

5.1. Charts & tables

<u>Company category</u>	<u>Staff headcount</u>	<u>Turnover</u>	<u>(or) Balance sheet total</u>
Medium-size	< 250 employees	≤ €50m	≤ €43m
Small	< 50 employees	≤ €10m	≤ €10m
Micro	< 10 employees	≤ €2m	≤ €2m

fig.1.

Source: European Commission

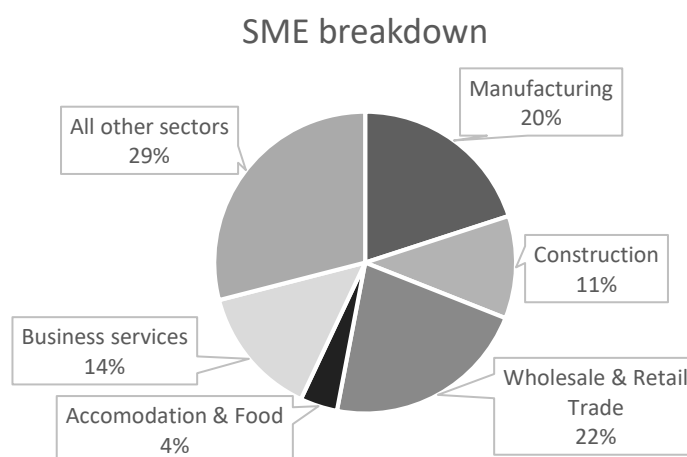


fig.2.

Source: Eurostat, National Statistical Offices and DIW Econ (quoted in the 2016 annual report on European SMEs from the European Commission)

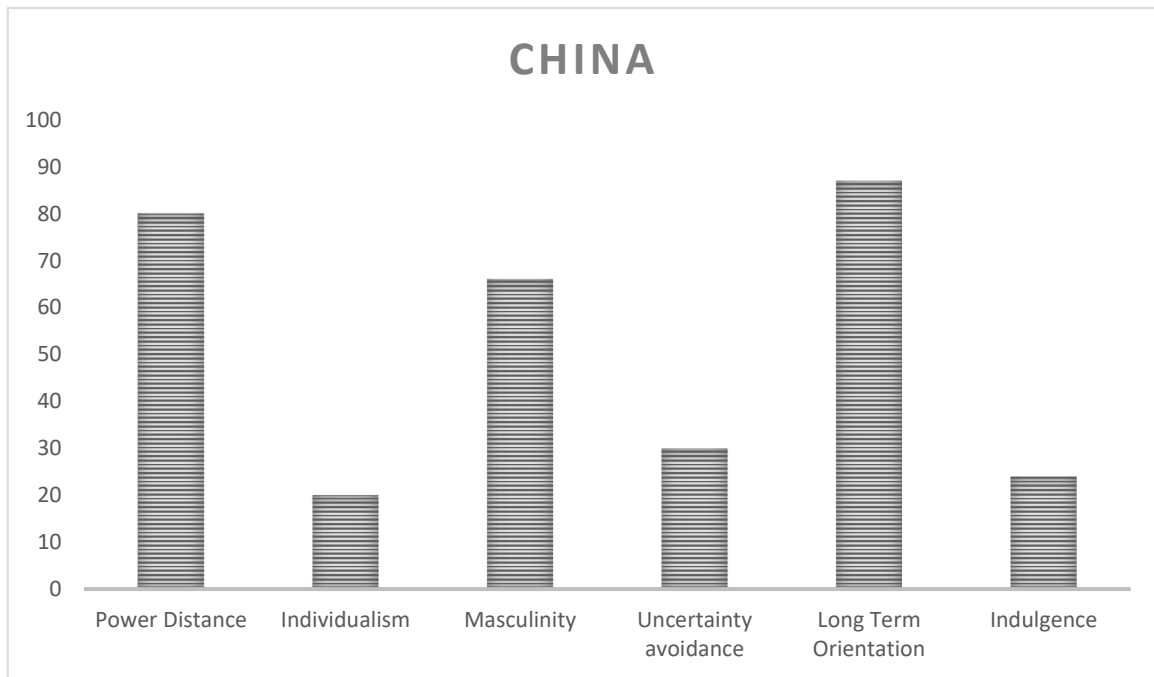


fig.3.

