

Louvain School of Management

Internationalization of European SMEs in China

Identification and analysis of the cultural and national factors that constrain this internationalization process

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Valentin Herinckx

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Marine Falize

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Table of contents

PART 1: INTRODUCTION	1
1.1. CHINA.....	3
1.1.1. <i>Recent history</i>	3
1.1.2. <i>PESTEL analysis</i>	4
1.1.2.1. Political	4
1.1.2.2. Economical.....	5
1.1.2.3. Social.....	6
1.1.2.4. Technological	6
1.1.2.5. Ecological	7
1.1.2.6. Legislative	8
1.2. EUROPEAN SME'S.....	8
1.3. MOTIVATION FOR INTERNATIONALIZATION IN CHINA	9
PART 2: LITERATURE REVIEW	11
2.1. INTRODUCTION	11
2.2. INTERNATIONALIZATION PROCESS	12
2.2.1. <i>Introduction</i>	12
2.2.2. <i>Potential issues faced during internationalization</i>	13
2.2.3. <i>Potential solutions for foreign firms</i>	14
2.2.4. <i>Conclusion</i>	15
2.3. CHINA-SPECIFIC FACTORS	15
2.3.1. <i>Cultural differences</i>	15
2.3.1.1. Hofstede model analysis.....	16
2.3.1.2. The concept of guanxi and corruption in China.....	18
2.3.1.3. The concept of mianzi.....	20
2.3.1.4. Advertising and brand building.....	20
2.3.1.5. Chinese employees	22
2.3.2. <i>Consumer ethnocentrism</i>	24
2.3.2.1. Origin of Chinese nationalistic feelings.....	24
2.3.2.2. Impact on consumers' purchasing behavior	25
2.3.3. <i>Protectionist policies</i>	27
2.3.3.1. Intellectual property rights protection in China	27
2.3.3.2. Other protectionist policies	29
2.3.4. <i>Intranational differences</i>	32
2.3.4.1. Intranational cultural differences	32

2.3.4.2.	Intranational regulatory differences.....	33
2.3.5.	<i>Local competition</i>	35
2.4.	SYNTHESIS	36
PART 3:	FIELD RESEARCH	39
3.1.	INTRODUCTION	39
3.2.	PRESENTATION OF THE INTERVIEWEES	40
3.2.1.	<i>Schwartz & Co.</i>	40
3.2.2.	<i>1421 Consulting</i>	40
3.2.3.	<i>Brewery De Halve Maan</i>	41
3.2.4.	<i>EU SME Centre</i>	41
3.2.5.	<i>R&P China Lawyers</i>	42
3.2.6.	<i>The Sovereign Group</i>	42
3.3.	RESULTS.....	43
3.3.1.	<i>Cultural differences</i>	43
3.3.1.1.	The concept of guanxi and corruption in China.....	44
3.3.1.2.	The concept of mianzi.....	49
3.3.1.3.	Advertising and brand building.....	51
3.3.1.4.	Chinese employees	53
3.3.2.	<i>Consumer ethnocentrism</i>	56
3.3.3.	<i>Protectionist policies</i>	58
3.3.3.1.	Intellectual property rights protection in China	58
3.3.3.2.	Other protectionist policies	60
3.3.4.	<i>Intranational differences</i>	62
3.3.5.	<i>Local competition</i>	65
3.3.6.	<i>Other factors</i>	67
3.3.6.1.	Administrative procedures	68
3.3.6.2.	Underestimation of the cost of entering the Chinese market.....	69
3.3.6.3.	Untrustworthy business partners	70
3.3.6.4.	Payment delays.....	71
3.3.6.5.	Price sensitivity	71
PART 4:	CONCLUSION	73
4.1.	MAIN LESSONS & RECOMMENDATIONS	73
4.2.	LIMITATIONS.....	78
4.3.	FURTHER STUDIES	79

PART 5: APPENDIX.....	81
5.1. BIBLIOGRAPHY	81
5.1.1. <i>Scientific papers</i>	81
5.1.2. <i>Websites</i>	85
5.1.3. <i>Books</i>	95
5.2. CHARTS & TABLES.....	97
5.3. GUIDELINES QUESTIONS INTERVIEW	101
5.4. INTERVIEW TRANSCRIPTS.....	103
5.4.1. <i>Meng Gao – Schwartz and Co</i>	103
5.4.2. <i>Maxime Van’t Klooster – 1421 Consulting</i>	108
5.4.3. <i>Lionel Kohn – Brewery De Halve Maan</i>	115
5.4.4. <i>Rafael Jimenez – EU SME Centre</i>	120
5.4.5. <i>Koen Naber – R&P Lawyers</i>	126
5.4.6. <i>Robbert Görris – The Sovereign Group</i>	132

Part 1: Introduction

China is the world's second largest economy in term of nominal GDP (11,007,720.59 million\$ in 2015) and has the largest population on earth (The World Bank, 2017b). With a fast-growing economy, a middle class reaching an incredible size and relatively cheap labor cost, this country has become a very attractive market for investors and foreign companies. It is therefore no wonder that many European SME's see China as a potential place to expand their business.

The goal of this thesis is to analyze in depth the internationalization of these companies in China, and to see what are the cultural and national factors that restrain this process. A lot of articles have been written on the subject, but the existing literature usually focus on the difficulties that large firms are facing, and it therefore lacks papers analyzing this process with a focus on European SMEs. The current literature also tends to take each of the identified factors one by one, which is why this thesis could give a clear idea of most of the issues that European SMEs might expect to face when coming to China. Although it is difficult to evaluate the number of European SMEs currently having operations in China, the fact that the European Chamber of Commerce already counts 1600 members shows that the problematic analyzed in this thesis could touch a high number of SMEs, which proves the importance of such a paper.

To clarify the scope of my research, when talking about European SMEs operating in China, what I mean is SMEs that are active in the European Union and at the mean time conducting operations in China (it can be indirect or direct export, local manufacturing, licensing, franchising, member of a joint-venture, a SME that acquired local firms, etc.). The literature research and the interviews conducted will hence only regards SMEs that are active in the European Union member states.

In this introduction, I will analyze the reasons for the interest that European SMEs are showing for China. Since this country and the way it functions are usually misunderstood in Europe, I will also briefly explain its recent history and the business environment through the use of the PESTEL framework. Knowing the country's history can also help understanding some of the issues explained in this thesis. I will then identify the usually recognized strengths of the

European SME's and try to show why this market and these companies could potentially be a good fit.

Then, in the literature review, after a brief reminder of the definition of important concepts surrounding the internationalization phenomenon, I will analyze some China-specific factors that could have an impact on this internationalization process, based on the current literature on the subject, the classes and the seminars I attended during my exchange in Beijing and my personal experience in China. Before starting the field research, to make sure that this literature review was relevant and covered most of the potential obstacles, I consulted three Chinese professors from Tsinghua University, who all possess deep knowledge on the subject, asked their opinion on the work I had accomplished, and took their opinion into consideration.

In the field research, I will analyze 6 interviews of European SME managers that are currently operating in China and other business actors that may have specific knowledge on some of the obstacles I identified. The goal of this part of the thesis will be to see if these factors do or do not have an impact on the internationalization process of European SMEs, and to check the hypotheses that were made in the literature review. The main difficulty here was to find people with knowledge on this subject to interview. Indeed, despite being in Beijing at the time and hence close to pertinent business actors, I found out that getting interviews from managers is almost impossible without contacts within the company in China. After sending a tremendous amount of emails to European SMEs, making lots of phone calls and even trying to go directly to offices to ask for interviews, I came to realize that I wouldn't be able to find sufficient respondents without external help. This is why I contacted and became a student member of Bencham, the Benelux Chamber of Commerce, which eventually linked me with managers from companies that fitted the requirements of my thesis. Attending seminars and networking events held in Beijing also allowed me to get in touch with SME managers and other interesting people. Finally, I received help from the European SME Centre, who gave me access to the case studies they wrote on the difficulties faced by European SMEs in China. Since these case studies covered parts of the topic of my thesis, I took the initiative to integrate some of their findings in my field research to help me confirm or invalidate the hypotheses I made.

Finally, I will provide the reader with the main lessons that can be withdrawn from this analysis, some recommendations for managers that are considering entering the Chinese market, the

limitations of the thesis, and ideas for further studies that could potentially be conducted on this subject.

1.1. China

1.1.1. Recent history

China has a rich and millennial story. Leading the world in the field of arts and sciences for centuries, China's influence over the globe decreased during the 19th century and the beginning of the 20th century. The country's downfall originally started with the two Opium wars (1839-1842 and 1856-1860). Noticing China's weakness due to its low industrialization rate, England forced China to start trading with the rest of the world. Taking advantage of the high local demand for opium, England decided to flood the country with this drug, that they were growing in their other territories located close by, such as India. Witnessing the damages it was causing to the Chinese society, the Chinese government confiscated and destroyed opium coming straight out of British ships in 1839. England retaliated and crushed Chinese forces, forcing them to sign unequal treaties. This made everyone realize that China could not defend themselves anymore. Several European countries hence decided to come and do business in China, by opening concessions where they had almost all the power in large cities (Pletcher, 2017). After various other conflicts (including World War II where China joined the side of the Allies), changes of regimes and a constant loss of power from the Chinese officials, Mao Zedong and the Chinese Communist Party took power and got rid of the foreign influences in 1949. The People's Republic of China was officially installed on October 1st, 1949 by Mao Zedong on Tiananmen square in Beijing (Bowblis, 2000).

Mao's first order of business was to get China up to the speed of the other nations on the industrial level. He launched his plan called "the Great Leap Forward", which consisted of forcing every citizen to stop whatever they were doing to join communes, which were made from the already existing farms, and to join the effort in the massive steel production plan that was supposed to help China industrialize. Since people were required to join the steel production and to melt their farming tools to provide the energy required, they ended up not having enough time to work in the field. This plan therefore led to huge famines and tens of thousands of deaths among countrymen. Also, because of the low quality of the steel produced, the plan didn't allow China to fill the gap with the other nations (Bowblis, 2000).

Because of these disastrous results, Mao Zedong's leadership was heavily questioned by the other members of the Chinese Communist Party (CCP). To retain his power, he declared the beginning of the Cultural Revolution in the mid 60's, and let young people ("the red guards") go across the country to strip rich people out of their belongings. This Cultural Revolution hurt the economy deeply because it slowed production, closed schools and made it even more difficult for foreign powers to see China as a credible business partner (Bowblis, 2000). A few years after the revolution and Mao Zedong's death, Deng Xiaoping, who was kicked out of the high-power spheres during the Cultural Revolution, came back to the top of the Communist Party and initiated his famous Gaige Kaifang policy ("opening up and reform").

This was truly the kick-off of China's economic rise since it gave permission to people to start their own businesses, led to the decollectivization of agriculture, to the opening to foreign investments, and many other things. (Bowblis, 2000). These reforms and China's entry in the WTO in 2001 gave China incredible economic results and helped the country to become one of the most powerful countries in the world.

1.1.2. PESTEL analysis

1.1.2.1. *Political*

The current communist regime is officially in state since October 1st of 1949. The People's Republic of China is ruled by a single party, the Chinese Communist Party and has had Xi Jinping for Party Secretary since 2013. The one-party system officially guaranties a relative coherence in the legislation and makes China a very stable country: in theory, because of the absence of opposition, the very drastic decisions taken by the government should be enforced quite quickly compared to Western democracies, which would yield rapid results for the whole Chinese economy. However, in practice, because the power is quite decentralized (each province is responsible for enforcing the laws) and because of the high level of corruption in the political sphere, the central power located in Beijing sometimes faces trouble to enforce its laws as quickly as it would like to.

One of the reasons the Communist Party has managed to stay on top of the country for so many years is because of his very tight organization and its harsh repression and censorship at the first sign of opposition (BBC News, s.d.). Most Chinese people are unaware of a lot of things that are happening in their country since they are only informed by a state-controlled press.

According to many experts, Xi Jinping has managed to become the most powerful Chinese leader since Deng Xiaoping (The Economist, 2013). He has recently been given the title of “core leader of the party”, which means that the party is officially bowing in front of his dominance (Buckley, 2016). He managed to get into such a position by putting in jail his most powerful opponents in the party during his fight against the corruption of officials. His policy revolves around his idea of “the Chinese Dream”, whose goal is defined as “to achieve prosperity for the country, renewal of the nation and happiness for the citizens” (China Daily, 2014). In practice, his policies are leading to an enlargement of the middle class and to better education for students (Iskryan, 2016).

1.1.2.2. Economical

China 2016 estimated GDP's can be broken down in three segments of different sizes: 8.6% of agriculture, 40,7% of industry and 50,7% of services (Central Intelligence Agency, 2017b). China is hence still very industrialized, although tertiary sector has gained significant weight in the last three decades (it was only accounting for 33,7% of the GDP in 1985) (The World Bank, 2017c). China is therefore slowly getting closer to the Western economies' model; the United States of America for instance, have 79.5% of their economical production in services, 19.4% in industry and 1.1% in agriculture (Central Intelligence Agency, 2017b).

Although still officially a communist country, China is in practice showing all the characteristics of a market-oriented economy, with promotion of free-trade, private ownership and a steady decline in the number of State-Owned Enterprises (Steinbock, 2015). The strong GDP per capita growth in the past few years (\$13.400 in 2014, \$14.500 in 2015, and \$14.600 in 2016) coupled with the diminishing gross national savings show a steep increase of consumption (Central Intelligence Agency, 2017a). Furthermore, the constantly increasing number of Chinese citizens entering the middle class helps making China a very attractive place to invest, both for local and for foreign companies (The Economist, 2016a). However, some challenges are coming ahead for the Chinese government, challenges that could deeply impact their economy: the aging population (because of the former one child policy), the real estate price bubble, the air pollution, corruption of officials, etc.

Because they believe that Chinese officials didn't follow the normal rules of development. many people predict that China's economy is going to collapse heavily soon. Although it is true that China's economy lacks some of the basic elements of modern economies, experts also

tend to agree that China is shifting quite quickly towards a more privatized economy (78% share of state-owned enterprises in industrial output in 1978 to only 26% in 2011), making it much more in line with the western economies. Also, the public investment policies started in 2013 by Xi Jinping are focused on booming industries such as smartphones and other high-export products. The goal is here to adapt to the deceleration of the Chinese growth by increasing overseas demand (Woetzel, 2015).

1.1.2.3. Social

With a very fast-growing middle class and decreasing poverty, China is closer and closer to gain the status of “developed country” (Barton, Chen, & Jin 2013). Indeed, more than 700M people have been lifted out of poverty since 1978 (The Economist, 2016a). This trend should continue in the future since it is expected that more than 75% of the Chinese urban consumers will be in the middle class by 2022 (Barton et al., 2013).

Like many other countries in the world, China is facing the phenomenon of urbanization, but on a much larger scale. Indeed, in 1953, only 15% of the Chinese population was living in urban areas, but the Chinese government is expecting to see this number rise to 60% before 2020 (Minter, 2016). This urbanization has profoundly changed the lives of many citizens and led to a softening of the traditional values and traditions. Many young Chinese learned to live differently when they moved to the city and then refused to go back to their parent’s old tradition afterwards. Their growing purchasing power and their higher education level also participated to that. All of this led the Chinese consumers to develop a taste for western goods and occidental lifestyle (Kochhar, 2011), which is something that the Chinese Communist Party fears. This is why they are trying to slow this trend down via filtering of the media (Connor, 2016).

However, lots of cultural differences with Western countries are still there, the biggest one probably being that China is often described as a much more collectivist society. China is also a very fragmented country, each region having different cultures, legislations, languages, consumer preferences, etc.

1.1.2.4. Technological

China has become an important place for innovation, but this hasn’t always been the case (Roth, Seong, & Woetzel, 2015). For a long time, Chinese firms had no real incentives to

innovate, since they were protected by the state against the threat of competition and bankruptcy. According to Professor Fuller from Zhejiang University, the shift in mentality operated because of the input of ethnic Chinese and foreign investors. Indeed, since access to financing was very difficult for start-ups in China, these little firms were forced to ask for foreign money, but they had to be much more rigorous and organized to receive funding, which eventually led to more innovations in their firms (The Economist, 2016b).

China is now becoming one of the leading country in terms of innovation. There is an increasing number of research articles produced in the country and they even became 2nd in term of publication output after the United States in 2010 (Tang, Shapira, & Youtie, 2015). The country spends more money in R&D than the whole European Union, which corresponds to approximately 2% of their GDP (UNESCO, 2016), and is responsible for 20% of the global R&D expenditure, which puts them in the second place after the US with 26% (Gupta & Wang, 2016).

However, this amount of input doesn't necessarily translate into quality outputs. Indeed, China is only filing a limited number of patents, Chinese universities are still not considered as top scientific publications publishers, and China still hasn't come up with a true breakthrough innovation. This can be explained by the bad allocation of funding (most likely because of personal relations between governments and some firms), little spending on basic research, the emphasis on the quantity of patent applications rather than their quality, the difficulty for Chinese scientist to find information because of the censoring of the Western websites ("The Great Firewall"), and the reluctance of foreign firms to invest in meaningful R&D in China because of their fear of intellectual property theft (Gupta & Wang, 2016; Gwynne, 2010), which are all problems that Chinese officials will work on to make sure that technological inventions can foster on the long-term in China.

Regardless, some of China's largest high-tech brands (Huawei, Hisense, Tencent, Haier, Xiaomi, etc.) are getting quite famous across the globe (Van Noorden, 2016). Symbol of this new consideration for Chinese technology, the booming city of Shenzhen is often called "The Silicon Valley of hardware" (Sheehan, 2014).

1.1.2.5. *Ecological*

China's current environmental state is far from ideal. With a huge air pollution in almost all the largest cities, pollution is becoming an increasing problem for the government, the companies and the citizens. According to the World Health Organization, more than one million people died because of the pollution in China in 2012 (Vaughan, 2016) ...

The government has recently realized how deep this issue could impact the country, partly due to the pressure coming from citizens after the release of the video-investigation "Under the Dome", a reportage seen by more than 150 million Chinese in one weekend (Falletti, 2015). This explains why the government recently decided to have much stricter legislations, but enforcement is still quite weak in comparison with the size of the problem (BBC, 2016b). However, given the recent decision of US' president Donald Trump to withdraw from the Paris Climate Agreement, China has decided to step up and to increase its efforts in the fight against global warming, becoming the de-facto leader of the fight against global warming together with the European Union (The Economist, 2017).

If they don't manage to reduce this air pollution rather quickly, this could have obvious bad consequences for the future of the country: health issues, difficulty to attract foreign talents or to keep local intellectuals, discontentment of the population, etc.

