1% - 25%
1	501- 1,000	> $100 million	1% - 25%
2	< 100	$6 - $20 millions	51% - 75%
3	101 - 250	$51 - $100 million	1% - 25%
7	<100	$6 - $20 million	1% - 25%
6	251 - 500	$6 - 20 million	1% - 25%
5	1,001 - 5,000	>$100 million	1% - 25%
8	<100	$6 - $ 20 million	1% - 25%

2.4.2 Type of Businesses Involved

The diversity of the companies included in the study suggested that the sample of companies might be representative of the activities of British Columbian firms in China. As Table 2.6 showed, the business interests and activities of these companies in China included:

- ♦ primary resource based industries such as forest products and fresh seafood produce;
- ♦ hi-tech industries such as telecommunication equipment, technology and transportation technology;
- ♦ resource development technologies in both pulp and paper production and the mining sector;
- ♦ engineering and management consulting;
- ♦ basic low technology based production for the local market.

Table 2.6 - Type of Businesses Interests in China

	Entry Strategy	Primary Business Activities in China
1	Direct Export (to China)	Marketing overflow forest products from other major Asian market such as Japan to China from Vancouver. The company has been using mainly distributors up to now, but is in the process of setting up sales offices in China.
2	Direct Export	Marketing a package of product and consulting services to the mining industry in China. The company is currently in the process of setting up a joint venture in China.
3	Direct Export	Promoting and organizing shipment between China and Canada from Vancouver port. The company is also in the process of setting up a services office in China at the time of the interview.
4	Contractual Joint Venture	Marketing a package of chemical technology, management expertise and training in the pulp and paper industry to the Chinese through contractual agreement.
5	Contractual Joint Venture	Marketing graining storage and handling expertise and engineering consulting contracts in China, including design and build grain elevators
6	Contractual Joint Venture	Providing system integration (on technology and consulting services to the Chinese to help upgrade their transportation and telecommunication systems
7	Equity Joint Venture	Joint venturing with the Chinese to market Vancouver fresh seafood to the Chinese market.
8	Equity Joint Venture	Joint venturing with the Chinese in China to produce low-tech products for both local and export market in the Asia Pacific Region.
9	Wholly Owned	Providing management consulting services to both Canadian and Chinese companies in China through three local offices located in different parts of China.
10	Wholly Owned	Marketing telecommunication equipment and technology to the Chinese customers through two sales subsidiaries in China.

CHAPTER THREE: DATA ANALYSIS - COMPARISON AMONG ENTRY STRATEGIES

When the companies were ranked by both their entry strategies and financial performance, some interesting observations were apparent. As Table 3.1 showed, despite performance variation within each entry strategy, entry strategy itself appeared to be a key performance factor. With the exception of Company 4, the level of performance achieved by a company could almost be predicted by the entry strategy it used to enter China.

Table 3.1 - Sales Performance ($000) Ranked By Entry Strategy

Performance Level	Entry Strategy	High Performance	Low Performance
High |	Wholly Owned	Company 9[1] - $31,313	Company 10 - $14,607
| |	Direct Exports	Company 1 - $6,675	Company 2 - $5,163 Company 3 - $4,964
| | |	Contractual Joint Ventures	Company 4 - $16,392	Company 5 - $0,016 Company 6 - $0,180
| Low	Equity Joint Ventures	Company 7 - $0,236	Company 8 - $0.000

Furthermore, it seemed that the four entry strategies formed a performance continuum with the highest performing companies being those using FDI strategy and the lowest using equity joint venture strategy. In between were companies using export strategy and contractual joint venture strategies. This continuum was illustrated in the following Table-3.2.

Though interesting, this performance pattern raised three questions:

- would this pattern be typical of all Canadian companies doing business in China? If yes, what caused such performance variations among companies using different entry strategies?

[1]. The companies will be referred to by their number hereafter.

Table 3.2 - Performances Vs. Entry Strategy

	Highest	Medium High	Medium Low	Lowest
Wholly Owned	**Yes**	--	--	--
Export Sales	--	**Yes**	--	--
Contractual Joint Venture	--	--	**Yes**	--
Equity Joint Venture	--	--	--	**Yes**[2]

- ♦ why was this pattern against conventional belief that companies using equity joint ventures would have higher performance than companies using contractual ventures and direct exports though joint venture failure rates have always been high?

- ♦ if companies using joint ventures had lower performance than those using direct export, why would any company use this joint venture when it could use export and achieve better performance with less risk?

The first question is beyond the scope of this study. It would require a similar study of companies from other parts of Canada to determine the applicability of this finding. To answer the other two questions, this paper will turn to the companies themselves for answers. Specifically, the following issues will be examined:

- motivation for choosing the entry strategy;
- management related issues of each entry strategy;
- flexibility and control of the company in China;
- cooperation and leadership needed to deal with the Chinese;

3.1 Selection of Entry Strategies

These companies entered the Chinese market for basically the same reason: to take advantage of the fast economical growth and potentially large market of 1.2 billion people. Table 3.3 revealed this clearly.

[2]. Abramson and Ai (1994) found that equity joint ventures achieved higher sales performance in China than did the companies in this study. In fact, in the nation-wide study, it was found that companies using equity joint ventures had higher performance than those using contractual joint ventures and or a China-based distributor export strategy. The performance of the equity joint venture companies in this study may have been lower than average due to their smaller sizes and lack of international experience.

The Chinese, on the other hand, encouraged foreign investment in China to help the country upgrade its production facilities and increase the country's ability to compete on the export market. China had to find a way to pay for the imports of foreign equipment and technologies to achieve these objectives. The country planned and achieved this by encouraging exports, particularly from foreign invested companies. A potential conflict was created between the Chinese foreign companies trying to do business in China. While almost all foreign companies were primarily interested in the Chinese market, the Chinese were more interested in exporting. The impacts of this conflict will be seen later in the section on negotiation between the Chinese and the Canadians.

Table 3.3 - Primary Reason For Doing Business in China

Co.	Primary Reasons for Entering the Chinese Market
1	• Large and under-developed market for telecommunication products
2	• Large and underdeveloped market for the products and expertise the company can offer; • Little competition from anywhere; strong competition in other markets
3	• Large and under-developed market offers good potential to the corporation
4	• Large and underdeveloped market for pulp and paper related products
5	• China is the largest market for agri-food products; the company has a sellable product sought after by the Chinese
6	• Large and underdeveloped market
7	• Large potential market for fresh seafood as a result of increasing living standards
8	• To take advantage of the large market potential afforded by the open door policy
9	• Large and increasing trade flow between the two countries
10	• The large market potential for the company; local and other export markets are very slow

Most of the Canadian companies interviewed believed that the decision of their entry strategy was based on a number of factors. First, it depended on the nature of the business. One company executive of an exporting company declared that "export is the best way of doing business in China for us. The Chinese market is so unpredictable for us, and we could not make any long term commitment to that market." In fact, direct export to China was a way of "protecting ourselves from getting burnt in that market.".

Second, it depended on the company's evaluation of the business environment in China. "Given the situation in China, this is the best way for us to do business in China", was the comment many interviewees made about their decision on entry strategy.

Finally, it also depended on the company's experience. One joint venture company's executive admitted "we wanted to use this (strategy) to learn about doing business in China. As we learn we will move on to other ways of doing business there.".

All the companies interviewed had been approached by the Chinese about setting up equity joint ventures in China. Very few of these requests resulted in actual joint ventures in China. The companies seemed to know that joint ventures with the Chinese were losers despite the pressures of the Chinese government and the various consultants[3] to persuade them to use joint ventures. For companies involved in joint ventures, the decision appeared to be a business decision based on their evaluation of each strategy. The following sections will examine company-specific reasons for entry strategy selection.

3.1.1 Direct Exports

In comparison to companies that used other entry strategies such as wholly owned operations, companies that used **Direct Export** to enter China had smaller performance variations. These companies in general had a number of things in common, including those related to their business practices.

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[3]. There were quite a number of consultants at the CCBC meeting strongly advocating the use of joint ventures in China.

First, each company had at least one individual who truly understood the Chinese culture, and who travelled in China a number of months each year. This individual could be a Chinese national or a Canadian who had strong interest in the Chinese culture and the Chinese market. Further, these individuals had been working in the Chinese market for at least 10 years. One individual had been working with the Chinese market for about 15 years. The companies were able to develop connections with the local Chinese, learn about the Chinese business environment and how they do business[4] during these years.

Second, each company had hired third party intermediaries to help with developing and servicing the Chinese market. These intermediaries could be domiciled in Canada, China or Hong Kong. Furthermore, these intermediaries all had representatives working in China. These intermediaries played some common roles:

- to help service existing clients;
- to act as liaison between the company and the Chinese market;
- to provide local intelligence about potential Chinese customers such as spending limits and key decision makers before and during negotiation;

Third, while all three companies stressed the importance of using agents or brokers, they were all in the process of establishing some local presence. Company 4 was negotiating an equity joint venture with a Chinese manufacture to produce for the Chinese market. The other two companies were planning to set up their own sales operations in China. This was mainly because:

- the Chinese market was becoming more important to the companies and they wished to have some direct control over it;
- the Chinese market was growing too fast, and the agents or brokers could not cope with the demand;

[4]. Chapter 6 will be discussing the issue of learning in greater detail.

- the companies wanted to be closer to the end buyer.

Fourth, all export companies believed that doing business in China was a long term commitment, rather than simply an opportunity to take advantage of the short term economic growth. This was however in conflict with their short-term commitment to the Chinese market.

Fifth, there was an agreement among these companies that the Chinese market preferred to buy packaged products. For example, selling a package that included products, service and training for the Chinese on how to use the products was much easier. Sometimes, the supplier also had to help their buyers to set up other supporting systems so that they could use the products that they were buying from the Canadian company.

Sixth, they all believed that direct export was the best strategy for the companies due to a number of considerations:

- the Chinese market was unpredictable for the company, so that the company could not make any long term planning;

- it reduced the costs of doing business in China by not having a local office in China. This was particularly important to the company in light of unpredictable sales volume in the Chinese market;

- it gave the company enough flexibility over its business in China as the company would not have to rely on others that much for the business.

Finally, all three companies had adopted a business policy toward the Chinese market that was flexible enough to allow for frequent adjustment that policy changes in China required. Furthermore, each company had an executive in charge of the Chinese market.

A summary of these companies' evaluation and reasoning for using a specific strategy was provided by Table 3.4. In summary, companies that used direct export to penetrate the Chinese market believed that this was the best strategy for them due to the unstable market and lack of control the company had in the business environment. This strategy allowed them to reduce the amount of risks and uncertainty they were exposed to in the Chinese market. There had been strong indications that as the companies became more established in the Chinese market, they were more willing to take on greater stake in the Chinese market. In fact, two of these companies were in this process, with one company trying to set up a joint venture and the other company in the process of setting up two wholly owned operations in China.

These companies viewed the Chinese market as important to the company but it was seen as unpredictable. Before the market became stable and reliable for the company they were unwilling to make any further commitment to the Chinese market. "We do not have to go through that much hassle this way as we have total control of things," Company 3 discovered. "Unless we could no longer compete successfully this way, we would continue our current strategy." revealed another export company.

Table 3.4 - Major Areas of Concerns and Reasoning for Using Export to Enter China

Area of Concern	Evaluation	Advantage of Using Export Strategy
Culture Difference	• large and difficult to close	• minimized by working with only people with Guanxi;
Foreign Exchange & Currency Inconvertibility	• A main problem for some entry strategies such as joint venture	• Not a problem for the company since all transactions are in hard currencies
High Cost Of Doing Business in China	• a main problem if the company has to provide training to local employees and local offices;	• Reduced as little training is required and no overhead expenses in China
Uncertainty including potential political instability	• A major concern if the company is located locally	• Minimal as the company has the flexibility and full control over its business in China when needed.

There had been signs that export companies began to move into other entry strategies. For example, at the time of interview, Company 2 was actively negotiating an equity joint venture with a well established Chinese partner in Southern China.

At the same time, Company 1 was preparing for opening two sales offices in China. As will be discussed in 3.1.3, this tendency seemed to suggest that Canadian companies tended to believe that joint venture would be a more appropriate strategy after the company acquired enough confidence and knowledge about the Chinese market. It further suggested that although joint venture might not the appropriate first entry strategy for small inexperienced firms, it might be more suitable for experienced firms.

3.1.2 Contractual Joint Ventures

Similar to their performance differences, the three companies that used **Contractual Ventures** to enter China varied greatly from their evaluation of business strategy to business practice to performance. One the one hand, Company 4 was extremely experienced and successful in China. In fact, its performance ranked the second highest among all the companies interviewed. On the other hand, there were two companies who had little prior experience in international business and their performance in the Chinese market was very low. Other than the entry strategy, Company 4 shared very little in common with Companies 5 and 6.

Such performance differences among companies using contractual joint ventures seemed to suggest that entry strategy was not the most accurate performance predictors for these three companies. Perhaps there were other factors such as learning that had important impact on the performance in the Chinese market. Chapter 5 will be discussing this issue further.

3.1.3 Equity Joint Ventures

This study found that all the companies interviewed had been approached by the Chinese during initial business negotiation to set up some form of joint venture in China. Only two[5] went with this strategy, but at their own discretion. These two

[5]. See Footnote No.3 in Chapter 2.

companies had a number of things in common.

First, they did not feel comfortable to take on the Chinese market all by themselves. One manager reported that "It is too much hassle to deal with the Chinese", so they relied on their Chinese partner to deal with the Chinese system. Second, it took them two to three times longer than they originally expected to achieve anything. "Our original plan was to recapture our investment within two years," revealed one company, "as the project did not require much investment. But it has taken us more than three years now, and we might be able to do so in four years."

Third, these companies were much smaller in sizes and had little international business experience. Both of the companies were small with less than 30 employees in their Head Offices in Canada. Furthermore, their business scopes were also limited. Despite the potential biases caused by the limited number of cases studied, one could not help wondering why only the smaller inexperienced companies were more interested in using equity joint venture.

Finally, these companies believed that equity joint venturing with the Chinese offered the Chinese stronger incentives to cooperate with the Canadian companies. "Being part of the ownership would make the Chinese feel that they are part of it too, so that they would be equally interested in making the project work," conceded one joint venture manager.

As discussed in 3.1.1, two of the companies using exports to enter the Chinese market were in the process of forming equity joint ventures with the Chinese. Perhaps the more experienced companies or companies with more resources were more aware of the potential pitfalls of using equity joint ventures than small inexperienced companies. Alternatively, perhaps the small inexperienced companies had few other options to do business in China, as they had neither the resources nor experience to do it on their own?

3.1.3.A Rationales For Having A Local Partner

Given the low performance these companies had achieved in the Chinese market, what motivated these companies to enter joint ventures with the Chinese in the first place? There were a few very distinctive reasons for doing so. First, it was believed that the local joint venture partners would help reduce the number of risks associated with doing business in China. These risks were direct result of

- lack of international business experiences for Canadian companies, resulting in uncertainty about Chinese business environment and business practices;

- uncertainty about the Chinese market. None of these companies seemed to know much about the Chinese market when deciding doing business there;

- limited financial resources available to develop the Chinese market. As discussed, both companies were small. By going to the Chinese market, they were taking a huge step.

- high cost. In an extreme case, the Chinese partner of a contractual joint ventures requested to have 70 people trained in Canada per month. They were not asking the Canadians to pay for the cost of such training. The cost would come from the budget of the total contract. As the Canadian company was supplying the equipment and technology, the more the Chinese spent on training, the less would be available to buy from the Canadian company. In this particular case, the Canadian company was able to bargain down the number to about 20!

A local business partner not only lent a hand to these companies in that market, but also reduced the amount of investment needed to enter the Chinese market. "The Chinese system is too complicated for foreigners to figure out," said one joint venture executive, "Even with the Chinese partners, it is still hard to navigate the Chinese system. Without them? It is unthinkable for us.". "We could use an agent or broker," said another executive, "but we would never know if he is working for us or for himself.". "Making the Chinese part of the venture would give them more incentive to make the project work better."

Second, joint venture was a result of increased confidence in the Chinese market. As discussed, one of the direct export companies was in the process of actively negotiating a joint venture with the Chinese to produce locally. But as they learned how to do business in China and established a stable clientele base, they were willing to set up some production facilities in China to serve the local market. In words of one company executive, a joint venture with the Chinese would allow the company to

- Be more competitive in the Chinese market. The Chinese market is getting more competitive as more foreign investment pours in. Direct exports from Canada are no longer adequate because of high production and transportation cost. "The company needed to lower the production and transportation costs to maintain competitiveness.".

- Access to local costumers who do not have hard currency. The lack of foreign exchange and hard currency were still problems for many Chinese businesses. "If business transactions could be conducted in the soft local currency," conceded one company executive, "we would be able to triple our sales in the Chinese market alone".

- Add complementary product line and markets to existing ones. "The Chinese partner is bringing a line of products with established markets in China to the joint ventures. The products from this joint venture enable the Canadian company to offer a complete product package".

These companies believed that the Chinese were benefiting from joint venturing with Canadian partners in a number of ways. According to the companies interviewed, the Chinese could:

- Gain access to international markets with the help of foreign investors. Most Chinese companies were rather inexperienced, or had no experiences at all in international marketing. They were hoping that Canadian partners would help them develop both foreign markets and marketing expertise.

- Allow them to gain access to management expertise and skills that could help them upgrade their own. Learning Western management style was important to the Chinese as the Chinese productivity was relatively low compared to Canadian companies.

- Enable the Chinese to gain access to advanced technology and foreign investment.
- Earn foreign exchange through exporting joint venture products to international markets.

3.1.3.B Rationales For Not Using Joint Ventures

The reasons for not using joint ventures were several fold. First, some companies conceded that this was not an appropriate strategy because of the nature of the business. What they were marketing in China was more like a commodity, and had nothing to do with advanced technology. Grains, wood and lumber sales, and pulp and paper were such businesses. It seemed that the closer the business was related to primary resources, the less would the companies use joint venture to market internationally, perhaps due to higher degree of uncertainty of such projects.

Second, a number of companies that did not use joint venture because the company "could not stand the amount of hassles" related to joint ventures. The Chinese business environment was hard to predict, they did not want to get stuck there. Perhaps these companies were more concerned about the short term prospects of doing business in China, and were not prepared to fully commit themselves over long term.

Third, some companies reasoned that the timing of using joint venture was not yet right for the company. They just had not found the right project, or the right partner to work with. The Chinese Joint Venture Law required the project be able to balance its foreign exchanges over the life span of the project. This meant that a large enough portion of the joint venture production had to be exported. Often the Canadian partner would have to find new export markets single handedly, as the Chinese were inexperienced in international marketing. Many companies confessed that they were there mainly to take advantage of the growing local market, not to use China as a base for exporting.

3.1.3.C Possible Reasons For Low Joint Venture Performance

Given such advantages of using joint venture, why did Canadian companies using joint ventures to enter China have such low performance in comparison to companies using other entry strategies such as direct export? It seemed that several explanations were plausible.

Goal Conflicts The Chinese enterprises were primarily concerned about upgrading themselves and earning foreign exchange through export. By forming joint ventures with foreign investors, the Chinese were able to

- gain access to advanced technology and equipment;
- gain access to capital;
- gain access to management skills;
- obtain personal benefits such as travel and training.

The Canadian partners, on the other hand, were more interested in the Chinese market. Of the 13 companies interviewed, only two were actively engaged in equity joint ventures. These companies were small and the amount of capital they brought to China was quite limited. Further, neither of them were involved in high technology transfer. Finally, both companies were extremely unwilling to offer training to the Chinese, and none had any expatriates working in China. In short, there seemed to be a lack of commitment among these companies to the Chinese market. It would thus be reasonable to believe that some of the frustrations that these two companies experienced in China was caused by such conflict.

These conflicts might be responsible for some of the problems in doing business in China. The conflicts between the joint venture partners became quite obvious since:

- neither of the two equity joint venture companies brought with them any advanced technology or equipment, nor much capital.

♦ neither had any expatriates working in China, no were they willing to provide any training to the Chinese. As such the Chinese had very little access to their management skills.

♦ both joint ventures were primarily targeted at the domestic market rather than exporting, thus limiting their chances of earning foreign exchange and not satisfying a key Chinese expectation.

Lack of Complementing Competitive Strength Neither of the partners brought contributions that the other partner valued extremely highly, weakening the foundation upon the joint venture relationship was built. "The Chinese partner was not contributing to the joint venture as expected. We overestimated the Chinese capability in the areas of marketing and managing a joint venture.", one joint venture executive explained.

For the Chinese, none of the joint ventures that Canadian companies invested in brought advanced technology or planned for export, both of which were important to the Chinese partners. As discussed, all the companies were primarily interested in China market, including the equity joint venture companies. While Company 7 had been marketing perishable Canadian seafood produce in hotels and restaurants in China, Company 7 was marketing a low-tech metal based product in China. Large amounts of foreign exchange had to be provided by the Canadian parents to balance the needs as none of the joint ventures exported anything to other international markets.

Lack of Experience and Resources One noticeable trend was that newcomers were more inclined to use joint ventures to enter the Chinese market than companies that started earlier. Of the 5 joint ventures (including contractual joint ventures) companies, 4 started to do business in China within the past 4 years and all had very low performance. The question was why companies started during this period were more inclined to joint venture to do business in China.

The relaxation of this requirement might be a good indicator of the investment environment in China. On the one hand, the Chinese have become more confident and at ease about letting foreigners take more or full control of Chinese operations. On the other hand, foreign businesses are also interpreting this positively: joint venturing with the Chinese is an option, but not the only one any more. One company executive summed this up nicely "When joint venture was the only form of foreign investment in China, companies were quite reluctant to do so because it was forced upon us. Now that the ban is lifted, companies are feeling more confident about doing joint ventures with the Chinese, at our discretion."