Source: Hofstede, Hofstede, & Minkov, 2010

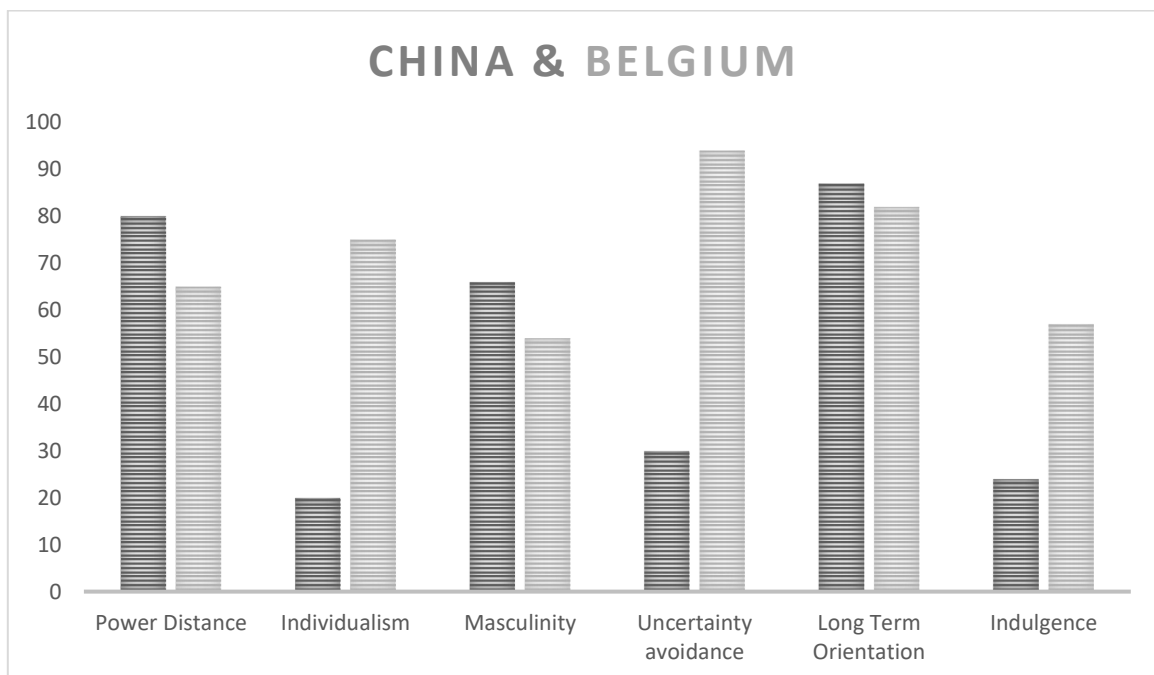


fig.4.

Source: Hofstede, Hofstede, & Minkov, 2010



fig.5.

Source: Coca-Cola Website (China)

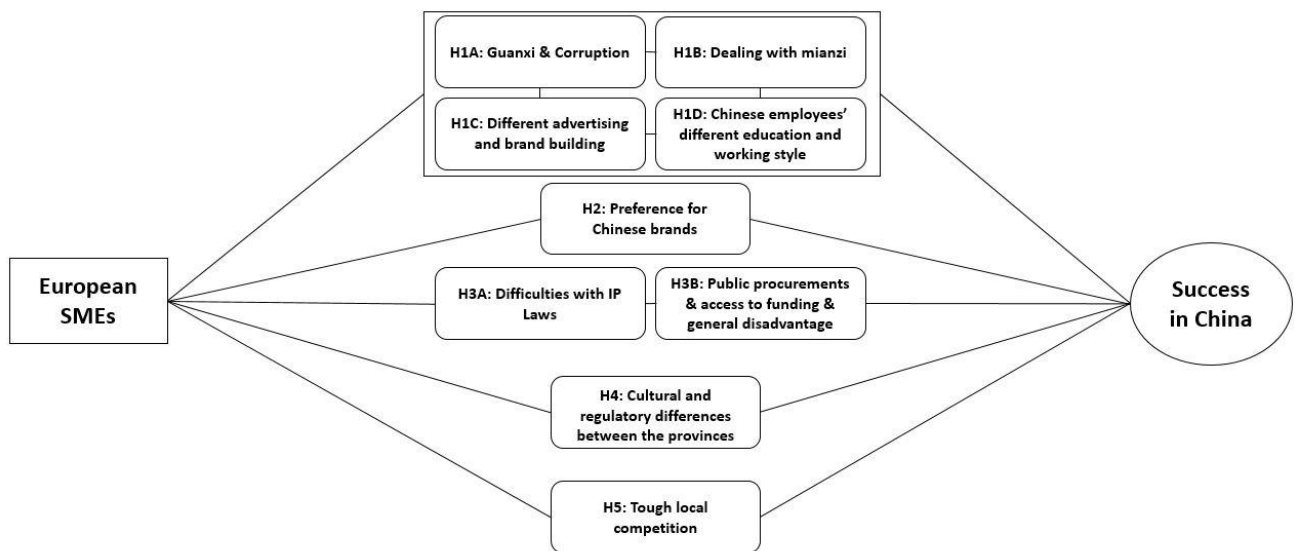


fig.6.

<p><u>Introduction</u></p>	<p>Tang, Shapira, & Youtie (2015). Journal of the Association for Information Science and Technology. Gwynne (2010) Research Technology Management.</p>
<p><u>Internationalization process</u></p>	<p>Erramilli, Agarwal, & Kim (1997) Journal of International Business Studies. Hofstede, Hofstede, & Minkov (2010). McGraw-Hill. Johanson, & Vahlne (1977, 2009). Journal of international business studies. Lu & Beamish (2001). Strategic Management Journal.</p>

	<p>O'Grady & Lane (1996). Journal of International Business Studies</p> <p>Pinho (2007). International Marketing Review.</p> <p>Reuber & Fischer (1997). Journal of International Business Studies.</p> <p>Welch & Luostarinen (1988). Journal of General Management.</p> <p>Xu & Shenkar (2002). The Academy of Management Review.</p> <p>Zaheer (1995). The Academy of Management Journal.</p>
<p><u>Cultural differences</u></p>	<p>Beverland (2000). Australian and New Zealand Wine Industry Journal.</p> <p>Chen (1995). Routledge.</p> <p>Fam, Waller, & Yang (2009). Journal of Business Ethics.</p> <p>Geddie, Defranco, & Geddie, (2002) Journal of Travel and Tourism Marketing.</p> <p>Gilbert & Tsao (2000). International Journal of Contemporary Hospitality Management.</p> <p>Ha (1996). International Journal of Advertising.</p> <p>Hofstede, Hofstede, & Minkov (2010) McGraw-Hill.</p> <p>Jaw, Ling, Yu-Ping Wang, & Chang (2007). Personnel Review.</p> <p>Li, Tsui, & Weldon (2000). MacMillan Press.</p> <p>Luo (2008). International Business Review.</p> <p>Ma & Kelly (2009). Changing English.</p> <p>Melewar, Meadows, Zheng, & Rickards (2004). Journal of Brand Management.</p> <p>Novicevic, Morf, Evans, Sanders, Sun, & Cecil, (2012). Journal of Applied Management and Entrepreneurship.</p> <p>Rarick (2007). Journal of International Management Studies.</p> <p>Yang & Dai (2011). English Language Teaching.</p>
<p><u>Consumer ethnocentrism</u></p>	<p>Cleveland, Laroche, & Papadopoulos (2009). Journal of International Marketing.</p> <p>He & Wang (2015). Journal of Business Research.</p> <p>Ishii (2009) Journal of International Consumer Marketing.</p> <p>Jap (2013). Journal of Global Business Management.</p>