1.1.2.6. *Legislative*

Laws are made by the National People's Congress in Beijing and its Standing Committee, administrative regulations are made by the state councils and the local regulations are made by the Local People's Congresses and their standing committee. Furthermore, local governments also get to make local rules or departmental rules (Zhang, 2014). All of this leads to a very complex legislative system. The differences in regulations between the regions and the protectionist policies made by the government also participate in making it quite difficult for foreign firms to enter the Chinese market. As pointed out by Pei (s.d.), fight against corruption in the political sphere was also recently translated into laws, which forced businessmen to be especially careful when doing business in China. For instance, recent laws made that business-related gifts can be considered as corruption, according to the GAN Business Anti-Corruption Portal (2016).

1.2. European SME's

According to the definition of the European Commission, a company can be called a Small and Medium Enterprise (SME) if it fits two criteria (see fig.1.): it must have less than 250 employees in its staff headcount, and it either must have a turnover lower than €50m or its balance sheet total cannot exceed €43m (The European Commission, 2017b).

According to the 2015-2016 annual report on European SMEs from the European Commission, SMEs account for 99% of the firms active inside the European Union. In 2015, the 23 million SMEs employed 90 million people and generated €3.9 trillion in added value. After tough times and bad results following the 2008 and 2009 financial crisis, European SMEs started to perform again, since value added grew 3,8% in 2014 and 5,7% in 2015.

European SMEs are active in nearly all the markets (see fig.2.). However, the biggest ones, value added wise, are wholesale and retail trade (22%), manufacturing (20%), business services (14%) and construction (11%) (The European Commission, 2016). Since domestic demand is still stagnating, the recovery of the EU is mostly driven by the growth in external demand. In 2013, there were approximately 1.2 million of SMEs exporting. 88,5% of total SME employment is occurring in sectors that are traditionally not exporting, such as repairing and installation of equipment, retail trade, accommodation and food services, transport, etc. Also, only 4,5% of SME employees are operating in high or very high exporting sectors.

However, added value growth is mainly driven by these sectors, since high and very high export intensity had respectively an 8.1% and a 23.5% growth in 2015. It is also interesting to point out that growth of export for SMEs is primarily driven by the export outside EU (19.1% growth between 2011 and 2013). Quite logically, the share of SMEs exporting outside EU is bigger for medium enterprises (72%), than for small (58%) and micro firms (41%) (The European Commission, 2016).

1.3. Motivation for internationalization in China

China is the European Union's second trading partner behind the United States, and EU is China's largest trading partner. China and the European Union are trading more than €1 billion a day, which makes China a key destination for European firms' FDI and export. Most of the European Union's FDI in China are conducted in the automobile sector, the semiconductor industry, consumer products, services and chemicals. (The European Commission, 2017a).

It is interesting to note that, in 2015, only 11% of the exporting SMEs from EU15 and a very small 3% of the EU12 SMEs were active in China (The European Commission, 2015). It is also quite surprising to notice that, in 2013, the EU exported 2.5 times more services to Switzerland than to China (The European Commission, 2014). There is therefore a lot of room to grow for European SMEs, and a better understanding of the Chinese business environment could help in that way.

But why would European firms want to expand to China? As shown earlier, internal demand on the European market has been slowing down over the last couple of years. Firms hence need to find demand elsewhere in order to keep on growing. With all the mediatization of the incredible economical results of this country, China often seems like a gold mine for European SMEs. Indeed, even though China's GDP growth has been slowing down over the last years, it still reached 6,7% in 2016, which is far more than most countries in the world. This slowing of the economic growth is mainly due to China's need to restructure its economy, and to go from a manufacturing and export-intensive economy to a service-oriented economy with more internal consumption and innovations (EU SME Centre, 2015). Their latest 5-year plan (China is still officially a planned-economy) is going forward in that direction.

In a general way, European SMEs often perform very well in niche markets. According to Piter de Jong, Vice-Chairman of the European Union Chamber of Commerce in China, the recent investments from the European Union in China actually represents the third wave of such FDIs. After state-owned enterprises and big private corporations, it is now mostly SMEs who are penetrating the Chinese market. Indeed, according to him, BRICS countries are the only places left where you can still find growth in those niche markets, and the country's fast development has provided all the services and facilities a high-technology firm might need (Wei, 2013). This makes the topic of this thesis even more interesting, since this wave of investments of European SMEs in China is currently happening.

The EU SME Centre (2015) identified several opportunities for European SMEs in China: high-value niches in the information and communication technology industry and IT consultancy are one of them. Furthermore, the quality and the strict sanitary regulations of European food and beverages are deeply valued by the Chinese consumers, who are increasingly worried about their health and the quality of their alimentation (Gong, Leibowitz, & Zipser, 2016). The aging population will also increase their need for healthcare products and services, a sector

where numerous European SMEs are performing particularly well. Furthermore, there are still some big gaps within regions and between large and smaller cities. Local governments are investing heavily to fill in those gaps, which is creating big opportunities for high growth operations across China (EU SME Centre, 2015).

However, although the situation has been getting better over the years, China is still a very tough and hostile business environment. Indeed, it is ranked 78th out of 190 countries in the 2016 Ease of Doing Business ranking, behind countries such as Rwanda or Botswana (The World Bank, 2017a). European SMEs managers hence need to have deep knowledge of the characteristics of the Chinese market in order to avoid failure. Many well-known and powerful companies, such as Google, eBay or Tesco failed in China and lost a lot of money because they didn't manage to identify or to consider certain key factors (Fortune, 2011). European SMEs will have to be very agile and able to adapt to these Chinese specificities if they ever want to reap the fruits of their investment.

Part 2: Literature review

2.1. Introduction

In this literature review, the goal will be to define the usual internationalization process followed by companies when entering a foreign country, and to analyze the various cultural and national factors that can hinder this internationalization process in China. These five factors were identified and picked based on my various readings of the literature on the subject, my discussions with several foreign business actors in China, the lectures I attended during my exchange at Tsinghua University in Beijing, my CEMS internship in Shanghai, and my personal knowledge on the subject that I acquired through my 4 trips to China,

Some other factors that could possibly impact this internationalization process might be missing in this thesis, but some choices needed to be made given the maximum length of this paper and in order to remain general. For instance, long and difficult administrative procedures are often pointed out as one of the major hurdle when doing business in China, but since it varies a lot from one industry to another, I decided not to mention it in this literature review to remain general. However, I still asked my interviewees questions about this issue to see whether or not it also could represent an obstacle for SMEs. The national and

cultural factors and other problems faced by European SMEs that are absent from this literature review but that were raised by the respondents are mentioned in section 3.3.6.

2.2. Internationalization process

Internationalization has probably never been so simple for small firms. In a more and more globalized world, with faster transport and communication means, ground-breaking technological innovations and fading cultural differences, it has become much easier for companies to start activities in other countries. However, this process still remains tricky, since it can be conducted in different ways and specific challenges will most certainly arise at some point.

2.2.1. Introduction

Welch and Luostarinen (1988) define internationalization as “the process of increasing involvement in international operations”. The famous Uppsala model, designed in 1977, is usually seen as the reference to describe this process. Based on an empirical analysis of the internationalization of Swedish companies, Johanson and Vahlne stated that, rather than choosing the optimal entry mode according to the risks they might be facing, the costs they will have to endure and the resources they possess, firms usually simply begin their internationalization process with ad-hoc exporting, very often in a market that is close in psychic distance, a concept defined as the cultural, structural and language differences between two countries by Nordström & Vahlne (as cited in O’Grady & Lane, 1996), and where the foreign environment is easy to understand. Then, they will formalize this internationalization process by using agents/intermediaries in the new market, who will represent them in this new country. This partnership can take many different forms, such as franchises, licenses or alliances. Then, if sales grow enough to be able to afford it, the company will cut out the middleman and replace those intermediaries with their own sales organization. The last step is then to start manufacturing the product in the local market, to save transportation costs, to be closer to the end-customers or sometimes even for political reasons (pleasing the local governments, coping with regulations, etc.). This long process is called the establishment chain (Johansson & Vahlne, 1977).

32 years later, the same authors came with additions to that model. They wanted to emphasize, among other things, the new importance of networks in the internationalization of firms, and how vital it can be to develop relationships in the other market to develop

necessary knowledge. However, developing such relationships will become harder and harder as the psychic distance grow. Should a firm not have relationships before entering a market, it will suffer from the liability of outsidership, and will have a lot of trouble to implement itself in the country (Johanson & Vahlne, 2009).

In another study, Lu and Beamish (2000) analyzed the impact of this internationalization process on the performance of SMEs. They realized that exporting and Foreign Direct Investment (FDI) both had different impacts on performance. Indeed, exporting seems to have a linear relationship with performance (the more you export the better your performance), but it is not always the case for FDI. According to their results, FDI seem to have a negative impact on performance in the beginning, but this impact becomes increasingly positive as the number of countries you are conducting business in and the general amount of FDI increase. This proves the tough beginnings that lots of SMEs face when arriving in a foreign country, but that it also usually gets better after some more investments (Lu & Beamish, 2000).

2.2.2. Potential issues faced during internationalization

International firms will often face lots of hurdles when entering a new country. The first one is probably the cultural and institutional distances between the two countries. Cultural distance can be described as the differences between two cultures along some clearly identifiable dimensions. The Hofstede model is a useful tool to analyze such cultural differences. It provides an evaluation of a country's culture based on 6 dimensions: Power Distance Index, Individualism, Masculinity, Uncertainty Avoidance Index, Long Term Orientation and Indulgence (Hofstede, Hofstede, & Minkov, 2010).

Institutional distance on the other hand, is defined by Kostova (as cited in Xu & Shenkar, 2002) as "the extent of similarity or dissimilarity between the regulatory, cognitive, and normative institutions of two countries". The size and the importance of this institutional distance will impact the entry mode chosen by the firm. In fact, firms will often choose low-control entry modes (such as export or joint-venture) when institutional distance is high, because it is a way for them to rely on the experience and the regulatory expertise of the local partners to tackle these issues (Xu & Shenkar, 2002).

Zaheer (1995) also pointed another issue firms face when arriving in another country, something he calls "the liability of foreignness". This liability is the sum of all the costs that

only foreign firms incur when entering a new country. These costs can be linked to four kinds of factors: the spatial distance cost, such as transport and communication between the country of origin and the new market, firm-specific factors, such as a lack of roots in the new market for instance, the host country environment (protectionist policies, consumer ethnocentrism, etc.) and the home country environment, which could impose restrictions on export towards certain countries for instance (typically during diplomatic crisis). Usually, as the psychic distance grows, so will the liability of foreignness (Johansson & Vahlne, 2009).

This liability of foreignness means that, all other things remaining equal, foreign firms usually start off with a disadvantage compared to local companies, which is why they will have to develop firm-specific advantages in order to offset that liability. Using alliances, if carefully planned and implemented, has proven itself to be an effective strategy to succeed in an overseas market despite being a foreign firm (Lu & Beamish, 2000). This strategy is often used by SMEs, since they often lack resources and knowledge to enter the market on their own and will therefore require partnerships to acquire these things.

2.2.3. Potential solutions for foreign firms

On the other hand, foreign firms can also reap advantages from not being local. One of those advantages is what is called the Location-Specific Advantage (LSA), which is defined by Erramilli, Agarwal, & Kimas (1997) as “the special advantages accruing to firms operating at a particular location”. The same authors argue that a company’s firm-specific advantages are often influenced by the characteristics of its home-country, making it also a location-specific advantage. In other words, firms would develop certain capabilities and competitive advantage with the help of the home country’s competitive environment. In the case of this previously mentioned paper, the authors proved that the influence of Korean firms’ specific advantage on the subsidiary ownership level they will choose is impacted by the comparison of the development level of the country they are about to enter with Korea’s (e.g. high-tech firms will take more equity in their subsidies in countries that are less developed than Korea than in the more developed ones) (Erramilli, Agarwal, & Kimas, 1997). Having developed or inherited such advantages often push firms to internationalize to fully take advantage of these features (Pinho, 2007). French wine producers, for instance, will internationalize to profit from the image of high-quality that their products have all around the world.

Furthermore, even though it is often said that experience, knowledge and credibility are necessary to internationalize correctly, which would eventually prevent young firms from internationalizing, Reuber and Fischer (1997) argue that young firms can offset those disadvantages by building up international management teams. Indeed, companies that managed to hire managers with international experience will often be quicker to develop foreign partners and will obtain foreign sales quicker after start-up. Hiring such employees is therefore key for firms looking for early and successful internationalization (Reuber & Fischer, 1997).

2.2.4. Conclusion

To conclude, we can see that the internationalization process is not easy. Firms will have to decide which entry-mode they are going to use, they will have to integrate cultural and institutional distances in their business model and to offset the liability of foreignness with their firm-specific advantages. However, foreign firms can also benefit from some advantages brought by their home-country (location-specific advantages) to face those issues and enjoy the benefits that internationalization can bring to a firm. In the next section, I will identify and analyze 5 factors specific to China that could restrain this internationalization process for European SMEs.

2.3. China-specific factors

2.3.1. Cultural differences

The numerous cultural difference between China and western countries are probably one of the biggest shock for the Europeans who went to China. Those differences are often not very well known by foreigners, but it's truly vital to understand them and to integrate this knowledge in your strategy when planning to enter the Chinese market.

The difficulty to understand the Chinese culture is mainly caused by the fact that it has multiple roots. People usually agree that 3 families of values coexist together in China: traditional values, that have been there for thousands of years and rely mostly on Confucius teachings, communist values, brought by the Chinese Communist Party in 1949, and occidental values, that have been rising in the society ever since the reforms that opened China under the direction of Deng Xiaoping. This mix of very different values explain why so many foreigners have difficulties understanding the Chinese culture.

This is why there are several things a foreign businessman needs to learn. For instance, lots of authors agree that understanding Confucius' teachings is vital if you want to be successful in this country. This philosopher, born in 551 AC in the Shandong province, is considered by many as China's first teacher. His teachings put the group before the individual, emphasize the importance of hierarchy and knowledge, and promote harmony over conflict (Rarick, 2007). These values are still largely accepted and promoted across the Chinese society, despite having been fought by Mao and his red guards during the cultural revolution through the "Criticize Lin, Criticize Confucius" campaigns. As a consequence, these values still deeply impact the way Chinese people do business (Reynolds, 2009).

2.3.1.1. Hofstede model analysis

Using the previously mentioned Hofstede model and his analysis of China's scores on each index, we can draw some first conclusions to analyze the main tendencies of the Chinese culture and how it can be different from the Western countries'. As we can see on fig.3., China's scores are often very high and very low, which proves that understanding and knowing China's culture is crucial, since it can often be extreme in certain dimensions.

China scores pretty high on the Power Distance Index. That means that Chinese people have little problem dealing with an unequal distribution of power and that Chinese employees are more used to central distribution of power and vertical hierarchy. Chinese therefore believe that people with higher hierarchical position should be respected and honored, which is in line with Confucius teachings. They also tend to adapt their behaviour to what the others deem appropriate rather than what they actually want to do (Li, Tsui, & Weldon, 2000).

China's score for the individualism index is fairly low. Probably also influenced by Confucius teachings, we can see that the group is what's most important, which is something that can also be seen in a company. Harmony is very important, and Chinese people care a lot about their family and their company.

China is scoring high on the Masculinity index. Societies with high masculinity value competition and achievement, and are often success-oriented (Hofstede, Hofstede, & Minkov, 2010). Chinese work very hard to reach success and often do not spend a lot of time on leisure, which explains their low score for the Indulgence index. This can also be linked to Confucius' influence, since he promoted perseverance, enduring short-term discomfort and hard work

to reach long-term goals. These teachings are still clearly deeply rooted in Chinese society, which explains why more than 200 million migrant workers left the countryside and their families to live alone in big cities and work hard in order to lift themselves out of poverty (Farrar, 2016).

Furthermore, China has a low score for the uncertainty avoidance index. This means that Chinese tend to be less uncomfortable in uncertain and ambiguous situations. That makes Chinese managers more relaxed, and tend to make Chinese people value practice over principles. This is also why laws are not always strictly enforced, since it will often depend on the context. This is also one of the potential roots of Chinese citizens' relatively high entrepreneurial spirit (Huang, 2010).

China is a long-term oriented country. That means that they are future- rather than past-oriented, and that they tend to be pragmatic. This is why Chinese people like to invest a lot within their country and all-around the world. High government spending in education can also be explained by this long-term orientation (Hofstede, Hofstede, & Minkov, 2010).

As already mentioned, Chinese people tend to be not very indulgent, which means that they tend to allow less time to leisure, that they can be very cynic and that indulging yourself is often seen as something wrong or a waste of time. (Hofstede, Hofstede, & Minkov, 2010). This will most likely highly impact their purchasing behavior for various goods and services, and that is something firms must be aware of before expanding their operations in China.

When comparing those scores with European countries' (let's take Belgium for instance), we notice that differences especially arise on the individualism index, the uncertainty avoidance index and the indulgence index (see fig.4). These are hence the factors where differences might be the sharpest, and where European entrepreneurs might face the most issues when dealing with Chinese counterparts. On the other hand, both countries have similar scores for the power distance index, on the masculinity index and on the long-term orientation index. There are therefore less chances to find clear cultural differences on these dimensions.

This Hofstede analysis is a good way to analyze very broadly the main differences between the Chinese culture and European ones. Let's now dig more into some China-specific differences in the way of doing business.

2.3.1.2. *The concept of guanxi and corruption in China*

A crucial concept to understand to succeed in China is the concept of guanxi (关系). This concept, which can be translated as “connections, relations, relationship”, is often misunderstood by Europeans when they first arrive in China. Applied to the business world, its main implication is that building a network of relationships with business actors and with officials is one of the keys to success in China.

Indeed, in China, you first need to build up a relationship with someone before you can consider doing business with him. It is therefore, as pointed out by Geddie, Defranco, and Geddie (2002), the opposite of the western way, where focusing on the relationship is usually the last step. Also, according to Beverland (2000), who based his work on Hofstede’s framework, it is this concept that makes that Chinese tend to value personal relationships way more than impersonal rules. This explains why they often spend a lot of time building the relationship with a potential partner, to see if he can be trusted to do business with or not. This is also a way for the Chinese managers to reduce the cost of doing business.