However, none of the companies using equity joint ventures interviewed had much experience in international markets, let alone China. Both of them had virtually no prior knowledge about or experience in the Chinese market. On the one hand, the Chinese partners relied on the Canadian partners to provide coordination and key management leadership. The Canadian partners' lack of experience limited the amount of contribution their could make in this area. On the other hand, the Canadians relied on the Chinese partners to take care of the Chinese market. The latter being inexperienced in basic management and marketing, were unable to effectively take charge of the operation. In the end, both partners suffered from their inexperience.

Further, none of the joint ventures were willing to hire an independent manager (not just the marketing manager, but someone in charge of the joint venture altogether) due to cost considerations. What this seemed to indicate was that the combination of two inexperienced companies did not make the combined unit stronger than the parents. The joint venture could only be as strong as the parents' experiences and resource would allow it to be.

Lack of Ongoing Commitment This study proposed earlier that **companies that relied on their Chinese partners or intermediaries to take full**

responsibility for harnessing the Chinese business environment were more likely to have lower performance (P4.1c). This was strongly supported. Though the Chinese partners or intermediaries should be accountable in their area of expertise, some Chinese were not fully qualified in their areas of responsibility. In the words of one experienced executive, "you cannot leave it all to them. Sometimes they do not what they are doing or how to do things" In a way, the low performance among companies using joint venture was attributable to the Canadian partners' over reliance on the Chinese partners.

In summary, the Chinese had been much keener than Canadians to attract foreign investors to set up joint ventures in China. But only a small percentage of Canadian companies yielded to such requests. Among companies that used this strategy, performance in the Chinese market was quite discouraging. The following Table-3.5 summarized why some Canadian companies used joint venture and why their performance was so low.

Table 3.5 - Why Canadian Companies Used Joint Venture and Why Did They Fail?

Areas of Concern	Evaluation	Why Was the Joint Venture Failing?
Culture Differences	Large, difficult to close gaps.	It was too slow to get things done in China.
Foreign Exchange	Extremely important for both the Chinese and Canadian.	The joint venture was generating little or no foreign exchange at all.
High Cost of Doing Business in China	Very important as the operation is in China.	Too many hidden and unexpected costs, make the budget run over its limits.
Training & learning opportunities	Extremely important to the Chinese.	Canadian partners were unwilling to provide.
Technologies and management skills	Important to the Chinese.	Canadian partners were not providing either of these.
Management Skills of the Partners	Important to the success of the joint venture.	None of the partners had much experience or skills needed to manage the joint ventures.
Other Synergy Effects	Important to make the bond stronger.	There was no synergy effects brought togethcr by the partners.

3.1.4 Companies Using Wholly Owned

It was found that the Canadian companies using wholly owned to enter the Chinese market had a number of things in common that helped differentiate their performance from companies using other entry strategies. First of all, these companies all had extremely experienced people working for the company. The people in charge of the Chinese business had been in the Chinese market on average for more than 10 years. Both executives had lived and worked in China before.

Second, they had developed a wide spread network of people within China who could be called upon if needed in negotiating a business deal. "We have set up a large network of people in the Chinese market that we consider very valuable to us." said one company executive.

Third, these companies attracted high quality people from their former business acquaintances in China. These local employees were experts in a specific area such as mining or telecommunication, or people with network or connections in China. "They help us to get around in China, because they know best who to talk to in China." This was related to Proposition P3.4a which would be tested thoroughly in Chapter 5.

Fourth, they all had strategically located local offices in China. For example, one company had offices in Guang Zhou, Shanghai and Beijing, which are areas of fast economic growth. The location of the local office appeared to be particularly important to the performance of these companies. For one company, its local office in Beijing helped it to solicit business in another Southern city. "Our customers in Beijing have done a lot of free advertising for us", revealed one company, "The Chinese are all connected to each other one way or the other." The other company had just opened a new office in the northern City of Harbin, where the trade volume going to and from neighbouring Russia, Korea and Japan had become quite heavy.

To companies that selected wholly owned as their entry strategy for the Chinese market, this strategy was the best suited for their line of business. As discussed earlier, none of them was involved in manufacturing or production in China. Company 9 was involved mainly in servicing companies that were engaged in cross-border trade between Canada and China. Company 10's activity in China was primarily marketing, their offices in China served as sales subsidiary for the Company. If they were manufacturing in China, their concerns might be different from what they had now. For example, they might become more concerned about raw material and labour costs.

Further, the amount of experience and learning these companies had about doing business in China could be another reason for selecting this strategy. While Company 9 started with small scale contractual projects in China, Company 10 started with direct export to Chinese. Both companies moved to the current business strategies as their evaluation of the Chinese business environment changed. "The local operation allowed us to be in touch with our clients 24-hours a day." said one company executive[6], "One needs that kind of availability to do business in China, as a deal could be at the most unexpected time.". As the following Table 3.6 summarised, these companies evaluated the Chinese business environment differently from companies that used other entry strategies.

Apparently, these companies viewed the Chinese business environment as less threatening than companies that used other entry strategies. This explained why they used the entry strategy that other companies might view too as threatening to use. Finally, this strategy afforded these companies full control of their business in

[6]. The importance of service was confirmed at the CCBC meeting.

China. "There is only one boss, this is us," said one executive, "we have control over our budget and actions to take if the budget is overrun." "We do not believe in too much cooperation, it is very time consuming.".

Table 3.6 - Environment Evaluation and Business Strategy For Companies Using Wholly Owned Strategy

Areas of Main Concern	Evaluation	How Did the Company Deal With It?
Culture Difference	Large but manageable	• Both companies had executives who were extremely fond of the Chinese culture; • Hire local Chinese to bridge the gap.
Foreign Exchange	Extremely Important	• Help the Chinese apply for funding.
Quality of Local Employees	Very Important	• High quality local employees are available • Higher pay to attract quality people.
Training Needs for the Chinese	Extremely Important	• Written into the employment contract for the Chinese employees to get training in Canada; • Very good motivational tool.
High Cost of Doing business in China	The cost is reasonable	• Hiring as many local Chinese as possible to lower the cost.
Expatriates	Not critical	• None of the operations required full time expatriate to be stationed in China; • Each company had an individual who spent about 6 months out of a year in China.
Others Such As Navigating the System	Very Important	• Connections and Local Employees help to do it.

It seemed that this strategy had paid off. Compared to companies using other entry strategies, these companies as a group were more successful than companies using other entry strategies. Furthermore, their experience, strategy and practices were mainly responsible for that success.

3.1.5 Summary

In summary, the risk of doing business in China is high due to high uncertainty and lack of control over the business environment. From an investor's point of view, the amount of risk increases gradually from direct export sales, to contractual joint ventures (including licensing and franchise), to equity joint venture and wholly owned. Based on this assumption, the number of companies using direct export sales, contractual joint ventures, equity joint ventures, and wholly owned (wholly owned) should decrease respectively. This is confirmed in a separate study by Abramson and Ai. Among Canadian companies that do business in China, 85 percent started with direct sales, about 12 percent started with joint venture (both contractual and equity). The rest used combinations of entry strategies, and virtually no one used wholly owned operations.

The selection of the entry strategy reflected the company's assessment of the Chinese business environment and market potential. Depending on the nature of the business and the scope of their interests in the Chinese market, the following measures are often taken:

- Limiting the amount of investment and attachment to the Chinese market. Rather than having a plan for the Chinese market, the company simply does its best, hopes for the best but prepares for the worst;
- Limiting all transactions to hard currencies (Canadian or US dollar) only;
- Hiring local intelligence and intermediaries to do the necessary homework before getting into negotiation.
- Maintaining a flexible management structure to accommodate frequent changes of Chinese policies pertaining foreign investment in China. This means that the company does not make any assumptions about the Chinese market. Rather, it would maintain close contacts with the market and adjust itself accordingly.

3.2 Flexibility and Control

The essential difference between companies that used wholly owned and companies that used joint ventures to enter China lay in the amount of control and flexibility the companies had over their China businesses. Since companies involved in wholly owned and direct exports have a more independent position in the Chinese market, they do not need to consult with other partners in their decision making. If the changing situation in China required changes in business practices, these companies could make the necessary adjustments without much delay. Both flexibility and control are of particular importance to Canadian companies doing business in China because the Chinese business environment is characterized by frequent policy changes.

Cyclical tightening of foreign exchange controls imposed by the central government, and changes in labour law and pollution control regulations made it harder for foreign companies that were not flexible. Companies needed the flexibility to adjust their business strategies to absorb the shock of each policy change.

One export company's executive confessed that they did not have a plan for the Chinese market. "It is impossible to have a plan, because the environment changes very fast. We have to adopt ourselves to the ever changing environment". It was baffling that the company did not have a plan given the constant and rapid change in the Chinese business environment. Perhaps the company did not have a too rigid plan due to the unpredictability of the environment. Instead, the plan had enough flexibility to absorb the effects of such frequent changes.

At the same time, the ability to control the China operation is also very important. When the environment calls for changes in business practices, the company does not have to wait for someone else's approval to make any adjustment. wholly owned companies enjoy a double advantage here. First, because they are investing in the local economy, rather than simply marketing to the local market, they may be perceived more positively by the Chinese than direct export companies. Second, as an wholly owned company does not need to consult other companies in making decisions, it has full control over its China business. "This is the most important issue, we could not share the control and management of our business with others. This is what made us successful."

Joint venture companies, on the other hand, do not have such flexibility. A joint venture company does not have full control over its situation because of its local partners, who are from outside of the company. Business decisions are often reached through open discussion and negotiation. Such a decision making process is not only time consuming, but often leads to compromises which may not be the best business decision to make in a given situation. "Initially, they wanted to have 70 people trained in Canada," said one contractual joint venture manager, "but we could not possibly do that. We agreed on 30, but they were not too happy about it.".

Take the issue of hiring and firing of local employees as an example. The Chinese partner was often in charge of hiring local employees. They might "pluck" someone from their current post and put them into the joint venture. The people who get the job may not be the most qualified.

The issue of control is extremely important for Canadian companies involved in joint ventures with the Chinese. One joint venture company executive revealed that "we have to have control over the operation of the joint venture, the Chinese were not too clear about what they are doing, or what they need to do, particularly in the area of marketing."

Cultural differences in the perception of time might be another cause for delay and frustration. There was a commonly shared frustration over the "slowness" of things in China. "Time means nothing for the Chinese," one frustrated China Project Manager stated, " they have no rush to make any decision... at least they make it appear that way." Again, joint venture companies experienced more frustrations as they has to continuously deal with their Chinese partner which the Canadian partner had little influence or control over. To make matters worse, the Chinese seemed to have double-standards toward time. "They could take forever to reach a decision. Once they made their decision, they expect you to make your decision in that minute."

This was a common observations among the companies interviewed. Again, Canadians had no control over how the Chinese made their decision, but they wanted to influence "us" on "our" decision.

3.3 Coordination and Leadership

Since companies using wholly owned have full flexibility and control over their business in China, they could cherry-pick the most qualified Chinese locals to work for the company. To make these employees productive, the company needed to coordinate their efforts. In other words, the company must provide the employees with the necessary training and leadership.

In contrast, companies using joint ventures may not have luxury of hiring the most qualified people (skilled and sharing company values such as "striving for excellence"). Since joint venture companies do not always get the employees they want, it usually take them longer to train and coordinate the efforts of the employees. It took one joint venture company a long time to learn to say "no" to the Chinese employees' belief that "this is the way things are in China, and this ought to be the way we do things here.".

Getting the Chinese partners to cooperate in carrying out the business was more difficult than it sounded, the companies discovered. Since the Chinese partners shared the ownership and control of the joint venture, they were less likely to back down on their demands, and less easily willing to agree on things with Canadians. Furthermore, the Chinese were in general more reluctant to take any responsibility. One joint venture executive accused the Chinese of "not sharing..., when there is a problem, it is your problem, not ours, the Chinese".

3.4 Summary and Proposition Testing

The entry strategy a Canadian company used to enter the Chinese market provided a good indicator of the level of performance this company would be able to achieve in the Chinese market. This study proposed earlier that **companies that**

were deeply concerned about the stability of the Chinese environment were more likely to use less risky entry modes such as export (P3.5). This proposition was supported in this study. In general, companies using wholly owned and equity joint ventures were more confident about the Chinese business environment than companies using other entry strategies.

This study also proposed that **Canadian companies were more willing to use joint ventures and wholly owned strategies in China than before (P3.7b).** This proposition seemed to be supported, as more export companies and contractual joint venture companies were in the process of moving to equity joint ventures and wholly owned operations. Table 3.7 summarised the testing of propositions relevant to this Chapter.

Table - 3.7 Results of Propositions Testing

Proposition	Testing Results
P1b: Canadian companies using wholly owned to do business in China would have the highest level of performance, followed by equity joint venture, contracture ventures and exports.	Partially supported. Companies using wholly owned had the best performance, but this was followed by exports, not equity joint ventures.
P2a: Canadian companies that invested in joint ventures without such synergy effects would have lower performance than those with such effects.	Supported.
P2c: Joint ventures with the Chinese were the only way for some Canadian companies to gain access to the local Chinese market which was otherwise closed to Canadian companies.	Partially supported. Though none of the companies was forced to use joint venture, their lack of experience and resource may make them feel they have few other choices.
P2d: Joint ventures with the Chinese were more effective ways for transferring technology to China than direct exports and wholly owned operations.	Untested, since none of the companies using joint venture involved high technology.

As noted, some of the propositions related to Canadian companies using equity joint ventures to enter the Chinese market such as **P1b** were not supported. The sizes of companies studied seemed to be accountable for this. However, it could also mean that existing theories about international business, particularly on equity joint ventures did not apply for Canadian companies doing business in China, pointing to the need for theory development for Canadian companies doing business in China.

In addition to entry strategies, there appeared to be some major differences between companies using different entry strategies. Table 3.8 provided a summary of the major differences among companies using different entry strategies.

Table 3.8 - Main Differences Among Companies Using Different Entry Strategies

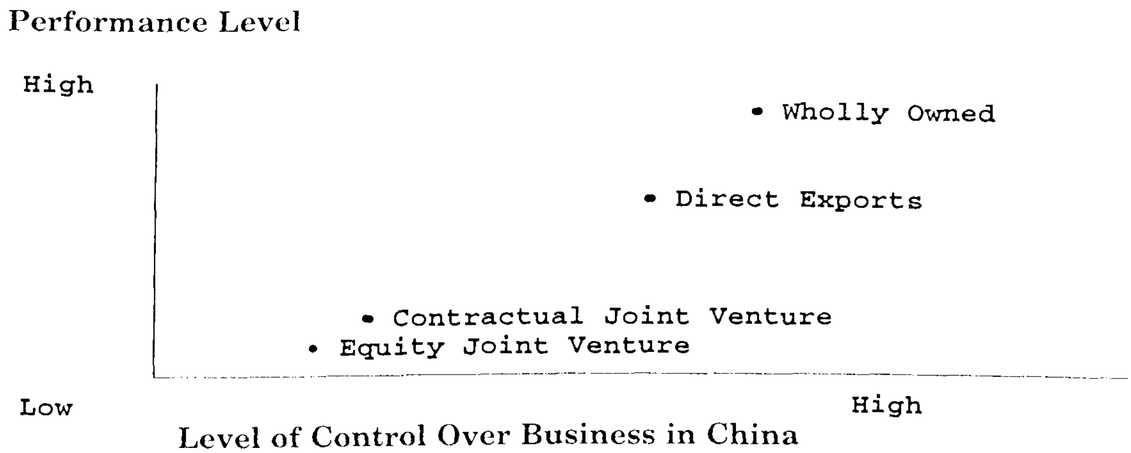
Entry Strategy	Company's Main Business Practices
Wholly Owned	**Highest level of performance** • 100% ownership so that the company could be flexible and able to adopt to changing situations in the Chinese market; • Full control of the operation to reduce the amount of time wasted working with other people; • Hire experienced people to work in the China offices.
Direct Export	**Relatively high level of performance** • No investment in China, the changing business environment only means changes in sales volume; • Very flexible in both planning and organization structures; • Hire experienced and knowledgeable agents or distributors to help maintain ongoing contacts with customers; • All three companies are in the process of setting up a local operation in China at the time of interview.
Contractual Joint Venture	**Performance is low**[7] • Have to work hand in hand with another partner which may not share the same business philosophy or strategy; • If the company had experienced people who understands the Chinese culture and knows how to do business in China, the business is likely to be successful. Otherwise, it could be disastrous. • Take much longer to reach decision than companies not using joint ventures.
Equity Joint Venture	**Lowest performance among all the companies interviewed** • Have little control of the way things are running in China; • Partners not as capable as expected, causing dissatisfaction; • Payback period longer than expected.

Against the conventional belief that equity joint ventures would have higher performance than contractual ventures and exports, Canadian companies using exports to do business in China had higher performance than those using joint ventured. In addition, there seemed to be a positive relationship between performance and the amount of control Canadian companies had over their China business. The

[7]. Except Company 4.

more control the Canadian company had, the higher was the performance. Chart 3.1 would provide a clear depiction of the relationship among entry strategy, control and performance.

Chart 3.1 - Relationship Between Performance and Control



This chart showed that the more control the Canadian company had about its business in China and the more flexible the company and its strategy were, the higher the performance. Companies that used exports had almost the same level of control about their business in China as neither needed to consult others in decision making. However, companies using wholly owned had operations located in the Chinese market, so that they would have better market information and could make more educated decisions.

CHAPTER FOUR: DATA ANALYSIS - COMPARISON AMONG COMPANIES USING SAME ENTRY STRATEGY

The previous chapter demonstrated that there was a strong relationship between entry strategy and performance for Canadian companies doing business in China. Companies using Wholly Owned achieved the highest performance while companies using equity joint ventures achieved the lowest. A closer examination of companies using same entry strategies revealed that their performance varied. This indicated that in addition to entry strategy, there were other variables that distinguished high performing companies from low performing companies.

The previous chapter tried to establish why companies that used different entry strategies had different levels of performance. The focus of that chapter was to identify commonalities among companies that used the same entry strategy. This chapter, by contrast, attempted to examine variables that differentiated high performing companies from low performing companies within the same entry strategy.

4.1 WHOLLY OWNED OPERATIONS

Two companies had wholly owned subsidiaries in China. Both companies interviewed using this strategy (Company 9 and Company 10) had more than one office in China. Their business strategies and practices were quite similar to each other. Although owned and controlled by their Canadian parent companies, these offices were managed by local Chinese. In relation to companies using other entry strategies these companies enjoyed the highest performance.

But the performance of the high performing company (Company 9) was more than double that of the low performing company (Company 10). What accounted for such large discrepancy in performance? Table 4.1 summarized the differences between the higher and the lower performing wholly owned operations. Although it might be hard to pin down a particular cause, perhaps collectively, these factors helped distinguish the higher performing company from the lower performing company.

Table - 4.1 Comparison Between High and Low Performing Wholly Owned Companies

High Performing Company	Low Performing Company
• The Chinese market is very important to the company and the company is more committed to it	• There are other international markets that are more important to the company
• Large portion of the business is conducted in China	• Most decisions are made in Canada;
• Feel quite comfortable with the Chinese market as we have what it takes to be successful there	• Feel irritated by the Chinese business environment as we had little influence on what is to happen;
• Rely on the local Chinese to solicit and serve the local market	• China activities are controlled by Head Office in Canada, and some flexibility has been lost in gaining control;
• Provide a diverse product assortment to the Chinese customers	• Has only one type of products for the Chinese market, so the company is subject to frequent changes in the Chinese market.

To the higher performing Company 9, the Chinese market was more important than to the lower performing Company 10. The Chinese market represented more than half of its total sales for Company 9 in 1992. This company adopted a more decentralized structure toward the Chinese market. Most of the tasks were conducted in China by the Chinese themselves. To Company 9, the Chinese market was as diversified as any other market, requiring the company to keep the operation closer to the end customers. "There is no other way for us to do it. Any small policy change in China is so vital to us. We have to be there to feel the pulse of possible policy change. Plus, the Chinese market is relationship based. We have to be there to develop and maintain our relationship with the Chinese,", the executive of Company

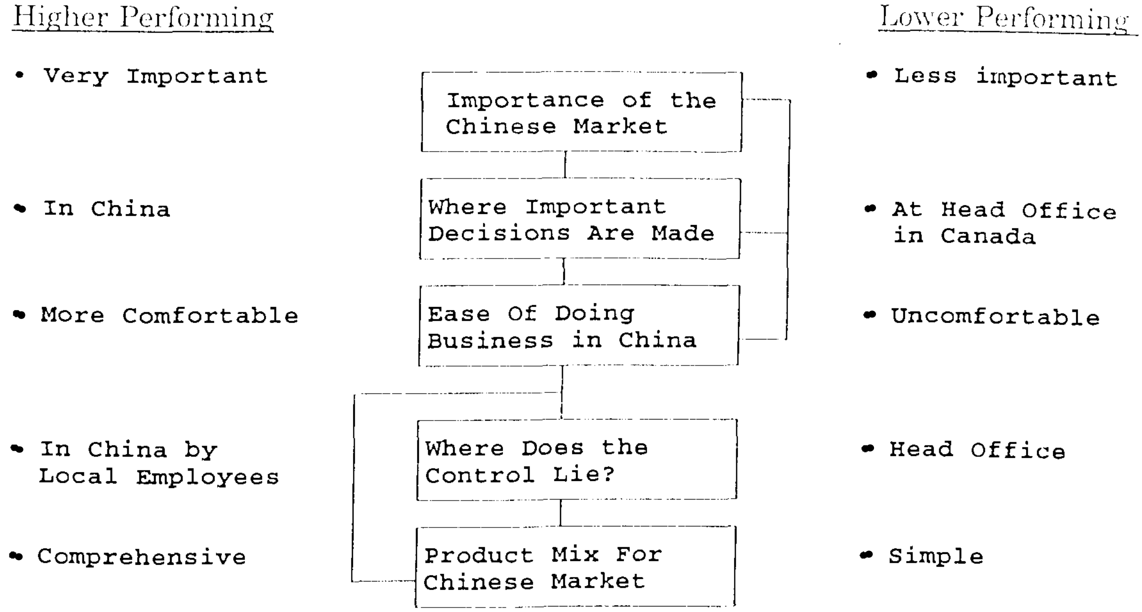
9 explained.