	<p>Kwok, Uncles, & Huang (2006). Asia Pacific Journal of Marketing and Logistics.</p> <p>Wei (2008). Journal of Asia Business Studies.</p> <p>Zhu (2012). The Economic and Labour Relations Review: ELRR.</p>
<u>Protectionist policies</u>	<p>Chu (2017). International Journal of Social Science and Humanity.</p> <p>Gwynne (2010) Research Technology Management.</p> <p>Long & Wang (2015). International Review of Law & Economics.</p> <p>Novicevic, Morf, Evans, Sanders, Sun, & Cecil, (2012). Journal of Applied Management and Entrepreneurship.</p> <p>Schotter & Teagarden (2014). MIT Sloan Management Review.</p> <p>Wang (2016). The China Quarterly.</p>
<u>Intranational cultural and regulatory differences</u>	<p>Eberhard (1965). Asian Survey.</p> <p>Skinner (1977) Stanford University Press.</p> <p>Talhelm, Zhang, Oishi, Shimin, Duan, Lan, & Kitayama, (2014). Science</p> <p>Yeung & Mok (2007). Economic Geography.</p> <p>Wong (1985). ACR Special Volumes.</p>
<u>Local competition</u>	<p>Chan, Dang, Yan (2011). Economics Letters.</p> <p>Lin (2009). Strategic Finance</p> <p>Steinfeld & Beltoft (2014). MIT Sloan Management Review.</p>

fig.7.

5.2. Guidelines questions interview

Introduction

- Could you tell me a little bit about yourself?
- What does your company do?
- How did your company arrive in China? What were the reasons behind this choice?

Cultural differences

- How would you describe the Chinese culture in term of business style?

- How would you say that the concept of guanxi impacts your business life in China? Where you prepared before you arrived? How did you develop your professional network here?
- How do you see the problem of corruption in China? Did you ever come across corruption? Did you feel it prevented you to grab opportunities in some cases?
- How do you deal with mianzi? Did it ever affect your business relations with Chinese business partner?
- How different are your advertisement in China compared to the ones in your home country? Did you adapt the image of your brand to fit the needs of Chinese consumers?
- Did you ever come across issues regarding procedures, administrations, safety check, etc.? Did it also happen in your home country?
- 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'?

Consumer ethnocentrism

- Do you feel like your customers or business partners favor purchasing or working with Chinese brands?
- How did you adapt your communication to the Chinese consumers? Did you try to emphasize on the Chinese characteristics of your product/service?

Protectionist policies

- How did you adapt your strategy for intellectual property rights in China? Did you ever encounter issues with the Chinese legislation system?
- How did you fund your operations in China? Is the source of money located in your home country or in China?
- Did your company ever tried to access public procurements? Did you succeed?
- In a general way, did you ever feel like the local government was trying to advantage your Chinese competitors?

Intranational differences

- Is your company selling its products/services in more than one province?
- If yes, did you notice any differences between the provinces? How did you adapt your business model to each province? Could you feel there were different regulations or cultural differences?

Local competition

- Who are your competitors on the Chinese market? How well are they performing?
- Were you expecting this kind of competition before arriving on the Chinese market?
- What are the advantages and the disadvantages your Chinese competition have on you?

Conclusion

- What other factors did restrain your internationalization in China?
- Should you do it again, would you do things differently? What advice would you give to managers of European SMEs that are considering entering China?
- Anything else to add?

5.3. Interview transcripts

5.3.1. Meng Gao – Schwartz and Co.

This interview was conducted on May 5th in the offices of Schwartz & Co. China, in Beijing. The person I interviewed is Meng Gao, the Managing Director of this office.

Introduction

VH: Could you tell me a little bit about yourself?

MG: My name is Meng Gao, I am the Managing Director of Schwartz & Co. China. After finishing my studies in engineering in France, I joined Schwartz & Co. France as an intern. I later received a full-time position and continued working there as an analyst for three years. The company then decided to enter the Chinese market in October 2015, and they chose me to become the Managing Director of this new office in Beijing.

VH: Why did your company decide to come to China? What were the reasons behind this choice?

The reason was simple: the Chinese market is huge, and we knew we could grab opportunities here. This was also a way for us to finally expand our operations outside of Europe. Since we are a consulting firm, we didn't have a lot of choices regarding the mode of entry, which is why we just opened an office in Beijing and started looking for potential customers, without partners on the Chinese market.

Cultural differences

VH: How would you describe the Chinese culture in term of business style? Did you experience any issues readapting to it when you came back from all these years in France?

MG: I would say that, opposed to French people, Chinese tend to be very indirect. In France, when a client says yes, that means yes and you can move forward based on that response. Here in China, everything is implicit, and it can be very complex sometimes, even for Chinese people, because you often have to guess what the client wants. This is probably the trickiest part of the Chinese culture when you are doing business here.

VH: How would you say that the concept of guanxi impacts your business life in China? Where you prepared before you arrived? How did you develop your professional network here?

MG: Very big impact. Indeed, we had no contact whatsoever here before arriving in China, and this is why the beginning was incredibly difficult. We faced issues finding customers because, in China, when you send an email to someone you don't know, they will never respond because they don't trust you. This is why you need to know a lot of people, to have intermediaries that can vouch for you and connect you with the right people.

VH: How do you see the problem of corruption in China? Did you or any of your customers ever come across corruption? Did you feel it prevented you to grab opportunities in some cases?

MG: As far as I know, there is not a lot of corruption in our line of business. Since we don't supply anything and we are just a small service company, we never felt the need or came across any corruption here. As far as my customers are concerned, I don't know if they ever faced corruption. But it could also be because the laws are now very strict, and corruption is heavily scrutinized by the central government.