However, the importance of guanxi in doing business in China seems to have been decreasing for a little more than a decade now. This is caused mainly by what Luo (2008) describes as “the intertwinement between guanxi and corruption”, a phenomenon happening in a more and more demoralized Chinese society, where traditional Chinese values are less and less respected. According to him, guanxi is neither the source or the origin of corrupt behaviors, but it facilitates them dramatically. This intertwineability can be either weak (between family members, where traditional Confucius values are still respected) or strong (when dealing with people outside of your close circles). Concretely, guanxi can lead to corruption when someone bribes another person he knows or a person that somebody in his network knows in order to get a service he wouldn’t be able to get by using legal channels. Guanxi can therefore be seen as a facilitating tool, that helps people seeking bribes to meet people seeking services. Since those operations usually go through several intermediaries, corruption is often very difficult to retrace and punish.

For these reasons, the Chinese Communist Party is fighting guanxi-based corruption by creating new laws, about business gifts for instance (GAN Business Anti-Corruption Portal, 2016). Because of that growing demoralization of the society, many legitimate firms are also

forced to proceed to some guanxi-based corruption or to develop corrupted guanxi to survive (Luo, 2008). Corruption is hence a very important issue in China and fighting official's corruption is very appreciated, since it was declared to be the number one concern of Chinese citizens according to a survey conducted by Wike and Parker (2015). Xi Jinping understood that probably better than anyone else. Indeed, these new reforms were made on his initiative after he pointed the fight against corruption as one of his top priorities, which made him very popular among Chinese citizens.

Xi also probably understood, as many of the CCP officials, that official's corruption would most likely be the main cause of a hypothetical downfall of the regime. The most spectacular of his actions was probably when he took down the beloved Chongqing's mayor Bo Xilai, who happened to be one of Xi's most powerful political opponent. Levin (2012) explained that, the "Chinese Kennedy", with the help of corrupt policemen, allegedly managed to racket businesses in order to both get rich and to spend some of this money for the development of his city, the latter making him very popular among the people of Chongqing.

This example shows how business and politics can be intertwined in China. Indeed, since all land officially belong to the state, entrepreneurs need to have numerous contacts with government officials to lease a piece of land and to start construction (Library of Congress, 2015). Well-aware of their incredible power on companies, lots of mayors, party's local secretaries and other government officials took advantage of this situation to ask for "gifts" in exchange of their approvals for new business projects.

Knowing who to bribe and when to bribe in China is often described as an art, and a very difficult one to master for foreigners. Chinese businesses however, who had time and knowledge to build relations with officials, might therefore have better knowledge on how to get quicker approval for their new ventures. Xi's heavy fight against corruption, despite his possible hidden agenda behind these policies (Keliher & Wu, 2015), might change that soon and therefore make it easier for foreign firms to compete more fairly with local firms on this matter.

H1A: The concept of guanxi and the inherent corruption in China are barriers for SME's internationalization in this market.

2.3.1.3. *The concept of mianzi*

Gilbert and Tsao (2000) identify one other very important concept to fully understand when doing business in China: mianzi (面子), which can be translated as “face, reputation, or prestige”. Reputation is key for Chinese, and hurting it is often seen as the supreme insult. Chen (1995) describes mianzi as a form of “social currency”, since it is something that can be protected, borrowed or even exchanged. Your amount of mianzi is defined by your social status, which is why most of what Chinese people do is done to grow their own and their family’s mianzi. When engaging in social interactions, keeping equity in mind is crucial. It is often said that, if somebody does you a favor, you’ll have to repay him in some way, otherwise you will lose face. This is why Chinese people often purchase things for others rather than for themselves, which can be an issue for certain retailers whose product are not seen as proper gifts (Novicevic, Morf, Evans, Sanders, Sun, & Cecil, 2012).

Dealing with mianzi is a very delicate matter, and it requires skills and deep knowledge of Chinese values. In an article published on the website of Atlantico (2012), Picquart identified various things foreign managers should always keep in mind to avoid hurting their business partner’s mianzi: showing respect, being on time, avoiding direct criticism since proving someone wrong is possibly one of the worst thing one could do in China (even worse if done in public), considering the rank of the person you are going to meet when thinking about a business gift (low value gift will be considered as an insult), use body and face language in order to express disagreement rather than saying it out loud, etc.

There are countless rules and traditions a foreign businessman needs to learn to preserve its interlocutor’s mianzi. Failing in doing so would lead in some cases to the business partner stopping communication without explanation and failure of the negotiations you were having.

H1B: Dealing with the concept of mianzi can be a potential obstacle for European SMEs when building a relationship with Chinese business partner.

2.3.1.4. *Advertising and brand building*

Advertising is something relatively new in China. Banned during the Cultural Revolution and often defined by the central power’s propaganda as a “societal waste” and a “capitalist tool” according to Ha (1996), it has now grown to huge proportions in China.

However, Chinese don't always react the same way as Europeans do to advertising. Because of the local consumers' very strong values, marketers need to be especially careful when designing ads for the Chinese market. Fam, Waller, and Yang (2009) conducted a study to analyze the reaction of Chinese consumers to advertising for controversial products. The results showed that some Chinese consumers can be offended and shocked when seeing advertising for some private products (condoms was the example used in the paper). However, that seems to be less the case for public products, such as alcohol.

Products are also often used in a different way or in different circumstances in China. Alcohol for instance, is often used as a gift for celebrating Chinese Spring Festival, drunk to celebrate the birth of child or used as a tool to bond socially and to strengthen business relationships (Fam, Waller, & Yang, 2009). Therefore, thorough market research needs to be conducted before designing advertising, otherwise firms might risk to heavily damage their image, for instance if it hurts Chinese's nationalistic feelings (see 2.3.2.1.).

Foreign firms also tend to fail to integrate what Chinese want to see in advertising, and design marketing campaigns that could be successful in Europe but definitely not in China. Fiat for instance, used Richard Gere in some of their ads, but since Gere is openly advocating for Tibet's independence, using such a hated figure in China damaged their image in this country (Adams, 2008).

Brand building can also be difficult for foreign firms when they enter China. Melewar, Meadows, Zheng, and Rickards (2004) showed that there are a lot of things that companies should keep in mind to be successful in building their brand's image. Chinese consumers are highly aware of brands, which make them tend to go towards well established ones when facing a choice. Coming up with a good Chinese name for a foreign brand is also a delicate challenge. Indeed, Chinese like the name of the brand to be linked to the nature of their product. A good example of a perfectly found Chinese name is ke-kou-ke-le (可口可乐) for Coca-Cola, which means tasty and happy. They also came up with a very harmonious design for this name, which is not always easy when dealing with Chinese characters (see fig. 5.). Also, Chinese consumers love to see natural forms in advertising and packaging, such as mountains or animals. Additionally, the colors of the products and of the packaging are very important. For instance, red is associated with joy and luck (choosing for red branding is therefore often

the best choice) while yellow is associated with pornography (Melewar, Meadows, Zheng, & Rickards, 2004).

Furthermore, the predominance of the group over the individual makes that Chinese rely more heavily on word of mouth than on actual advertising. Foreign firms should hence design their promotional campaign to maximize this phenomenon. Indeed, more than 60 percent of Chinese consumers argue that their friends and their families are an important source of information for their purchases. This is especially true if they don't know the product, because they will rely even more on others' opinion to decide whether or not they should purchase it. McDonalds understood that, and managed to launch successful communication campaigns that went viral through their good use of word-of-mouth marketing (Magni & Atsmon, 2010).

H1C: Chinese consumers have different preferences in term of advertising and brand building, which is a barrier for European SMEs

2.3.1.5. Chinese employees

When spreading its operations in China, a business will usually need to hire or to work with local employees. However, Chinese employees do not always behave the same way as Europeans, and they also didn't get the same kind of education. This is why foreign firms need to know these differences in order to keep these employees motivated and to maximize their productivity.

A potential issue for foreign firms is the low level of English proficiency of Chinese citizens. Indeed, according to the 2016 Education First – English Proficiency Index, China is only ranking at the 39th position (out of 72 countries), which puts them in the category of the low-proficiency countries (Education First, 2016). Despite heavy investment, the government, probably because of the outdated teaching methods, has still not managed to develop a decent number of English speaking people in the country (Tribble, 2011). Chinese teaching methods are as of today, still relying heavily on rote memorization. Indeed, to teach English, most instructors only ask students to repeat sentences, and they are often never asked to produce their own sentences (Yang & Dai, 2011).

According to Ma and Kelly (2009), this is probably not going to change anytime soon since only half of the English teachers believe that English should be learned through conversation and an even smaller percentage believes in the importance of activities such as role play or games

to learn better. Although students with a college degree have a better level, most of the other employees will not be able to use this language to communicate. Therefore, speaking Chinese or hiring a translator seems to still be important to conduct business in China and to communicate with local employees, potential business partners, suppliers, etc.

Also, Chinese employees will often not behave the same way as European ones because of their different culture. A study conducted by Jaw, Ling, Yu-Ping Wang & Chang (2007) shows that, here again, what helps defining the Chinese employees' work values are the teachings of Confucius. It encourages perseverance (to reach long-term goal) while suffering in the short-term and it emphasizes the importance of country and family. Chinese employees therefore value stability and security in their work environment. Also, China's high score in the Power-Distance and the Masculinity index of Hofstede model (Hofstede, Hofstede, & Minkov, 2010) show that local workers have great respect for power and status. This study also shows some interesting findings, such as the fact that employees having experience working for Anglo-Saxon firms score higher on the Individualism index, hereby showing that Chinese traditional values can be influenced by Western ideas. This is especially true for Chinese employees that studied abroad, since they are showing different working values, much closer to the western ones (Jaw, Ling, Yu-Ping Wang, & Chang, 2007).

It is also important to know that Chinese employees tend to consider their company as a second family. They often go to trips together, to team-building events, and they expect to be treated as family by their company. A stunning example of the strong links existing within Chinese firm is the celebration of Chinese conglomerate Tiens Group's 20th birthday, where all the 6400 employees were taken on an all-expenses paid trip to France in 2015 (Tufft, 2015). Lots of Chinese firms provide unusual services to their employees to keep them happy and to increase their loyalty. Hainan Airlines even built a town with housings and store in Haikou for its employees, so that they wouldn't have issues finding apartment in this city's increasingly expensive housing market. Haidilao, a very successful restaurant chain relying on excellent customer service, also developed similar services, such as nurseries, free apartments, funds for personal emergencies, etc. This guarantees Haidilao a very low turnover rate (Marquis, 2014). Such services are praised and deeply appreciated by Chinese employees, and will hence guarantee higher loyalty to the company.

Foreign managers need to be aware of these differences and particularities of Chinese employees and must act accordingly. Indeed, hiring and retaining local talents is truly essential to understand consumer's need, to better understand the Chinese legal system, and to create potential networks within an industry. Western firms will also have to pay attention that young Chinese graduates feel less and less attracted to working for foreign firms, since local companies can now bring them the same "connectedness" with the global market (Leclaire, 2015).

H1D: European SMEs managers noticed the Chinese employees' different education and working style, which is why they couldn't use all the traditional Western management practices.

2.3.2. Consumer ethnocentrism

2.3.2.1. *Origin of Chinese nationalistic feelings*

China is a complex country with a rich and eventful history, which is why it is difficult to trace the origins of the rise of Chinese nationalistic feelings. A lot of experts agree that they started to appear during the first opium war, but people usually recognize the May Fourth Movement (1919) as the official start, since it was only then that it started to have an impact on the state's behaviour (Xi, 2016). This movement started with the protest of 3000 Beijing students against the Treaty of Versailles' agreement, which was giving away the German concession in Shandong province to their longtime enemy Japan. This was the beginning of the Chinese movement towards independence from other nation's influence.

Despite the Gaige Kaifang policy (opening-up and reform) initiated by Deng Xiaoping in 1978 after his return to power, which promoted the opening of China towards the outside world (Huenemann, 2015), Party Secretary Jiang officially started to promote patriotic feelings through the education system and in the propaganda of the Communist Party in the mid-90's (Ishii, 2009). The country's troubled history can partly explain why Chinese have often had the tendency to overreact when their national dignity was under attack, as we can see with the current South China Sea situation, or, to use a business example, the scandal caused by a 2004 Nike advertising showing the American basketball star LeBron James humiliating a Chinese Kung-Fu master. This advertising was later banned by Chinese officials because of the "indignant feelings" it was creating among Chinese people (Fowler, 2004).

According to Zhu (2012), Chinese are also immensely proud of their culture. The concept of sinocentrism has been there throughout their entire history. Even the name of the country in Chinese (Zhong guo – 中国) can be translated as « the middle kingdom ». Insulting or degrading the Chinese culture in front of a Chinese business partner can therefore be seen as a deal breaker...

2.3.2.2. Impact on consumers' purchasing behavior

How does that nationalism impact Chinese consumers' purchasing behavior? According to a study conducted by Kwok, Uncles, and Huang (2006), Chinese consumers tend to say they prefer buying from local companies (especially for fast-moving consumer goods), but it is interesting to note that this preference is hardly reflected in their actual purchasing behavior. A potential reason for that could be the imperfect knowledge of Chinese consumers, who may experience difficulties separating Chinese from foreign brands.

Another study, conducted by Wei in 2008, showed that brand sensitivity and selected product cues (quality, packaging, styling, etc.) can impact the effect on Chinese consumers' ethnocentric purchasing behavior. That means that, if Chinese consumers especially like a foreign brand or if they can spot some positive product cues, they will go over the fact that the brand is not Chinese and will buy the product anyway. However, they will tend to prefer buying the Chinese counterpart if they do not know the foreign brand.

That consumer ethnocentrism is of course not the same depending on the type of product we are talking about. A study conducted by Jap (2013) showed that foreign brands are usually preferred for luxury products. These brands can capitalize on their prestigious image, since Chinese usually like to buy these products to express their wealth and power. This behavior can be linked to the concept of mianzi that was explained earlier. Luxury items, in a way, bring prestige and power to the people who own them and to their family. However, foreign luxury brands must remain careful that consumer ethnocentrism is also rising in this industry. Indeed, after that the very popular Chinese First Lady Peng Liuyan started to only wear Chinese luxury brands, showing again that ethnocentrism and national pride are rising in China, the number of Chinese consumers who refuse to buy domestic luxury products dropped from 86% to a stunning 9% in only 18 months (Shepard, 2016).

Because of the general inherent ethnocentrism in China, some companies (both foreign and local) try to emphasize on the cultural identity of their brand to appeal Chinese customers. Cleveland, Laroche, and Papadopoulos (2009) define cultural identity as “the incorporation of cultural heritage into the individual’s self-concept”. This was proven effective in some cases, as shown by a study conducted by He and Wang (2015). It confirmed that cultural identity and consumer ethnocentrism have an impact on Chinese consumers purchasing behaviour. Strong brand equity for an import brand can somehow balance this effect, but consumers with high ethnocentrism continue to have a negative preference for import brands. Also, while products made in China still bear low image in consumers' minds, the improvement of the country’s general image due to aggressive national branding campaign is helping to increase cultural identity and therefore the willingness to buy Chinese goods. This study also provides useful insights for foreign companies’ manager trying to enter the Chinese market, the main one being that adaptation of the product or the communication campaign to the Chinese cultural identity is often a necessary condition to be able to compete with local firms (He & Wang, 2015).

Chinese consumers will also have the tendency to dislike some countries more than others. It is especially the case for Japan, since there is a lot of hatred for this country in China. According to a 2014 BBC poll, more than 90% of the Chinese have a negative opinion of Japan. This is mostly due to the events of the second Sino-Japanese war (1937-1950), the most famous one being the Nanjing Massacre, where between 40.000 and 300.000 Chinese civilians and military were raped and slaughtered. It is still today a source of tension between the two governments since a part of the Japanese population still denies the massacre ever happened (The Guardian, 2014). There are also anti-western feelings in China, as demonstrated by some of the decisions made by Chinese officials (Wong, 2014a), but these are usually lower than anti-Japan ones.

Chinese consumers will also have the tendency to support and reinforce their government’s foreign policies. In 2017, South-Korean conglomerate Lotte agreed to sell some of its land to the South-Korean government so that they could use it to build Terminal High Altitude Area Defense (THAAD) system to increase American protection system in the peninsula. However, the building of this defense system was seen as a direct threat for China’s security by its government. In reaction, officials got back at Lotte Group by shutting stores for alleged safety violations and asking for boycott of South-Korean goods (Lee & Jourdan, 2017). This boycott

was then heavily followed by loads of angry Chinese consumers, which impacted the Group and the other South-Korean firms deeply (Mullen & Han, 2017). In China, diplomatic crisis can hence also impact consumer behavior and might create dramatic consequences for foreign firms.

However, it is important to point out that consumer ethnocentrism of Chinese consumers can not only be explained by the nationalistic feelings alone. As pointed out by Ishii (2009), this phenomenon can be seen as the result of the association of several nationalistic tendencies: resistance against the government's open-door policies, traditional xenophobic and exclusionism feelings, patriotism, etc. The purchasing behaviour of a consumer will hence differ according to which tendency of nationalism he's the closest to, since patriotism has less impact on willingness to purchase products of foreign companies than exclusionism.

H2: European SMEs noticed Chinese consumers tend to prefer buying from Chinese brands and suffered from this factor when they arrived in China.

2.3.3. Protectionist policies

After nearly 15 years of negotiations and opposition from a part of the other members, China finally joined the World Trade Organization (WTO) in December 2001. This long-awaited accession brought a lot to China: heavy investments from foreign capital, easier export (which allowed China to become the global manufacturing hub it is now), and many other advantages. The association of cheap Chinese labor, foreign knowledge and access to the global market played a key role in China's extraordinary economic growth (The Economist, 2011). Indeed, China's GDP grew ten times bigger in only 13 years after its highly-debated WTO entry. These advantages came under certain conditions: liberalization of the economy, openness to free trade, acceptance of manufactured import products, etc. 15 years after this accession, one question remains: did China truly live up to its commitments? Some might argue that they didn't, and that China is still in many ways a protectionist country.

2.3.3.1. Intellectual property rights protection in China

By joining the WTO, China agreed, among other things, to implement the Trade-Related aspects of Intellectual Property Rights (TRIPS) (Bullocks, 2016). This is why, because of external pressures and these requirements of the WTO, China started to build a protection regime for newly developed technologies in the beginning of the 1990's. The goal was for China to be

able to attract FDI's and joint-ventures, so that the local companies could then study the technologies brought by the multinational firms. Although it should supposedly be as efficient as the most developed economies', China's IPR regime still remains highly-criticized because of inadequacies in rights enforcement and preferential decisions by the central government (Maskus, 2016).