To the higher performing Company 9, the Chinese business environment was no longer too unpredictable. " We are doing well in China because we know how to do it." The company had been hiring local Chinese to work for the company. "These people bring both their line of expertise and connections in the industry to the company," the company's executive explained, "these are essential to our success in China.".

To the lower performing Company 10, the Chinese market was not as important as other international markets. The Chinese market accounted for less than 25 percent of the total sales revenue for the company in 1992. To Company 10, the Chinese business environment was irritating as it was unpredictable and the company had no control or influence. "The only control we have is over ourselves," the China Project manager for the company confessed. To maintain tighter control over the Chinese operation and reduce the impact of fluctuation of the Chinese market on the company, most decisions on the China business were made at the Head Office in Canada. In addition, the company marketed a single product line in the Chinese market.

Chapter 3 identified that both flexibility and control were essential for Canadian companies doing business in China. The above comparison seemed to indicate that control was more important than flexibility for Canadian companies using wholly owned strategy to enter China. In essence, the following relationship (Chart 4.1) appeared to exist among these factors and the performance levels of Canadian companies using wholly owned strategy to enter China.

Chart 4.1 - Various Factors and Their Relationship to Performance For Companies Using Wholly Owned Strategy



For example, the level of comfort a company experienced in China might help determine the course of action this company would adopt in China, which in turn might determine the level of performance. On the other hand, the level of performance a company achieved might also determine its course of action in China. Combined, these factors helped separate higher performing Company 9 from the lower performing Company 10, both of which used Wholly Owned to enter China.

4.2 DIRECT EXPORTS

These companies marketed locally manufactured products in Canada directly into the Chinese market. The marketing activities were conducted mainly by Canadians who travelled to China. None of the products that were marketed in China were manufactured in China. While two companies marketed hi-tech products (telecommunication equipments and electronic products), the other company was in transportation.

As shown earlier in Chapter 3 (Table 3.1), the performance of these companies were quite close to each other. Similar to their performance, these companies did not differ much in their business strategies. They had more similarities than differences. Nevertheless, the higher performing company differed from the two lower performing companies in both attitude and approach towards the Chinese market.

4.2.1 Attitude Toward the Chinese Market

The differences between higher performing Company 1 and the two lower performing Companies 2 and 3 were quite subtle here. As Table 4.2 indicated, the higher performing Company 1 considered itself too small to change the Chinese market. " The Chinese market is too forceful for us to change it. If anyone tries to do that, he is trying to knock his head on the wall.", the interviewed executive mocked. As the Chinese market and the business environment were unchangeable by any single company, the company changed itself. This company adapted a strategy that was extremely flexible to allow for changes. " We try to be open minded. If our Chinese customers call for a product or service that we do not conventionally have, we will try to get it for them". By doing this, the company believed that it was able to "build a strong relationship with the Chinese."

Table 4.2 - Attitude Toward the Chinese Market

Higher Performer	Lower Performers
••The Chinese market is unchangeable, so the company	••The Chinese market is unchangeable, but the company feels quite frustrated by it and
••Tries to learn about the market and adapt itself to the market.	••Sometimes try to out- wit and manipulate the situation.

The lower performing companies that used direct export (companies 2 and 3) on the other hand, perceived little competition in the market. They tried to take things into their own hands and manipulate things to their advantage. " This is a market that we have created for ourselves. There is very little competition from elsewhere.", one company executive declared proudly. The other company tried many things over the years to win over contracts, including making concessions on the

Chinese request of foreign travel and training.

The implications for other Canadian companies that are interested in doing business in China are that being adaptive and flexible work better with the Chinese than being manipulative. The Chinese may view this approach as "Cooperation" and "Mutual Benefits", and it seems to work. It works with the Chinese and it also works with other Asian countries (Economist, August 1993).

4.2.2 Approach to the Chinese Customer

The high performing and lower performing companies that used direct export to China also differed in their approach to the Chinese market and the Chinese customers. The higher performing Company 1 seemed to have adopted a more cooperative approach to the Chinese market. This meant that it was not only doing business with the Chinese but was also trying to help the Chinese solve their problems. This willingness to help accommodate the Chinese needs also helped the Canadian companies. For example, by developing a telephone switch software just for the Chinese customer, this company was able to market a lot more related products and technologies to the Chinese. Table 4.3 summarized this difference.

Table - 4.3 Approach to the Chinese Customer

Higher Performer	Lower Performers
••Willing to help the Chinese solve their problems.	••Let the Chinese deal with their own problems.

The less successful companies (2 and 3), on the other hand were less willing to work with the Chinese. They were not interested in getting involved in helping the Chinese solve their problems. They expected the Chinese to solve their own problems. For example, one company revealed that the Chinese often asked the company help them finish their funding applications to banks or other international lending agencies such as the World Bank. The company never accepted such requests. This certainly seemed to be a performance related factor for the two lower performing companies.

In the recent CCBC[1] meeting, many companies revealed that the seller had to get involved in financing to support the buyers.

4.2.3 Perception Over Competitive Position In China

The higher performing and lower performing companies that used direct export to enter China could also be differentiated by their own perceived competitive position in the Chinese market. As Table 4.4 showed, the higher performing Company 1 was quite aware of threats from other competitors. It tried to provide customized services to develop closer ties with the Chinese customers. Instead of marketing what the company wanted to, Company 1 tried to provide what the Chinese customers needed. In addition, this company tried to provide customer services through a local distributor.

Table 4.4 - Perception Over Competitive Position

Higher Performing Companies	Lower Performing Companies
• The market is competitive and our company is small;	• Little competition from else where in the Chinese market;
• We need to be unique in what we do for the Chinese customers to fend off aggression by large competitors.	• But still need to develop customer loyalty to protect ourselves against invasion by other potential competitors.

The lower performing companies also realized the importance of developing customer loyalty but perceived little competition in the Chinese market. There seemed to be a paradox here: if there was little competition for these companies, why did not they have higher performance since they dominated the market? One company executive might have provided the answer when he said that "competition makes companies more efficient". When the companies perceived little competition from other competitors, they felt little pressure to improve their efficiency and performance.

[1]1. Canada China Business Council, Vancouver, November, 1993.

4.2.4 Summary

The differences between higher performing and lower performing companies that used direct exports to enter China were quite subtle. The higher performing company believed that the Chinese business environment was sometimes hostile and out of its control. It was therefore more open-minded about the Chinese market and adopted a more cooperative approach to working with its Chinese customers. It was also more sympathetic to the Chinese and their problems, and often tried to help them solve their problems. In so doing, the higher performing company might have strengthened its relationship with the Chinese, and established a more positive image among the Chinese. The lower performers, on the other hand, were more frustrated by the differences between the two systems, and were more likely to take measures to manipulate the situation to their advantage. They did not feel that they should be accountable for helping the Chinese to solve their problems. They foresaw little or no competition in the Chinese market. The Chinese might have interpreted such beliefs and behaviours as self-centred and less willing to help them, and acted accordingly.

4.3 CONTRACTUAL JOINT VENTURES

Contractual joint ventures are also known as co-operative ventures. There is no capital investment involved in such ventures, and no separate venture entity is set up. Often, the partners are engaged in a joint project where each is responsible for implementing a part of the contract. The partners need to cooperate with each other to accomplish the common goal. In order for them to achieve this common goal, the partners have to share both the responsibilities and rewards.

As Table 3.1 (Page 49) showed the performance varied greatly from company to company. The performance level of the higher performing Company 4 was almost ten times as great at the lower performing Companies 5 and 6. What factors accounted for such performance diversity for companies using the same entry strategy?

It seemed that other than the entry strategy, the higher performing company 4 had virtually nothing in common with the two lower performing companies 5 and 6. The main differences were summarized in Table 4.5.

Table 4.5 - Comparison Between Higher and Lower Performing Companies Using Contractual Joint Ventures

	Higher Performing Companies	Lower Performing Companies
Was the company serious about the Chinese market?	• Yes. The company had a Chinese national in charge of business from China and other Asian countries[2].	• No. But the companies were beginning to. • China was not on top of their priority list
Anyone in the Company Understands the Chinese culture and language?	• Yes. The Company had a very experienced Chinese national who understood how to deal with Chinese and how to do business in China.	• Not at all. There were Chinese working for the company, but they are not involved in doing business in China.
Who Initiated the business relation?	• The Canadian company took a more pro-active approach and explored the business opportunities in China.	• The parent companies handed them the China contract; • A business affiliate got the company involved.
Was the Company directly involved in Negotiations?	• Yes. The company also hired a Hong Kong broker to help with the Chinese market.	• No. The parent company or the affiliate negotiated the initial contract for the company.
How did the company feel about the Chinese they do business with?	• Still unpredictable, but hopefully had developed a good relationship and friendship with the Chinese that will help	• Felt uncertain and frustrated; • But willing to be more active and aggressive in the Chinese market
How long had the company been interested in China?	• More than 15 years	• Within the past two to three years.

For the higher performing Company 4, the Chinese market was a natural extension of the company's efforts in other countries around the region. It was very serious about the Chinese market by making the first move into the Chinese market. Furthermore, this company had some internal expertise for doing business in China. A Chinese national was in charge of business from China as well as from other Pacific Rim countries. This individual was highly experienced and had a wide network of

[2]. It mattered little where a China expert came from. Experts from China, Taiwan, Hong Kong or overseas seemed to be equally successful. Some China experts are Caucasian who are equally, and perhaps more successful if they are knowledgeable about and fond of China.

connections in China.

To the lower performing Companies 5 and 6, the Chinese market was marginally important. Their lower level of performance to a large degree was attributable to their lack of experience and know how in the Chinese market. First, they began to do business in Chinese market in the last couple of years. Second, no one in the company seemed to know much about how things worked in China. Third, these companies were not even directly involved in making the initial business contacts and negotiation. They waited on others to take the initiative to arrange the business contacts. Worse yet, they were not even directly involved in negotiating the contract with the Chinese!

"It is safe and less costly for us to tag along with other companies to do business in China," as the executive from Company 6 stated, "it is too hard for us to spend the time and money in the Chinese market on our own.". This attitude probably explained why the low performing companies were not as successful. If they were not committed to the Chinese market, how could they be successful there?

In comparison to the higher performing companies that used Wholly Owned and direct export, the higher performing contractual joint venture was quite similar in its practices and experience. Perhaps, the basic requirements for Canadian companies to be successful in the Chinese market are identical, no matter what entry strategy the company decides to use.

At the time of this interview, the two low performing companies were both actively searching for positive ways to solve their problems in China. The company that relied on its the parent company (Company 5) decided that after two years of learning about doing business in China (through involvement in the project) that it was ready to move into the Chinese market by itself. Company 6 planned to actively pursue other joint venture opportunities in China. When the time was right, Company 6 would be prepared to make some capital investment as well, revealed the Vice President.

4.4 EQUITY JOINT VENTURES

Equity joint venture with the Chinese was not as widely used by Canadian companies entering China as this author believed at the beginning of the study. The performance level achieved by Canadian companies engaged in equity joint ventures with the Chinese helped to explain why Canadian companies had been avoiding this strategy. Of the thirteen companies interviewed, only one company, Company 7, was actively involved in equity joint venture with the Chinese at the time of the interview. This joint venture began to operate in 1991. The performance of this company, as explained by the owner and president, was not as satisfactory as planned in the beginning. The pay-back period had been stretched from the original two-year to the recent planning of four years. The other Canadian company, Company 8, that claimed it was involved in equity joint venture was still in pre-production stage.

The executive from Company 7 provided a number of explanations when asked what he thought the reason was for the unpopularity of using equity joint ventures by Canadian companies. First, it might be a little premature for most Canadian companies to be involved in equity joint ventures with the Chinese. Most Canadian companies had little or no experience in doing business in China and working with the Chinese system. "I ran into many Canadian businessmen in China who did not really know how things worked in China.", said the executive, "How would you work with someone if you do not know how he works?"

Second, it was hard to find a compatible Chinese business partner in the particular industry that the Canadian company was in. Chinese enterprises and businesses in general, did not have enough international business experience to effectively cooperate with Canadian businesses. Such inexperience in working with foreign investors was demonstrated in many ways. The Chinese first of all lacked marketing skills, which was not crucial under the old Central Planned economy. "Our Chinese Business Managers have been trying their best to market the joint venture products in China. But their best was not enough for us," the executive of Company 7 acknowledged. Similarly, the Chinese did not seem to value time as much as Canadians do. The same executive conceded "While the Chinese partner thought that they were already very efficient compared to other Chinese or compared to the way things were before, it was still far too slow for us". The issue of relativity and difference in time perception seemed to have caused some frustration for the Canadian company.

Third, the two Canadian companies also appeared not to be fully devoted to their joint ventures either. One company treated the joint venture with the Chinese as a good learning opportunity, as the joint venture gave the company a chance to observe how the Chinese did business and dealt with each other. This lack of full commitment by the Canadian partner might have been reflected in its interaction with the Chinese partner, and may have affected both the relationship and performance.

One joint venture company (Company 7) however, did seem to perform better than the other. A few traits were observed about their business strategies and approaches which might have accounted for the performance differences (Table 4.6).

The higher performing Company 7 had a Chinese national working for the company, who not only understood the Chinese culture, but also had many connections in China. In addition, it had hired a consultant to help the company in the Chinese market. Although its efforts were still mostly experimental, at least the company was a bit more prepared for the Chinese market.

Table 4.6 - Comparison Between High and Low Performing Equity Joint Venture Companies

Higher Performing Company	Lower Performing Company
• Has a China expert working for the company. This individual is often a Chinese national who speaks Chinese.	• No one speaks the language. • No previous experience in China.
• Hire external consultant to help the company to develop the Chinese market	• Did not hire anyone external help.
• Understands the Chinese culture.	• Learning by trial and error.
• Joint venture offers the Chinese more incentive to cooperate.	• Joint venture to take advantage of the large market potential.

The lower performing Company appeared to be lost most of the time. "We were screwed by one broker that used to work for the company before," the International Marketing Manager from Company 8 conceded, "we feel much better than we were a few years ago.".

The question is: if the joint venture performance here is typical of Canada - China equity joint ventures, why would a Canadian company want to be involved in equity joint venture with the Chinese? In other words, what motivated Canadian companies to get into equity joint ventures in China?

First, an equity joint venture allowed the company to take advantage of the fast economic growth without great exposure to the uncertain business environment and investment risks in China. The Chinese government strongly encouraged foreign investment using joint venture, so that the Chinese could gain access to advanced technology and management skills without much capital investment. To foreign investors, having a local partner may have seemed invaluable especially when the companies were relatively inexperienced in China. The local partner could lead the foreign partner through the complicated Chinese system, thus helping to reduce the amount of time and hassle the Canadian company would have to go through otherwise.

Second, an equity joint venture may allow the company to reduce the amount of trial and error, and shorten the learning curve. This is because the local Chinese partner may help the joint venture deal with the local business environment. Nobody knows the Chinese system better than the Chinese themselves. They know what it takes to make things work.

Third, this could appear the most effective way to get Chinese commitment to the project, as the shared ownership allows the sharing of profits. Many companies complained that the Chinese were non-committal and unwilling to take responsibility. Chinese, in general, value mutual benefits highly. Equity joint ventures are about sharing both the risks and the rewards. Such sharing of benefits offered an added incentive for the Chinese take active interests in making the joint venture work.

Almost all of the companies interviewed had been approached, some more than once, by the Chinese to set up joint ventures in China. The majority decided not to go for such an option. This was due to a number of considerations. First, Chinese businesses in general are inexperienced in managing private businesses. Competition in the Chinese market, prior to the Open Door Policy was almost non-existent. Survival was guaranteed. Even after many years of exposure to Western business practices, many Canadians still think that the Chinese are far away from what we would require in a joint venture partner. The Chinese partner knows the Chinese system, but is unsuccessful in making the system work for the joint venture.

In addition, it is difficult to work with someone who operates on a different set of rules or does not appreciate knowledge and business experience. The Chinese realize the importance of management skills and expertise, but they are very reluctant to pay for this soft technology.

4.5 Summary

This subsection compared the differences among companies using the same entry strategy. With the exception of companies used contractual joint ventures, the differences between higher and lower performing companies were quite subtle. The higher performing companies, in general, were more aware of their lack of influence over the business environment, very sympathetic to the Chinese's difficulties and willing to help when could. By contrast, the lower performing companies felt little threats in the market, more indifferent to the Chinese concerns and were less willing to help the Chinese. What these seemed to suggest was that companies that were more aware of their disadvantages in the environment and more willing to be cooperative with the host market were more likely to be successful than others.

Of course, generalization about the relationship between business strategies and financial performance was inadequate since this relationship discussed in this chapter was only an approximate. For example, a contractual joint venture company, Company 4, did not fit into the performance pattern at all. Thus entry strategy was only an estimated, sometimes inaccurate, predictor of performance. To identify such key performance predictors, this paper turns to Chapter 5.

CHAPTER FIVE: DATA ANALYSIS: DIFFERENCES BETWEEN HIGH AND LOW PERFORMING COMPANIES

The two previous chapters examined the differences between high performing and low performing companies using the same entry strategy and performance differences within the same entry strategy. The focus of the analyses were on the effects of entry strategy had on performance. It was found that the performance was highly correlated to the entry strategy the company used to enter China. However, entry strategy was not an accurate performance predictor, as indicated by the outstanding performance of a contractual joint venture company, Company 4. This company had the second highest overall performance among the companies interviewed. Table 5.1 ranked all the companies interviewed by their performance.

Table 5.1 - Companies Ranked by Sales Performance
(Indexed Sales to or in the Chinese Market in Canadian Currency)

Number	Entry Strategy	Adjusted Average Sales Per Employee ($,000)
9	Wholly Owned	$31,313
4	**Contractual Joint Venture**	**$16,392**
10	Wholly Owned	$14,607
1	Export	$6,675
2	Export	$5,163
3	Export	$4,964
7	Equity Joint Venture	$0,236
6	Contractual Joint Venture	$0,180
5	Contractual Joint Venture	$0,016
8	Equity Joint Venture	$0,000

Table 5 revealed three distinct performance groups:

- **Group 1:** High Performing Companies, 9, 4 and 10;
- **Group 2:** Medium Performing Companies, 1, 2 and 3;
- **Group 3:** Low Performing Companies, 7, 6, 5 and 8.

This pattern of performance levels suggests that in addition to entry strategy, perhaps there are other factors that may also affect the performance. The purpose of this chapter is to identify such key performance factors (KSF). Specifically, this chapter seeks to answer a specific question: what distinguishes high performing companies from medium and low performing companies? Are there factors that high performing companies have in common that differ from those of low performing companies? To answer these questions, this chapter will examine the internationalization process used by Canadian companies to enter China.

5.1 INITIATION OF BUSINESS RELATION & MARKET ENTRY

5.1.1 Initiation of Business Relation

In the recent CCBC[1] annual meeting, many members speaking from their experiences disclosed that Canadian companies had certain competitive advantages over other foreign companies in China, one of which was the ongoing friendly relationship between the two countries. The Chinese had a far more positive image about Canada and Canadians than other foreigners. "The two countries had never been in any direct conflicts before," explained one executive, "Canada was among the very first few countries to resume diplomatic relation with China since the Communist took over in 1949.". Further, the multi-culturalism has exposed Canadians to many different cultures, and Canadians have a better understanding of these cultures as a result. "It is natural for me to work with the Chinese, because I grew up with them in the same high school here", explained the executive of Company 9. The comfort that Canadians have with working with the Chinese is another advantage that

[1]. Canada China Business Council (CCBC) is a non-profit organization to which most Canadian companies doing business in China belong to.

Canadian companies have doing business in China.

Though such relationship would not guarantee better trade ties between Canada and China, or better treatment for Canadian companies trying to do business in China from the Chinese government, it had certain positive effects on Canadian companies interested in the Chinese market. The friendly relationship and cultural understanding between the Chinese and Canadians seemed to have made the initiation of a business relationship much easier.

The question was how did these benefit Canadian companies: would such harmony between the two cultures among Canadians able to add to Canadian companies' ability to compete in the Chinese market? While the answer to this question exceeded the scope of this study, it appeared that such friendly relationship between Canada and China and culture diversity in Canada helped smaller Canadian firms to compete with confidence in the Chinese market. Table 5.2 summarized the initiation of business relationship for the companies interviewed.

As shown by the table with both the higher performing and medium performing companies, Canadians made the first move. In comparison, in three out of the four lower performing companies, the first initiative to doing business in China was made by the Chinese or a third party such as parent company. In other words, if the Canadian company initiated the business relationship with the Chinese, the company would have much better chance of performing well than companies waiting on the Chinese to call on them to do business in China.

Why did who initiated the business relationship affect the performance level? There were a number of plausible explanations. First, when a Canadian company initiated the relationship with the Chinese market, the company would likely be more interested in, committed to and prepared for the challenges of doing business in China. They were more likely to have compared a number of alternative markets before they made the commitment to doing business in China[2].