VH: How do you deal with mianzi? Did it ever affect your business relations with Chinese business partner?

MG: I never had any issues with this, probably because I am Chinese and I know what to say, but I think that as long as you pay attention to what you say, you should be alright. Most of the foreigners working here have spent a lot of time in China so they also know how to behave.

VH: How different are your advertisement in China compared to the ones in your home country?

MG: In China, we only advertise about our services through Bencham, the Benelux Chamber of Commerce, because we have a very small budget and, in this area of business in China, guanxi is the only way to find potential customers. For the French branch, they obviously advertise differently and do not only rely on intermediaries.

VH: Did you ever come across issues regarding procedures, administrations, safety check, etc.?

MG: Yes, the administration in China is working very slow and it sometimes takes us a lot of time to do things that would be quite simple in other countries. For instance, since we are a foreign company, when the headquarters is sending us money, they first need to get permission from the administration, which takes a lot of time. Same for when we send money outside of China, because the government has very strict capital flow control policies.

VH: How do your Chinese employees perform? What do you think of their English level and their education?

MG: I am really happy with the performance of all my employees. They all come from very good schools and possess all the skills required for the job. I also like that Chinese intern do good work and do not ask for a lot of money in return. Their English level is ok but at Schwarz & Co., we want them to speak French because it is the company's official language, most of our operations are done with French speaking customers and with Brexit we believe English is going to be less important than before.

Consumer ethnocentrism

VH: Do you feel like your customers or business partners favor purchasing or working with Chinese brands? If so, how did you adapt to that?

MG: It's actually the complete opposite. When searching for consulting services, Chinese firms tend to favor foreign consultants. Indeed, they consider that these firms have larger resources,

and asking advices to foreigners allows them to get a different opinion than what Chinese people would think of an issue. This is our biggest advantage on our Chinese competitors.

Protectionist policies

VH: How did you adapt your strategy for intellectual property rights in China? Did you ever encounter issues with the Chinese legislation system?

MG: As a service company, we don't have any intellectual property so we do not face this issue ourselves. On the other hand, I know that the poor IP rights protection system represents a true barrier to entry for the small firms we are advising. They think a lot about this issue before entering the Chinese market, which is why they often enter a joint-venture with a Chinese firm. That way, they know their technology will be protected from the competitors and they will be able to enjoy the knowledge of their partner on the Chinese market.

VH: How did you fund your operations in China? Is the source of money located in your home country or in China?

MG: Our money comes from the headquarters of the company, they send us the money through this long process I described earlier, which then lands on our Chinese bank account. We therefore do not have any source of funding here in China.

VH: Did you of any of your customers ever tried to access public procurements? Did you succeed?

MG: As a consulting company, we never really had the chance to access public procurements but I know that some of our customers tried to, but it is very difficult. I think this is because of China's high sense of nationalism, they prefer to give these contracts to local firms. However, when I was in France, I noticed that people got really angry when a Chinese firm scored a big contract with the state, so I guess this is probably the same in all the countries.

Intranational cultural and regulative differences

VH: Is your company offering its services in more than one province? If yes, did you notice any differences between the provinces?

MG: Yes, we actually noticed some differences. There are a lot of cultural differences between the provinces, and I noticed it through my interaction with customers coming from different regions of China. For instance, I realized that customers from a certain province always

promise they will go with us for a project, but they actually never sign any contract, while customers from other provinces ask for one. I would not be able to say if it's only because of the province they are from or if it was just their personal preference though. This is why we need to be flexible and ready to adapt to the different customers and their preference.

Local competition

VH: What do you think of your Chinese competitors? How are they performing? Where you expecting this before your arrival?

MG: They are actually performing very well, which is why we have very tough competition in our business. This is something I wasn't expecting before we settled in Beijing, because I thought our service would be superior to theirs.

VH: What would you say their advantages/disadvantages are?

MG: I would say that their advantages are that they are more local and they know what the customer wants better, and they also have more developed guanxi, which opens doors for them. On the other hand, they don't have foreign resources like we do, and since they are just operating in China they don't really have any international experience.

Conclusion

VH: Are there other factors that I haven't mentioned so far that raised issues when you arrived on the Chinese market?

MG: Not really, the only thing I could think of is that it really takes a lot of time to build a viable business here. When we arrived, we thought we would grow quicker and that we would be able to attract more customers, which is why we really had to adapt and spend time on developing our guanxi.

VH: Should you do it again, would you do things differently? What advices would you give to managers of European SMEs that are considering entering China?

MG: I think I would do most things the same way, but what managers need to know is that guanxi is the most important thing here because it is almost impossible to find your first customers without a developed network. This is why managers will have to be very patient to reach success in China

5.3.2. Maxime Van't Klooster – 1421 Consulting

This interview took place on May 11th in the offices of 1421 Consulting, in Beijing. The person I interviewed is Maxime Van't Klooster, the Managing Director of the company.

Introduction

VH: Could you tell me a little bit about yourself?

MVK: I first studied economics in the Netherlands during my bachelor. I then worked 1 year at Peugeot in Amsterdam, after which I decided to do a master in Maastricht. I then moved to China nearly 4 years ago, when I came here as an exchange student. After that, I worked for one year for another French company called TLS Contact, a company specialized in visas for European clients. I then realized I knew barely nothing about doing business in China, because all the employees were either foreigners or French-speaking Chinese, and the environment was very big. I learned there was a vacancy at 1421 Consulting, and three weeks later I was starting here.

VH: What does 1421 Consulting do?

MVK: What we do here is helping foreign SMEs doing business in China. Our customers often come with very specific questions, which makes sense because SMEs often specialize in niche markets. Our task is therefore to answer these questions, but we sometimes also take over the business development and market research for our clients.