Indeed, as shown by Gwynne (2010), it is no secret that lots of foreign firms had problems with the protection of their intellectual property when coming to China. Google for instance, complained several times that they were the target of cyber-attacks from Chinese hackers. They had reasons to believe that these attacks were ordered by the Chinese government. According to them, there were two reasons for that: to give data to local companies and to track down human rights activists. This kind of data theft happened to a lot of companies, and led to tensions between China and some western countries, even leading to the US bringing WTO cases against China (Buckley & Lynn, 2009).

These cases are no isolated events. Lots of investigations and complaints from foreign business leader show that there might have been a systematic effort from Chinese government and firms to steal IP from incoming companies. However, for most multinationals, not coming to China is not an option, which is why they need to integrate this issue before their arrival (Schotter & Teagarden, 2014).

Since the government's official goal is to make China the global technology leader by 2050 (Wei, 2016), officials often do not enforce the existing IP laws to punish Chinese firms copying high-tech know-how from foreign companies. Imitation is sometimes a necessity for these local firms, since it is the only way for them to keep up with the increasingly complex technology on the Chinese market (Schotter & Teagarden, 2014). This is why 4 out of 5 European business rated China's enforcement of intellectual property rights laws as inadequate in 2012 (The European Commission, 2014).

However, enforcement seems to get better and better for foreigners, as shown by the recent Michael Jordan's trademark trial. Indeed, the basketball superstar had filed a lawsuit against a Chinese sportswear company that was using his Chinese name for more than a decade. Jordan won, which was unexpected since the Chinese company had registered the name as its own trademark more than a decade ago (BBC, 2016a).

H3A: European SMEs faced issues regarding the enforcement of the intellectual property protection laws

2.3.3.2. Other protectionist policies

In a more general way, as explained by Novicevic et al. (2012), the Chinese government is also known for imposing entry barriers, and to often target international retailers trying to expand to China. Local retailers also benefit from several real estate arrangements such as lower rents, etc. Furthermore, in times of excessive supply and hence low prices for local firms, Chinese government has in the past used non-tariff barriers (custom clearance or quality restrictions) to limit the quantity of raw material coming in the market from overseas (Wong, 2014b). To help local companies, Chinese officials also often set country-specific standards that are very hard to meet for foreign companies. Foreign firms also face great difficulties in accessing funding and receiving subsidies, and they often complain at the lack of transparency and predictability of government's legislations. According to a survey, 45% of the European companies that are operating in China stated that they have missed business opportunities because of these difficulties (The European Commission, 2014).

Another problem is the fact that China ranks industry sectors into three categories in its "Catalogue of Industries for Guiding Foreign Investment": "encouraged", where foreign investments are welcome, "restricted", where foreign firms need to go through much longer and more expensive approval process, and "prohibited", where only Chinese firms can do business (Kaja, Lu, & Stratford, 2015). This proves that China is still not a completely open economy, since 36 industry sectors are currently in the "prohibited" category, such as the whole media industry for instance (FDI Invest in China, 2015).

Foreign firms also face lots of difficulties to access public procurements. Indeed, the regulatory framework that is supposed to regulate this part of the economy is described as "fragmented, inconsistent and unevenly implemented" in a 2011 report from The European Union Chamber of Commerce in China. This report describes all the problems European firms must face when trying to grab these business opportunities, such as the difficulty to obtain reliable information on time for upcoming projects, the general lack of communication from Chinese authorities, the unfair awarding of these projects, or the unsatisfactory appeal procedures. Considering that public procurements overall account for more than 20% of the Chinese economy, which is the equivalent of the size of South Korea's economy, being left out of such a market is a

major disadvantage for foreign firms and another possible violation of WTO policies (The European Union Chamber of Commerce in China, 2011).

Another topic for debate among experts is the reason behind the blocking of famous websites such as Facebook, Twitter, Google or YouTube in China. These blockings were almost all decreed after the riots in Urumqi in 2009 (Chu, 2017). Most people argue that it was a way for the Chinese Communist Party to keep control of the social networks, to prevent the spreading of Western ideology, and to censor opinions they didn't like, which would have been of course impossible to force upon a foreign company.

It is interesting to see how China managed to take the most out of this highly criticized decision for the benefit of its own web champions... Indeed, to fill the void left by the censoring of these companies and to follow the trend of social media, similar services were developed by Chinese firms like Baidu (search engine), Youku (video streaming platform), Sina Weibo (Twitter-like website) and Renren (social network). These companies heavily benefited from the absence of foreign competition, and managed to become true industry stars.

The three internet Chinese giants, Baidu, Alibaba and Tencent (BAT), are the best examples of this incredible success: Baidu has a \$60Bln capitalization on the NASDAQ and is the most consulted website in China (Boursier.com, 2017). Tencent, with its record-breaking app WeChat (微信 – Weixin in Chinese), became in 2016 the most valuable Asian company (Meyer, 2016). Finally, Alibaba and its charismatic leader Jack Ma are the uncontested leader of online shopping in the world's largest market, and they break records each year with their famous 'Singles day', where close to \$18Bln in sales were made on the group's platforms in 2016 (Fauconnier, 2016). These companies obviously took advantage in some way of the foreign-hostile environment in this industry. They are also very close to the central government, which is why they often behave like state-owned enterprises. They even sometimes help the government in designing new laws, which gives them extra-advantages against foreign competition (Chu, 2017).

Nonetheless, it is important to say that protectionism can also be an issue for Chinese firms. Indeed, many studies show there exists local protectionism in some provinces. Wang (2016) showed that, very often, the fall of an important Chinese official (like the previously mentioned former Chongqing mayor Bo Xilai) comes together with tough times for highly

locally connected Chinese companies, while nationally connected firms are not impacted. Although lots of firms have connections with local governments, the most valuable relations are the ones with the national government. Indeed, the national government is more stable and less likely to be impacted by political shocks (Wang, 2016). This study shows that *guanxi* is far from dead, but that the quality of the relations network has now become the name of the game.

Also, regarding IP issues, there seems to be a high correlation between winning the case in first instance and having your firm located close to the court. That shows clearly that there exists local protectionism in Chinese provinces. However, the plaintiff's location seems to have no effect on the ruling of the People Supreme Court, which is why it is said that this court often solves the problems caused by local protectionism (Long & Wang, 2015).

There are several potential reasons for these protectionist behaviors: to protect local jobs, to help officials get richer (since they often have ties with the firms), and to develop national champions, since Xi Jinping's long-term strategy is to develop huge Chinese firms able to become global leaders in their respective fields, and to allow China to become master of its own technology (Atkinson, 2015). Huawei or Xiaomi in the mobile phone business are good examples of such local champions. Stealing away data from large MNCs can be a way to provide lacking knowledge to local firms, and to allow them to survive to global competition.

In this context, it will be interesting to see if Xi Jinping's recent speech at the World Economic Forum in Davos, where he promoted free trade and openness to foreign investment in response to Donald Trump's protectionist views, will be followed by some changes in some of China's protectionist policies (Elliot & Wearden, 2017).

Finally, it is important to point out that, even though the current policies can be criticized, China is a much more open country than 25 years ago. Indeed, its trade-weighted average applied rate of import tariffs across all merchandise sectors was 32.17% in 1992, but it decreased to 14.67% in 2000 and it was only 3.41% in 2015 (The World Bank, 2017d). This demonstrates that China has become a much more welcoming country for foreign goods.

H3B: Managers of European cannot access public procurements or funding, and are in a general way disadvantaged by the Chinese government compared to local firms.

2.3.4. Intranational differences

People usually see China as a monolith culturally speaking, but China is actually a collection of regions, each having different customs, food, languages and values. Business can therefore not be conducted the same way across the whole country... Regulations can also vary heavily between the different regions, making it even harder to penetrate the Chinese market as a whole. These differences, added to the original incredible complexity and low speed of the Chinese regulatory system, can incur an additional cost for European firms when entering this market.

2.3.4.1. Intranational cultural differences

Throughout its history, China has always been a difficult country to unite. According to the famous American anthropologist Skinner (1977), late imperial China was subdivided into 9 regions, based on geography, economic resources, culture and common history. China is now made of 23 provinces hosting 55 minorities. More than 200 dialects are spoken in China, and even though mandarin is taught in all the Chinese schools, this still needs to be considered by foreign businesses when moving into a new region (Thompson, 2015). Integrating these very different regions separated by thousands of kilometers into one single nation is no easy task, and that is why cultural differences are still there, almost 70 years after Mao's rise to power and the beginning of his unification process. Nonetheless, there are still some unification factors, one of the major ones remaining Confucianism, because it has molded most of its inhabitants' values and it is still widely accepted throughout China (Wong, 1985). China has therefore a mainstream culture, with some variations and adaptations in the different regions.

There are also some things foreigners need to know when arriving in China to avoid hurting locals' feelings. The hate between "Beijingers" and "Shanghaiers" is one of those. The two most powerful cities in China have indeed very different cultures and the stereotypes are still very powerful regarding the other city. Beijingers feel like Shanghaiers are arrogant and only think about money, while Shanghaiers see Beijingers as peasants (Custer, 2017). In a study, Eberhard (1965) conducted a survey to identify the biggest Chinese regional stereotypes and types of behaviour. He identified three large families. In the North, people are "straight and honest, simple and enduring". Near the Yangtze River (in the center of the country), people appear to be cleverer and tend to be good at conducting business, while Southern Chinese tend to be more emotional and can sometimes have some violent temper. Food preferences

are also not the same across provinces, which can make some type of food popular in one province and disliked in others (Eberhard, 1965)¹.

In a general way, there are lots of differences between North and South China. These two parts, divided by the Yangtze river, have very distinct psychological cultures, and even different physical traits (Eberhard, 1965). Experts usually agree that people living north of the Yangtze adopted values that are closer to Western values, while the people living in the south are more about interdependence between members of a group and give a lot of importance to the context. According to a fascinating study led by the American psychologist Thomas Talhelm, these differences can be explained by something he and his colleagues called “the rice theory”. It argues that the cultural differences can be explained by the different agricultural traditions. Indeed, North China has always been growing wheat, while South China’s climate and landscape led them to grow rice. Since growing rice requires cooperation (to build and coordinate irrigation system, etc.), locals learned the importance of working as a group, while northerners didn’t need that cooperation to grow wheat, which led them to become more independent (Talhelm, Zhang, Oishi, Shimin, Duan, Lan, & Kitayama, 2014).

These are but a few of the many cultural differences that exist or have existed between the regions, but since they are usually very specific, foreign firms will need to conduct precise research for their industry to identify these differences. For instance, it is interesting to know for alcohol producers that China’s famous rice alcohol (白酒 – bái jiǔ) is mostly enjoyed in rural areas, in the North and in the Southwest of the country (Gaskin, 2014), which is why they should adapt to these different preferences when conducting business in the whole country.

2.3.4.2. *Intranational regulatory differences*

When asked where they come from, Chinese tend to say the name of the province rather than the name of the city. Indeed, each province is culturally different, and most Chinese are very proud of that. It is also the case for government officials, which is why they often conduct policies that can be seen as regionalist. Indeed, since the beginning of the “Opening up and Reform” policies and in a general way throughout the entire Chinese history, the central

¹ Since this paper is quite old and the mobility of Chinese citizens has increased a lot since then, some of these stereotypes might have faded away.

government has always struggled to see its policies enforced by the local governments. This can be partly explained by the different political and economic interests of the provinces. Those differences in policies are of course needed in some way since each province has different needs, but it makes pushing national reforms much harder for the central government (Stratfor, 2016).

This can therefore also be an issue for foreign firms trying to enter the Chinese market. Indeed, if there are planning to operate in more than one province, they will need to do substantial changes to their business according to each province's interpretation of the regulations and the different traditions. Also, firms will have to be careful about each province's economic development. Indeed, certain provinces are much more developed and products are hence available at higher prices. For instance, Tibet province had a GDP/capita of ¥26.068 in 2013 while Shanghai had ¥90.092 (National Bureau of Statistics of China, 2014)

Coca-Cola, for instance, faced issues with these differences. In 2007, Yeung and Mok explained how Coca-Cola had to face parallel import between Shanghai and Hangzhou. Indeed, Coca-Cola has made a habit out of outsourcing the bottling and the sales of its product, the condition being that the partner firm must commit not to sell the product outside a predefined region. This allows Coca-Cola to prevent inter-regional competition. They did the same for China, dividing the country in several regions, and giving the bottling business to a different company in each of these regions, which all received the monopoly right of selling Coca-Cola bottles in their region. However, because of regional competition and different prices, the Shanghai distributor started to parallel trade in Hangzhou despite the interdiction, which broke Coca-Cola's monopoly pricing in the region and made it lose money (Yeung & Wok, 2007). This shows how differences between regions can impact a firm's business.

Considering these differences and the relative diversity within the country, foreign firms need to analyze consumer habits, regulations and economic development in each province before entering the market, to avoid having a product unfit to customers' needs in several regions.

H4: European SMEs active in more than one province noticed cultural and regulatory differences between the different provinces, which damaged their strategy.

2.3.5. Local competition

For a long time, the “Made in China” label was associated with cheap, poor quality, unfashionable or even fake products (Shepard, 2016). Because of that, and probably because of some level of ethnocentrism, tons of foreign firms entered the Chinese market unprepared, without adapting their business model, and expecting a quick and easy win against weak competition. In most cases, the Chinese market crushed them pretty quickly. Why is that? Lots of potential reasons have already been mentioned in this thesis, but one of the biggest ones is probably the resistance of the local competition.

Indeed, local firms have the advantage of knowing the market and the consumers’ needs better. The smartphone market is a good example of this resistance from local brands. Firms like Oppo, Vivo, Huawei and Xiaomi are currently taking a large chunk of Apple’s market share in China, partly because of their imitation skills and their cheaper prices, but also because they designed marketing campaigns that fit the market better (King & Yan, 2016).

In the automobile industry, Chinese car manufacturers spotted a trend and new customer needs, which is why they are currently building more and more connected cars and electric vehicles, while Western car manufacturers are still convinced that Chinese firms are not able to truly innovate, explaining why they won’t invest to fight these rising companies (Heilmann, 2016).

In the fast-moving consumer goods industry, experts are observing a steady decline in foreign firms’ sales while local brands’ ones are rising. Marks and Spencer’s failure in China is a good example of that lack of preparation and knowledge of the local consumers’ needs. Indeed, lots of their clothes were not designed for the Chinese body shapes. Also, most of these FMCG companies still have not understood the importance of having an internet presence, although it is something that is considered to be crucial for Chinese consumers (Gopalan, 2016).

Also, Steinfeld and Beltoft (2014) explain that Chinese enterprises, even though they are not able to develop ground-breaking innovations yet, are very good at implementing ideas quickly and profitably. This is something that Chinese customers truly value, since they expect new products to offer innovative functionalities, to be cheap and to be delivered quickly. They also don’t like to wait a lot for a service to get fixed. Chinese firms are also often very good at

identifying waste and to dispose of it¹ (Steinfeld & Beltoft, 2014). These typical capabilities and skills explain why a lot of Chinese companies started off by targeting the low-end market. The world fastest growing provider of appliances Haier is the most famous one. Foreign firms often didn't consider those customers or could not provide cheap and good quality products, and companies such as Haier managed to beat them by associating cheap and good quality products to innovative management-control systems (Lin, 2009)

Because most of their employees are locals and have been living in China most of their life, Chinese firms also have the advantage of being able to grow a network more easily. As seen before, the importance of building guanxi and to know important people is deeply rooted in Chinese managers' minds, which is why they often have tight links with other firms and important officials. For instance, Chan, Dang, & Yan (2011) showed that listed firms whose CEOs or chairmen are linked with government officials are much less likely to have financial constraints, most likely because of preferential policies and an implied government guarantee for potential lenders.

Chinese firms are therefore far more competitive than expected by most of the foreign companies. To sum up, we can say that they know what consumers value the most and they often act accordingly, that they are getting better and better at innovating and that the fact of being a local firm brings them advantages far more difficult to acquire for foreigners.

H5: European SMEs faced tough and sometimes even unexpected competition from local firms, that made their entry in China more difficult.

2.4. Synthesis

Several important points can be withdrawn from this literature review. First, we saw that internationalization can be a long and tricky process. Firms will need to balance the advantages and disadvantages of being foreign (liability of foreignness, location-specific advantage, etc.), to find local partners to help them learn the ins and outs of doing business in this new market, and to understand and cope with cultural and institutional distances, etc.

¹ A potential danger for SME is also their ability to specialize in niches somewhere in the production process. They then later team up and form fierce and very effective alliance.

As explained during this literature review, internationalizing in such a complex country as China is even more difficult, which explains why so many failed in doing so. Foreign firms will indeed have to face several hurdles before reaching success in this high-potential market.

European investors will first have to understand and get acquainted with the cultural differences they will most definitely encounter with their Chinese counterpart. Understanding the importance of *guanxi*, coping and learning to deal with the inherent corruption in the business world, threading lightly with your interlocutor's *mianzi*, dealing with the differences in advertising perception and brand building are just a part of the things a foreign businessman needs to master to successfully integrate his brand and his products on the market in harmony with Chinese culture.

Foreign businesses will also have to cope with the fact that a large chunk of the Chinese population can experience nationalistic feelings and has immense pride in being Chinese. This will lead them to favor buying local brands over foreign ones (depending on the type of product we are talking about) and to back up their government's diplomatic positions by adapting their purchasing behavior. Of course, there are some countries that China dislike more such as Japan, but foreign firms will nonetheless need to be careful with those nationalistic feelings if they want to stand a chance against their Chinese competitors, who won't suffer from this liability.

Firms coming from overseas will then have to face barriers implemented by the Chinese government itself. For multiple reasons, some might argue that, despite joining the World Trade Organization more than 15 years ago, China still enforces protectionist laws. Questionable intellectual property protection law enforcement, implementation of entry barriers, difficulties to access public procurements & to receive funding, and bans of foreign firms are but a few of the numerous protections China granted to its local firms. These find roots in Chinese officials' will to fight unemployment, to create national champions able to take on the global industry leaders and even sometimes personal involvement in the local venture.

Furthermore, firms must deal with intranational cultural, regulative and economical differences. Indeed, China remains a multicultural country, with different values, consumer preferences and economic development among its provinces. Also, local government still have

some power and they tend to not interpret differently laws and regulations instigated by the central government, which creates a lot of differences between regions, forming yet another obstacle for firms trying to sell their goods or to provide their services in more than one province.

As they enter the Chinese market, companies will also obviously need to hire some local employees to get some insight on the local market, to understand the legislations, etc. However, employers need to be aware that lots of Chinese still don't have working proficiency in English. Speaking Chinese is therefore still a big advantage to conduct business with your local partners. Also, Chinese employees sometimes expect unusual services and perks from their company, which they often consider to be their second family, and they do not always work the same way as European employees might.