Table 5.2 - What Led To The Entry of the Chinese Market

Co.	1st Move Made By	How Did It Evolve Into Business Activity?
9	**Canadian**	**Founders of the company lived in China for many years and had good connections there**
4	**Canadian** Made 1st Trip	An employee was invited by the Chinese to visit China, and many inquiries were followed by contracts
10	**Canadian**	Hired Hong Kong distributor to look into the Chinese markets followed by many trips
1	**Canadian**	Hired a local distributor and sent delegations of people over to examine the market and make contacts with potential buyers
2	**Canadian**	Attended an industry exhibition in China. Trip funded by the Federal government. Many trips followed.
3	**Mutual** Interests	Contacted by Chinese Consulate Began by sending delegations back and forth between the two countries
7	**Canadian**	Visited China and made initial contact with people introduced by friends
6	Someone Else*	Parent companies heard about the opportunities and negotiated on behalf of the company
5	Chinese	Chinese made inquiries first on their trip to Canada
8	Chinese	Many Chinese delegations visited Canada

*. Parent company

Second, if the Canadian company made the first move, the Chinese market must be of strategic importance to the company. Thus the company was more dedicated in both financial resources and management time. Otherwise, why would the company be interested at all? However, if the Chinese made the initial contacts, the Canadian company might not be as interested as the Chinese. Furthermore, the Canadian company might be more reactive and less prepared. "Over the years, we

2. Of course, this is not always true, sometimes the decision on doing business in China was not based on rational evaluation of business options, but out of other motives such as adding prestige to the company or to the executives involved.

have approached by many Chinese delegations to do this and that in China." said the executive from Company 6, "We have not been that interested.".

However, this pattern seemed to be changing as Tung (1989) found in her recent study. The Chinese had become far more aggressive in pursuing business opportunities with foreign companies and foreign investors, especially after the provinces and local governments were given more discretionary authority over economic development. The frequent visits to Canadian cities by various Chinese delegations were probably suggestive of the increasing aggressiveness of the Chinese in pursuing international business opportunities. Perhaps due to such frequent visits by various Chinese delegations, there were fewer interested Canadian companies than Chinese representatives in the few gatherings this author attended. Nevertheless, it was this author's belief that if Canadian company initiated the business relationship, the company would likely to achieve better financial performance than the other way around.

5.1.2 Speed of Entry

As Table 5.3 revealed, if the Canadian company made the first move, it tended to move much faster into the Chinese market than otherwise. The table indicated it took much shorter (within a year the idea was considered) for the high and medium performing companies to move into the Chinese market than the low performing companies. One manager of a higher performing company stated that "Market growth elsewhere is too slow and competition is very tough. The Chinese market is just the opposite, we have to move fast.".

On the other hand, companies that were approached by the Chinese were often more reluctant to make any hasty decisions. They might want to evaluate their options, wait for the Chinese to provide them more information, or convince them. A couple of companies entered the Chinese market "very reluctantly" as the contract was arranged by someone else.

Table 5.3 - Speed of Entry

Company	Sales Performance	Time Considered	Time Entered	Time Lapsed
9	**High**	1988	1988	0 years
4	**High**	1982	1983	1 year
10	**High**	1979	1980	1 year
1	**Medium**	1983	1983	0 year
2	**Medium**	1984	1984	0 year
3	**Medium**	N.A.(*)	1988	N.A.
7	**Low**	1989	1991	2 years
6	**Low**	N.A. (*)	1991	N.A.
5	**Low**	1982	1989	7 years
8	**Low**	1983	1992	9 years

*. (Estimated by the interviewees of being more than 2 to 3 years before they entered).

The role played by these Canadian companies in doing business in the Chinese market was far less aggressive and more passive. It took these companies between two and nine years to actually start doing business in China. When they finally started rolling, they might be not as enthusiastic about the Chinese market, or less understanding and cooperative. " China is not our most important market. We have many other more important markets to worry about, such as the Mexican market." said the executive of one low performing company.

In summary, companies that initiated the first move into the Chinese market took far less time to develop their business there. Furthermore, they were more likely to perform better than companies that waited until others made the move.

5.2 INFORMATION GATHERING

The amount of information a company gathers about the market is a good indication of how serious the company is about that market. A company is more likely to prepared itself well before entering an important market rather than rushing in. Further, if a company prepares itself well, there would be fewer surprises and frustrations, which may lead to high performance and satisfaction. Thus, how and how much a company prepares itself are good indications of the importance of the market. They would also be good indications of how well a company will perform in the market later.

As Table 5.4 showed, the high performing companies could also be distinguished from medium and low performing companies by the amount of information they collected before entering China. Both high and medium performing companies did some extensive information gathering and preparation before making

Table 5.4 - Sources of Information and Information Gathering Before Entry

Co.	Primary Sources Used to Gather Information Before Entering China
9	• Founders have China experience and knowledge • Hire people with connections in China; • Frequent contacts Canadian Embassy in China • Canada China Trade Council
4	• Hire people China experience • Frequent field visits to China • Extended business trips to China, about a month per trip
10	• Field trips and field survey • Hire people with China experience • People in regional offices in Japan
1	• Hire people with China knowledge and experience • High rank official contacts with Chinese • Frequent field trips to China • Hire Canadian consultant
2	• Read as much as possible about China • Went to Crash Mandarin Training course • Talked to CCTC and Embassy • Hire Canadian consulting company that has offices in China
3	• Extensive market research • Hire people with China experience • Embassy and Trade Offices in China • Use Broker and consulting firm • Talk to companies with China Exp.
7	• Hire people with China knowledge and connections • Went to China for field survey
6	• Did not do any, relied on the parent companies to do everything;
5	• Hired people with marginal China experiences.
8	• Field trips • Information provided by Chinese

the decision. Compared to the low performing companies, they were more "ready" to tackle the market. These companies used a number of information sources to help with their decision. The primary sources included:

- Knowledgeable people. If the company did not have someone who was knowledgeable about the Chinese market and experienced in the Chinese market, likely it would hire one;

- Frequent field trips to China. On such trips, the company is networking in China, and making contacts with potential customers or partners. Almost all the companies agreed that frequent visits to China was critical to doing business in China; one could not possibly do business with the Chinese by staying in Canada. The company needed to be presented to and in touch with the Chinese customer in China.

- Canadian Embassy and Trade Offices in China. These organizations were also helpful in identifying making contacts with the Chinese once the company decided to enter China.

- The Canadian China Business Council, a non-profit operation that has offices in both Canada and China. A number of companies had used their services for a nominal fee.

In contrast, the low performing companies did not do nearly as much information search and preparation before entering China. Instead of spending the time to prepare themselves, they were trying to find an easier way around such as joint venturing with the Chinese. This seemed to suggest that despite entry strategy adequate preparation was required before foreign market entry.

Another interesting observation was that very few companies actually talked to other Canadian companies that had China experience. It was unclear if this was because the experienced companies were unwilling to share, or the interested company did not want to ask. Further, none of the local Chinese business associations (three: Taiwanese, Hong Kong and Mainland Chinese) were consulted by these companies. Again, was this because these associations were only active within their ethnic community, or because the Canadian companies did not feel comfortable asking?

5.3 AWARENESS OF CULTURE DIFFERENCES

In general, companies that were aware of cultural differences between the Chinese and Canadians seemed to be less frustrated than those that were not. Three major cultural aspects were identified by the companies interviewed to be of importance to their doing business in China. These were guanxi (also known as connections, or relationship network) with the Chinese, giving or saving face for the Chinese, and developing trust with the Chinese people they worked with.

5.3.1 Guanxi and Networking

This study proposed earlier that **all successful companies had important guanxi with the Chinese (P3.4a)**. As the following Table 5.5 indicated, this proposition was strongly supported by the companies interviewed.

Table 5.5 - Importance of Guanxi and Networking

Co.	Does Your Company Have Good guanxi in China?	How Important Are They To Your Company?
9	• Yes, extremely good connections.	• It is the business. Spent 10% budget on developing them.
4	• Yes, both the company and the broker have some good connections.	• The company won't be as nearly successful without them.
10	• Yes, very good connections and network.	• They are not part of the business. They are the business.
1	• Yes, very reliable .	• Helpful to the business at times.
2	• Yes, very good connections and guanxi.	• Very hard or even impossible to do business in China without them.
3	• Yes, with high rank officials.	• Important to the business.
7	• No, but our partners do.	• Not sure.
6	• Not really, the parents might have.	• Not yet.
5	• Yes, from previous work.	• Very important. Otherwise cannot do anything at all.
8	• Yes, some from interactions.	• Not really, the Chinese partner handles that.

The above table showed that companies that did not realize the importance of guanxi, or did not have enough guanxi in China, achieved lower performance in the

Chinese market. In contrast, companies that had developed a network of connections that could help the company when needed had higher performance. The companies relied on two main methods to develop guanxi in China, doing-it-yourself or hiring people with Guanxi and connection.

For the companies that relied on the first method, getting to know the "right" people, people with influence and connections, was accomplished by

- participating in social activities organized by Canadian Embassy in China;
- participating in trade fairs in China; and
- meeting with Chinese on their trade missions here.

A number of companies had used this method, which proved to be sufficient. The executive of Company 2 revealed that "We participated in an industry trade show in a northern city of China. In that show, we met a lot of people who were interested in talking to us about our technology. That was how we started.".

For companies with local operations and/or offices in China, the second method appeared to be the most effective way to obtain guanxi. "These people know who is who in the industry. What we need to do is to buy this expertise.", recalled the executive of Company 9. The guanxi hired were often Chinese nationals with wide connections in China developed prior to joining the company.

None of the companies rejected the idea of using guanxi to do business in China. Very few, however, agreed with using bribes to buy guanxi in order to develop Guanxi in China. Some interviewees realized that "buying" guanxi might be fuelling the corruption among the Chinese officials. However, "the differences between gift-giving and bribing seemed to be a grey area", admitted one executive. There was no clear definition for either gifts or bribing. It seemed that gifts were often exchanged to show friendliness and appreciation. Gifts were not given to the Chinese as an inducement or condition to do business with Canadian companies.

Bribing, on the other hand, also involved giving something to the Chinese. However, the giver was expecting something in return. The giving and receiving were conditional on each other. Most companies were comfortable about giving gifts, but not about bribing. None of the companies admitted ever being involved in bribing the Chinese for anything directly. As to whether their agents used bribes in China, the companies decided not to interfere. It was their agents' way of doing business.

5.3.2 FACE SAVING

No one company could produce a clear definition of "face". Some interviewees believed it was the respect, honour and faith that people had in you. Others believed that face was how other people valued you (for example, as a man of his word), or it was the sense of shame. Regardless of the definition, all companies believed that giving and saving face were important for the Chinese. Losing face was culturally undesirable for the Chinese.

It appeared that giving and preserving face were more important between the Chinese themselves than in relationships involving Chinese and Canadians (foreigners). Perhaps the Chinese were more conscious about this when both parties were Chinese and more understanding and forgiving when the other party was not Chinese. None of the companies ran into any major problems because of this, or they did not know of any. Nevertheless, they cautioned that it was important for Canadian companies to give and save face for the Chinese.

How important was giving and saving face to the Chinese for Canadian companies doing business in China? The issue of face could turn out in a number of ways. First, many companies complained that Chinese were not straightforward in negotiation. The Canadian negotiators were not expected to be too confrontational as it could make the Chinese lose face. Instead of saying "no" or admitting they could not do it, the Chinese often turned to other issues or gave hints to the Canadian negotiators.

Furthermore, many companies found that the Chinese often rescinded their earlier decisions. When the Canadian company thought the issue had been settled, the Chinese would come back to it again later. Canadian companies seemed to attribute to the Chinese' reluctance to lose face by calling a spade a spade. However, this seemed to have little to do with face. Often this was part of the Chinese negotiation strategy: when the terms were not in their favour, or they believed that they could improve the terms, they often used excuses such as "the boss did not approve of the terms" to reopen the negotiation on the same issue.

Second, almost unanimously, the companies interviewed agreed that it was imperative for Canadian companies to discover those issues of negotiation most important to the Chinese. The Chinese were unlikely to spell these issues out for fear of losing face. For example, the issue of foreign travelling and third country training were believed to be extremely important for the Chinese, but they rarely make it clear that these were important to them. Again, this seemed to be more related to the Chinese negotiation tactic than to fear of losing face.

Finally, it was also important for the Canadian companies to be perceived by the Chinese to have face. Canadian companies used a number of measures to both give and save face for the Chinese and themselves:

- Hire intermediaries to act as the go-between the Chinese and Canadian companies. If one party could not agree with what the other party was doing, it could use the intermediary to express its concerns. In so doing, both parties were saving face for themselves and for each other.

- Establish trust and friendly relationships with the Chinese. Many found that once the Chinese got know you and your style, they became quite open and friendly.

- Be consistent in business style. This would allow the Chinese to learn about you and know what to expect from you and your company.

- Avoid asking the Chinese pointed questions in front of other people, as the Chinese might think that you suspected their competence and were trying to make them lose face.

In general, be aware and understanding of cultural differences is important to Canadian companies doing business in China. Canadian companies, however, need to be also aware that the Chinese often try to erase the line between culture differences which is unintended and negotiation tactic which is intentional.

5.3.3 Trust Between Canadians and Chinese

Most companies believed that greater trust was developed between them and the Chinese they worked with as they learned how to deal with each other. Trust was an important issue to doing business with Chinese. Once a trust relationship was established, it would not only save time for any further negotiation, but also help improve the quality of negotiation.

However, the importance of trust should not be over-stressed. "It really takes the combination of good product, competitive price and quality service plus good relationship with the Chinese to be successful in the market." "What trust has done is that it makes the "going" easier for Canadians.", one company elaborated.

This study proposed earlier in Chapter one that **awareness and appreciation was critical to Canadian companies doing business in China** (P3.4b). It seemed that companies would be less frustrated if they understood the Chinese culture. However, as to be discussed in Chapter Six, frustration did not translate into lower financial performance, and vice versa. Thus, this proposition was not fully supported.

5.4 THE USE OF INTERMEDIARIES

An intermediary was defined by the interviewees as an outside individual or entity that helps the Canadian company enter the Chinese market for a fee. Brokers, agents, consultants and consulting companies are classified as intermediaries. This paper proposed earlier that **companies that had local partners, or hired intermediaries were more informed about the Chinese market and would likely to have higher performance** (P2b). This was partially supported, as shown in Table 5.6. It was found that most companies used such intermediaries to help with the Chinese market. In particular, the higher performing companies had shared a number of things in common regarding the use of intermediaries.

Table 5.6 - Use of Intermediaries

Co.	Reasons for Using Intermediary and Roles Played By the Intermediary
9	• Helpful in setting up initial contacts as they know the market better and have good connections in the local market; • Help the company identify key decision makers and key issues of negotiation; • Bring new business opportunities to the company.
4	• Help to maintain contacts with customers by reaching them at convenient time; • Supplement the market efforts of the company; • Help to save face for both parties during negotiation as they act as go-between.
10	• Provide ongoing interaction between the company and the Chinese market; • Help identify new business opportunities; • Act as service representative for the company.
1	• Provides a cost effective way of doing business with the Chinese as they help to save the development costs in setting up the marketing system in China; • Soliciting new clients for the company; • Supplementing the company's marketing efforts in China.
2	• Keep an eye on things for the company as the market is changing fast; • Maintain contacts with existing customers; • Prepare the ground for negotiation.
3	• Bring many good contacts to the company; • Helpful in setting up initial contacts.
7	• Do not use any intermediary; • The local partner can do better as an owner than hiring an intermediary.
6	• Do not hire intermediary of its own, as the parent companies have agents in Hong Kong; • Help the company set up the stage for negotiation; • Not involved in further negotiation.
5	• Have not thought of using agent as not sure how they could help; • Relying on affiliates for contacts and contracts.
8	• Realize the importance of an intermediary, but hard to find a good and reliable one; • Need someone to set up the initial contacts with the appropriate Chinese parties.

These companies had

- ♦ Someone within the organization who was a Chinese national. This individual was very likely to speak fluent Mandarin, Cantonese and English. He/She travelled frequently between Canada and China. Over the years, this individual(s) developed good networks and relationships with the Chinese which were helpful to doing business China;

- Hired someone independent to act as an intermediary between the Chinese customer and the company. This intermediary could be a Canadian service company, an import/export company in Hong Kong or a Chinese agent located in China. This individual acted as a go-between for both parties involved. This individual was particularly important during the negotiation process.

- Used local intelligence to collect information about the market in general, and information about the negotiation counterpart in particular. This individual helped to identify the key person to be negotiated with, their needs and concerns such as their budget limit for the project.

Indeed, it appeared that the higher performing companies perceived the Chinese business environment as more threatening. They were more willing to employ outside help to reduce the amount of risk they were exposed to. Intermediaries with experience and knowledge about the Chinese market and how to do business in China would add to the knowledge base to these companies, thus helping the company reduce its business risk in China.

There seemed to be several factors affecting the use of intermediaries. First, when there were resources within the company that could perform the same tasks as the intermediary would, the need for hiring such intermediary reduced. Furthermore, as the companies became more experienced and established, the need for such intermediaries would also reduce, perhaps due to development of internal resources that could perform the same task. It was advantageous to have someone with these skills working directly for the company because, as one executive put it "it would be foolish for the company to rely on an outside agent to serve a multi-million dollar market". "The company would never know if the agent was working for the company's best interests, or his personal interests".

Second, companies that perceived the business environment as less risky were not likely to use any outside help. What was the point of hiring someone if the company was already confident about its ability to deal with the market itself? Unfortunately, the performance of this company in the Chinese market was far from satisfactory, and the company was very frustrated about it, even though this company had not felt threatened by the differences in the Chinese business environment. It seemed that the more a company realized the threats of the business environment, the more the company would prepare itself, and the more successful the company would likely become. This was confirmed by Campbell and Adlingtion (1989) in their study of joint venture strategies in the People's Republic of China. They found that the Japanese were the least optimistic about doing business in China though their performance was slightly better than Americans and Europeans. Their analysis (frequencies only) on foreign investment in China, seemed to be overly simplistic, and failed to identify the potential correlations among various variables. For example, it would be useful to know whether companies with a longer period of experience in China or that had equity investment were treated differently in negotiations with the Chinese from companies with less experience or no equity investment. It would also have been helpful to know whether those companies whose China activities were profitable also had less difficulty with the Chinese legal system or with their negotiations than companies that were not profitable. Campbell and Adlington have produced a wealth of information but their lack of analysis makes their findings less useful.

Third, use of an intermediary also depended on the stage of market development and the entry strategy used by a company. The need for hiring someone to develop contacts with the Chinese market was not the same as for hiring someone to help with a negotiation impasse.

The use of intermediaries among the lower performing companies (7,6,5 and 8) in comparison was quite limited. Two companies 7 and 6 did not use any intermediary at all, while the other two had experienced problems with the intermediaries they used.

5.4.1 ROLE(S) PLAYED BY INTERMEDIARIES

Table 5.6 showed that intermediaries played a more important role among the higher performing companies, including the high and the medium performing companies than lower performing companies. In general, such intermediaries had played many positive roles in helping Canadian companies get established in the Chinese market, including

- Identify the potential business opportunities in the Chinese market for the company. This was accomplished by feeding market information back to the company and packaging the company's products and services to suit the needs and tastes of the Chinese customers.

- Make contacts with potential buyers and business partners on behalf of the company. The role of the intermediary at this stage was to sell the idea of having a Canadian supplier and/or business partner to the Chinese. Many people found it easy to present the Canadian companies due to the positive image Canadians had among Chinese.

- Set up the negotiation and keep the negotiation moving in the right direction. Negotiating with Chinese was often a test of endurance and patience. Negotiation often reached an impasse because the key issue (sometimes not a key issue of contract itself) was not identified and addressed by the Canadians.

- Provide ongoing liaison between the company and the end customer. Because of this ongoing interaction with the end costumer, the agent might be able to find new business opportunities in the Chinese market for the company.

The use of intermediaries and the deployment of the company's own sales force appeared to supplement each other. One company that used to rely on an intermediary to serve the Chinese market had just opened two sales offices in China, but they also kept the intermediary. "We need both now," explained the executive. While the intermediary's efforts were mainly to develop new customers and maintain contacts with existing customers, the new sales force helped the intermediary with technical presentations and provided customer service for existing clients. As this practice was relatively new to the company, it would be interesting to see if this dual system would last.

5.4.2 WHAT CONSTITUTES A GOOD INTERMEDIARY?

What constituted a good intermediary? What type of role did they play in helping Canadian companies do business in China? There are a number of key qualities that the companies looked for in a good agent. These qualities made finding a good agent much more difficult than just finding an agent.

First, and foremost, the person had to be well connected in the local business and government community in China. This was especially important for doing business with the Chinese. Most business these companies had from China came from government contracts or contracts with state owned companies. Even in the so-called private companies, the management team often included government assigned cadres. Though China had been changing fast, fundamentally, it remained the same (Tung 1989). The success of business still depended on who you knew and your connections. It seemed that reforms and exposure to Western business practices had failed to persuade the Chinese to change their way of doing business.

Second, the person had to speak both English and Chinese. Cantonese was preferred in the Southern Province of Guang Dong. The agent often played a role like an interpreter during the negotiation process. This was natural as the agent by this time already knew at least something about the business to be negotiated.

The ability to understand both languages of the negotiation team seemed to go far beyond the language itself. Sometimes the Chinese negotiators spoke perfect English, but the Canadians still felt disadvantaged when the Chinese spoke their own language among themselves. Canadian companies used to rely on interpreters provided by the Chinese negotiation team or hired a interpreter in China. As Tung (1989) found, sometimes the subtlety of language could get lost in the translation, either because of the language skill of the interpreter or the intentional cover-up by the interpreter.

Third, the individual had to understand the nuts and bolts of the industry and the business, not just the language skill. "Language skill is important for a good agent or interpreter but understanding the business is far more important" explained one company executive. If the company had to choose between the two, most companies would have preferred the individual who understood the business. Of course, the ideal situation was not to choose, but to have someone who had both skills. Yet this was far more difficult than it appeared. Some companies had experienced serious problems and frustration in finding an interpreter who understood the business, particularly in the less developed areas of China.

Fourth, the person had to know how the Chinese system operated. Despite the Chinese efforts to simplify the procedures foreign investors have to go through in order to do business in China, the Chinese system was far more complex than what most Canadian companies were used to. Getting a business license for example, involved getting permission from numerous government departments and agencies. The agent's familiarity with the system at this point helped shorten the amount of time involved in preparation and getting started.