VH: What is the percentage of foreigners in your staff?

MVK: There is only the CEO and me who are both Dutch, and the rest of our employees are Chinese. We also occasionally hire foreign interns.

Cultural differences

VH: How would you describe the Chinese culture in term of business style? How different is it from the Dutch culture?

MVK: In the Netherlands, we are very direct. Chinese are less direct, but equally persistent. They sometimes say yes, but think no inside. Furthermore, I noticed that Chinese employees, when they start at our company, do not possess the same problem-solving skills as Europeans. This is not good or bad, it is just different, but it means that you have to be extremely specific

in the tasks you give to them. This, combined with their indirectness, is for me the biggest issue when dealing with Chinese people.

VH: How would you say that the concept of guanxi impacts your clients' business life in China? Where they prepared before they arrived? How did they develop their professional network here?

MVK: Chinese are very transactional, so yes, there is guanxi, but I would say that it is more related to getting something done between Chinese. As a foreigner, I don't believe in guanxi, because I think that, as long as both parties can profit and you control the Chinese party adequately, you can do business here. It takes longer if you don't have a network, but it is still possible. If you sell something that is interesting for them, you don't need guanxi, your skills will cover for it. To me, what is the most important thing for SMEs is to know the expert in their field of expertise in China, and to be ready to pay him or her to get access to the important people. This is the guanxi that matters for European SMEs.

VH: How do you see the problem of corruption in China? Did you or any of your customers ever come across corruption? Did you feel it prevented them to grab opportunities in some cases?

MVK: Yes, we have seen it. It especially happens in industries with a lot of regulations, such as the medical devices industry where everything needs to be approved. However, I would say that there is less and less corruption because the current policies are very effective. I really believe we, and our clients, can do business 99% without corruption. As far as we are concerned, the level of corruption we face is, for instance, having to give a nice bottle of wine to the person that has to approve our fire safety regulations more quickly, or giving some nice Belgian chocolate to the owner of the building so that he doesn't raise our rent.

VH: How do you deal with mianzi? Did it ever affect your business relations with Chinese business partner?

MVK: We advise our clients very carefully on that. It is very important, but here again, Chinese are very transactional. As long as you don't insult them in public, you'll be fine. However, it is much more important to keep it in mind when you are dealing with your Chinese employees. It can be very difficult to stay calm sometimes, especially when they did something incredibly wrong. As I said earlier, they need very specific tasks but you cannot always be very specific so they might go in the other direction that the one you wanted. In this case, it can be very

tough no to criticize them in public. However, I would say that it is probably even more difficult in big firms because, in SMEs, it is almost like a small family so everyone knows each other, and being criticized is therefore more accepted because the news is going to spread around the company anyway.

VH: Do you give advices to your customers on how they should adapt their advertisement to the Chinese market?

MVK: They actually make a bigger deal out of it than we do. At 1421 Consulting, we believe in localizing, but localizing the name and other small things is enough. A brochure is a brochure, no need to change it for China. I would say that the main difference is that Chinese tend to interact more with the brand before purchasing than Europeans. For instance, if you sell your product online, you might receive very detailed questions through the chat from potential customers. In China, more works need to be done between prospect and sales.

VH: Did your customers ever come across issues regarding procedures, administrations, safety check, etc.?

MVK: All the time. Rules change quickly and a part of our job is to help our clients adapt to these changes. There is a lot of paper procedure to open a company, close a company, etc. Changing the address of a company alone takes 4 to 6 weeks, because it is mentioned on all the certificates produced by different bureaus. If you want to change the address, you'll need to go to all of them to change it, and you have to follow a certain order so it can be really annoying. The main issue is that people do not understand what they have to do, but we can help them with that.

VH: Do you feel these long procedures can even hurt these businesses or is it just annoying?

MVK: It is just annoying. The biggest issue is that Europeans usually don't understand these procedures and why it takes so long, while Chinese tend to understand it better.

VH: How do your Chinese employees perform? What do you think of their English level and their education?

MVK: We have two departments here: consulting and finance. The consultant need to speak good English because they interact with the clients, while the finance people are often only in contact with customers via mail. We provide them with training, on how to answer the phone,

to write a good email, but for the rest we hire people with adequate English level, except for the finance department. We are pretty happy with our training since our best employee actually barely spoke English before he arrived, and now he speaks much better.

VH: How did you adapt to your Chinese employees' working style? What are the things you would do with Western employees that you wouldn't do with the Chinese ones?

MVK: It is very difficult, because I manage everyone here so I interact with them from the managers' perspective which is much easier than if you are on the same level. I would say that I had to adapt my leadership style because if I were in Europe, I would probably share more of my personal experience with the employees while I try to remain more closed in China.

VH: What do you think of their education in a general way? Is it similar to westerners'?

MVK: It depends. They often don't possess good problem-solving skills, which are crucial in our business. In the European education we receive variables, and we come up with answers that can be adapted, while Chinese often come up with an answer that is very fixed. In our business that is a problem, because a fixed answer is never the good one. They need to learn to do that. We train them on that, by first asking them very specific tasks and then make it wider after, but it takes a lot of time. It is therefore very frustrating for me when someone from the consulting department leaves after we put so much effort to train him or her.

Consumer ethnocentrism

VH: Do you feel like your customers or business partners favor purchasing or working with Chinese brands?

MVK: I think it is the other way around. This is very strange, because I would say they are one of the proudest nations in the world. I can see that when I interact with Chinese people because I go talk to them with my translator, and even though she has been working with us for a few years, I can always feel she empathizes or feels sympathy for the people I am talking to because they are both Chinese, and I have to get her back to my point of view. However, in terms of quality and products, they very often distrust Chinese brands. If a foreign company and a Chinese one both offer the same price for a product or a service, Chinese are probably going to go with the foreign brand. However, the most expensive it gets, the less they tend to prefer the foreign brand. For instance, Chinese like to buy foreign milk, but if the price gets too high,

they immediately switch to Chinese milk, expect for the rich people. In Europe, we tend to favor price over quality, but in China they favor quality a little over price, but not too much.