Finally, foreign entrepreneurs should not underestimate the strength of their local competition. Indeed, partly helped by their government, local firms are fierce competitors that developed useful skills, perfect market knowledge, strong networks and increasing innovative capabilities. Foreign firms will therefore have to be able to leverage some competitive advantages if they want to beat them.

To conclude, we can see that entering the Chinese market is far more complicated than entrepreneurs usually expect. Relying on local talents and preparing your entry well beforehand seem to be the key to succeed in this ferocious market. By interviewing business actors with knowledge on this subject, I will be able to challenge these findings, to identify and to analyze what drives success in this country and what are the issues that must be tackled to reach it.

All the hypotheses made during this first part are synthesized in fig.6., together with all the authors I read to conduct this literature review in fig.7.

Part 3: Field research

3.1. Introduction

Conducting this literature review allowed me to get a better grasp at some of the country-specific problems that firms might face upon arrival in China. As we saw, this country is not an easy place to do business, but since the potential benefits are very high, lots of firms try to do so anyway, despite all the difficulties they might face.

However, one of the issue of the current literature is that it usually takes interest for the issues large firms might face when they arrive in China. It is therefore possible that some of these obstacles might not impact SMEs, or that SMEs could have issues with things that large firms handle easily, given their size and their bigger resources. Also, some of the articles I used for certain issues are not very recent. This can be a problem because, given the speed things can change in this country, one must remain extremely careful when reading relatively old articles about China.

The goal of this field research is therefore to interview people with up-to-date knowledge on the internationalization of European SMEs in China, to see if the obstacles I previously identified are real, if they actually impact this process, and to see if the interviewees know other national and cultural factors that I was unable to discover.

I will proceed hypothesis by hypothesis, comparing the assumptions I made after each part of my literature review with the knowledge I gathered throughout the 6 interviews I conducted. Not limiting myself to only SME managers, I took the initiative to interview other business actors that deal with this internationalization process on a daily basis, such as a lawyer specialized in the legal issues faced by European SMEs upon arrival in China, or a business development expert at the EU SME Centre, who answers questions of European SMEs on doing business in China every day. These interviews were all conducted during my exchange at Tsinghua University in Beijing, in the companies' offices between April 28th and June 12th. The broad list of the questions that were asked to the interviewees can be found in appendix 5.3.

Being aware of the lack of certain profiles in my interviewee panel, information's gathered from the 45 case studies written by the EU SME Centre were also integrated in this analysis.

These cases are quite recent (all written after 2011), they tell the story of the arrival of European SMEs in China, the issues they encountered, and provide recommendations for European managers considering doing business in China.

3.2. Presentation of the interviewees

3.2.1. Schwartz & Co.

Schwartz & Co China is a management consulting firm that is dedicated to the energy, the transport and the water sector. They provide 4 different types of consulting services: strategy, mergers & acquisitions, operations management & regulation, and market models. Originally founded in Luxemburg, the company later expanded its operations internationally, which is why they now have 6 offices: in Luxembourg, in Lausanne, in Paris, in Brussels, in London and in Beijing. The firm currently employs about 40 people across these 6 countries (Schwartz & Co., 2017).

The person I interviewed is Meng Gao, the Chinese Managing Director of the firm's very recent Chinese subsidiary. This interview took place on May 5th in their offices. Interviewing this person offered three advantages: the first one was to be able to see how small consulting firms apprehend the Chinese market and what issues they might be facing. Furthermore, interviewing the manager of a consulting company presented the advantage of allowing me to get some insights on the issues faced by some of their customers. The second advantage was that this interview would allow me to get the story of their recent arrival in China in 2015 from the man who actually directed that market entry. Indeed, after a few years working in the firm's Paris office, Meng Gao was designated to be the man in charge of the opening of the Beijing office. Finally, since the interviewee was Chinese, it was interesting to get his insight on how he sees internationalization of the European SMEs in his country, to compare some of his responses with the other interviewees who are all Europeans, and to see if there were issues he didn't face that the others did and vice-versa.

3.2.2. 1421 Consulting

1421 consulting is a company that help its Western customers (mostly European SMEs) setting up and developing their operations in China. Founded by a Dutch businessman, this company now has offices in 8 countries, making it a very international firm (1421 Consulting, 2017). Throughout the years, they helped dozens of companies to set up their operations in China,

which is why it was a very interesting company for me to interview. Indeed, they possess extensive knowledge on all the subjects I read about in my literature review, and they were hence able to provide me with numerous examples of the issues that their customers face when they arrive in China.

The interview took place in the offices of 1421 consulting on May 11th, where I had the chance to ask several questions to the firm's Dutch General Manager, Maxime Van't Klooster, who is an expert of market entry in China.

3.2.3. Brewery De Halve Maan

The third interview took place in the famous Belgian bar Beer Mania on May 15th. It made sense for the interview to happen there, because this bar is actually one of the biggest customers of the company I was interested in that day, the Brewery De Halve Maan. This family brewery first started to import its beers in China through an export agent, but given the success of their brands Brugse Zot and Straffe Hendrik in this new market, they decided to open up their own office in Beijing in 2015. The goal of this interview was to get insights from a company that actually sells products and not services like most of the companies that agreed to answer my questions. Also, because they deal with a product that can typically offset the liability of foreignness, I wanted to see if the internationalization process had been easier for them, and how their local competitors might have reacted to this entry of a new type of goods.

Furthermore, given the interviewee's experience in various industries in China (tourism, diamonds and beers), I knew that Sales Manager Lionel Kohn was going to give me interesting insights on the difficulties of doing business in China for SMEs.

3.2.4. EU SME Centre

Founded in 2010, this European Union initiative aims at providing help to European SMEs before, during and after their entry on the Chinese market. To do so, it provides 5 services to its members: a Knowledge Center with market reports, guidelines and case studies, an Advice Center where SMEs can ask advices and detailed information from experts, a Training Centre, a SME Advocacy Platform, and Hot-Desks & Meeting Rooms – Ready-to-go workspace (EU SME Centre, 2017d).

The person I interviewed on May 23th is Rafael Jimenez, a Spanish Business Development Expert at the EU SME Centre, which he joined in 2015 after going through the process of

starting his own company in the field of fast-moving consumer goods in China. His daily tasks as Business Development expert are to develop strategies for SMEs that want to enter the Chinese market, to answer their detailed questions via the “ask-the-expert” tool on the Centre’s website and to organize seminars and trainings about several topics. Given his long experience in China, the nature of his job, and the mission of the EU SME Centre, interviewing him represented an incredible opportunity to get the expert’s point of view on my thesis and the results of my literature review. The interview took place in the EU SME Centre’s offices in Beijing, on May 23th.

3.2.5. R&P China Lawyers

The fifth interview was especially interesting for certain specific points of my thesis. Indeed, I thought it could be interesting to interview lawyers that support international business in China to get a different perspective on the subject, and to get a better grasp at some of the legal issues identified in the literature review. The firm I chose, R&P China Lawyers, is not a European SME since it is only active on the Chinese market, but their founder is European and so are the other managers. The company possesses two offices: a headquarter in Shanghai and a liaison office in Beijing, which allows them to cover the entire Chinese market. Throughout the years, R&P has helped many European SMEs and listed companies with the legal issues they might have faced throughout their operations in China. The combination of Chinese lawyers and international managers allows them to tackle a lot of these issues efficiently (R&P China Lawyers, 2017).

The person I interviewed on June 2nd is Koen Naber, the Dutch Director of the firm’s Beijing office, who has an extensive experience of the Chinese market since he has been working there for more than 8 years now. The original goal of this interview was to focus on three points of my literature review: the administrative issues foreign firms face, the protectionist policies implemented by the local government, and the differences in regulations between the different provinces. However, given Mr. Naber’s extensive knowledge on all the topics covered in my thesis because of his long experience in China, this interview proved itself to be also fruitful to review some of the other parts of the literature review.

3.2.6. The Sovereign Group

Sovereign is a 30 years old European SME founded in Gibraltar, who has grown to become one of the largest independent trust companies in the world. Their services include wealth

management, tax advices, trade mark and IP registration, but also market entry and development of market strategies. With offices in more than 20 cities around the world, Sovereign developed a truly international structure with a mix of foreign and local staff in each location (Sovereign, 2017). In 2015, The Sovereign Group opened their first office in China in Beijing, in order to help the companies trying to enter this market and to position themselves for the rising Chinese personal wealth management market.

On June 12th, I interviewed Robbert Görris, Business Development Manager and head of the firm's Beijing office, who also occupied the position of General Manager of the Benelux Chamber of Commerce for 3 years. Given his 7 years' experience of doing business in China, the key position he had in Bencham and the very nature of his business, Mr. Görris can be considered as a true expert on the subject of this thesis.

3.3. Results

3.3.1. Cultural differences

The goal of the beginning of the interviews was to see what cultural differences really impact the business life of the respondents, which is why the first question was to ask them to describe the Chinese culture in term of business style, how different it was from their own culture and how they adapted to these differences. The question was voluntarily broad in order to get lots of different ideas on the way they see the Chinese business style.

One point was mentioned by three of the six respondents: the indirectness of the Chinese businessmen. According to Meng Gao, Maxime Van't Klooster and Robbert Görris, something that is often very difficult for foreigners to understand is the fact that Chinese sometimes say yes while thinking no. This is very tricky, because there is always this doubt that the other is on board, so you can never really move forward without having doubts. Understanding your Chinese counterpart is therefore no easy task, but as Meng Gao confessed, it is even sometimes difficult for Chinese people too.

Another interesting point was the importance of having a network here in China. According to Lionel Kohn from De Halve Maan Brewery, it is something crucial for Chinese people, much more than in Belgium for instance. However, Koen Naber added that building a relationship takes time, because Chinese people do not trust other people easily. This can lead to very long negotiations, since they really want to know their potential partner's set of skills and to see if

he is able to deliver what is promised. These long negotiations of course incur an additional cost, but Chinese people usually do not worry about it. This can create frictions between foreigners who want to go quickly and Chinese who are willing to take their time.

All in all, all the respondents agreed on the fact that the Chinese business style is quite different from what European are used to, and that it usually takes time for people to get used to it. These ideas of the cultural particularities of the Chinese business style also fit some of the Hofstede's analysis findings, such as their Long-Term Orientation shown by their tendency to negotiate for a long time, or their low score for Uncertainty Avoidance shown by their view of the meaning of a yes or a no. Robbert Görris also added that the Chinese business style can be very different from one industry to the other, which adds even more to the complexity of doing business here.

3.3.1.1. The concept of guanxi and corruption in China

H1A: The concept of guanxi and inherent corruption in China are barriers for SME's internationalization in this market.

Throughout my classes at Tsinghua University, I noticed that guanxi is always the first factor mentioned by teachers or Chinese student when asked what is the biggest specificity of doing business in China. I also realized the importance of networks in China during my CEMS internship at Vandergeeten. This company is a major importer of premium beers and confectionary products from Belgium, Germany and the Netherlands. Since 1994, Vandergeeten is distributing top brands on the Chinese market. During my 10 weeks in their Shanghai offices, I came to realize that my Chinese boss seemed to be friend with all its customers, and that he always put a great emphasizes on maintaining good relations with them, by sending free kegs of beer for their birthday for instance. He also told me several times how important it was for them to create relations with potential customers during the company's events. This also explains why Vandergeeten tries to participate to as many business fairs as they can, because this is where you find customers when you are doing B2B in China.

My literature review confirmed this first impression, and I learned that forming such a network can be difficult for foreign firms in China. Unfortunately, I also read that this concept of guanxi nowadays tends to be associated with corruption, a very big issue in the Chinese society. I

therefore asked the people I interviewed how this concept of guanxi impacts their business life here, if they were prepared before they arrived, and how they managed to develop a professional network in China. Regarding the tricky question of corruption, I asked them how they saw this problem, if they ever came across cases of corruption since they arrived in China, and if it ever prevented them from grabbing opportunities.

Regarding the importance of guanxi in doing business in China, unanimity was quite surprisingly not reached among the respondents. Given the place of this concept in the existing literature and how often it was mentioned during my classes, I expected everyone to tell me that having a network in China was necessary for European SMEs, but it wasn't the case.

On one hand, there is Mr. Meng from Schwartz & Co. who believes that guanxi is absolutely crucial to do business in this country. According to him, the lack of intermediaries in China before the arrival of his firm was the main reason why they had so many difficulties in the beginning of their internationalization process. Indeed, he explains that finding the first clients was immensely difficult because nobody knew them, which is why trust was hard to build. Having no intermediaries that could vouch for them, he had to spend a lot of time networking to develop its guanxi. In his view, building a viable network in China takes time, which is why managers of European SMEs need to be very patient if they want to be successful here. Another example of the importance of guanxi is Maison France Voyage, an outbound travel agency settled in China. Indeed, this is a firm that benefited heavily from its network here in China: far from only bringing individual customers, the firm's intermediaries also allowed them to attract new institutions and corporations from the business and the cultural spheres (EU SME Centre, 2017c).

Mr. Kohn from De Halve Maan believes essentially the same thing: network is very important here, and probably much more than in Europe. He also confirmed that, as I already saw during my internship at Vandergeeten, relationship and network are key success criteria in the beer business. He also added that networks in China are often very interconnected, since he is currently using the contacts he made in the tourism and in the diamond industry. Fortunately, he says that Chinese people are very aware of the importance of guanxi, which is why they are more open to introducing you to contacts, making it often easier for European managers to meet people in China than in their home country. However, Lionel Kohn nuances the

importance of relationships in his business: yes, they play an important role, but only relying on it would be suicidal, because in China, bad relationship with one link of your network can quickly spread to others. Managers must hence remain careful and constantly look outside their existing network to diminish that risk.

On the other hand, the other respondents are less unanimous about this concept and its importance for European SMEs. Mr. Van't Klooster for instance, who threatens with SMEs trying to enter the Chinese market on a daily basis, believes that guanxi is more important when Chinese businessmen are doing business with each other than when they are treating with foreign managers. Indeed, he strongly believes that succeeding here is possible even if you do not have a network, if you can demonstrate that you possess the right skills and that your product is good to your Chinese business partner. It will take more time without network in your field, but if you know the Chinese expert and you are ready to pay him to grant you access to the important player, additional networking is not a necessary condition for success. A good example of that is the firm Müller, who only relied on a consultant that had extensive knowledge of the place where they wanted to set up their facility (EU SME Centre, 2011d). Rafael Jimenez has essentially the same opinion, but he adds that managers should still build a strong relationship with all the firm's stakeholders.

Robbert Görris is probably the respondent with the strongest opinion about guanxi. According to him, it has become almost impossible for foreigners to have truly useful guanxi, but it is not a problem according to him, since his company strongly believes that using it to get things done will very often backfire at the foreigner. Indeed, he gave the example of a firm that relied on guanxi to set up a factory, but when the government came to check the permits done by their contact, it appeared that it had been done very poorly, which eventually forced the company to shut down the factory. He also believes that guanxi is becoming less and less important for Chinese firms too, since more and more young companies prefer to rely on professional consulting companies than to go to their network when they have a problem.

Koen Naber from R&P Lawyers has a more nuanced opinion. Using the example of the failure of Uber, who arrived here without really developing relationship and expecting people to come at them, he explains that guanxi is as important for Europeans as for Chinese, but that the degree of importance varies a lot from one industry to another. Indeed, if your product or your service is especially good or different from what is currently done in your industry, you

will need a little bit less guanxi. However, if a European SME is entering in a very crowded field, where products look a lot like each other's, having a strong networks and people that can vouch for you is crucial if you want to stand a chance to survive. He also states that you can still see the importance of guanxi by looking at where firms set up their headquarters: car manufacturers are all in Beijing, fashion designers usually set up in Shanghai, etc. This shows that firms want to stay as close as possible to the people that matter in their business. Finally, he explains that yes, guanxi is important, but what matters the most is your ability to monetize your relationships, which can be more difficult than expected with several rich Chinese individuals.

Regarding the importance of corruption in the Chinese society, responses were more unanimous. There seems to be a general agreement that, despite the very effective government crackdown that happened recently, corruption is still something to be taken into account in China. Some of the respondents see it happening, others just know it is still there, but none of them ever engaged in this type of reprehensible activities.

According to Mr. Van't Klooster, corruption mostly takes place in industry filled with regulations, giving the example of the medical devices industry. In these industries, it can be very tempting to give money or gifts to speed up the lengthy procedures, while other industries such as consulting are relatively corruption-free, according to Meng Gao, because of the absence of such lengthy procedures and the very nature of the service they provide. Also, in Maxime Van't Klooster's view, there is still a tradition of gift giving in China that almost everyone respects, often in order to speed up things such as fire safety inspection or to keep a good relationship with stakeholders that could hurt you. However, he believes that European SMEs can do 99% of their business without doing actual corruption.

The brewery De Halve Maan is proving that it is possible. Indeed, according to Lionel Kohn, the management in his firm is really strict with this issue: in no circumstances can employees engage in this kind of activities. As a result, they have to go through very long custom clearance procedures when their beers arrive in China, but he knows that some firms sometimes use "ways" to speed up this process, especially when they are in a hurry. Of course, De Halve Maan sometimes gives free beers to their customers, but it can hardly be considered as corruption, although Mr. Kohn finds it sometimes tricky to spot the difference between gifts and corruption in the Chinese business life.

Rafael Jimenez's opinion on the subject is very similar. According to him, corruption is a phenomenon that affects the Chinese society at all levels. However, having access to all sorts of interesting numbers through the EU SME Centre, he noticed several effects of the recent anti-corruption campaigns launched by the government. For instance, he noticed a steep drop in the import of wine in 2013 and 2014, which he explains by saying that imported wine used to be one of the most appreciated gifts to gain influence and power. This anti-corruption campaigns are, according to him, very beneficial for European SMEs because they help "cleaning" industries, and having a clear idea of the actual state of the market. For obvious reasons, the position of the EU SME Centre on this issue is also to advise firms to stay away from corruption and to act as ethically as possible. Mr. Görris' opinion on the subject is more nuanced, since he firmly believes that corruption has not diminished, that it is just more sophisticated. He thinks that firms just put it as "consulting project" in their books. He also believes that lots of foreign firms do engage in some kind of corruption too, but that it depends heavily from one industry to the other. Not engaging in corruption is always possible, but firm will have to double down their efforts to be successful according to him.