Fifth, the person had to have access to local intelligence and have good connections in China. The Chinese system had undergone frequent changes, so had the Chinese market itself. In general, the consumer taste is changing faster than before and competition is getting stronger. The Canadian company has to be aware of such changes in order to stay afloat.

More importantly, the Chinese would prefer to deal with people they have access to. Opening up a local office would be ideal if the company could afford it and could find a qualified individual to work for the company. This was simply not feasible for most of the companies interviewed, due mainly to the high costs involved. "A one-man office in Beijing would cost about half a million dollars a year to maintain." stated one executive, "given the sales volume, there is no way that we could justify such expenses."

An agent, or intermediary would be suitable to provide after-sale service and local intelligence for the Canadian company. As one manager put it "the agent has access to the Chinese customers at times unavailable to us". Time differences and the Chinese' lack of access to long distant phones impeded Canadian managers' ability to maintain contacts with the Chinese customers from Canada.

Although agents from Hong Kong (mainly trading companies) are still popular, more and more companies are hiring local companies. One executive explained that "the Central government is trying to move away from overly depending on Hong Kong as landing port of foreign investment". On the other hand, Hong Kong agents are not purely local. They do not speak the same language, and they have different life style. In fact, "local people resent the fact that Hong Kong people are coming in and trying to control them.".

Sixth, the company had to make sure that its intermediary was not a double agent working both for you and your negotiation counterpart. He/she had to act on the interests of your company and not someone else's. One company found to its surprise that the agent they paid for was trying to cut deals with both sides at the negotiation table. The enforcement of the code of business ethics in China lagged behind the need for such enforcement. Even after the company found this out, there was not much they could do to obtain compensation for the losses other than getting rid of that agent and trying to get a better one.

Sometimes it was hard to find someone who met all these requirements. A service company might be hired instead of an agent. Such a company might have offices in both the home country and the host country. Such companies were more likely able to provide the services that a Canadian company might require to help itself do business in China successfully.

5.4.3 Summary

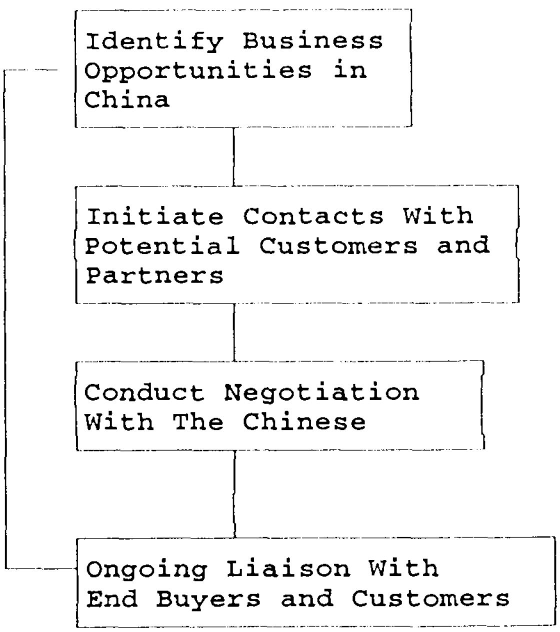
In summary, the intermediaries had made a more important contribution to the higher performing companies to help these companies get established in the

Chinese market than to the lower performing companies. Further, intermediaries hired by the higher performing companies tended to:

- be loyal to the companies that hired them;
- have more connections in China and
- be more experienced and familiar with the industry and the business.

The amount of contribution such intermediaries made depended on both the company sponsoring them and the companies themselves. Such contributions and the roles played by the intermediaries could be best summarized in Chart 5.1.

Chart 5.1 - Roles Played by Intermediaries in Getting Canadian Companies Established in The Chinese Market



ROLE OF AGENT/INTERMEDIARIES

- Gathering and feeding market information to the company;
- Help company package products for the market.

- Making initial contacts on behalf of company;
- Sell the concept of Canadian partner or supplier to the Chinese.

- Help identify the key issue/person of negotiation;
- Saving face for both parties in case of disagreement.

- Acting as local intelligence for the company;
- As service rep for the company;
- Help identify new business opportunities.

By bringing experience and knowledge about the Chinese market to Canadian companies, such intermediaries helped reduce the amount of risk and uncertainty the companies were exposed to. As the Chinese market grew, some companies began to deploy their own marketing forces. In the meantime, such companies were maintaining a dual system of their own sales force and the intermediary. It would interesting to find out if such duality would last, since it would help to test whether using an intermediary was a requirement for doing business in China.

5.5 TYPE AND NATURE OF BUSINESS

This study proposed that Canadian **companies that are involved in business areas with high priority for the Chinese would have higher performance and experienced less problems** (P3.1b). Such areas included the hi-tech business or projects related to infrastructure improvement. This proposition was strongly supported in this study. As Table 5.7 showed, most higher performing companies were either in the areas of priority to the Chinese such as hi-tech or in other areas of importance such as international business consulting.

Table 5.7 - Canadian Companies' Line of Business and Its Importance To the Chinese

Co.	Area of Business	Importance to Chinese
9	International Business Management Consulting	High Priority
4	Advanced Technology	High Priority
10	Export Forest Products	Low Priority
1	Telecommunication	High Priority
2	System Integration	High Priority
3	Transportation	High Priority
7	Fresh Seafood Marketing	Low Priority
6	System Integration	High Priority
5	Agriculture Engineering	Medium Priority
8	Engineering Export	Medium Priority

Two main factors were responsible for such differences in performance in this regard. First, companies that were in these high priority areas seemed to be least affected by policy changes. Projects with lower priority seemed to be affected more by such policy changes, as Company 4 had discovered. "Our main problem with the Chinese market is its unpredictability. Every time the belt-tightening policy comes around, the order stops.". By the same token, Company 7 and 8 were involved in joint ventures where the projects themselves were not on the Chinese priority list.

The main influence of such policy changes was in the company's ability to access foreign exchange. When belt-tightening policies were implemented, projects of lower priority would shoulder most of the restraints of foreign exchange supply. "We could do whatever plan we want about the Chinese market. But if our customer does not have the money to pay for it, what good does the plan do?" Company 10 elaborated.

Second, companies that were doing business with Chinese enterprises that had little or no access to hard currency and had little potential for generating such hard currency seemed to have more problems and lower performance in doing business in China. "They are working on the wrong group; the World Bank only supports projects where it is underdeveloped and the Chinese have no money for it." mocked one executive upon learning Company 5's problem in China.

This study proposed earlier that **companies involved in hi-tech business or infrastructure upgrading were least affected by policy changes in China and in general tended to higher performance** (P3.1b). This was supported as these sectors were least affected by any policy changes. In contrast, companies that were involved in projects with low priority for the Chinese either experienced more problem or lower performance.

5.6 UNDERSTANDING THE CHINESE NEEDS

This specifically referred to how well did the company understand what was really important to the Chinese. In addition to not wanting to lose face socially, the Chinese also wanted to have some personal benefits for working with Canadian companies. The most desired of such benefits was foreign travel. "Of course they would not want to admit that. They probably cover that under some name, such as field visits to manufacturing plants and training in Canada.", one company had discovered. "It is so obvious that most of what they are interested in is travelling, as they often change in their minds once they are in Canada.", revealed another executive.

Training and its importance to the Chinese seemed to have great impact on performance. Companies with a clear understanding of such sensitive issues and who addressed them properly had better performance than those that did not. Table 5.8 summarized the importance of "training" (foreign travel) to the Chinese and how the companies addressed it.

Table 5.8 - Importance of Training and What Did the Company Do

Co.	Why Is Training Important?	What did the company do to deal with it?
9	• The training required was not technical; • Training opportunity in a third place is effective in attracting and motivating local employees.	• Limit it to minimum and management related areas; • The provision of training was written into the employment contract.
4	• The Chinese value the foreign travel opportunity more than training; • They often change their mind on what they do once in Canada.	• Make the cost of training part of the project budget; • Make the provision of training part of the contract.
10	• The Chinese value the foreign travel opportunity more than the training;	• It is necessary to budget for it in cost accounting;
1	• Yes. But it is important on what the employee was hired for. • Good incentive for the Chinese employee	• Was not offered often to maintain its effectiveness and reduce cost.
2	• Yes it is very important for the Chinese	• Have the cost of training built into the budget of the contract.
3	• The Chinese value foreign travel opportunities more than training	• Limit the amount of training to minimum as it is very costly.
7	• Yes, as the Chinese lack of management skills in general;	• We went over to do the training in China as it was too costly for them to come over.
6	• The Chinese often request large number of people be trained in Canada; • It was for the travel opportunity mainly.	• We limit the number to the minimum; • Learned to build cost of training into project budget.
5	• No. the training was paid by the financial institution providing the finance; • It is not the industry norm for the company to provide such training.	• The company did not provide any training to the Chinese at all.
8	• Yes, the Chinese value the travelling opportunity; • They also want to visit our facility.	• We plan to send people over to do it; • Invite the Chinese over to visit the operations here;

A main characteristic of the type of training requested by the Chinese and provided by the companies interviewed was that it was non-technical. To the Chinese involved, training in a third country provided a travel opportunity in a first world country, Canada. This might be the chance of a lifetime that most Chinese would value greatly[3]. "It is understandable that the Chinese value training in foreign countries so much, because most of them would have no chance to do so otherwise", sympathised one executive. To the Canadian companies that were providing or sponsoring it, such training acted as a good incentive for the Chinese. The company could use such opportunities to attract and motivate quality Chinese employees.

This study proposed earlier that **training, preferably in a foreign country was an important factor for the Chinese to do business with Canadian companies** (P3.3b). This was strongly supported. Many Canadian companies have learned that in most business contracts, the issue of training has to be addressed. They have learned the best way was to budget for such expense, and try to limit it to the minimum possible. Further, it should not be offered as an employment condition. Rather, it should be offered as an reward for satisfactory performance.

Overall, the issue of training, in most cases, seemed to be offered as one of the "perks" for working with or for foreign companies in China. It offered an opportunity for the Chinese to visit other countries which was not taken lightly by the Chinese. High performing companies seemed to have realized the importance of this to the Chinese, and they tried to accommodate such needs. Lower performing companies, on the other hand, were more reluctant to offer such perks to their Chinese business associates.

Perhaps this is an area that all foreign companies trying to do business in China need to be sensitive to. It might be costly to comply with all such requests but

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[3]. The reason why foreign travel and foreign training was so important was explained in Appendix 2.

it could be more costly to turn them all down. Striking a balance that is acceptable to both sides involved might be the key.

5.7 LEARNING

One important factor that distinguished the higher performing companies from the lower performing companies seemed to be the amount and speed of learning. Learning was developing more effective patterns of behaviour or changing the assumptions one's behaviour was based on. It referred to the acquisition of knowledge and experience which taught the company how to effectively do business in China. This study identified four progressive stages of learning that have taken place among the companies interviewed. The companies had to learn

- how to navigate the Chinese system;
- about the Chinese culture:
- about Chinese business strategy; and
- how to develop an effective strategy to do business in China.

Stage 1: Navigating the Chinese System was the most basic of all. It referred to the process of becoming familiar with the Chinese so that the company would know which department or which individual the company needed to be in contact with or get permission from before it could start doing business in China. The duplication of bureaucratic functions in China had made this process difficult for some companies: "We have been constantly surprised and frustrated to learn that we have to deal with one more authority before we could do anything," complained Company 6. A clear understanding of the Chinese system was the foundation upon which the business was conducted. Many firms found this task too complicated to take on themselves. Instead, the company often hired an intermediary, such as a lawyer or a consultant to do it for the company.

Stage 2: Becoming Aware of and Being Prepared For Cultural Influences could take place concurrently, or after the first stage. Understanding the Chinese system was not enough. The system was there because the Chinese people made the system the way it was. The company also had to understand how the Chinese people interact and communicate with each other. This was the cultural aspects of the business environment, which in turn affected the business environment.

In addition to what was discussed in section 5.3[4], there were other important aspects of cultural difference. For example, it might have been the Chinese perception of time that made Canadian companies complain that "time means nothing to the Chinese.". Further, the Chinese' unwillingness to be straight forward was another aspect related to the Chinese culture. By not directly calling a "spade a spade", the Chinese left enough room for uncertainties and changes of mind.

A clear understanding of such culture difference would allow the Canadian companies to be sensitive to the Chinese culture. In addition, it would also allow the Canadian companies to separate "the way things are done in China" from the Chinese' business strategy, which was the next stage of learning.

Stage 3: Becoming Familiar With the Chinese Business Strategy was closely related to and based on the previous stage. This included learning how the Chinese did business among themselves, and with foreign business people. Since none of the companies interviewed was involved in manufacturing in China, their business was primarily in marketing Canadian products and services. Thus a major component of their business strategy was on negotiation styles and skills. The Chinese were known for their tough negotiation styles and techniques. They were very conscious about both quality and price.

In general, the Chinese seemed to use a number of strategies toward foreign business people:

- the number game where they change both the number and the participants of the negotiation team;

[4]. Included were the importance of GuanXi, giving and saving faces, and developing trust.

- the timing and waiting game the Chinese often play during negotiation;
- using "you are not the only one" to bargain down Canadians;
- Beating around the bushes in order to get some personal benefits.
- Foreign travel and foreign training in a third country.
- business relations built on ""guanxi"" which was further built on mutual benefits.

Although such strategies were not targeted at discouraging Canadian companies, a company could be disadvantaged if it was not aware of them. A clear understanding of the Chinese business strategy, including negotiation strategy, would allow Canadian companies to develop their own effective courses of action for the Chinese market.

Stage 4: Effective Business Strategies For The Chinese Market was based on the company's understanding of the Chinese business environment and the Chinese business strategy. Lao Tsu used to say that "one could only destroy one's enemy by getting to know the enemy". After the Canadian companies had learned about the Chinese system, the Chinese culture and the way Chinese do business, they could develop their own courses of action that allow them to take advantage of the Chinese market situation. For example, companies that realized the complexity of the Chinese system, subtlety of the Chinese culture, and sophistication of the Chinese business strategy often hired intermediaries. As discussed, such intermediaries helped the company to acquire knowledge quickly and economically, and helped the company devised a business strategy for the Chinese market.

This learning process was in fact indivisible. It was a continuum. It was separated into the above four stages for ease of analyses. The actual learning could take place sequentially or concurrently.

5.7.1 The Amount Of Learning

Table 5.9 summarized what the companies had learned about doing business in China. The financial success of a company and the amount of learning that had taken place seemed to be positively related. The more a company learned, the more successful it seemed to be. This study proposed earlier that **companies using**

Table 5.9 - What Did the Company Learn About Doing Business in China?

Co.	The Company Has Learned That
9	• It takes a combination of competitive price, good product, quality services and **well established local connections** to be successful in China
4	• Never take anything the Chinese said at face value; • Cannot trust Chinese too much; • Time does not mean anything to the Chinese.
10	• The more one learns about China, the more cautious one would become.
1	• Be flexible in negotiation, especially on price; • We have to make decisions fast though the Chinese can take forever; • Cannot learn too much about China otherwise it become counter-productive;
2	• Patience, patience and more patience; • Set realistic expectations; • Be consistent in developing the Chinese market; • Be self-sufficient financially, cannot rely on governments for financial supports.
3	• Have to have local presence and be close to the end customers
7	• Cannot become overly relying on the Chinese, they are very inexperienced;
6	• Chinese have multi-faces. Expect different behaviours, depending on occasions. • Has to be familiar with the Chinese system
5	• Not sure if the company learned anything; • Don't know if should resort to gift giving or bribing;
8	• Not sure if it learned anything.

Wholly Owned and equity joint ventures had learned more about the Chinese market than companies using other entry strategies (P1a). This was partially supported. Two of the three high performing companies (9 & 10) were Wholly Owned companies and Company 4 was using contractual joint ventures. The low performing companies, 7, 6, 5 and 8 seemed to experience less learning by contrast.

However, it was the three medium performing companies that learned the most and were in the process of setting up either equity joint ventures with the Chinese or wholly owned operations in China. This raised a question about the relationship between learning and financial performance of a company. Would more learning always lead to better performance? The answer seemed to be that of relativity. A companies learned more about the market environment, they were more likely to change their assumptions about how to do business in that environment. Such changes of assumptions, if too radical, would lead to lower performance as companies might behave more like the Chinese. The executive from Company 1 summarized this point well: "One cannot learn too much about China, otherwise it would become counter-productive."

The findings seemed to suggest that learning about the Chinese market was important for Canadian doing business in China, as learning enabled companies to make informed decisions. The more the company learned, the better it was for the company. However, if the company learned too much, and began to change its fundamental assumptions of doing business in China, it became counter productive. This observation was confirmed by many other sources. For example, the former Canadian Ambassador to China Dr. Drake observed that "it was unbelievable that after some companies had been there for a while, they acted as if they forgot how to do business.".

The Chinese themselves had also provided some hints for this dilemma. In his writing about the impact of the China's new free enterprises on the daily life of Chinese, Qian (1991) stated "We demand foreigners trust us and be friendly to us...but we do not even have a set of laws that clearly regulate the behaviour of our enterprises...". Since "different people could tell you a different version about the same story", if the company "takes what it hears or sees at face value", and changes its assumptions about doing business in China, the company is really "taking the trees for forest.".

5.7.2 The Content and Speed of Learning

In addition to the amount of learning, the level of performance also differed with the content of learning. The speed of learning here referred to the rate of learning through the stages of learning that the company had achieved. In contrast to the amount of learning, the content of learning referred to what the company had learned. For example, the company might have learned a lot in one area, but little in other areas. In other words, a company that was still learning about the Chinese system (stage 1) had a slower speed of learning than companies that were learning about the other areas. Thus the content and speed of learning were more related to each other than to the amount of learning. In fact, the content of learning might reflect the speed of learning.

This study found that the three highest performing companies (9, 4 and 10) appeared to have passed the stages of learning about the Chinese system (Stage 1), the Chinese culture (Stage 2) and the Chinese business strategy (Stage 3). Their learning seemed to be focused on the fourth stage, effective business strategies for doing business in China. Company 9 summarized their strategy precisely "It takes good product, competitive price, adequate service and good connections to be successful". While the first three elements were more universal to international business, the last item, good connections, seemed to be more unique to the Chinese culture.

It seemed that after the company had acquired the basics and became familiar with the cultural differences, the business strategy for the Chinese market did not vary much from that used in other markets. "Basically, they (the Chinese) are business people just like us," explained one company executive. "They want good product, adequate services and good price." "The only difference is that they prefer to deal with people they know". Another executive explained differently. "After you get used to that stuff (culture differences etc.), it is basically the same thing."

The medium performing companies (1, 2 and 3) seemed to lag behind the three highest performing companies in the speed of learning. Most of these companies were between learning the Chinese business strategies (Stage 3) and trying to develop its own strategy (Stage 4). They were aware of the cultural differences and were becoming familiar with the Chinese business strategies. They were still struggling towards the formation of an effective strategy for the Chinese market.

By sharp contrast, the four low performing companies had learned very little about doing business in China. Most of their learning was about the Chinese system and the culture differences. Their main frustration also came from such differences. "Learning the Chinese system is a main challenge for us", admitted on executive "it is quite complicated for us.".

5.7.3 More Evidence on Learning

This study has provided more evidence about the existence of this learning process and the effect of learning on the companies' performance. What the companies had learned through and about negotiating with the Chinese closely resembled the above learning process. Table 5.10 summarized what the companies had learned about negotiating with the Chinese. A closer examination of the table revealed that both the high performing companies (9, 4 and 10) and the medium performing companies (1, 2 and 3) had learned much more than the low performing companies (7,6,5 and 8).

Further, what the high performing companies had learned was more toward proper strategies of negotiating with the Chinese (Stage 4). For example, these companies had learned that the company should:

- ♦ be prepared. The company should do its homework and learn about the Chinese negotiation team beforehand. This often includes hiring local intelligence (guanxi) to help prepare the ground.

- ♦ use intermediary to help with the negotiation process.
- ♦ have everything that has been agreed upon documented to prevent rumbling.
- ♦ be prepared to walk out if nothing worked.

The learning concerning negotiation among the medium performing companies was quite similar to that of the high performing companies. The main differences were that such learning was more fragmented and some medium performing companies were still learning about the Chinese culture and business strategies. For example, Company 2 had learned that for the Chinese, everything was negotiable, as long as it meant some personal benefits to the Chinese negotiators.

Table 5.10 - Learning Through Negotiating With Chinese

Co.	What the Company Had Learned About Negotiating With the Chinese?
9	• Plan and prepare for your strategy before negotiation; • Use local intelligence to help with the negotiation; • Maintain friendship and work together with the Chinese.
4	• Do your homework and find out their budget prior to negotiation; • Find out what they want first; • Business first and then personal relationship.
10	• Do your homework to identify who is the true buyers before negotiation; • Maintain close contacts with guanxi and connections in China.
1	• Identify who the decision makers are ahead; • Use local intelligence to help with the negotiation; • Be patient.
2	• Prepare yourself before hand; • Everything is negotiable for the Chinese; • Be open minded and willing to accommodate the Chinese.
3	• Maintain a good image among the Chinese; • Maintain friendly relationship with the Chinese.
7	• Personal relationship and connections in China are very important; • Have to be patient.
6	• Know the Chinese' sensitive issues prior to negotiation; • Be aware that the Chinese value training opportunity afforded by the contract
5	• Get what has been agreed on down in writing to prevent rambling and change of mind; • Know what they want, especially personally.
8	• Know what the Chinese want and try to accommodate if reasonable

The four low performing companies had just begun to learn what was important to the Chinese. They seemed to be some distance away from becoming skilled negotiators. However, these companies had learned more and faster about negotiation compared to their overall learning.

In general, the higher performing companies (both high and medium performing companies) had learned more about negotiating with the Chinese than the low performing companies. At the same time, the three high performing companies tended to focus their learning on developing effective strategies. The low performing companies were in the earlier stages of learning and just began to move into the other areas. The medium performing companies were in between in terms of learning.