VH: Do you advise your customers to emphasize on what makes their product Chinese?

MVK: Not really, but our customers are mostly active in B2B so they don't really need to do that because they don't need to convince them.

Protectionist policies

VH: How do you advise your customers to adapt their strategy for intellectual property rights in China?

MVK: We tell them it is the first thing they need to do. Not all of our clients need IP protection of course, but if they do, we immediately tell them to protect it and we send them to one of our partners that does this. It is actually quite cheap, since registering your trade mark in one category costs 500 to 700 euros.

VH: After they received the protection, do they ever encounter issues or is it well protected?

MVK: Not really, but it is a very long procedure, getting IP approved can take one year, and there is a stage of appeal during this period. However, one of the issues we sometimes have is we realize someone already registered the brand on the Chinese market, and then you have a problem.

VH: How did you fund your operations in China? Is the source of money located in your home country or in China?

MVK: I don't think anyone gets a loan to do business in China, they all fund their operations with their own cash-flow.

VH: Did any of your customers ever tried to access public procurements? Did you succeed?

MVK: I don't really know a lot about public procurements, but I did some research on this subject so I know it is difficult, and I also read about how companies can get reduced taxes if they are working in what is considered a favorable industry. I noticed that the Chinese government usually only gives these subsidies to local firms or to minority joint-ventures, where the Chinese partner has more stakes in the company. Overall, I think the Chinese government is very good at protecting its own market because, almost all the big companies

that are either selling or producing stuff in China are joint-ventures, and hence partly owned by the state.

Intranational cultural and regulative differences

VH: Do your customers sometimes notice differences between the different provinces they are doing business in?

MVK: Yes, the Chinese market is very localized. There are a lot of rules and regulations that differ from one province to another. For instance, if you want to manufacture products in the Gansu province, you don't even need to ask for tax cuts, they will just give it to you, while in Hebei province, you will get nothing even if you ask for it. In term of selling, e-commerce cuts through provinces so if you have a good shop on Taobao, you can sell nationwide without facing big problems. But here again we do very little B2C and these are the firms that face the most issues with these regulations.

VH: Do you sometimes advise your customers to adapt their business model to the different provinces?

MVK: Some adaptation is always needed, but adaptation to China is often enough. After designing a strategy for the whole Chinese market, you will then need to consider certain issues for each province such as: should I have an exclusive agent to sell my product or not exclusive, should they compete together, what are the tax policies in this province and how should I take advantage of these, etc.

VH: What about the cultural differences? Do that impact the success of a product?

MVK: Yes of course, but I would say it's more because of the geography of these provinces. For instance, one of our customers provides a service that uses foam to cleans stables. Obviously, this is not going to work in Beijing because there is no demand here, but there is a market in Dongbei. Other clients sell agricultural products and the demand is higher in certain provinces during summer, while other provinces might need it more in the other seasons. Deep knowledge of the different provinces is therefore required.

Local competition

VH: What do you think of your clients' and your Chinese competitors? How are they performing?

MVK: They are often cheaper, but it comes with a cost. This cost can be the quality of the product or communication, follow-up and professionalism. You can get the same general service as the one we provide three times cheaper, and our customer know that. But, what we do is we also help them to have an efficient financial organization, we make their balance sheets in English which is very helpful, etc. Customers sometimes switch to us because they know it is going to be more profitable for them in the end even though we are much more expensive. One of our customers does mystery shopping: they send their employees to stores of luxury brands and report on the quality of service. They then send a nice report to these brands. Their local competitors are often twice cheaper, but they don't have an IT system, they don't do a proper analysis of the data, they don't proactively approach you on how to improve the quality of your service, so even though they are double the price, brands still go with the foreign company because of the higher quality of service. However, the level of the local competition is increasing very rapidly. Lots of Chinese people go study in the USA or in Europe and then come back to start their company in China. Even though they do not have the same problem-solving skills as Europeans, they have a grasp at what it is, and they can replace the Westerners in companies, except for executive positions where foreigners still have the upper hand. This increasing efficiency is also due to the fact that, before, when you were growing you could just hire more people and build larger offices, but now with the rising of salaries and rents, they need to become more efficient.

Conclusion

VH: Are there other factors that I haven't mentioned so far that raised issues when you or your customers arrived on the Chinese market?

MVK: The willingness to invest on the Chinese market. European SMEs often grow from their cash flow and don't get bank loans here in China. Therefore, they don't want to invest a lot and they hope to invest a little and gain a lot. But we know here that if you don't invest enough with a clear strategy in mind, you are not going to succeed. It is like investing 50.000 euros to do business in Romania, Germany, UK and Iceland at the same time, it is not going to work, but our customers do not always understand that. They also sometimes do not want to pay for consulting services or market information. The investment in this market is often totally wrong. They only visit people they have met in business fairs and do not do any background

research, and if they get screwed then they say this country is not good and they then leave China.

5.3.3. Lionel Kohn – Brewery De Halve Maan

This interview took place on May 15th in the bar Beer Mania, in Beijing. The person I interviewed is Lionel Kohn, the Sales Manager of the company.

Introduction

VH: Could you tell me a little bit about yourself?

LK: I studied English-Chinese-French translation in Brussels at ISTI for 5 years, with a gap year in between to come to study Chinese here in China. I then started with an internship at Wallonie-Bruxelles Tourisme, where I was in charge of helping to develop Belgian products on the Chinese market. I then started working on tourism and cultural exchange between China and Belgium. After a few years, I started working in the diamond industry in Shanghai and I now work for De Halve Maan Brewery in Beijing. In a general way, you could say that I have always been involved in exchange between China and Belgium, in a way or another.