As shown by the example of De Halve Maan, this is totally possible, but the key lies in strong management regulations according to Koen Naber. He explained that corruption happens when small firms do not have strong and explicit rules about the way employees should act with officials and other people with strong power. If European SMEs do not have a strong control on their subsidiary in China and a weak corporate culture, the chances of seeing your subsidiary engaging in this type of activity increases. Also, he emphasized on the fact that, rather than giving gifts when there is a problem with the procedure, European SMEs should rather behave like some Chinese firms do and call the administration every day until the problem is solved, while remaining careful not to make that person lose face. According to him, they should stop being so polite and giving gifts, and be stricter with this kind of people.

Given these responses on guanxi and corruption, it is a little bit difficult to state firmly whether or not the hypothesis that was made is correct. On one hand, two respondents were categorical on the fact that guanxi is important and that having a network is crucial, but on the other hand, three other respondents with a more general knowledge on the topic of this thesis argue that it affects more business between Chinese than business between Chinese and foreigners. It is in that sense quite interesting to point out that the strongest advocate of

the importance of guanxi, Mr. Meng, is Chinese. They also stated that knowing specific people that matter in your industry is often enough. Regarding corruption, most respondents claim that, despite diminishing importance, it is still a factor to be considered in China.

I believe it is therefore fair to conclude that the importance of guanxi in doing business here could have been exaggerated in the literature, or that it has diminished since these articles were written. However, it seems that having a network in China before arrival and knowing the key people in your industry is still more important than in other countries. Indeed, unless your product or service is especially good or new to the market, being successful here is not guaranteed and will take a lot more time if a European SME do not possess these advantages, and seizing certain opportunities will be impossible without engaging in corruption. Therefore, the concept of guanxi and the inherent corruption in China are not true barriers to success, but they are still factors that needs to be taken into account by managers of European SMEs when they are planning their internationalization in China.

3.3.1.2. *The concept of mianzi*

H1B: Dealing with the concept of mianzi can be a potential obstacle for European SMEs when building a relationship with Chinese business partner.

Mianzi is probably one of the most important concept to understand when doing business with Chinese business partners. Chinese tend to value reputation a lot, and certain usual business practices in Europe can be seen as public humiliations here. I experienced how difficult it can be myself when I had to deal with the Chinese student union of Louvain-la-Neuve. Indeed, as president of the student association Kot-é-Chine, I had several meetings with their president regarding the organization of a large Chinese Spring Festival event in Louvain-la-Neuve. Unaware of certain important rules on how to behave with Chinese, I accidentally damaged my relations with this individual. This explains why I had special interest for this concept, and this literature review taught me a lot.

Based on my personal experience and on these readings, I made the hypothesis that dealing with mianzi represents an obstacle for European businessmen. I therefore asked them how they deal with this concept, and if it ever affected their business relations with Chinese business partner.

The 6 interviews provided interesting results for these questions. They first proved that, yes, mianzi is definitely an important concept in China. The majority of the respondents said it was something foreign businessmen need to master quite quickly in order to build long-lasting relationships with business partner. The only one that never experienced issues with this concept is Meng Gao, which makes sense because he grew up in China and therefore learned how to deal with this “game” instinctively.

1421 consulting emphasizes a lot on the do’s and don’ts when they advise their clients on how to behave with their Chinese business partners. However, given the transactional nature of Chinese people, Maxime Van’t Klooster believes that, as long as you don’t insult them in public, there is always a way to restore a relationship. Lionel Kohn, for instance, sometimes has to be especially careful during business meetings with potential clients. Indeed, it can happen that the distributor of the beer is also present at these meetings, and that he tells things about the beer that are completely false. In this case, he knows he cannot correct the distributor in front of the client, because that could be considered as a big humiliation. According to him, this is something that every smart businessman knows not to do, regardless of the country he is in, but it can still happen if he is not focus and in that case, Chinese are much more sensitive about this type of behaviour than Europeans. If asked about that mistake by the client, he will then have to be especially diplomatic and find a way to make the distributor look good and diminish his mistake.

Robbert Görris added an interesting example of how this concept of mianzi can be applied to the business world. He explained that when two companies have an important meeting, the CEOs usually only talk about pleasant things together, and leave the difficult matters to their number 2’s. That way, the leaders are not the ones that have to deliver the bad news and make the other leader loose face.

Rafael Jimenez synthesizes this as the importance of always keeping harmony. A businessman need to know what they can and cannot tell which person, who can be present to hear something, etc. to keep harmony in its business relations. This can be tricky sometimes, which is why Koen Naber points out several mistakes that people should avoid doing, such as going to the superior of the person you are having a problem with to complain. It is best to go directly to him, and discuss the issue in private. If that doesn’t work, one can try a subtler

approach, like talking to several people around that person and put a little pressure on each of them so that they help you convincing him.

The hypothesis therefore seems to be correct, since all respondents agreed to say that respecting these rules is something that European managers need to learn if they want to keep good relations with their Chinese business partners, and that failing to do so can lead to difficult situations. Fortunately, this can be learned quickly, through training and observation.

3.3.1.3. Advertising and brand building

H1C: Chinese consumers have different preferences in term of advertising and brand building, which is a barrier for European SMEs

Given all the cultural differences between China and Europe, it also makes sense that advertising and brand building would be impacted. It was actually quite a shock for me the first time I came to China, when I saw how important and different online advertising is, or how different ads in supermarket can be.

The literature review I conducted confirmed this first impression, which is why I asked the respondents how different their advertisement in China are compared to the ones their company is doing in Europe, and how they adapted the image of their brand to fit the needs of Chinese consumers.

2 interesting results came out of the 6 interviews and the case studies. Firstly, B2B SMEs do advertise differently for their products or services in China. Schwartz and Co. for instance, only goes through its own network to find potential clients, while their European branches seek them differently. According to Meng Gao, it is the only way to find potential customers when you are doing business in such a niche market in China. At 1421 Consulting, they also advise their customers to adapt their advertisement, but in a very minor way: while most of their customers believe everything has to be adapted, Mr. Van't Klooster is convinced that localizing the name and other small features is often enough. Quite obviously, De Halve Maan also had to proceed to some changes in its advertisement, since their slogan "Het beste bier van Brugge" made no sense for Chinese people. They therefor had to come up with a new slogan that would be attractive to Chinese consumers, but they also decided to put the emphasis on certain things that they know Chinese consumers like in their advertisement, such as the history of the beer. Finally, Rafael Jimenez is a strong advocate for localization of

advertisement and certain product cues, and he states that it should be done by experts that know what they are doing and that understand what Chinese consumers want. He was able to provide me with examples of B2C firms that faced issues because of their lack of adaptation, such as a cosmetic company that didn't know that the color of their products was associated to "unhealthy" in China.

Regarding Business to Consumer SMEs, it is explained in the CS Wines case study that this firm, who imports wine in more than 20 provinces in China since 2008, took the initiative to advertise differently from the usual way wine producers promote their brands (Cheese & Wine, wine degustation, etc.), because they knew that it doesn't reflect the way Chinese drink wine (EU SME Centre, 2011a). Robbert Görrijs used the example of the famous company Phillips, that created totally different type of advertisement to attract the Chinese customers (big emphasis on family), to show the importance of advertisement and brand communication adaptation.

Secondly, these interviews clearly showed that Chinese do not interact with brands the same way as Europeans might, and that it needed to be taken into account by managers of European SMEs. According to Mr. Van't Klooster, it is not unusual to receive a lot of very detailed questions from potential customers through the chat on your website. One could hence say that Chinese interact more with the brand before purchasing, which means that the firm will have to put in more work between prospecting and sales to convince customers to buy the product/service. Rafael Jimenez also insisted on the fact that everything is becoming digital in China, which is why this is where investment needs to be done. He therefore recommends to small firms that do not possess these skills in-house to use the services of digital marketing agencies to fully exploit this rising trend in the Chinese society.

Given the absence of B2C firms in my respondents, it is difficult to say whether or not advertisement has to be adapted, but if I had to confirm or invalidate this hypothesis with the information I gathered, I would say that yes, this represents a barrier for European SMEs. They will need to spend time or money to understand the preferences of Chinese consumers in order to adapt their advertisement and all the communication surrounding their product and their brand accordingly.

3.3.1.4. *Chinese employees*

H1D: European SMEs managers noticed the Chinese employees' different education and working style, which is why they couldn't use all the traditional Western management practices.

During my experiences as an intern in a Chinese company (Vandergeeten) and as a student in a Chinese university, I quickly noticed how different Chinese people tend to behave, both in an office or during group works. Having spent now more than 6 months in China, I also realized that it is very rare to come across Chinese people that can speak fluent English. This inspired me to look deeper into this issue, and after reading some articles, I saw that this was the same pretty much everywhere in China.

The hypothesis was made that this lack of fluency in English and the Chinese people's different behaviour in an office could represent a potential issue for foreign businessmen, since they will most definitely need to hire or work with Chinese people at some point during the internationalization process. In order to know the real opinion of European managers that spend most of their days surrounded with Chinese staff on this topic, they were asked to answer these questions: "How do your Chinese employees perform? What is their English level? How did you adapt to your Chinese employees' working style? What are the things you would do with your Western employees but that you wouldn't do with the Chinese ones? What do you think of their education? Do you think it is similar to the European employees'?"

The results were very interesting, and can be divided in three main learnings: Chinese employees do have a different working style, that requires adaptation from European managers, they very often do not possess a good level in English, and managers should also apply the concept of mianzi to the way they deal with their Chinese employees.

Firstly, it is undeniable that Chinese employees work in a different way than most European employees. Although all the respondents agreed that hiring local employees is necessary, most of them also stated that they frequently face issues adapting their management style to them. Here again, the only interviewee that stated he never had any problem with his employees is Meng Gao, which demonstrates again the importance of cultural differences. On the other side, besides Mr. Jimenez who remains neutral on this issue, the four others all acknowledged facing difficulties. For instance, Maxime Van't Klooster had to adapt the way

he shares his personal experience compared to what he was doing in Europe, he needs to give them very specific tasks in the beginning before he can give them broader tasks, etc. Koen Naber and him both emphasized on the importance of training the local employees, especially to develop their problem-solving skills, their ability to deal with variables, and the structure in the way they work, which are three things that Chinese graduates often lack in the beginning of their career.

Another frustrating thing is that, as Maxime Van't Klooster confessed, young Chinese employees tend to leave their firm quite fast, which can be very annoying for firms that invest a lot in their training, such as 1421 consulting or EGGsist, one of the firm discussed in the EU SME Centre's case analysis. Furthermore, this Italian firm quickly came to realize that Chinese employees prefer to work for large and famous companies, since it is often better considered in the Chinese society. This means that European SMEs, who cannot rely on any name recognition among young graduates, need to offer attractive salaries, knowing perfectly that it might not be enough to retain these talents should large companies come knocking at their doors (EU SME Centre, 2011b). Quite interestingly, Mr. Jimenez adds that this volatility of young Chinese employees is probably worsened by the fact that there is no unemployment issue in China, making leaving your job relatively riskless.

Lionel Kohn adds some other issues that he faced, such as the fact that he often has to repeat the same information for them to understand it. For instance, it sometimes happens that employees keep offering a discount to customers, even though they have been told repeatedly that this discount has expired. This kind of situation often makes him think that his Chinese employees are more into pleasing the client than serving the interests of their own company. Mr. Van't Klooster shares the same feeling in certain situations, such as when he brings a translator with him since he often feels like that person is helping the Chinese counterpart more than him. This could potentially be linked to the Chinese nationalistic feelings and their strong sense of unity that will be addressed in the next section. Also, Mr. Kohn confessed he does not always trust employees that are working far away, like sales representatives working in other cities. Indeed, he admitted he does not always know how they approach clients and he often feels that they are ready to do just about anything to reach their objective, after which he fears they could stop working and start resting.

Robbert Görris makes the hypothesis that this different way of working might find roots in the quick development of the Chinese economy. He believes that these fast changes might have pushed incompetent people to high positions, and that other employees would have hence grown accustomed to being managed by this type of people. This would explain these recurring problems of different expectations between European managers and Chinese employees, and why there is often a feeling of underperformance.

Regarding the recruitment of Chinese employees, the case study of Tuca IT, a maintenance and networking service provider from Slovenia, shed some lights on possible issues European firms might face. For instance, CV and credential frauds are common things in China, and it happens even more when the resume is written in English because they can then claim it was a translation mistake. Chinese employees also tend to overestimate the salaries that foreign companies might give them, which can be a problem during the negotiation, and they do not often give references since it is very uncommon for Chinese employers to ask for some (EU SME Centre, 2011g).

Secondly, regarding their English level, most respondents agreed with the fact that it is usually bad. This can be a problem in certain businesses, but some companies such as 1421 Consulting come up with trainings to solve this shortcoming. However, the real problem is when, as stated by Rafael Jimenez, you need to find English speaking people in second- or third-tier cities. Indeed, there are often very few of them over there, and according to him, these are the places where most of the opportunities lie for European SMEs, far away from the crowded Shanghai or Beijing that already reached a certain maturity. Furthermore, Robbert Görris expressed his frustration on the fact that not being able to speak proper Chinese prevents him from tapping into some markets and doing business with certain people, giving the example of him only being able to treat with certain lawyers since most of them only speak Chinese. Also, it forces managers to rely on their office manager to translate, and this person might not always be able to truly communicate the vision of the company or what they want to do with a certain product. This shows the importance of learning Chinese, because frequently having to hire a translator can be quite expensive for a SME.

Finally, it was also interesting to notice that the concept of *mianzi*, that was already mentioned before with the way managers should deal with their Chinese business partner, can also be applied to the way Europeans should treat with Chinese employees. For instance, Maxime

Van't Klooster explains that there are things he can do with European employees but not with Chinese ones. He has to remain calm when one of his employee did something completely wrong in order to save his face, or when they went in the other direction that he wanted. In these cases, not criticizing them in public can be difficult. This is a difficulty that Lionel Kohn also experienced. Rafael Jimenez adds that little things you would do in Europe such as comments at the coffee machine are things you need to be careful with. However, as explained by Mr. Van't Klooster, it is probably easier to deal in an SME than in a large firm, because SMEs are often like a small family, where everyone knows each other, so criticism in public is somewhat less humiliating given that the news would have spread anyway.

To conclude on this topic of the Chinese employees, there seems to be a clear need for European managers of SMEs to adapt their management style to the local employees. There is a consensus that hiring Chinese talents is a necessity, but that they often do not behave the way European managers are used to, or do not always possess the same skillset as European employees. Additionally, building well prepared and target oriented staff is not always easy in China, as shown in the case study of Woodn and German Bio Energy Technology (EU SME Centre, 2016b; EU SME Centre, 2017a). Also, although it is getting better, Koen Naber stated that the general English level will not be satisfactory before a long time. In that way, not speaking Chinese can represent an obstacle, especially if the SME is looking to settle in smaller cities. The hypothesis made on this subject is therefore confirmed by the interviews.

To be fair, it is important to state that Chinese employees also possess great qualities, that quite logically didn't come up during the interviews given the questions that were asked. From my personal experience, Chinese are usually very hard-working, dedicated to help their company, eager to learn and to develop their horizon. In conclusion, yes, having to adapt to their different education and working style is a difficulty, but Chinese employees do also possess great qualities.

3.3.2. Consumer ethnocentrism

H2: European SMEs noticed Chinese consumers tend to prefer buying from Chinese brands and suffered from this factor when they arrived in China.

Intuitively, it makes sense that nationalism and sinocentrism would rise as China keeps on increasing its economic and political power. Chinese people do notice how strong their

companies are becoming around the world and the nationalistic feelings, that have been there for more than a century, could therefore rise again. The articles consulted confirmed this new tendency, and implied that Chinese consumers tend to prefer buying products or services from Chinese company, out of national pride.

This would, if confirmed, be very bad for European SMEs, since it could increase the liability of foreignness even more. This is why it was important to ask the managers and the business actors that were interviewed if they ever felt like their Chinese customers or business partners favored purchasing locally or working with Chinese companies and if so, how they adapted their communication to the Chinese consumers, and if they tried to emphasize on the Chinese characteristics of their products or services to counter these effects.

The results are fortunately saying that this consumer ethnocentrism might not exist, or at least in most industries. Indeed, the general consensus is that, if foreign firms can prove that their product is superior, Chinese will have no problem favoring the European brand over the Chinese one.

According to Mr. Van't Klooster, Chinese, despite being one of the proudest nation in the world, often distrust local brands because of their low quality. This explains why he believes that, if a Chinese and a European brand both offer a product for the same price, Chinese consumers will choose to go for the European one. This behaviour keeps happening even if the foreign brand gets a little more expensive, but if the difference becomes too big, they will switch to the Chinese brand. Indeed, even though local consumers often tend to give the priority to quality over price (often the contrary in Europe), this preference has a limit. This type of behaviour also happens in the consulting industry since, according to Meng Gao, Chinese firms are ready to pay more to get their advices from foreign consultants, because they consider that they have larger resource and a different perspective on their problems. As shown by the example of Stavus, a Czech manufacturer of suspended diesel locomotives, firms can benefit heavily from this, since buying from products from Europe can be a way for a Chinese company to get more prestige (EU SME Centre, 2011e)

However, and this is really important, European SMEs will need to prove that their product has superior quality if they want to justify a higher price. Indeed, Rafael Jimenez has often seen managers not checking the price of their local competition before arriving on the Chinese

market during his time at the EU SME Centre. The result is that they frequently come to eventually realize that their product is much more expensive than the local firms' one, and not necessarily better in term of quality. In these cases, European SMEs will quickly understand that trying to attract the consumers with their foreignness is not going to work. Trying to emphasize on the Chinese characteristics is not going to help either, since Chinese consumers still have the image of low quality when they think about Chinese product, so they are not going to want to spend more for something that wouldn't have the same quality as an imported product. This strategy is also heavily rejected by Robbert Görris. To explain why, he gave the example of a Dutch company that started to have a lot of trouble after starting to produce locally because of a bad business partner, which damaged their reputation way bigger than if they had kept producing in The Netherlands.

To conclude on this hypothesis, I believe it is fair to say that Chinese nationalistic or patriotic feelings do not affect their purchasing behavior by becoming a form of consumer ethnocentrism. If European SMEs are able to prove that their product is superior to the local firms' ones, Chinese consumer will not hesitate to buy it. However, the hypothesis that was originally made is not completely wrong, since preference for Chinese product appears to exist in certain specific industries, and that manufacturing products in China can be a good strategy to counter these effects. Impeto Medical for instance, noticed that Chinese hospitals had a preference for Chinese-made products, which is why they decided to manufacture a part of their production of diabetes diagnostic devices in China so that it would be considered as Chinese-made products (EU SME Centre, 2017b).