5.7.4 Summary

Differences in past experiences, the nature of the business, and the business strategies used by the company might have affected the amount and speed of learning. In general, it appeared that Canadian companies had learned in order to be successful in the Chinese market, there were certain things that they had to learn. For example, they had to

- ♦ Be flexible, accommodating and open minded, but not to the extent that it violated the company's business principles.

- ♦ Learn enough about doing business in China to make the process comfortable, but not too much to behave like the Chinese. Too much learning might be counter productive.

- ♦ Have connections in China. Chinese are nice to deal with individually, but not when they are in a group. In general, one should not take their words at face value as no one can make any decision solely by him/herself;

- ♦ Be realistic about what to expect. It is a slow system so get used to it, rather than get frustrated.

- ♦ Have local advise and intelligence are absolutely necessary to do business in China.

In addition, the companies have learned that,

- The Chinese are tough business people and skilled negotiators. If one is not prepared for these, he is bound to be frustrated later;
- The company has to be prepared to spend time on customer service including educating and training the customers on how to use the products;

This study proposed earlier that as **Canadian companies learned more about doing business in China, they would experience less frustration thus improving their level of satisfaction** (P3.7a). The response was mixed. On the one hand, some companies had been in China much earlier than most of their competitors and certain level of customer loyalty had been built up. Further, through previous experiences, these companies had proved to the Chinese that they were honest and willing to offer competitive products and good services. Thus it seemed that experience had made these companies more comfortable doing business in China. On the other hand, the market had become more competitive and the Chinese had become shrewder businessmen. Their newly acquired skills made them more challenging to deal with.

Porter (1990) found that learning and financial performance did not go together all the time. This study identified a similar pattern on the relationship between learning and financial performance of companies. Learning about the new business environment (China) and business counterparts (the Chinese) was beneficial to company as it allowed the company (Canadian) to prepare its own business strategy in the new environment. However, when learning about the counterparts resulted in changing sides, so that the company would behave more like the Chinese, then learning became counter-productive.

5.8 SUMMARY AND PROPOSITION TESTING

In addition to entry strategies, this chapter identified a number of other key performance factors concerning Canadian companies doing business in China. It was found that in the

- Initiation of business relations with the Chinese,
- Amount of information search before deciding on the Chinese market;
- Amount of awareness of culture differences;
- Use of intermediaries;
- Type and nature of business the companies were in;
- Understanding of the Chinese and their needs and
- Amount and speed of learning about doing business in China,

the high performing companies differed greatly from the lower performing companies. In general, the higher performing companies were much more prepared than the lower performing companies. They already knew quite a bit about the Chinese market and what to expect from it before going in. Once they were in the market, they seemed to be more confident about what they were doing and less lost than the lower performing companies.

The lesson for other companies interested in doing business in China seemed to be clear: the Chinese market was not a rose garden. If the company was not fully prepared, it would be better not to get in; if the company did not have enough experience and knowledge about the Chinese market, it had to make sure it had access to such knowledge and experience. The company could hire or contract such individuals with desired quality to work for the company to bridge the knowledge gap.

A number of propositions were tested in this chapter. Table 5.11 summarized the testing of propositions relevant to this chapter.

Table 5.11 - Summary of Proposition Testing

Proposition	Testing Results
P1a: Companies using wholly owned and equity joint venture strategies have learned more about doing business in China than companies using other entry strategies.	Partially supported, the higher performing companies, mainly wholly owned companies had learned a lot more than the lower performing companies, mainly joint ventures.
P2b: Companies that hired local partners, distributors, agents or other intermediaries are more informed about the market and are likely to have higher performance.	Supported.
P3.1b: High-tech companies located in SEZs or Open cities may experience less frustration and achieve higher performance than low-tech companies located elsewhere.	Supported. In general companies offering products or services valued by the Chinese were less affected by policy changes.
P3.3b: Training, preferably in a third country was an important factor for the Chinese to do business with Canadians.	Supported.
P3.4a: Companies with well-established connections in China were less frustrated and would have higher performance.	Strongly supported.
P3.4b: Awareness and Appreciation of the Chinese culture in general was critical to Canadian companies doing business in China.	Partially supported. It helps to reduce frustration, but not necessarily to improve performance.
P3.7a: Learning by both sides helps to reduce Canadian companies' frustration and help to improve the performance and satisfaction.	Mixed, learning reduces some frustration, but does not eliminated it.

CHAPTER SIX - OTHER IMPORTANT ISSUES RELATED TO DOING BUSINESS IN CHINA

The previous three chapters had discussed the key factors distinguishing the high, medium and low performing companies. In addition, there were a number of other areas important to all Canadian companies doing business in China. For example, what problems did these companies run into, what happened during the negotiation process, and what were the important issues for Canadian companies doing business in China? The purpose of this chapter was to examine such areas, including:

- the Chinese business environment;
- negotiation with the Chinese;
- the issue of Training and the use of Expatriate
- main problems of doing business in China

6.1 THE MYTH ABOUT THE CHINESE BUSINESS ENVIRONMENT

The Chapter 1 identified a number of factors from the Chinese business environment that might affect both the entry strategy and the business operation. Chapter 3 has covered a few of these factors as they related to each entry strategy. This chapter will try to put all the factors together to provide a panoramic view of the Chinese business environment and its impacts on the business and the companies' strategy toward each issue. Specific areas and issues included:

- economic (inflation) and political instability;
- problems Infrastructure such as transportation;
- uncertain cost of doing business;
- culture differences;
- labour supply and training;
- absence of a well established legal system; and
- frequent policy changes.

Special attention will be given to the companies' evaluation of each factor and the measures taken to protect themselves.

6.1.1 Economic and Political Instability

The double-digit inflation brought about by rapid economic growth in China did not appear to be a major concern for the companies studied. This was due to the lack of long term (financial) commitment among these companies. If these companies invested heavily in the manufacturing process in China, inflation would have had far-reaching impact on the operation of these companies. For the same reason, potential political instability was also not a main concern for the companies interviewed. Most companies stated that they were in China to do business and had no interest in politics.

The level of political risk appeared to be both subjective and relative. What one company perceived as unacceptably high political risks might be reasonable to another company. One company that began to do business in the Pacific Rim countries in the '60s discovered that "The Chinese situation today is far better than South Korea or Taiwan two decades ago. It will not take that long for China to catch up with them." This company believed that trying to work with a country when the country needed the help was the best strategy to build customer loyalty and relationship. "Twenty years later, we have a very strong hold in both the Korean and the Taiwanese markets."

In general, what seems to be important politically may not be that important to business decisions. Businesses define political risks differently from others. To them, high return on investment comes with risks. Political risk is but one of those. "Business is about taking risk, as long as it is calculated." conceded one company.

6.1.2 Infrastructure and Related Problems

These included energy shortages, inadequate transportation system, and out-of-date or nonexistent telecommunication systems in some remote areas. Almost all firms reported that energy shortages were not a particular problem for them. Perhaps again this was due to the type of business (mainly marketing exports) of business these companies were involved in China.

Inadequate transportation particularly in less developed areas however, seemed to be a major concern for these companies. One company executive who had been doing business in China for more than a decade explained why and how: "Simple things like buying train and plane tickets could be difficult due to heavy load on the transportation system. I have to reschedule or cancel meetings because of this unreliable transportation system. Connections and GuanXi had to be called in for help.". Such incidents, however, seemed to be more isolated.

Telecommunication posed another problem, especially for frequent Canadian business travellers to China who might not be staying in the best hotels or doing business in remote areas. Many realized going to China did not mean that one would have access to the Chinese customers, and the traveller often felt being isolated. "Being in China for a month makes me feel isolated," complained one executive, "most hotel rooms have colour televisions with only local channels on. There is hardly any access to international news.". "Hotel telephones are another problem as most do not have direct access to international lines." These conditions may have been a problem for Canadians with smaller companies, because they were unable to stay in four-star hotels.

Though frustrating, most companies did not think these concerns imposed any major challenges or threats to their doing business in China. Instead, they perceived such under-development as advantageous to them as it could be translated into business opportunities. As discussed earlier, many of the companies were involved in helping the Chinese upgrade these areas. Canadian companies found themselves in demand in the Chinese market for what they could offer in these areas.

6.1.3 Lack of Quality Labour Supply

There were some mixed responses to the issue of quality labour supply. Some interviewees believed that "it is dangerous to generalize about China," as one experienced Canadian executive cautioned. The supply of skilled labour varied from city to city. Most companies found it easy to attract the Chinese equivalent of Harvard or MIT graduates in large cities. "The Chinese are very competent technically," another executive discovered. Foreign owned or controlled companies provided better wages and salaries than locally run businesses. In fact, the salary offered by such companies was often 2 to 3 times more than that offered by local companies. Given the double digit inflation in the country, high salary was very attractive for some Chinese.

Other companies, particularly joint venture companies, found that recruiting quality management staff was very difficult. "We have fired two managers in the last year. It is very difficult to find a qualified and motivated business manager in China.", revealed one joint venture executive, "it is not just their lack of skills, it is their attitude too.". "They just do not have the same drive for excellence as us.".

This study proposed earlier that **finding quality local employees was a major challenge for Canadian companies investing in China** (P3.3a). This proposition was supported. Since none of the companies interviewed was involved in mass manufacturing, the concern seemed to be focused on hiring qualified management staff.

In general, the main concern with labour force was not about the quantity, but the quality. A recent Globe and Mail Report on Business (January, 1994) report echoed this concern:"Foreign investors sometimes get exactly what they pay for: a belligerent and undisciplined workforce producing substandard goods.". Most of the recent reports on labour unrest in China were related to ventures or joint ventures invested in by South Korean, Taiwanese and Japanese. It would be interesting to see the experience of Canadian companies in this area.

6.1.4 Concern Over Foreign Exchange and Related Problems

It was proposed earlier in Chapter one that **foreign exchange supply was a major concern for Canadian companies doing business in China** (P3.2). This proposition was strongly supported by this study, but indirectly. All of the interviewed companies realized the potential problem this may cause for the company. There were three tiers in the Chinese foreign exchange system varying greatly from one another[1]:

- ♦ that of the central financial institutions;
- ♦ that of the swap centres located in major cities and to which foreign investors had access legally; and
- ♦ that of the black-market, the access to which was illegal.

Most of them decided to avoid this issue altogether by limiting their transactions with the Chinese to foreign exchange only. In other words, they decided not to conduct any business in local currency, or limit it to the minimum. Table 6.1 summarized how the companies evaluated and handled the foreign exchange problem. It showed clearly that most companies avoided the issue of foreign exchange by conducting all their transactions in hard currencies, either US or Canadian dollars.

Limiting their business activities to those that guaranteed payment in hard currency seemed to have solved the problem of foreign exchange for the companies. However this practice contradicted their original intention of doing business freely in China and posed two major restrictions on their business scope in China.

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[1] At the time of this writing, the official rate was about 1 US$ = 5.8 RenMinBi; the swap rate was about 1 US$ = 8.8 RenMinBi and the black market rate was about 1 US$ = 10 RenMinBi. The Chinese government proposed the abolishment of the current system by January 1994, and replace it with a simpler system.

First, it excluded companies that had little or no access to foreign exchange. As discussed earlier most Canadian companies were in China to take advantage of the large domestic market. However, most Chinese enterprises were not export oriented and had little no access to foreign exchange. Thus by limiting their businesses to hard currency transactions only, Canadians were missing out on many business opportunities in China.

Table 6.1 - How Did You Deal With Foreign Exchange Problems?

		How Did the Company Deal With Issues Related to Foreign Exchange?
9	No	• Most business were conducted in US currency; • The small portion of business in local currency will be used to operate the local offices; • If the Chinese wanted help with the currency problem, the company often backed out of the deal.
4	No	• All business was conducted in US currency as most of the projects the company involved in were financed by international financing agencies; • Willing to help Chinese get finance if could.
10	No	• All business was conducted in US currency; • It was a major problem for the Chinese as no future trade was allowed. The Chinese absorbed all losses due to currency fluctuation.
1	No	• All transactions were in US dollars; • The Chinese could afford the purchase as telecommunication had high priority for the Chinese.
2	No	• All business were conducted in Canadian currency; • The Chinese absorbed all losses due to exchange fluctuation; • But sales would increase if could use Renminbi
3	No	• Sales in China was in local currency, and purchase from the company in Canada was in hard currency; • The two-way business flow allowed the company to balance its exchange.
7	Yes	• A major problem as it could increase the cost of import for the joint venture and made the product less competitive; • Have not found any effective solutions;
6	No	• 90% of the payment was in Canadian currency and the rest was used to cover business expenses in China.
5	Yes	• The projects were funded by the World Bank; but • The Chinese found it hard to recognize and pay for business consulting.
8	Not Yet	• As the restriction on balancing the foreign exchange by the joint venture was relaxed in 1992; - Export (about 50% of the production) sales will be used for repatriation.

Further, for those with limited foreign exchange, they certainly would like to spend it in the most efficient manner. This perhaps explained partially why the Chinese were such tough bargainers. Companies in the hi-tech or infrastructure development businesses tended to have better access to foreign exchange than others. Most Canadian companies interviewed were in these sectors, as a result they experienced little or no problems in getting paid.

Finally, the Chinese operation had to have good export potential to generate enough foreign exchange. As discussed in Chapter 3, this explained partially the problems experienced by the joint ventures in China, since most of them did not have good export potential.

In summary, companies that were involved in projects with higher priority on the Chinese economic development agenda or operations with good export potential had little or no problem with foreign exchange. Most of the companies interviewed in this study were in these areas. Three of the four joint venture companies (both contractual or equity) had problems to various degrees because they did not belong to either of these two categories.

6.1.5 Absence of A Formal Legal and Accounting System

Although the Chinese government has introduced a number of measures to improve the legal system, to a large degree, it is in its infancy. Chinese society is not bound together by law. "The Chinese do not have the same reliance on legal systems as we do here in Canada," discovered one executive, "it is built on relationships, networks and trust.". Lawyers do not enjoy the same prestige and status as in western countries. Conflicts and disputes are often dealt with by third party mediation. None of the companies interviewed complained about the Chinese legal system.

How did Canadian companies protect themselves in this business environment? This study proposed earlier that **they would rely on developing**

and maintain good relationship with the Chinese to protect themselves rather than the legal system (P3.6). This was strongly supported. This system seemed to work well in China as most business was relation-based. Some interviewees even went as far as saying that most Chinese did not have a set of principles, as everything has a price. If one was willing to pay the price, anything and everything could be purchased.

Such an attitude might be exceptional rather than typical among Canadian companies doing business in China. However, when laws and the legal systems do not function as they are supposed to, people usually resort to whatever works to resolve the issue of concern. It was discovered that more and more Canadian companies were adding a third country arbitration clause to their contracts with the China. Switzerland was often the place chosen to conduct arbitration[2].

The problem of accounting and information disclosure was another concern for the companies interviewed. Qian (1991) provided a precise description of this problem in his writing

> If there is one government agency or department trying to buy something, there will be at least ten people phoning around and telling others that they have the permit to buy a certain quantity of the certain product. If the purchase is worth about $1 million, the people would make it sound like $10 million dollars. If there is one supplier, he would definitely want to ask for more than $1 million thanks to the inflated demand.

A proper accounting system that requires proper disclosure of the purchase would solve or at least alleviate this problem. What some of the companies had learned to do was to hire an intermediary to find out the buyer and his budget first.

6.1.6 Frequent Policy Changes

The main complaint by these companies about frequent Chinese policy changes was about the unpredictability created by belt-tightening exercises

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[2]. Many members at the 13th Canada China Business Council meeting revealed this.

adopted by the Chinese government. The Chinese economy had developed a pattern of belt-tightening every four or five years to control the overheated economy and high inflation. Such measures often translated into restrictions on money supplies and restrictions on imports. One company ran into several problems due to this. Their sales changed from about $10 million in one year to less half of that the next. The Chinese customers were not spending, as they could not obtained the letter of credit to put in the purchase order. Another company found it difficult to get paid at times like this, as the Chinese just did not have the money to pay for it.

Further, it seemed that the impact of this issue was more severe in some sectors than others. For example, it was not an acute problem for companies involved in infrastructure development or hi-tech business. These sectors had high priority in the Chinese' economic agenda. Highway development project, hydro power plant, telecommunication or related projects were hardly affected by the swing of fiscal policy. In contrast, brakes were often applied to construction projects, import of consumer goods and similar projects.

6.1.7 Slowness of Things

It was proposed earlier that **the slow bureaucratic system was a major source of frustration for Canadian companies doing business in China** (P3.1a). This was strongly supported. In fact, the most complained-about issue was the slowness of things in China in general, not just the bureaucratic system. One company summed it up in this way, "You need stretch your time by three times and increase your budget allowance by one-and-half times to do business in China."

On average, it took more than double the amount of time required in Canada to achieve the same results in China. Another executive decided that it would take three things to be successful in China "Patience, patience and patience," "if you cannot take that, then you should not be in China, for sure you would be as frustrated as hell."

6.1.8 The Costs of Doing Business in China

Many companies used an intermediary rather than a sales office in China mainly due to the high costs involved in setting up a local office. Small to medium sized companies with limited sales from China often could not justify such costs. The issue of the high cost of doing business in China was, however, a matter of location and relativity. City centres were always more expensive than suburbs in China like anywhere else. "The cost is much higher than we expected, especially in relation to their productivity, but compared to elsewhere, it is still cheaper." explained one executive.

Tangible costs such as travelling, hiring local employees and renting office space were easier to calculate and justify. The intangible costs, which could add up to a substantial amount, were difficult to predict and justify. There were a number of sources for such cost:

- expenses for developing and maintaining GuanXi and connection;
- expenses for buying gifts;
- costs incurred as a result of delays and cancellation; and
- extra costs as a result of extra time required.

As discussed, China was mainly a society of networking and GuanXi. It was virtually impossible for one to do business in China if he/she did not have a network of GuanXi that he/she could reach for help. The Chinese believed in "mutual benefits". If there was benefits for you, there should be benefits for me personally. Since you (Canadians) came all the way to China to do business, there must be something for you, so you have to give me some benefits. This meant extra expense for developing and maintaining such connections and GuanXi for the Canadian companies.

Many Canadian businesses came across this type of mentality in China, expressed either directly or in a much subtle way. Some companies had come to terms with it by treating it as an development expense. One company revealed that they allowed up to 10% of their annual budget for China be used on such items as finders' fee and goodwill expenses.

Other companies were often sheltered from such expenses because they hired an intermediary to whom such expenses were shifted. However, this was not necessarily translated in savings for the company. What awaited these companies was often vast amounts of frustration as they lost control to the intermediary. Since the business relations and the contract with the Chinese were brought together by the intermediary, the company could not go to the Chinese directly if they had problems.

What seemed to be clear was that there was no less expensive way of developing a new market. Television advertising was not as wide spread in China as in Canada, so there had to be some other way to promote and advertise the company.

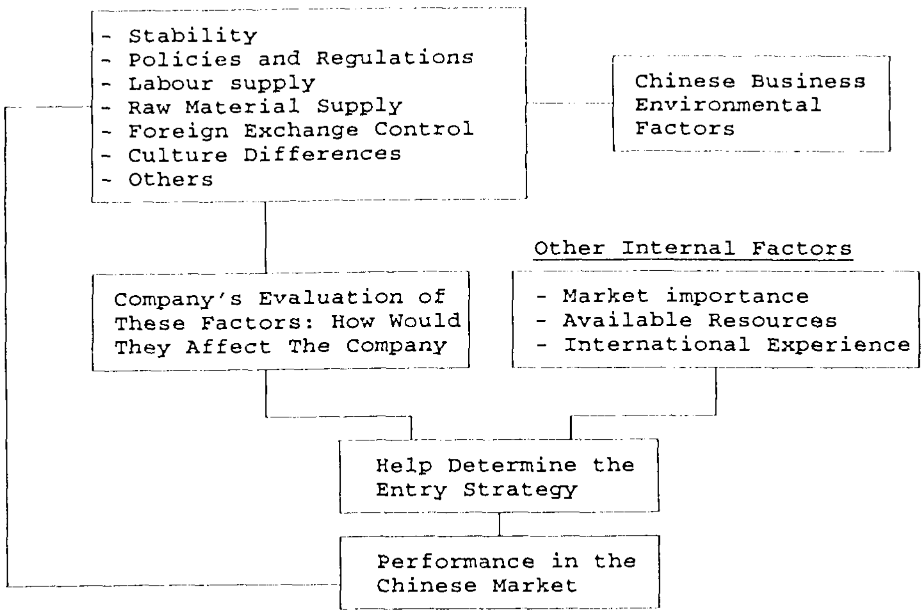
6.1.9 Summary and Proposition Testing

This chapter looked briefly at the various factors affecting Canadian companies doing business in China. They not only affected the selection of entry strategy as discussed in Chapter 3, but also the ultimate performance of the company in the Chinese market. There seemed to be a triangular relationship among the environment, entry strategy and the performance of a company. This relationship was depicted in Chart 6.1.

Companies that viewed the business environment as highly risky and uncertain would resort to less risky entry strategies such as exports or contractual entry strategies to enter the market. In addition, they would take other measures such as limiting all transactions to foreign exchange and developing good relationships with the Chinese to protect themselves.

The decision of an entry strategy would depend on how the company viewed the business environment. Since none of the companies interviewed was involved in manufacturing in China at the time of interview, it provided a strong indication

Charter 6.1 Business Environment, Entry Strategy and Performance



that the Chinese business environment was still perceived as risky for Canadian companies. Although many uncertainties and risks such as those related to foreign exchange were screened out by their business strategy, there were still a number of areas that the companies had to be concerned about. Mainly these were in the area of infrastructure such as transportation, the cost of doing business, culture differences, and skilled labour supply and training.