VH: What does De Halve Maan do on a daily basis?

LK: We are a family-owned brewery specialized in craft beers, which are getting more and more trendy in China for the last few years. Our office in Beijing is basically taking care of importing our products, distributing the beers and promoting the brands in China.

VH: How did De Halve Maan arrived in China? What was the chosen mode of entry?

LK: I don't know all the details, but I know that, in the beginning, they used to go through an importer, but they decided to open an office in 2015 because they noticed that the beers were selling quite well

Cultural differences

VH: How would you describe the Chinese culture in term of business style? How different is it from the Belgian culture?

LK: There is an obvious culture gap. For business, I would say, and that might seem obvious for people that knows China, that network is much more important here than in Belgium. Through my various jobs in China, I noticed how interconnected these networks can be: I used

contacts I made when I was working in tourism while I was working in the diamond industry, and I am using contacts I made in the diamond industry now that I am working in the beer industry. In China, everything is connected, people are more open to introducing you to contacts, it is easier to meet people.

VH: How would you say that the concept of guanxi impacts De Halve Maan's operations?

LK: Network is really important in our business, especially to find clients, but you can not only rely on it. Otherwise if something hurts your reputation, your whole network will stop doing business with you and you will go out of business. So guanxi is important, but you cannot only rely on it to be successful.

VH: How do you see the problem of corruption in China? Did you ever come across corruption?

LK: The problem in China is to spot the line between corruption and gifts. Especially when you are in the beer business, you always give some beers to your customers for them to taste it, but how many beers can you give without it being considered as corruption? At De Halve Maan we are really strict, we are always very careful with that. Sometimes official will make us wait a very long time, but we never give them gifts to speed up the procedure, but I know it exists, especially when people are in a hurry

VH: How do you deal with mianzi? Did it ever affect your business relations with Chinese business partner?

LK: It can be tricky in some situations, when you go have a dinner with your distributors and potential clients for instance. The distributor wants you to be there because he can impress its clients by showing he is dealing directly with people from the brewery, but he will do the talking and he will sometimes tell things that are simply not true about our beers. For instance, it happened once that he was introducing one of our beers to a customer by saying that it was a trappist beer, even though it is not. In this case you cannot interrupt them and you have to just let it go, because interrupting them and correcting them in front of the client would be a big insult. What I usually do is then, if the clients ask, to gently correct the mistake by saying that we are not a trappist beer but that many people make the mistake because there are so many beers in Belgium, to save the face of the distributor. I would probably not interrupt them in Belgium either, but I'd say that Chinese people are much more sensitive about this kind of things.

VH: Do you adapt your advertisement to the Chinese market?

LK: To be very honest we don't do much advertising, but when we do, we need to adapt it. For instance, our beer "Brugse Zot" has the slogan "het echte bier van Brugge" (The true beer of Bruges), but we obviously cannot use that in China because no one knows Bruges here, so we have to localize that sort of things, and emphasize on certain things such as the history of the beer for instance.

VH: Did your customers ever come across issues regarding procedures, administrations, safety check, etc.?

LK: Of course, we have. Here in China there is always a lot of paperwork, so many documents you need to send to the administration, but there is nothing you can do about it.

VH: Do you feel these long procedures can even hurt your business sometimes?

LK: Yes, it happened several times. When we have an event and we are not sure if the beers are going to arrive on time, because you can never know how much time customer clearance is going to take, so we sometimes have to cancel events because of this.

VH: How do your Chinese employees perform? What do you think of their English level?

LK: At our firm, Chinese employees cannot speak English, except for the employee that oversees the paperwork, but none of our salespeople can speak English. In a way that makes sense because most of our clients are Chinese, so English is not really needed. There is also something pretty strange that happens with our employees, because I often get the feeling that they are closer to the customer than they are to the company. They often ask if they can give discounts or try to advantage them, probably because they are all Chinese.

VH: What about their education?

LK: None of our employees have a college degree, which might explain why none of them speaks good English.

VH: How did you adapt to your Chinese employees' working style? Are there things you would do with Europeans that you wouldn't do with Chinese?

LK: Yes, I would probably not criticize them in public, because it is very often badly seen here, even when they did a bad job. The thing with Chinese employees is that you have to repeat

the same information all the time. For instance, when you cannot give discounts or incentives to customers, they sometimes do it anyway, even though you told them several times this special offer was finished weeks ago. It really gives you the impression that you work for the client. A very difficult thing in China is when you need to hire local employees, to find someone you trust. Sometimes we have some of our salespeople working in provinces far away from Beijing so we have to manage them from distance, and you don't really know what they are doing. We cannot be sure if they are actually working, how they treat with the customers when making a sale, and sometimes we feel that the only thing they care about is to reach the objective we set for them, we don't know what they are ready to do to do that and if they are going to continue working after they reached this volume.

Consumer ethnocentrism

VH: Do you feel like your customers or business partners favor purchasing or working with Chinese brands?

LK: I don't really know, but I don't think there is a big difference.

Protectionist policies

VH: How did you fund your operations in China? Is the source of money located in your home country or in China?

LK: The brewery, together with our operations are the main sources of funding for us.

VH: In a general way, did you ever feel like the government was trying to advantage your Chinese competitors?

LK: No, I don't feel that way, but that is probably because the craft beer industry is not one of the top priorities of the government.

Intranational cultural and regulative differences

VH: Did you notice differences between the different provinces in which your company is doing business? Did you had to adapt to them?

LK: Yes, there are differences, but I would set the line between north and south rather than between provinces. I wouldn't say you have to adapt your product to these differences, but more the way you deal with your customers. From my personal impression, if you have a good

relationship with people from the North, they will not be too picky or too much detail-oriented. However, in the south like in Shanghai for instance, they try to get everything done perfectly, in details, they talk much more about price, and they really want everything to be crystal clear. If you have a good product and you have a good organization, you will do good in the south but in the north *guanxi* will be more important.