3.3.3. Protectionist policies

3.3.3.1. *Intellectual property rights protection in China*

H3A: European SMEs faced issues regarding the enforcement of the intellectual property protection laws

Being able to protect its intellectual property is a key factor in a firm's decision to internationalize. This is especially true for SMEs since, as we saw earlier, they often operate in niche markets where they possess specific technologies and knowledge that have been developed in-house and around which the whole business revolves, which explains why they value good protection.

Readings showed that IP protection remains a big problem in China, especially for foreign firms, which is why I made the hypothesis that, at some point, European SMEs face difficulties with this famous Chinese issue. The questions that were asked aimed to see how they adapted their strategy for intellectual property rights in China, and if they ever had any issue with this part of the Chinese regulative system.

As expected, several stories of European SMEs that had problems with the protection of their intellectual property in China were collected throughout the interviews. According to Meng Gao, some of its customers even consider this issue as a true barrier for entry, which is why they often choose to create joint-ventures with Chinese business partner to reduce the risks. It was also mentioned in a lot of the EU SME Centre case studies that European SMEs tend to prefer manufacturing their products in their own country rather than in China in order to better protect their intellectual property. As seen in the case study of German Bio Energy Technology, the Chinese government is also sometimes keen to take advantage of the naivety of certain European SMEs, since lots of firms agree to build demonstration plants in universities, hoping that it might bring them some governmental support (EU SME Centre, 2017a).

However, as explained by several interviewees, the main reason behind these issues seem to be the carelessness of the European SMEs. Indeed, as explained by Mr. Van't Klooster, registering your intellectual property should be the first thing to do when you start considering entering the Chinese market. Rafael Jimenez and the EU SME Centre think the same, since registering your patents, trademarks, etc. is the step number 1 in their 10-step program on how to enter the Chinese market. The problem is that SMEs do not always go through these basic procedures. Jimenez is sometimes amazed by how careless some managers can be, since he has seen quite a few of them talking openly about very specific technologies inside their products during trade fairs or exhibition, without having the proper patents to protect these features. Robbert Görris adds that European SMEs often trust their business partner way too much, that they often didn't prepare enough and didn't go through the right steps. In this type case, Mr. Görris wonders if the Chinese business partner can really be blamed for seizing an opportunity. Furthermore, firms can do simple things to avoid facing intellectual property theft. For instance, INDES, a medical devices manufacturer, decided to get groups of

components for its products from different suppliers. That way, each of its suppliers alone do not have enough information's to recreate the product (EU SME Centre, 2014).

Should European SMEs do things the right way from the start, there would probably be less complaints about intellectual property protection. Indeed, according to Maxime Van't Klooster and Koen Naber, registering your trade mark has become quite cheap and recent cases (such as Michael Jordan's previously mentioned trademark trial) show that, despite long and costly procedures, it has become possible to enforce it in a court of law. Mr. Naber also added that authorities are usually eager to enforce these rules because they have been given specific objectives by the government regarding this matter. However, he still thinks that efforts could be done to discourage people from stealing IP, such as raising the fines for firms that were convicted, which he judges too low to be truly effective. Robbert Görris also advises European SMEs to be quite aggressive in the protection of their intellectual property after they registered it, since Chinese often try to go around it.

This question is therefore quite tricky: does the current Chinese intellectual property protection system represent an obstacle for the internationalization of European SMEs? On one hand, IP protection seems to be a problem for SMEs since lots of complaints coming from them are made each year, but on the other hand the experts interviewed on the subject say it is often the fault of the managers, and they claim that the current system, although having a lot of flaws, can protect foreign firms against intellectual property theft by the local companies. This is why I believe that the Chinese system do not actually represent an obstacle for SMEs, since it is getting better and better and lots of issues could be avoided if managers were more careful and would follow correctly the advices brought by the experts on the subject.

3.3.3.2. *Other protectionist policies*

H3B: Managers of European SMEs cannot access public procurements or funding, and are in a general way disadvantaged by the Chinese government compared to local firms.

It is also no secret that China still enforces protectionist policies. Despite their entry in the WTO, China still tries to advantage its local firms and to protect them from foreign competition. Some of these protections are official (e.g.: some industries are forbidden to foreigners), while

others are more implicit and not officially translated into laws (difficulty for foreign firms to access public procurements for instance).

European SMEs could also have witnessed these favorable policies from the Chinese government, which is why I asked the interviewees how they funded their operations in China, to see if the source of money was located in their home country or in China, if their companies ever tried to access public procurements and if so, whether or not they succeeded in this endeavor. To conclude on this topic, I asked them if they ever felt like the local government was, in a general way, trying to advantage their Chinese competitors.

The interviews confirm the existence of these protectionist policies, and the general tendency of the government to advantage local firms, both in term of funding and in term of access to public procurements.

Indeed, although it is already a difficult journey for Chinese firms, it seems to be utterly impossible for a European SMEs to get access to funding in China. The three respondents with the most knowledge on this matter (Maxime Van't Klooster, Rafael Jimenez and Koen Naber) all agree on the fact that the banking system is too complicated and too restrictive for European SMEs to manage to get a loan here. This is why firms must rely on their own cash-flow or other sources of private funding to grow here. As expected, this was also the case for Schwartz & Co. and De Halve Maan, who only receive money from their headquarters or have to reuse the profit they generated throughout their operations in China. This is obviously a big issue, because it limits the growth of European SMEs a great deal, given that this type of firm is characterized by its low revenue.

Also, the Chinese authorities are known to almost exclusively give access to public tenders to local firms. The people I interviewed confirmed this problem, since all of them said it was impossible for European SMEs to get access to this market. Rafael Jimenez also stated that this is one of the biggest concerns of the European Union, and that it is something that is currently negotiated at the highest levels between these two superpowers.

Finally, when asked if they felt like the local firms were advantaged by the government, most interviewees agreed on the fact that this feeling exists in certain industries, especially in the most strategic ones. Some of these advantages are sometimes deeply buried in the regulations, but it is possible to find them. Some other obstacles are less hidden, and the case

analysis of German Bio Energy Technology, a firm active in the energy sector and bio waste, identifies some of them, such as the fact that foreign companies cannot get an engineering design license, and therefore need to outsource it to local Chinese firms. Discussions with these institutes will then have to be conducted with a lot of precaution, if they want to avoid leaking valuable intellectual property. The internet restrictions are also very annoying for firms like GBET, since it makes communication with European partners and the headquarters more difficult, among other things (EU SME Centre, 2017a). According to Koen Naber, a good example of this protectionist mindset of the local government is the fact that competing against state-owned enterprise is almost impossible, since they are the ones that get the most advantages from the authorities.

In conclusion, despite recent improvements, the Chinese government seems to keep on handing advantages to local firms and setting up obstacles to firms like European SMEs, such as the difficulty to get funding or to access public procurements. All in all, it is safe to say that European SMEs are disadvantaged, which confirms the hypothesis that was made regarding this issue.

3.3.4. Intranational differences

H4: European SMEs active in more than one province noticed cultural and regulatory differences between the different provinces, which damaged their strategy.

Anyone who has travelled for some time around China surely noticed how culture, people or even food can be very different from one province to another. After discussing with business actors in China, I also learned that regulations vary a lot from one province to another, something that is often very annoying for business people conducting operations on the whole market. There also exists sharp differences in term of economic development between the different cities and regions of China, which could have an impact on several factors such as pricing, for instance.

The literature review showed that these differences are real, but because most of the research focus on the difficulties it causes for large firms, the goal of the interviews was to see whether or not the European SMEs doing business in more than one province also noticed them and if so, how it impacted their business and how they adapted to that difficulty. The questions that were asked first aimed at determining if these companies were selling their products or

services in more than one province; and if so, if they noticed any differences between the provinces, and if they adapted their business model to each province.

In terms of cultural differences, all the respondents agree that they exist, and that they do impact the way you do business in China. They provided me with some examples of such differences: Lionel Kohn, for instance, believes that the main separation line is rather between north and south than between provinces, since he noticed that Northern Chinese give more importance to *guanxi* and trust and will be less detail-oriented, while Southern Chinese are more organized and negotiate much more about prices and other features. Meng Gao also noticed some differences, such as the fact that people from certain provinces never sign any contract, while people from other provinces will demand for one. On this subject, Koen Naber adds that businessmen from Shenzhen act often much quicker than others. Also, as stated by Rafael Jimenez, education differs a lot from one region to another, which means that knowledge regarding certain products also differs. According to him, people from the eastern part of China (Shanghai, Beijing, Hong-Kong, etc.) are much better at identifying products, especially in the FMCG industry, which means that it is easier to sell there. However, the east of China is already fairly saturated, which is why European SMEs will have to overcome the difficulties in the West if they want to grab the opportunities that are there. This difference in education is also translated in another way, since the administration of a province does not have the same level of expertise in a certain industry than other provinces. This means that operations that would only take a few days in a province might take much longer in others.

It is also interesting to point out that the Chinese geography can have a certain impact on businesses. Indeed, according to Maxime Van't Klooster, the manager of a European SME needs to know in detail the differences between the various provinces before choosing where to settle in. He explains that, given a province's geography or weather, demand might go from inexistent to very high for certain products. He used the example of a certain company that sells a technology that uses foam to clean stables: the manager in this case had to be especially careful since choosing for Beijing and its surroundings, like most people do, would have been a terrible choice given the absence of demand. In this case, since this manager asked for advices from 1421 consulting, he learned that Dongbei was one of the most promising province for his business. Also, Lionel Kohn explained that certain beers work better in the south and others better in the north, and that it was probably because of the different weather.

Regarding regulations, there was also an agreement among the interviewees that they can differ from one province to another, and that it requires continuous adaptation to follow it. According to Mr. Van't Klooster, the Chinese market is heavily localized. It can have different impacts: for instance, manufacturing in Gansu province is much easier since you will receive lots of tax cuts from the local government without even asking; while you will most likely receive nothing in the Hebei province. Managers also need to consider adapting their general strategy for the Chinese market to each province, by making specific decisions such as having or not an exclusive agent in that province, setting up the office in that province for tax cuts, etc. Also, because of these differences, doing certain things such as moving your office from one province to another can become an incredibly difficult task because of the different requirements of the tax authorities. Koen Naber also adds other examples, such as the fact that setting up a company is much faster in Shenzhen than in other cities, or that employment laws can be very different from one province to another, even between large and internationalized cities such as Shanghai and Beijing. This kind of issues hence result in a big loss of flexibility for European SMEs, that also often need to find different distributors for each city, as experienced by Taste Spain, a European SME importing food and beverages in China (EU SME Centre, 2011f). German Bio Energy Technology is another good example of a European SME that is annoyed by these different regulations between provinces. For instance, there is one province where certain gas emissions are regulated, but the others do not ask anything regarding this issue. GBET hence had to install costly pieces of equipment in their facility just for that province, making investment and development more difficult (EU SME Centre, 2017a).

Finally, firms also need to take into account the differences in term of economic development, since, as Mr. Jimenez confirmed, pricing your products correctly is not always easy, although the incredible rise of e-commerce in China helps making it slightly easier. These e-commerce platform, such as Taobao for instance, are reducing some of the difficulties of trading in more than one province, since they take care of the delivery and all the issues that come with it.

To conclude for this hypothesis, we see that the respondents all agreed that the intranational differences are something that needs to be taken into account by managers of European SMEs, and that the general strategy for the Chinese market needs some adaptation to each province to be the most efficient possible. Should managers choose not to do that, they will then most

likely face issues, so the hypothesis that was made seems to be correct. Furthermore, Robbert Görris says that this is often something that discourages managers from European SMEs, since they often think they were going to take over the entire Chinese market quickly, even though he often points out that they would not have the same crazy expectations if they had to enter the European market.

3.3.5. Local competition

H5: European SMEs faced tough and sometimes even unexpected competition from local firms, that made their entry in China more difficult.

Although it took some time, some Chinese firms finally made it into Europe and started making a name for themselves. The success of Huawei, Haier or Lenovo shed some light on the rising strength of Chinese companies. This new reputation, associated with the protection they receive from their government, made me think that the local competition was most likely one of the biggest issue for European SMEs after their arrival in China. Also, the relative lack of knowledge of the Chinese market we have in the European countries could make this competition unexpected and therefore not planned by managers.

This was confirmed by my literature review, where the lack of preparation and the failures of several large international firms that tried to make it in China that resulted was showed. I then made the hypothesis that this could also be the case for smaller firms, which is why I asked European SMEs managers and other business actors a few questions on this subject. I wanted to know how well their competitors were performing, if they were expecting the level of competition they faced after they arrived and what were, in their opinion, the strengths and weaknesses of these Chinese competitors.

The 6 interviews that were conducted helped to get a better image of the Chinese competition for European SMEs, and how they prepared or reacted to that kind of competition. It appears that the local firms usually possess specific advantages over foreign companies, but also disadvantages.

Indeed, their products are usually cheaper, which is very good because, according to Lionel Kohn, Chinese customers can be very price sensitive, they know the customers' needs better and they possess a stronger network in China. Robbert Görris adds that they are also very agile, and that they are very quick to launch and drop new projects, while European SMEs have the

tendency to debate this kind of things for months. On the other hand, Chinese firms often do not have the same level of international experience and the lower price of their products or services often comes with lower quality. They also face issues in creating strong brand, which is one of the big strength of foreign firms. However, European SMEs will have to be careful, because according to Maxime Van't Klooster, some of these disadvantages are fading away quite quickly. Indeed, he claims that the fact that there are more and more young Chinese graduate that study abroad will increase the local firms' international experience, and that they will have to become more efficient because of the increasing costs of labor and of renting offices.

Also, as expected after conducting the literature review, it appears that European SMEs have the tendency to underestimate their Chinese competitors. Indeed, Meng Gao admitted that Schwartz & Co. was expecting their consulting services to be superior to the other Chinese firms active in this niche sector, which would have helped them to attract customers easily. However, as he noticed quite fast, their more developed *guanxi* forced his firm to invest to develop a strong network in China as well. Lionel Kohn knew that competition would be there, but he thought that his firm, having the advantage of selling premium quality beers, would stand a fair chance against the Chinese breweries. Unfortunately for his firm, they realized that Chinese consumers are still favoring price over quality when talking about beers, which is giving a de-facto advantage to their competitors that brew their beers in China, and are hence cheaper. Also, they have to face the fierce competition of Vandergeeten, who used to be a Belgian-Chinese joint-venture, and that still has a very international team. This firm hence combines the best of both worlds, and might in a way represent the future of what Chinese firms might look like in the future: heavy Chinese roots, but led by team with international experience.

Underestimating this competition can therefore be a tragic mistake, and as Koen Naber narrates, it unfortunately happens a lot to European SMEs. Indeed, they often believe that because their product is selling good in Europe, they will have no problem selling it in China too. If firms behave like that, they are most likely going to be crushed by their Chinese competitors who will find a way to take the idea behind the product and adjust it to the Chinese market.

This competition hence seems very fierce, but as explained by Maxime Van't Klooster and Rafael Jimenez, there is still hope for European SMEs. Using the example of his client active in the very specific niche market of mystery shopping for luxury brands, Mr. Van't Klooster explains that Chinese firms still have weaknesses, such as the tendency to sacrifice a lot of additional services to make sure that they can offer the lowest price, leaving the premium services with higher margins to the European SME competing with them. 1421 consulting themselves are in the same case, because they are the only ones offering very appreciated exclusive services. The fact that they are more expensive is not a problem for their clients because they know that it is eventually more profitable to go with 1421 consulting than with cheaper Chinese consulting firms. Rafael Jimenez adds to their weaknesses the fact that local firms are still struggling to manufacture safe products, which is something that Chinese consumers value a lot. Also, he argues that most of the disadvantages of European SMEs can be offset by choosing to enter the market through a joint-venture. However, this mode of entry can be tricky to handle in China, but that point will be discussed more in detail in section 3.3.6.3.

To conclude, the hypothesis that was made after the literature review seems correct, since lots of European SMEs are surprised by the strength of the Chinese competition after their arrival. Rightfully, since these firms have several powerful advantages and their disadvantages are slowly fading away. However, as explained by some of the experts interviewed, beating these local competitors is possible, if European SMEs investigate the market heavily between arrival, set up a correct price and provide a better service/product than their local counterparts. Choosing to enter the market via a joint-venture, although being sometimes difficult, is another way to offset some of your disadvantages. I would however conclude on this hypothesis that, given the difficulties reported during the interviews, local competition is definitely an obstacle for European SMEs, and an obstacle that is very often not planned by European managers. Furthermore, I would add that this factor is likely to become a bigger issue, since all signs show that Chinese firms are getting better and better.

3.3.6. Other factors

In order to be as precise as possible on the subject and to avoid not mentioning certain obstacles in China, I decided to add this part to the results of my field research, even though it doesn't necessarily follow the same methodology as the others. Indeed, not being aware of

most of these additional obstacles that came up during the interviews, I didn't make any hypothesis beforehand. This section will hence only expose some of the most relevant additional factors that came to my attention during this field research.

3.3.6.1. Administrative procedures

Having heard and experienced on many occasions that administrative procedures in China are very difficult to understand and are usually very slow to be carried out, I knew this might be a potential issue for European SMEs. Therefore, I asked all the interviewees whether or not this represented a problem for them, and if it was just one of the displeasing side of doing business in China or if these long and costly procedures had the potential to actually hurt their company.

All the respondents were unanimous on the fact that, yes, these administrative procedures are very slow and very annoying for European businessmen. According to Meng Gao, simple things such as receiving or sending money from the headquarters take an incredible amount of time in China. Furthermore, Maxime Van't Klooster adds that the simple act of changing the address of your office takes from 4 to 6 weeks, since it is required from the company to go to all the bureaus that produced a different certificate, in a certain order, to notify them the change of address. German Bio Energy Technology also has to face incredibly long procedure in their industry, since they need to comply with not less than 16 laws when constructing a new plant. This creates a one-year delay to get the approval to start a construction, which significantly increase the costs. GBET even appointed one staff member to work full time on these problems (EU SME Centre, 2017a). Linet, one of the world's leading medical beds and medical furniture producers from the Czech Republic, also has to go through long procedures, since it takes them from 8 to 18 months to see one of their medical bed approved by the authorities (EU SME Centre, 2011c).

The main issue with these procedures is that they are often very difficult to understand and ambiguous, so managers that are not used to it might not always know what to do, leading to even longer time to get things done. Also, they tend to change frequently, pretty fast, and very often in an unpredictable way for people that do not know people inside the administration. It can therefore be tough for decision makers to have a long-term vision for their strategy if they do not know what will be allowed and what might be banned in the future. This represents another disadvantage for foreigners, since Chinese are usually more familiar with these administrative procedures. Also, as Mr. Görris explained, this unpredictability can

damage the relationship between the headquarters and the Chinese subsidiary. Indeed, the European managers usually do not know the Chinese market, which explains why they do not understand why they always need to do adaptation to the products or the facilities for the Chinese subsidiary, and might even make them think that the people handling the operations in China are incompetent.