6.2 NEGOTIATING WITH THE CHINESE

Negotiating with the Chinese constituted a main part of the business activities for Canadian companies doing business in China. The Chinese were known as skilled and tough negotiators. This section will provide a picture of the negotiation process, including the main problems and what the companies done to improve the negotiation.

6.2.1 The Chinese Negotiation Style

The negotiation process with the Chinese has been highly publicized, though most studies were about American companies' experience (Tung 1989, Pye 1992, Adler 1992, Kirkbridge & Tang 1990, Stewart & Keown 1989, Eiteman 1990). Canadian companies seemed to have similar experience in negotiating with the Chinese. Table 6.2 summarized these companies' perception of the Chinese negotiation style.

Table 6.2 - The Perceived Chinese Negotiation Style

Co.	Perceived Chinese Negotiation Style
9	• Chinese are tough negotiators; • Do not care if others are making money; • Prefer discounted package of technology, equipment and training than piece-buying.
4	• Don't want to deal with lawyers; • Prefer to establish personal relationship first; • Two parts of negotiation: technical and commercial .
10	• They are very price and cost conscious; • Quality comes as a secondary concern.
1	• They are quality conscious and also very price conscious.
2	• The Chinese frequent change their negotiators; • Negotiation is never finished until they get paid; • 25% of time spent on things irrelevant to the negotiation.
3	• They are difficult and hard bargainers; • Price conscious.
7	• Negotiation often takes much longer; • No problem as Chinese partner is helping.
6	• Nothing is fixed for Chinese; • Everything has a price and sellable; • Decision maker not present or nonactive during negotiation; • Many variables in the equation to force Canadians give in.
5	• Negotiators often want free travel abroad; • Very detail oriented and do not trust Canadians much;
8	• They tend to ramble a lot; • Intentionally worn you down.

It was found that the negotiation process itself was characterized as

- long, at least twice as long as in Canada;

- endless rambling until the Chinese get what they want;
- what they often want or appreciate is travelling opportunities;
- tough price bargaining.

There was not any clear pattern in negotiating with the Chinese. The negotiation process seemed to vary from company to company. Nature of business, entry strategy and experience level of the of the Canadian company seemed to affect the negotiation process. Undoubtedly, the same thing could be true for the Chinese negotiators. If the Chinese needed what the Canadians were offering, if they were knowledgeable about negotiating with foreigners, or if they had the money, the process would be smoother.

It is not difficult to construct the negotiation process between Canadian and Chinese negotiators, and the frustration Canadians were going through:

> ♦ Canadians walked into a room and found that they were out numbered by about 1.5 to 2 times. They found it hard to separate the decision maker from the rest. If there were more than one Chinese organizations involved, no one would lead the negotiation for fear of making a mistake.
>
> ♦ The Chinese would ramble about the same issue. Perhaps they were not happy about some hidden issues such as foreign travelling, and were unhappy about Canadian's not making concession on training abroad. So the same negotiation took as least twice as long.
>
> ♦ As they did not have much trust in any foreigner, they would request to examine endless technical details. If the company really had luck, the Chinese might say that they were also considering other options.

If the Canadian company was experienced in this process, it would have found out the key decision makers or criteria before the negotiation began. Even if the Canadian company did not do it, it would realize that perhaps it was time to call for a break and do its homework, and try to get to know the Chinese better. However, if the Canadian company was inexperienced,

> ♦ They would get increasingly frustrated and impatient because they were not sure what the Chinese were thinking, or if the company was to get anything out of the negotiation.

♦ Finally, after all efforts had failed, the company simply walked out with a bad taste in the mouth.

As discussed in Chapter 5, the more experienced companies tended to be more successful in negotiating with the Chinese than the inexperienced companies. Despite their experiences, all companies found negotiating with the Chinese frustrating, as "the Chinese have very low sense of loyalty," explained one executive. The following text will examine the main problems Canadian companies had encountered in negotiating with the Chinese.

6.2.2 Main Problems and Frustration Encountered

This study proposed earlier that **the amount of frustration Canadian companies experienced in negotiating with the Chinese did not change much because the Chinese changed little in their way of conducting business** (P3.7c). Most of the 10 Canadian companies ran into problems negotiating with the Chinese and were quite frustrated by them. As Table 6.3 summarized, these problems and frustrations seemed to be rooted mainly in the Chinese negotiation style. Most companies agreed that:

a) It usually took much longer, perhaps because there were too many Chinese involved, and no one was willing to take the leadership. Largely the Chinese system is still characterized by punishing mistakes without rewarding good performance. Thus, no one would be willing to take the lead or any responsibility to avoid punishment or losing face later.

b) Most Chinese negotiators would appreciate foreign travel opportunities, but they could not request it if was not required by the project. They would rather beat around the bush until Canadian negotiators came to understand what the Chinese wanted. A few companies felt that the Chinese requested too many technical details for the same reason.

c) The Chinese played the time game as they knew that Canadians were on a much tighter time schedule when they were in China. Most negotiations took place in China due partially to cost considerations.

The Chinese would prefer negotiating in Canada, but they do not want to pay for travel and accommodation costs. They might decide for example, to come

Table 6.3 - Main Problems in Negotiating With The Chinese

Co.	Main Problems and Frustrations Encountered Negotiating With Chinese
9	• Constantly bringing new competitors into the arena; • Lack of loyalty and commitment by the Chinese; • High costs of entertaining; • Chinese intentionally concealed their currency problem until the Canadians were committed.
4	• Chinese intentionally delay or stretch the negotiation to make us back down easily; • Do not trust Canadians enough; • Often request too many technical details.
10	• Hard to find interpreter who understands the business; • Hard to develop loyal relationship with the Chinese; • Chinese are non-committal; • Agreement reached often rescinded by Chinese decision-maker not present in negotiation.
1	• Not straight forward; • Lack of leadership and too many decision makers; • Take too long.
2	• Frequent misunderstanding for lack of good interpreter; • Constantly in a position where negotiation never ends.
3	• Takes long time to reach agreement; • Demand too many free travel abroad.
7	• No main problem other than that they do not value time much.
6	• They ramble on the same issue repeatedly; • Lack of consensus among Chinese negotiators. One gets many different versions of the same thing; • Extra amount of time needed to reach contract.
5	• Takes far too long; • Lack of commitment by the Chinese; • Too many games like "you are not the only one"; • Willing to take anything that you could offer; • Don't trust us enough.
8	• Don't trust Canadians enough by requesting excessive detail about everything; • Too much rambling about the same issue; • Negotiator does not have decision power.

to Canada at the expense of the project budget. If the negotiation took place in China, sometimes the Chinese negotiators intentionally lengthened the negotiation. As time pressed on, Canadians became uneasy as they would not want to go home empty-handed, so they backed down. Companies estimated that the Chinese would play this game in negotiation 90 percent of the time.

These seemed to be the main sources of frustrations for Canadian negotiators. The Chinese negotiators were also sometimes suspicious of information provided by Canadians. They often required excessive technical details, before they were even committed to negotiating with the Canadians. Although this might be part of the Chinese negotiation strategy, most companies interpreted this as distrust for Canadians.

Furthermore, the Chinese were non-committing and did not have much loyalty. This was contradictory to traditional Chinese values. Theroux (1993) discovered a new phenomenon in China: materialism among mid-aged Chinese. Those in their 30s and 40s did not want to be burdened by their past (participation or victim of the cultural revolution), were not sure about their future, so that they lived in and for today. This phenomenon was reflected in the negotiation by lack of commitment and loyalty. While Canadians were led to believe that they were leading the competition, Chinese might bring new players into the arena which changed the picture. The frustration here was that one could never be sure if the company would get the business. This issue seemed to be of particular concern to service companies. Both service companies interviewed experienced this problems repeatedly.

Last, but not least, corruption among some Chinese officials increased the cost of doing business there significantly. Gifts, entertaining, and travelling could run as high as 10 percent of the project budget. The Chinese negotiators preferred to have foreign companies show their appreciation of doing business with them. A few years ago, Colour Tvs, refrigerators were satisfactory. Nowadays, foreign travel, cash, and cars were more appropriate. One company disclosed that the Chinese preferred a Mercedes Benz to "drive" the negotiation in the right direction. Although such expenses may account for a small percentage of the total project budget, it was a matter of principle and business ethics. Many companies are annoyed and stayed away from such practices. But the frustration was that they lost the business because of it. The Chinese government constantly cracked down on official corruption, but it still flourished.

6.2.3 Measures Taken To Facilitate Negotiation

This study proposed earlier that **companies that understood what the Chinese were trying to achieve were less frustrated, especially during negotiation** (P4.1a). This was strongly supported. The key to reducing the amount of frustration and improving the efficiency of negotiation seemed to be preparation. Table 6.4 summarized the measures taken by these companies, most of which were preventative, rather than reactive.

First, the company could hire an intermediary to help the company prepare for the negotiation. This sometimes included identifying the key issues and concerns of the Chinese, key members of the negotiation team, and their spending limit. Based on this information, the company could plan its own scenarios: most favourable, next favourable and least favourable but acceptable. Thus during the negotiation the company would know its own strategy.

Second, the company could try to foresee the needs and concern of the Chinese team. Many Canadians learned that foreign travelling was genuinely sought after by Chinese negotiators so they would include it in the scenario planning.

Third, the company could maintain a good relationship with the Chinese. This included not only the negotiation team but also those the company had dealt with earlier. In other words, they tried to develop and maintain a network of connections and Guanxi, that could be called upon for help.

Fourth, the company could document the meeting minutes by itself rather than relying on the Chinese to do that. Furthermore, the company could hire its own interpreter instead of using the one provided by the Chinese.

6.4 - Measures Taken to Facilitate Negotiation

Co.	Measures Taken to Improve Negotiation
9	• Be prepared, know your strategy and plan for different scenarios; • Foresee the needs of your counterparts and prepare for it; • Maintain Friendship and work together; • Use local intelligence.
4	• Using intermediary to find the Chinese spending limit and what the negotiators want personally; • Making foreign travel part of the contract for the Chinese.
10	• Hire local employees who are well connected to find out the main issue and key decision maker; • Maintain good relationship with the people we do business with.
1	• Maintain good relationship with the Chinese you work with.
2	• Hire people to do homework before negotiation; • Be ready to walk out during negotiation; • Maintain good relationship with the Chinese; • Call on connections to help out.
3	• Hire local intelligence to do the homework: find out the decision maker and key issues of negotiation; • Willing to walk away any minute to prevent the Chinese from playing the time game.
7	• Let Chinese partner deal with the Chinese, they know best how to do it.
6	• Using intelligence to identify key person and key concerns of the negotiators; • Maintain good relationship with your negotiating partners, some may be willing to help.
5	• Use Letter of Intent to get the Chinese commit on things agreed upon.
8	• Using agent to do the homework first; • Documenting the results of the negotiation as it takes place to prevent rambling.

Fifth, if everything failed, the Canadian negotiator could walk out of the negotiation room. If the Chinese valued what was being negotiated, they were likely to invite the company back to the bargaining room. If not, it was time for the company to quit.

These measures taken by Canadian companies doing business in China did not differ much from negotiation in North America. The company had to be prepare to defend its position and what it wanted. If all efforts failed, they were prepared to take the loss and look elsewhere for opportunities.

High performing companies and low performing companies seemed to differ in how they approached and prepared for the negotiations. Both high and medium performing companies were more proactive and aggressive in initiating the business relationship with the Chinese. They knew all the tricks the Chinese were likely to play during negotiation. Because they had prepared themselves well, they appeared to be more clear what to do during negotiation. The low performing companies were more reactive, were not sure of the problems, and had little knowledge about how to deal with these problems.

The learning related to negotiation was discussed in chapter 5. The key points are briefly summarized here to provide a complete picture of negotiating with the Chinese. In summary, the companies learned

- to be sensitive to the Chinese' needs;
- to do their home work and prepare themselves;
- that if the company did not know how to do it, hire some one else;
- the importance of GuanXi and relationship building.

6.2.4 Other Issues Related to Negotiation

The Chinese were known to be tough negotiators. None of the companies were comfortable with the negotiation process mainly because of the way the Chinese negotiated. Some felt the Chinese sometimes used a torture test like negotiation style to wear the Canadians down and make them give in. Most companies felt that the Chinese did not change much in the way they negotiated, despite the possible learning on their part about Canadians. This was puzzling since their technique was no longer a secret to foreign negotiators. If they used these behaviours as techniques, they must have also realized they would become less effective as soon as foreigners learned about them. Why would they still use them then? The answer may lie, as Tung (1989) found, in the long term stability of the Chinese culture. The Chinese can learn and adopt Western business practices. Fundamentally, however, they may not change because of the Chinese culture. The more they change, the more they stay the same.

A. Letter of Intent

Most companies treated signing a letter of intent as a useless practice since it was not binding legally. According to Chinese official statistics[3], more than 80 percent of the letters of intent signed between the Chinese and foreign businesses did not go beyond that stage. Many companies used it in the same way as meeting minutes. Putting the negotiated items down in writing could prevented frequent changing of minds, particularly by the Chinese.

B. Pricing and Price Concession

The companies were asked if they would ask for more than what they considered reasonable in order to offer concessions later. The amount of increase depended on the industry and the reputation of the company. On average, these companies inflated their prices by 3 to 15 percent. The rationale behind this included:

- saving face for the Chinese. The ability to bargain down the offering price indicated their negotiation skills among their peers; and
- compensating for the time consuming negotiation process.

As the company won over the trust of the Chinese, many abandoned such practices. The Chinese already knew that Canadians were honest and there was not much "water" (price inflation) that could be squeezed out in prices.

C. Most Positive and Negative Experience

In summary, negotiating with the Chinese was not a pleasant experience for the Canadians. However, some companies had some unique experiences in

[3] World Journal August 1993.

negotiating with the Chinese. For example, the Chinese were very competent technically. One company praised the Chinese for keeping their promises and honouring their contracts under circumstances not covered by the contract. One executive stated "Contracts might be altered due to changes in government regulations in Canada. But in China, a signed contract would be as good as money. The Chinese rarely defaulted their payments".

6.2.5 Summary

A major challenge in doing business in China was getting used to the Chinese negotiation style. In order to negotiate effectively with the Chinese, the Canadian companies had to prepare themselves. This included learning the key issues such as Chinese budget limits, desire for foreign travel and who the key decision makers were prior to negotiation. If the company did not know how to prepare, or did not feel comfortable doing so, it hired an intermediary to do the job. Companies needed to be aware of the various of negotiating techniques the Chinese used, and be prepared to use appropriate strategy to counter-attack.

6.3 DOING BUSINESS IN CHINA - MAIN PROBLEMS AND REWARDS

Section 6.1 summarized the various areas of concern that Canadian companies doing business had to consider and the course of actions the companies had taken to protect themselves. This section will look at the main problems and frustrations Canadian companies experienced doing business in China and the main rewards for the companies.

6.3.1 Main Problems of Doing Business in China

The previous chapters have already provided some details on the various problems and concerns these companies encountered doing business in China. Table 6.5 provides a summary of the three such main problems of doing business in China for each company. The seemed to be five commonly shared problems.

Number 1: The amount of time and patience required by the slowness of things, including the bureaucratic system. This was a major problem for the companies interviewed. "We find it hard to explain to the Board of Directors why it has taken longer to do something in the Chinese market, especially if we have to explain several times because the plan has been changed several times.", one frustrated executive stated. "They are just not on the same time scale as we are".

Table 6.5 - Main Problems of Doing Business in China

Co.	Main Problems Encountered In Doing Business in China
9	1. Developing key connections in China and good local knowledge; 2. Identifying key issues and key decision maker; 3. Finding and convincing solid Canadian companies to do business in China.
4	1. Finding substitute supplies to replace import parts at low costs; 2. Bureaucratic system that slows everything down; 3. Time means nothing to the Chinese.
10	1. Frequent policy changes in China; 2. Chinese lack of commitment; 3. Chinese's lack of loyalty to the company.
1	1. High costs of doing business in China; 2. Too time consuming.
2	1. Unreliable transportation systems in China; 2. The amount of time wasted; 3. Accommodation in China.
3	1. Chinese lack of trust for foreigners; 2. Everyone wants something for themselves; 3. Slowness and time consuming.
7	1. Finding qualified business manager in China; 2. Time does not mean anything in China.
6	1. Effectively negotiating with the Chinese; 2. Identifying key person and key issue of negotiation; 3. Navigating the bureaucracy.
5	1. Chinese unwilling to recognize and pay for consulting service provided by the company; 2. Understanding their way of doing business.
8	1. Time consuming; 2. Finding the right partner.

Number 2: The Chinese negotiation style with foreigners "Learning and getting used to the Chinese way of negotiating and haggling was a major

challenge for us," a few executives revealed as they looked back at their experience.

Number 3: The way the Chinese do business and the high cost because of it This refers in particular to the Chinese reliance on connections and Guanxi rather than law, and lack of business ethics among some Chinese, as reflected in the high costs of developing and maintaining connections and network.

Number 4: The complexity and the unpredictability of the Chinese business environment This referred to the duplication of the government functions and frequent policy changes, both of which made learning about the Chinese system more complicated.

Number 5: Finding qualified and motivated business managers in China Finding management personnel was more difficult than hiring technical employees as management for efficiency was still a relatively new concepts for the Chinese. Though many would expect that as Canadian companies gained more understanding about the Chinese business environment and the Chinese business practice, they would adjust their expectation and become more realistic about China. As thus, Canadian companies would feel less frustrated. In fact this was not true as the Chinese changed very little in their way of doing business. Canadians did not feel less frustrated despite increased learning and experience.

Further, very few Canadian companies doing business in China shared their experience with each other. This was evident from the information gathering process discussed earlier. Thus they did not benefit much from others' experience. Furthermore, the Chinese business environment changed constantly and drastically. Assumptions based on previous experience might no longer be valid due to such changes. This required constant learning and adoption.

6.3.2 Satisfaction and Dissatisfaction

Whether a company was satisfied with its performance in China seemed to be related to its original goals and objectives in entering the Chinese market.

Earlier this study found that Canadian companies had been doing business in China to take advantage of the fast economic growth and growing market potential. In addition to such financial goals and objectives, there were a few other objectives for doing business in China. For example, some Canadian companies were in China to:

- raise public awareness about the companies and other products and services that the company was offering to other markets;
- promote the image of high quality Canadian products so that more could be marketed through other channels to China.
- learn about doing business in China gradually from their local partners to prepare them for other business opportunities in China,

The ultimate dis/satisfaction the company had with their performance in the Chinese market depended on whether the company had achieved its goals.

As some companies entered China with more than just financial reward in mind, their satisfaction with the Chinese market would not necessarily be linked to their financial performance. This was shown in Table 6.6. While high performing companies were not always satisfied with their performance, the lower performing companies were not all dissatisfied either. The closer was the performance level to its objectives and expectation, the more satisfied the company was[4].

In addition, the level of predictability of the Chinese market also appeared to be related to satisfaction, but not performance. The more could the company predict its environment and performance and the more stable the market was perceived to be, the higher was the satisfaction. One of the companies which did quite well in terms of its financial performance, was however quite frustrated and dissatisfied with the Chinese market because the market was hard to predict. "It is likely you are in constant uncertainty. You could never tell if you are going to

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[4]. Of course one could not exclude the possibility that the lower performing companies were more reluctant to admit that they were dissatisfied with their performance.

get the same results next year.", revealed the company executive. Despite the performance difference among companies, most companies were doing better than they expected or met their expectations for the market. There were more satisfied companies than dissatisfied companies.

Table 6.6 - Performance and Satisfaction

Company & Performance	Are You Satisfied With Your Performance? Why?	Break - Even Point (Which Year)
High	• Yes. The company is profitable and in the process of expansion	• Within a year of operation as it did not require high investment
High	• Yes. Every project was profitable incl. the 1st one.	• Every project brought in some decent profits for the company
High	• No, as the sales volume is unpredictable. • Yes, as it is profitable	• Within a year
Medium	• Yes, it was profitable and growing	• The second year
Medium	• Yes, profitable and growing. It is in the process of setting up a joint venture with the Chinese to produce locally	• About two years
Medium	• Yes, the business has been expanding fast and profitable	• Never lost money
Low	• Not really, hard to find high quality management people	• Within 4 years. Originally it was estimated at two years
Low	• Not sure, as the parent companies were also sharing some of the costs	• Unsure as it has no access to total cost
Low	• Yes. As the business is coming in faster than expected (was not expecting much) • No, it will take another two years to break even.	• Estimated within four years
Low	• Not bad, as things began to move lately.	• Not sure.

6.4 SUMMARY AND PROPOSITION TESTING

This chapter examined a number of issues important to Canadian companies doing business in China, including the Chinese business environment and negotiating with the Chinese. Though these factors did not discriminate one group of companies against another groups of companies, they were important to all Canadian companies doing business in China. How did the company deal with these areas not only determined the level of performance the company achieved in the Chinese market, but also the level of frustration.

There were a number of propositions discussed in this chapter. They and the testing results were summarized in the following Table 6.7.

Table 6.7 - Summary of Proposition Testing

Propositions	Testing Results
P3.3a: Finding quality local employees is a major challenge for Canadian companies investing in China.	Supported, particularly in light of management personnel.
P3.2: Foreign exchange supply in China was a major concern to Canadian companies doing business in China:	Strongly supported, but indirectly.
P3.6: Canadian companies often rely on developing and maintaining good relationship with the Chinese to protect themselves rather than seeking legal action:	Supported.
P3.1a: the slow bureaucratic System is a major source of frustration for Canadian companies doing business in China	Strongly supported.
P4.1a: Canadians who understand and appreciate what the Chinese are trying to achieve are less frustrated, especially during negotiation.	Supported.

CHAPTER SEVEN: SUMMARY AND MANAGERIAL IMPLICATIONS

7.1 SUMMARY

This study has tested a number of propositions about Canadian companies doing business in China. Key propositions and testing results are summarized in Table 7.1. As shown by the table, some of these are supported while others are not. Widely recognized areas of importance to Canadian companies doing business in China include hiring intermediaries, understanding the Chinese needs and having Guanxi and connections in China. Areas of common concern to all Canadian companies doing business in China include the slow bureaucratic system, the Chinese negotiation style and frequent changes of foreign investment policies, .