These long and unpredictable procedures and regulations can even hurt the business in itself sometimes. As Lionel Kohn confessed, it can happen that custom clearance takes more time than expected for some shipments of beers, leading to delays, bad relationship with customers and even sometimes the cancelation of events. CS Wines is also deeply impacted by these procedures, since it often takes a lot of time for their wines to go through custom clearance in rooms with a temperature that is not ideal for the conservation of wine, and with a daily fee incurred. They also have to deal with the different regulations and practices of the different ports and the taxes they need to pay amount to 48 to 58% of the value of the goods. This case study also confirmed that these procedures are unnecessarily difficult and that it is very hard to predict in which way they are going to change, since the regulations in 2011 were contradictory with the ones they had to follow when they arrived in China in 2008. Failing to comply with these procedures can even have dramatic consequences for small firms, as shown by the example of the 5 wine importers that failed to declare the full quota of wine they imported and that were jailed by the Chinese authorities in 2008 (EU SME Centre, 2011a).

All in all, it appears clearly that this factor is something to be taken into account by European managers. Consulting experts on which procedure you have to undergo and integrating the time it will take in the business plan can be a good way to make it less harmful, but the fact that it changes often and in a seemingly unpredictable pattern definitely makes it an obstacle for European SMEs setting up shop in China.

3.3.6.2. Underestimation of the cost of entering the Chinese market

Another issue was raised by three respondents, regarding the expectations of European SMEs before arriving on the Chinese market. According to Maxime Van't Klooster, Koen Naber, and Robbert Görris, managers tend to underestimate how expensive it can be to grow a profitable business in China. MVK has seen this happening several times: managers that do not want to invest a sufficient amount of money to keep on growing, but still expect to make a lot of money "because it is China".

They also tend to refuse investing in consulting services or paying to get certain valuable pieces of information's. According to Maxime Van't Klooster and Robbert Görris, it is a very bad strategy because the Chinese market is incredibly difficult to understand and these information's are therefore necessary to succeed! This, in Mr. Naber's view, illustrates the lack of long-term strategy and patience of European SMEs. He therefore adds that the small firms that are successful in China are the ones that have deep pockets and patience, as shown in numerous case studies of the EU SME Centre.

3.3.6.3. *Untrustworthy business partners*

As demonstrated by Rafael Jimenez, entering the Chinese market by creating a joint-venture (JV) is often a good choice. Indeed, it reduces the liability of foreignness since you can count on your Chinese partners' network, consumer knowledge, resources, etc. to help you through the process. However, as stated by some of the interviewees and in some of the EU SME Centre case analysis, it often happens that European SMEs choose their business partner badly.

As explained by Maxime Van't Klooster, SME managers often go in business with people they do not really know, people they only met them once during a business fair, without verifying whether or not these people have the resources or the skills to do what was promised. Imedco, a producer of shielding products for clinical MRI, had a different type of issue with their business partner. Indeed, they quickly came to realize that the JV was just an excuse for the business partner to capture a part of Imedco's intellectual property. This made them realize that they needed to have someone from Imedco directly working in China, because handling the JV from outside the country was what led to this kind of situation in the first place (EU SME Centre, 2016a).

Linet also faced issues with their initial business partner, a company they met during a business fair, because they were lying about the number of beds they were selling. They then handed their business to another one but the collaboration wasn't optimal either, which is why they decided to leave China. They are now contemplating reentering the market, but unfortunately for them, the Chinese healthcare and medical system is so complicated to understand that they cannot do it without having a partner to help them navigate through it (EU SME Centre, 2011c).

Woodn, an Italian manufacturer of sophisticated Wood Plastic Composite profiles, faced a different type of issue: finding a reliable supplier for their raw materials. Indeed, Chinese suppliers tend to not trust SMEs' overall strength, which is why they often have a short-term focus when dealing with small firms (EU SME Centre, 2016b). Turning a supplier into a true business partner is therefore not an easy task in China.

If things go wrong, which often happens, the manager of the SME is then discouraged and assumes that everyone is like this in China, which is why they often leave the country after this bad experience. In general, these issues show the importance of due diligence when conducting business in China. In this country, when in doubt, the wisest move is often to choose the safest option. For instance, CS Wines did not really trust the owner of the warehouse they were using to stock all of their products, so they bought their own insurance coverage, despite him saying that it was not necessary. When the warehouse burnt down a few months later, they did not regret that decision since it was then shown that the owner had no insurance for the other people renting the warehouse, which resulted in big losses for them (EU SME Centre, 2011a).

3.3.6.4. Payment delays

According to Koen Naber, European SMEs are often too naïve when dealing with payment terms. As he explains, they often tend to deliver the full service before asking for the complete payment. This is not a very good strategy in China since local clients tend to take advantage of this gullibility, by delaying the payment or just not paying at all after the service has been delivered.

This is why he suggests that SMEs should ask for intermediary payments, and that they should integrate the risk of not getting the final payment in these steps. German Bio Energy Technology agrees that getting paid for equipment or services that they provided hasn't always been easy, which is why they also advice to be strict and smart in the development of projects (EU SME Centre, 2017a).

3.3.6.5. Price sensitivity

One of the things that was the most shocking for Lionel Kohn when he arrived in the beer business was the price sensitivity of the Chinese customers. He already noticed it in the diamond industry, but he expected that it would not be the same in an industry where the

prices were way lower. The result of this sensitivity is that competition very often revolves around price rather than around quality, even when the product is premium quality beer. This is very frustrating for him, since he sometimes spends a lot of time talking about the quality of the beer to the client and he sees that he is interested but he then refuses to buy it when he learns that it is more expensive than his current provider, whose beers are not nearly as good.

Imedco faced the same problem. They even had to start selling their Chinese production to other Asian countries because the Chinese hospitals' objective was to privilege price over quality for this type of products. However, they expect this preference to fade away with time, since more and more Chinese are studying abroad and learning there that price is not the only factor to be taken into account for such products (EU SME Centre, 2016a).

Given that some of the information's given by other respondents do not always confirm that price sensitivity of the Chinese consumers, this could mean that this phenomenon is exacerbated in certain industries.

Part 4: Conclusion

4.1. Main lessons & recommendations

Although it is difficult to definitely confirm or disprove most of the hypotheses made in the literature review, this field research helped to shed some lights on some of the national and cultural factors that might restrain the internationalization process of European SMEs in China. Here are its main findings.

Chinese people, influenced by their culture, developed a business style that can be quite different from Europeans'. The main differences according to the respondents lie in the ambiguity they can show in certain business situations, their propensity to rely on their network when something needs to be done, and the importance they give to trust when forming a new business relationship, which can lead to very long negotiation periods. These are but a few of the numerous differences between the Chinese and the European business style, but they already represent an obstacle for managers of European SMEs that do not possess sufficient experience in China. Not hiring local employees and relying entirely on foreigners is therefore not an option, and managers with low experience on business in China will have to rely heavily on their local staff to be guided through these unusual business practices.

Regarding the emblematic concept of guanxi, it appears that its importance might have been exaggerated in the literature, since it seems that it is mostly used in the context of Chinese people doing business with each other's. Indeed, it appears that knowing the expert in your industry, and being ready to pay him so that he grants you access to the important people might be enough to reach success. Furthermore, it appears that this concept of guanxi is also becoming less and less important for Chinese firms too, since they appear to use more and more consulting services rather than relying on their network. Possessing a network in China is therefore not a necessary condition for success, so guanxi is probably not an obstacle in the not-too-crowded industries. As far as corruption is concerned, all respondents agreed that corruption is still there, despite the recent government crackdown on this issue. However, as shown by several companies and according to most interviewees, it is still possible to do business in China without engaging in this kind of reprehensible activities, but firms might have to give up on some opportunities if they choose this path. All in all, it therefore appears

that the concept of guanxi and the corruption that is often associated with it are not obstacle for European SMEs, but they are factors that still need to be taken into account. If they are ready to pay to get access to certain people or certain pieces of valuable information's and if they have a strong corporate culture that clearly states that corruption is not allowed, European SMEs stand a fair chance to navigate through the Chinese business environment without big issues on this matter.

Another important point raised in the literature review was the necessity for foreigners to comply with the concept of mianzi, which can be summarized as the importance of avoiding making Chinese people lose face. The interviews confirmed the importance of these implicit rules, and the need to comply with it. Through the use of examples, they showed what can and cannot be done, which demonstrated the importance of learning these habits to maintain good relationship with Chinese business partner and employees. The recommendation is here simple: rely on local employees to learn how to behave, go through the existing trainings on the subject and remember to always be extra careful when making criticism to a Chinese person.

Hypothesis was also made that there was a need for adaptation of classic European advertisement and brand communication for the Chinese market. This assumption was heavily corroborated by the testimonies of the interviewees and the case studies, the main recommendation of the experts being that this adaptation should be carried out by experts that truly know what Chinese consumers value, and that given the increasing digitalization of the Chinese society, investing heavily in online advertising is probably the best way to go.

Another important finding of this study is the toughness to adapt to the working style of the Chinese employees, and the obstacle for the internationalization that it represents. Issues were related by the different actors of this field research on multiple aspects: soft- & hard-skills, structure, recruitment, English-level and retaining the best employees are but a few of the potential issues foreign managers will face with their Chinese employees. As shown by successful companies, the solution lies in offering them training and attention in the form of all the various services that Chinese employees like to get from their employer, since this is the name of the game if a manager of a European SME wants to rely on an effective and loyal Chinese staff to carry out its operations in this country.

The second factor that was identified in the literature review was the possibility that Chinese consumers might prefer to buy products from local brands than from foreign ones, which would have been of course very bad for firms such as European SMEs. Fortunately, this hypothesis was invalidated by the respondents, since most of them believe it is actually the opposite, and that Chinese consumers are willing to purchase foreign brands if it has been proven to them that the quality is better. However, it appears that this type of preference for Chinese brand might exist in certain industry, such as the medical industry. In those cases, it is difficult to come up with recommendations, since manufacturing the products in China to counter these effects can either work very well or backfire if the choice for the business partner is not the right one.

Another very well-known problem of doing business in China is the protectionist policies that are still enforced over there, and the general behavior of the government that tries to advantage to local firms. The biggest issue reported by European businessmen regarding this matter is usually the intellectual property theft, and the protection system around it that would not be good enough to prevent such things to happen to foreign companies. Although it was confirmed that European SMEs still see it as an obstacle and that many firms have issues with intellectual property theft, the experts on the subject all agreed that it was mostly their fault. Indeed, it appears that if managers “do their homework” and protect everything that needs to be protected before their arrival, enforcement is good enough to protect your belongings. To conclude, if foreign managers avoid being gullible and follow the rules of due diligence, intellectual property protection cannot be seen as an obstacle to internationalization.

Regarding other protectionist policies, they are unfortunately mostly still effective. Indeed, it has been confirmed that European SMEs can neither access funding nor public procurements in China. The general feeling among the respondents was also that there is will from the local governments to advantage the Chinese firms. This is obviously a big issue for these small firms, since it means that they will have to rely on their own cash-flow, that working for the government is not an option and that they will face unfair competition from times to times. SMEs will therefore have to plan a sufficient amount of money before coming to China and get funding someplace else to develop their operations. To fight the other protectionist

policies, partnering up with Chinese business partner to form a joint-venture is often described as the best option, but it remains a tricky process to carry out.

On the issue of the intranational differences, unanimity was reached among the respondents on the fact that these differences exist, both in terms of culture and in terms of regulations. Examples were given and showed the need of adapting the strategy to each region, since it appeared that the geography, the regulations and the cultural preferences of the different provinces can have an impact on a business. To cope with these differences, using the services of consulting firm seems to be very handful, or going through large online retail companies to sell the products can be a very effective way to go over some of these differences.

European SMEs also have to face fierce competition from local competition. Indeed, the interviewees laid out the advantages that Chinese firms possess over foreign firms: better market knowledge, agility, cost-effectiveness, etc. These advantages are very effective on this market, but they do also have certain disadvantages, such as the fact that their products do not (yet?) reach the same level of quality and safety as the European goods', their lack of international experience or their difficulty to create strong brands. This local competition, despite these disadvantages, hence represent a big threat for the internationalization of European SMEs in China. Furthermore, experts are observing that their disadvantages are slowly fading away as Chinese firms get better and better. To offset these disadvantages, relying on a Chinese business partner in a joint-venture is here again a potential option. European SMEs should also emphasize on their strengths, by improving the quality of their products even more and display their long experience and expertise in their field. They should also target niche market where they can really aim to be the best, and leave the lower-margin markets to their Chinese competitors.

Other factors mentioned during the interviews represent obstacles for European SMEs. Long and unpredictable administrative procedures is probably the biggest one of these since every single one of the respondent complained about this Chinese specificity, how annoying it can be and how it can even hurt businesses, as shown numerous times in the case studies of the EU SME Centre. The solution is here to use experts that know these procedures, and to integrate the long delays in all your decisions.

Also, it appears that setting up viable operations in China is much more expensive than what most European managers expect. Going to China is not cheap, which is why only the SMEs that had lots of success and hence money in Europe will be able to collect enough money to be profitable here. Experts therefore only recommend European SMEs to come to China if they have sufficient funding, because it makes no sense to come here with little amount of money.

As already mentioned before in this conclusion, setting up a joint-venture is often a good choice when coming to China. However, interviews and case studies show that this is not always an easy endeavor, and very often because of untrustworthy business partner. European SMEs will also have to be careful with the fact that Chinese often take a long time to pay for a product or a service, or even do not pay at all if the foreigner delivered everything before asking for the payment. Here again, the main lesson is that following the rules of due diligence is crucial in China, since going hands in hands with the first person you meet in a business fair or trusting too much your clients is often a recipe for disaster.

Finally, it was reported in certain industries, such as the beer or the medical industry, that some Chinese clients tend to demonstrate an exacerbated price sensitivity, since it seems to be one of the only factor taken into consideration when making a decision. In these industries, the only option is therefore to do as much as possible to drive the price down, or not entering the market at all if it doesn't fit the image of the product.

In conclusion, it appears that the Chinese market is, as expected, an incredibly difficult place to do business. European SMEs will have to overcome many challenges, some of them being unique to the Chinese market, if they ever want to be successful here. As explained by Mr. Naber, what they will need the most is probably money and patience, since overcoming all these obstacles takes money and a lot of time. Therefore, it is my opinion that only the strongest SMEs, that took time to investigate the Chinese market, developed a strategy specifically for this country and are not afraid to adapt the way they do business will be successful here. Fortunately for these lucky few, their efforts will be awarded with market share in the world's future largest economy and potentially number one superpower, large revenues and the pride of having succeeded in a very difficult business environment.

4.2. Limitations

Like every research paper, this thesis presents several limitations. The first one is that, given the lack of time and the difficulty of finding relevant people to interview, the panel of respondents is relatively limited. As a consequence, it is difficult to draw conclusions for all the European SMEs doing business in China based only on the opinion and on the experience of 6 people, regardless of their expertise and knowledge on the subject. Given the complexity of the Chinese business environment, it is therefore very likely that some of the findings of this study may not apply to some specific cases in certain industries.

Secondly, since almost all the interviewees were found through my relationship with the Benelux chamber of commerce, there is only two respondents that do not come from this region. This might have played a role in the results for the cultural differences, since they all share a quite similar culture. Having interviewed managers from Eastern Europe, for instance, would have been interesting since it could have brought a different view on these cultural differences. However, it is important to note that the variety of the origins of the European SMEs analyzed in the EU SME Centre case studies somewhat alters this limitation.

Thirdly, despite having interviewed people that deal with this internationalization process everyday such as Maxime Van't Klooster, Rafael Jimenez or Robbert Görris, it would have been enriching for this study to have been able to ask questions to a European manager that actually drove the internationalization of his firm in China. Meng Gao from Schwartz & Co. almost has this profile, since he was working in the firm's French office before being asked to lead the opening of the Beijing office, but the fact that he was raised in China might have helped him avoiding some of the hurdles that European managers usually face.

Fourthly, one of the main difficulty when drawing conclusions for this thesis was the fact that interviewees often contradicted each other's on important points, such as the importance of guanxi for instance. In my opinion, this has to do with the fact that they work in different industries, and that certain obstacles might be inexistent in some but very real in others. Given the depth of the topic of this thesis, it was impossible to go into some of the specificities of each industry, which is why some of the findings that were previously mentioned might not be applicable to all the industries in China.

Finally, given the speed of the changes in China and the unpredictability of the Chinese administration, this thesis should be considered as a photography of the current obstacles to the internationalization of the European SMEs rather than a definitive analysis. Indeed, some of these obstacles might very well completely disappear in the next few years, or new ones might rise. This speed of change could also explain why some interesting findings coming from relatively old articles were not confirmed by the field research.

4.3. Further studies

Given the depth of the topic of this thesis, lots of studies can still be conducted to understand it better. Indeed, this research paper do not claim to be a definitive answer for the question of the obstacles to the internationalization of European SMEs in China. Here are some potential leads for future studies on the subject:

Firstly, since this study was quite broad and only touched the surface of most of the national and cultural factors, it would be interesting to conduct a more thorough investigation for each factor, to see how it really impacts European SMEs in detail. The concept of *guanxi* for instance, given the very different answers that were given, could be a potential subject for a paper. Research could also be conducted with a focus on the internationalization in China of SMEs from a single country, which would provide more precise cultural differences than when using Europe, since the European culture is not very developed (yet?).

Secondly, since the literature review of this thesis didn't include the factors that were identified during the field research, deeper studies could be done to analyze the true impact of these factors, and to see if it influences all the SMEs or just a few of them. For instance, it would be interesting to research whether or not long administrative procedures is a generalized phenomenon in all industries, if it can truly impact the viability of a small business, if there are reasons to hope that it might get better, etc.

Finally, the biggest limitation of this study being the fact that the various learnings cannot be applied to each industry, there is an obvious need for the same kind of research with a specific focus on each large category of industries. For instance, several case studies and some testimonies from the interviewees showed that the Chinese medical industry seems to be quite different in several ways. Indeed, it appears that Chinese clients prefer buying Chinese medical devices, that they are extremely price-sensitive, etc. which was not found to be the

same for other industries that were briefly mentioned in this thesis. This example proves the importance of more industry-specific research, in order to be able to truly help European SMEs considering making the difficult entry on the Chinese market.

Part 5: Appendix

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