Table 7.1 Summary of Proposition Testing

Proposition	Testing Results
P1a: Companies that used FDI and equity joint venture to enter China have learned more about the Chinese market than those used contractual ventures and direct exports to enter China over time.	Partially supported. Companies used export learned most followed by those used FDI. Companies used joint ventures learned the least.
P1b: Companies that used FDI to enter Chinese would have the highest level of performance, followed by those using equity joint ventures, contractual ventures and direct exports.	Partially supported. Companies used FDI achieved the highest level of performance followed by those using export and joint ventures.
P2b: Companies with local partners, or distributors or agents were more informed about the Chinese market and likely to have higher performance than those that did not.	Strongly supported among companies using all entry strategies.
P3.1a: The slow bureaucratic system is a major source of frustration for Canadian companies doing business in China.	Strongly supported.
P3.1b: Hi-tech Canadian companies located in SEZ or open cities may experience less frustration, and achieve higher levels of satisfaction and performance than low-tech companies located in other areas.	Partially supported. Companies in high tech or other businesses which had higher priority for the Chinese had in general better performance than others.
P3.2: Foreign exchange is a critical factor related to satisfaction and performance of Canadian companies doing business in China.	Strongly supported. Had foreign change not been a main concern for both the Chinese and Canadians, most companies would be able to increase their sales in China.

Proposition	Testing Results
P3.3a: Finding capable and qualified local employee is a major challenge for Canadian companies setting up joint ventures in China.	Strongly supported, especially in finding management personnel.
P3.4a: Companies with well established connections in China were less frustrated about doing business in China and have higher performance than companies without.	Strongly supported. Strong connections in China seemed to the key to success in the Chinese market.
P3.4b: The awareness and appreciation of the Chinese culture in general was critical to Canadian companies doing business in China.	Supported. Companies that understood the Chinese culture tended to be less frustrated, though not necessarily with higher performance.
P3.7a: The level of frustration Canadian firms doing business in China may be reduced as a result of learning by both sides. This in turn may lead to higher levels of satisfaction and performance and lower level of frustration.	Partially support. Learning did seem to help reduce frustration and improve performance to certain degree. But the amount of frustration did not change much over time.
P3.7b: Canadian companies are now more willing to use joint ventures and FDI in China than before due to learning and increased confidence in the company's ability to compete in the Chinese market.	Supported. More and more companies were willing to use equity joint ventures now than before. Some of the export companies were considering joint ventures now.
P3.7c: The amount of frustration Canadian companies experienced in negotiating with the Chinese did not change much as the Chinese changed little in their way of conducting business with foreigners.	Strongly supported. It seemed this could be expanded to frustrations related to other aspects of doing business in China.
P4.1a: Companies that understand and appreciate what the Chinese are trying to achieve are less frustrated about doing business in China, especially during negotiation with the Chinese.	Strongly supported. Understanding the Chinese' needs and desires was a key success factor for Canadian companies doing business in China.
P4.1c: Companies that relied on their Chinese partner to take full responsibility for harnessing the Chinese business environment are likely to have lower performance than those taking full interests in the entire operation.	Strongly supported. No matter which entry strategy the company decided to use, it still needed to maintain an ongoing commitment to the project.

Entry strategy was found to be a good predictor of performance. Companies using FDI tended to have higher performance, followed by companies using direct export strategies. Companies using equity joint ventures seemed to have the lowest level of performance. The amount of flexibility and control the company over its business in China appeared to be the main factor separating companies using one entry strategy to another.

In addition, the nature and type of business and internal factors also seemed to affect the level of performance. For example, companies that used joint ventures are in general inexperienced internationally and small in size. To take on a market like China they often turn to the Chinese partner for cooperation and risk sharing. Larger companies with more international experiences tend to go on their own.

Differences among companies using same entry strategy were much smaller than differences among companies using different entry strategies. Nevertheless, higher and lower performing companies using the same entry strategy did differ in many aspects. Such differences were almost identical among different strategies. Higher performing companies using different entry strategies had more in common than higher and lower performing companies using the same entry strategy.

In general, more and more companies were willing to experiment with the Chinese market using either joint ventures or FDI operations. There were strong indications that Canadian companies were becoming more confident about the Chinese market. However, in order for the company to be successful in the Chinese market, the company had to be prepared and knowledgeable about the Chinese business environment and the market itself. In other words, the company had to know what it was doing before entering the Chinese market. It could not rely solely on others, such as joint venture partners, or intermediaries to developed the market for the company.

There were a number of key success factors separating the high performing companies from the low performing companies. Included were the level of preparedness, aggressiveness, and their previous experience.

1. Preparedness: preparation was a key for success in the Chinese market. The more prepared the company was, the more successful the company would be. The higher performing companies in general were much more prepared than lower performing companies. They (high performing companies) either engaged in extensive information collection or had conducted some field research in the Chinese market before moving in.

2. Pro-activeness: how pro-active the company was about the Chinese market depended on how determined the company was about the Chinese market. The higher performing companies demonstrated their pro-activeness by initiating the business relationship with the Chinese. Low performing companies were relatively passive and often waited until others approach them about doing business in China.

3. Commitment The higher performing companies were far more committed to the Chinese market than the lower performing companies. The lower performing companies often thought that they had (they might) other more important markets to develop or to serve than the Chinese market, or were unsure about the potential and wanted to hold back.

4. Quality of People Working For the Company All the high performing companies had hired someone in their organizations who was very keen on and knowledgeable about doing business in China. Companies might hire a permanent employee who was knowledgeable and experienced, or an intermediary to serve the same needs. The low performing companies, on the other hand, often did not have such individuals. These people do not have to be Chinese, or Chinese from any particular part of China, they could be Caucasians, for example. The key characteristic of such individuals is that they have to be fond of the Chinese culture and are knowledgeable about doing business in China.

5. Understanding the Chinese Needs and Desire The higher performing companies first of all were in areas of great interest to the Chinese such as high technology and infrastructure related businesses. Thus their businesses were least affected by any policy changes in China. Second, they understood the Chinese as individual, what was important to them and how to satisfy them. The Chinese often valued foreign travel and training opportunities. The lower performing companies were often in business areas not at the top of the Chinese priority list. Further, they were either less aware of the Chinese needs or decided to ignore them.

6. The Amount of GuanXi and Connections the company had access to in China. All higher performing companies in this study had some good connections and Guanxi in China that the company has access to. The lower performing companies in contrast had fewer connections in China.

8. Being Flexible and Willing to Accept the Chinese Business Environment Although all the companies were quite frustrated at times about the way things were in China, high performing companies had adopted a philosophy that when you could change it, take it, and work with what you had. Being flexible meant less frustration and more comfortable and friendlier relationship with the Chinese.

9. The Amount of Learning The higher performing companies in general learned much more about doing business in China than the lower performing companies. Perhaps it was this learning process that taught high performing companies to be more flexible in the Chinese market.

7.2 MANAGERIAL IMPLICATIONS

How a company deals with the key success factors helps determine how successful the company will be in the Chinese market. Clearly, if the company follows the strategies adopted by the high performing companies, it might have a better chance of becoming successful in the Chinese market. Furthermore, if it could learn from the mistakes of these companies, it would increase the possibility of success. This paper recommends that if a company is not really interested in the Chinese market, it should not enter China because of outside persuasion. It is further recommended that Canadian companies that are interested in doing business in China should:

1. Conduct research to find out what is needed to do business in China, and evaluate if the company has the dedication and resources to tackle the particular Chinese market. The Canada China Business Council, the Canadian Embassy and other experienced Canadian companies are good sources of information.

2. Hire, if the company does not have, someone who already understands China and/or the Chinese culture. This individual should speak the language, have previous experience in doing business in China, and preferably have some connections in China.

3. Visit China a few times a year even if the company only exports. Regardless of entry strategy, the company should maintain close contacts with the Chinese market. Relationship and trust are build on interaction and learning about each other.

4. Be open-minded and flexible. What works in Canada may not work in China. Open-mindedness and willingness to learn will help the company reduce frustration and increase efficiency in the Chinese market.

7.3 RESEARCH LIMITATIONS

This paper has a number of limitations that readers of this paper should be aware of. First, information provided here is based on interviews and could not be quantified. For example, this paper has identified a set of variables that are likely to affect the companies performance in the Chinese market. However, this study could not attach any weight on the importance of each factor or rank them. Furthermore, these variables might be inter-related with each other, and this study could not determine such relationships.

Second, the performance measures selected for this study, the Average Annual Sales Per Employee to China may not reflect the entire picture of performance in the Chinese market. For example, some companies or industries may have higher gross margin than others. Therefore, though a company may have higher performance using the sales related measure, but may have low performance if a profitability based measures such as return on investment is used. Similarly, companies may have different objectives and philosophies of doing business in China. For example, while some companies might be more long-term orientated and were more willing to take short-term losses, others might be more short-term driven. In addition, due to the 1989 Tiananmen Square event, the three years from which the sales performance data were collected, 1990, 1991 and 1992 might have biased certain companies more than others.

Third, the result might be biased further due to differences in company sizes. Undoubtedly, large companies would have more resources available for the company to develop the Chinese market than smaller companies. The companies interviewed vary greatly in size. Although the performance measure was adjusted to control the effects of company size, the results may still be biased.

Fourth, there is a concern over external validity of this study since all the companies interviewed were from the Greater Vancouver area. Other provinces might have a different industrial structures, and use different investment patterns in China. The research findings might not be applicable to companies from other parts of Canada.

Finally, there might be personal biases within the interpretation of data collected during the interviews, which is common in this type of study. Because of such limitations, extra caution should be exercised in applying this study. Furthermore, propositions not supported by this study should not be rejected, due to above limitations with this study. Further research involving a larger number of companies from across the country should conducted before dismissing them.

7.4 FURTHER RESEARCH

Further research is needed on a number of issues. First, quantitative research is needed to substantiate the set of variables that affect performance in China. The research at hand only identified this set of variables without being able to identify the strength of inter-relationship between each predictor variable and performance.

Second, more research is needed to compare this study with results from other provinces using the same research instrument. In particular, this study suggests that a similar study be conducted among companies from the Province of Alberta, Ontario and Quebec. If the same investment pattern and set of key performance variables were identified again, new theories could be developed about Canadian companies doing business in China.

Third, this study proposes a follow-up study to be conducted a year from this study. This new study will interview the same set of companies to determine the stability of research findings from this study. Such a longitudinal follow-up study would be extremely important to develop theories about Canadian companies doing business in China.

Fourth, this study proposes a nation-wide study to identify key performance factors for Canadian companies doing business in China. This study would not only identify such factors, but also determine the importance of each factor. Such information would be of important value to both companies that are currently doing business in China, or other companies that are interested in doing business in China.

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APPENDIX 1: INTERVIEW PROTOCOL

The purpose of this interview is to help us identify barriers that BC companies doing business in China run into. It will also help us find out effective ways of dealing with these problems. We appreciate your time and help.

SOME HISTORY ABOUT YOUR COMPANY'S INVOLVEMENT IN CHINA

1. Tell me a bit of your company's history and its involvement in China:

   - How did your company decide to get involved with China to begin with?

   - Did your company have any experience in China before?

   - Did you have an intermediary or middleman to help you?

   - Did you have someone in your company who had Chinese connections?

   - Did someone from China or an agent of Chinese clients inquired about doing business with you?

   - How did you and your business partners first get acquainted? (optional for joint ventures only)

2. What entry strategy did your company use first? Did it change?

3. Has there been any changes over the type of business the company do in China?

THE ENVIRONMENT AND ENTRY STRATEGY

1. When deciding upon the strategy of entering China, were you concerned about the potential risks of doing business in China?

   - Did you hear any stories about other Canadian companies doing business in China that concerned you?

   - Were you concerned about the protection of your industrial property and intellectual rights?

2. Did the political instability in China give you pause about doing business in China? What about:

   - Infrastructure problems, such as energy shortages, lack of transportation or communications;

   - Lack of a skilled labour force and the cost of training personnel;

- High cost of doing business in China;

- The unstable currency and the foreign exchange problem;

- Difficulty recruiting expatriates to go to China;

- Others such as the absence of a formal legal system?

3. How did the assessment of the business environment in China affect your choice of entry strategy and distribution channels?

4. How do these factors affect your operations at the present time?

5. How did the company gather information to help decide on the entry strategy to China?

   - Did you do market research?

   - Did you collect information from professional associations or government agencies? Someone who has been there?

   - Did you involve a consulting firm?

   - Did you hire someone with direct China experience?

6. Compared with other Pacific Rim countries, what are the main attractions of doing business in China?

   - Why did you decide to do business in China rather than other countries?

   - Did it concern you that the economic and trade system in China was relatively under-developed?

NEGOTIATION

1. Were you prepared for the Chinese approach to negotiation in general?
   - Did you feel comfortable with it?

2. How long did the negotiations take?

   - Were the Chinese eager to negotiate with you to begin with?

   - Did you feel frustrated at times with the process? Why?

   - What did you do to improve the negotiation?

   - Did the Chinese do anything to improve the negotiation?

3. Did you ever run into any other problems negotiating with the Chinese?

- Did the Chinese change their way of negotiating over time?

- Did greater trust develop between you and the Chinese over time?

- What did you learning from negotiating with the Chinese?

- What do you think they learned from you?

4. Did you sign an initial letter of intent with the Chinese?
   - How important was the letter of intent?
   - Did it take long to finalize the contract?

5. Did you ask for more than you considered reasonable in order to be able to offer concessions? Did they?

6. Did you have anyone available to help you who either understood the Chinese culture or spoke Mandarin? (What about Cantonese?)

- Did this person assist you in the negotiation?

- Did having this person improve the negotiation?

- How important is it to have someone who understands the culture and speaks the language?

7. Overall, what is your most positive and most negative experience in negotiating with the Chinese?

DOING BUSINESS IN CHINA

<u>Foreign Exchange</u>

1. Has the fluctuating foreign exchange been a problem for your company? How does it influence your business in China?

2. Has sourcing for supplies from outside China been a problem due to foreign exchange? How?

<u>Local Employees</u>

1. Have you been able to hire qualified employees at a reasonable cost?

2. Was significant training required to improve the productivity of local employees?

3. Did your firm have control over recruiting, managing, evaluating and firing your

Chinese employees?

Expatriates

1. Did you send expatriates to China? How many? In what kinds of positions?

2. Have you, or do you intend to replace your expatriates with locals? (What positions will be easiest to replace?)

3. Where do you recruit for expatriates?

4. Do they have to understand the culture and speak Mandarin? Cantonese?

5. If you had to choose, would you pick someone with strong international business skills who did not speak Chinese, or someone who spoke Chinese but was not strong in management skills?

Performance

1. What strategic objectives did you have for going into the Chinese market? (market shares? sales volume, new product development, technology transfer, new geographic markets, etc)

2. What were the strategic objectives of your Chinese partner?

3. Did you achieve these objectives? (Did your partner achieve their objectives?)

4. Did you (your partner) have to change your (their) strategic objectives over time? How?

5. Were you able to maintain or improve your return on equity? Return on assets?

6. Did your return on equity equal or exceed the cost of capital?
- Did you achieve the level of performance expected?

7. How long did it take for your Chinese operation to achieve break-even?
- Is your China operation profitable now?

8. Approximately what level of sales and profits are your company achieving in China?

9. Are you satisfied in general with the company's performance in China?

LEARNING

1. Over the years, what has your firm learned about dealing effectively with the Chinese and managing an operation in China?

2. How has your company's relationship with the Chinese changed over the years?

- How has your relationship changed?

- Have the changes happened because of efforts by the Chinese or has it been a joint effort? Or was it a forced change?

3. Did your opinion of the Chinese change over time?

- Did it become easier or more difficult to do business in China over time?

4. Are you becoming more confident about doing business in China? Why?

5. Did your company change its practices over time? Why?

6. What advice would give to someone planning to enter China for the first time?

- What would you caution them about?

- What would you recommend they do?

DEALING WITH CHINESE

1. In your business dealings with the Chinese in China, what is the overall impression of them?

- Do they appreciate the concept of profit?
- Do you think they trust foreigners?
- Are they cooperative?
- Are they willing to learn and accept values that differ from theirs?
- Are they honest and upfront about their concerns and thinking?
- Are they willing to compromise?

IMPORTANCE OF GUANXI OR NETWORKING

One important aspect of life in China is the extensive use of GuanXi or personal networking. Knowing the right person and having the right connections can be key to doing business in China.

1. Did your company have good connections in China?
   - How crucial were these connections for your dealings with the Chinese?

2. Did having the right connections affect the performance of your company in China? (Positively/negatively?)

3. How did you or your company develop these connections and Guanxi?

4. We have heard from Chinese sources that some Chinese officials expect to receive bribes or personal gifts from foreigners in exchange for their services.

- Did you ever have to resort to this method to develop your network in China?

- Did you have to resort to this method solve any operating problems?

- Has the problem of "bribing" increased or decreased over the years (for the Chinese)?

5. Have you found your network of contacts to be reliable or unreliable?

- Have these people been consistently helpful to your business in China?

- Do you agree with the use of Guanxi?

6. What is the best way of developing network?

FACE SAVING

1. Have you ran into any problems with either saving or giving face to the Chinese?

2. In your opinion, how important is this aspect of the Chinese culture to foreign business people?

3. Does foreigners need to be sensitive about saving face for their Chinese counterparts?

SUMMARY

1. In reflection, what are the three most challenging tasks for doing business in China?

2. What are the main problems that challenged your decision to do business in China?

3. What are the biggest problems your company ran into doing business in China?

4. What rewards did your company obtain from doing business in China?

- Was it financial reward only?

5. If you were to summarize your experiences in China in a short sentence, what would you say? What have you learned?

- If someone asked you the most important aspect in doing business in China, what would be your answer?

6. If you were beginning again in China, would you do anything differently? In what area(s)?

ASK IF JOINT VENTURE IS BEING USED:

Problems Solving

1. Is your Chinese business a 50-50 equity joint venture?

    - Does your company share control of the venture 50-50 with your Chinese partner?

    - Has there ever been any conflicts with your partner over the control or direction of the venture?

    - How did you deal with these problems?

2. How autonomous was the joint venture from the control of either of the parent company in making operating decisions.

    - How strong was the Board of directors as a decision making body?

    - How strong was the leadership?

3. How did the management of the joint venture function to resolve any conflicts that developed between the partners over goals, or control issues?

    - Did you have a plan to solve potential problems that might arise between the partners?

    - Have there been any conflicts?

    - How did you deal with it?

4. When you run into a problem, would you deal with it from the highest level you could reach, or would you work with what you have?

    - Do you try to control the situation yourself, or do you discuss it with your partners?

Relationship Between You and Your Partners

1. What were you looking for in a partner?

    - What specific strengths did you hope your partner would bring to the joint venture?

- Is it reasonable to assume that these are the weaknesses of your company?

- What strengths did your firm bring to the relationship?

- How did you do about finding a partner? What was the process that you had gone through?

2. Was your firm, and that of your Chinese partners similar in size?
   - Did each company have expertise that make them stronger in their own market?

3. In your opinion, do both partners contribute the strengths that you expected to the alliance?

4. If you and your partner are not compatible in sizes and strength,
   - Did these differences affect the performance of your alliance?

5. How did you and your partner balance these differences?

APPENDIX 2: WHY FOREIGN TRAINING AND TRAVELLING SO IMPORTANT TO THE CHINESE?

The reason why many Chinese are eager to obtain training might be hard to understand for most Canadians. In addition to free travel, they would also get some spending money on such trips. This would allow them to save this extra money to buy things that are normally beyond their ability to pay. On average, a worker in Beijing or Shanghai gets paid between 200 to 300 Chinese Renminbi. An imported colour T.V. could easily cost 20 to 30 times of that amount. Being on such trips not only add to their knowledge, prestige among peers, but also to their overall wealth. Understandably, such training would include members who are vaguely or unrelated to the implementation of the contract.

To many Canadians, such training is either unnecessary, or excessive. But to some Chinese, this is as important as the project or contract itself, if not more. As will be discussed in the negotiation session, training and foreign travel is often one of the key issues among the Chinese negotiators.

APPENDIX 3: CANADIANS' PERCEPTION OF CHINESE

Most Canadian companies found that the Chinese understood and appreciated the need for Canadian companies to be profitable. However, few really cared if the Canadians achieved adequate levels of benefits and were not really concerned if the Canadians were making money in China. It was up to Canadian companies to make sure that their expenses were covered and their investments were profitable. The Chinese in large cities or in the Special Economic Zones on the South coast of China were more aware of such needs for foreign investors.

Collectively, the Chinese were suspicious of others and especially of foreigners. They did, however, seem to trust Canadians more than other foreigners. As one executive explained, the two countries had never been in any direct conflict. The famous Dr. Bethune who went to China to help fight the Japanese decades ago seemed to be the most successful ambassador Canada ever sent to China.

The younger generations appeared to be more open minded about values different their conventional beliefs values. However, most decision makers in China belonged to the older generation, and did not really want to learn about these new values.

The companies being interviewed found that Chinese were difficult to understand. First, they had different "faces", depending on occasion and location. One could not be sure which face was true. Second, they often hid their true intentions or feelings. Reflected in business, this meant that they often beat around the bushes rather than getting right to the issue and they often had hidden agendas. Third, they were afraid of losing face or making others lose face. Finally, the Chinese were very hard and uncompromising bargainers. This lack of compromise was sometimes interpreted by Canadians as lack of care or interest in their Canadian partners.

In general, Canadians felt that the Chinese were not as accommodating and friendly as they believed the Chinese would be. Some Canadians had experienced this unfriendly side of the Chinese when negotiations were arranged at Christmas so that Canadians would be under pressure to compromise.