VH: Do you also sometimes feel like demand for your beers fluctuate across the provinces?

LK: White beer is actually doing much better in the south, while we have more demand for quadruple beer in the north and in Beijing, most likely because of the different kind of weather.

Local competition

VH: What do you think of your Chinese competitors? How are they performing?

LK: Our main Chinese competitor is Vandergeeten, which used to be a Belgian firm but is now Chinese. They have a lot of brands in their portfolio, which explains why they are doing so good, but maybe too many as well because it can be difficult for them to focus and to promote all their brands at the same time. There are also other bars that are starting to brew their own craft beers, such as Jing-A for instance. This group has bars in various cities and they are really trying to build a community of craft-beer lovers. Their advantages are that their costs are lower, since they use local employees to brew the beers and all their ingredients come from China, which is helpful because they can say it really is a made-in-China craft beer, but that also means that our beers are much better quality-wise. Also, since they like to create new beers every month, they don't really have the time nor the willingness to create lasting brands, which is good for us because our beers don't change and that helps us to create some brand recognition.

VH: Where you expecting this kind of competition before you started in the beer business?

LK: I knew we were going to have some competition, but I thought that competition would be more focused on quality of the beers rather than on the price. This can be frustrating when you spend a lot of time promoting the beer to a customer, you can see he enjoys it, but when he learns that it is more expensive than the less good beers he is currently selling, he refuses to buy it and leaves. This happened a lot in the diamond industry because the products are really expensive, but I didn't think it would happen here in the beer industry as well.

Sometimes I feel that all the customers care about is the price, and you can really see a difference when you are treating with foreigners. This can be a disadvantage for us, because our beers are more expensive than Jing-A's for instance, so Chinese competition can beat us on price.

Conclusion

VH: Are there other factors that I haven't mentioned so far that raised issues when you arrived on the Chinese market?

LK: Something that is really important on the Chinese market is the newness of the product you are bringing in. The best thing that could happen is if your products doesn't have a high price-transparency. For example, when diamonds just started in China, customers didn't know what the fair price was because they didn't know the product and the internet wasn't as developed as it is now, so foreigners could set the price they wanted. Since Chinese are really good at evaluating the price of an existing product (they ask their friends via WeChat, they check on Taobao during meetings, etc.), if you don't have a new product or a product with high value-added cues, you must be ready to face heavy price competition. Even if you do, you will have to be very careful with your IP because Chinese competitors will be very quick to imitate your product and to try to make it better. Your product really need to have something special if you want to succeed here.

5.3.4. Rafael Jimenez – EU SME Centre

This interview took place on May 23th in the offices of the EU SME Centre in Beijing. The person I interviewed is Rafael Jimenez, who works there as a Business Development Expert.

Introduction

VH: Could you tell me a little bit about yourself?

RJ: My name is Rafael Jimenez, I work at the EU SME Centre as a Business Development Expert. My background is in physics, but I first started working in the IT industry. After a few years, I moved to FMCG, and I started my company in that field in Shanghai in 2009. Later on, I joined the EU SME Centre.

VH: What does the EU SME Centre do on a daily basis?

RJ: The main objective is to make life easier for European SMEs that want to trade with China. To do that, they need to know several things, which is why we provide a lot of reports for each industry. SMEs need precise information and we need to point directly at the opportunities for them because they can't do anything with general information. Secondly, we help them accessing markets by telling them exactly how to do it, how they should deal with all the regulations and so on. Third, on our website we have the "ask-the-expert" option, so with my team we answer all the questions we receive via this way, and they can sometimes be extremely specific. Finally, we also do trainings in Europe and in China about different topics.

Cultural differences

VH: How would you describe the Chinese culture in term of business style?

RJ: Culture is key in China. However, I take for granted that people that come to China possess the soft skills to be able to adapt to the cultural differences. If you are smart enough you can adapt rather quickly.

VH: How would you say that the concept of guanxi impacts the operations of European SMEs?

RJ: I think that the concept of guanxi has a bad connotation, since it can be linked to corruption. However, we recommend to the SMEs coming to China to act the same way as they do in Europe, because I think that guanxi is mostly for Chinese. Networking is of course important here, you have to know all your stakeholders, but it shouldn't go further than that and we always advice to do business ethically.

VH: How do you see the problem of corruption in China? Did you ever come across corruption?

RJ: Corruption affects the Chinese society at all levels, but the recent crackdown on corruption is producing some real effects. A good example of that is the drastic fall of import in wine in 2013 and 2014 (after the crackdown) is a result of this new enforcement, because these imported wines were often used as a tool of influence to gain power, as gifts for officials, etc. This has almost disappeared now, but the good news is that the market is now much clearer for importers, because they now know that all the products sold are bought by consumers. But yes, corruption is everywhere, although this problem doesn't only exist in China, so we advise SMEs to stick to the law and to never get into that sort of things.

VH: How do you advise SMEs to deal with mianzi? Did it ever affect their business relations with Chinese business partner?

RJ: It is an important concept everywhere in Asia. It is important to know that some things must be said in private and cannot be said in public, which is something we are not always used to in the West. Keeping harmony is key, so you will need to know what you can tell which person, who can be present at that moment, etc. For instance, when you want to make a comment to one employee, it needs to be done when he is alone, or some comments you would make next to the coffee machine that would be normal in Europe could be very badly seen here in China. This is one of the soft skills that people that come to China can and have to learn quite quickly, through our trainings for instance.

VH: Do you adapt sometimes advise SMEs to adapt their advertisement to the Chinese market?

RJ: Yes, it is fundamental, we recommend them to hire experts to take care of that, especially when they are doing B2C. They need to understand how their product can be perceived by the Chinese consumers, because it can quite different from what you would expect in Europe. For instance, I know a SME that produces creams and cosmetics, they had issues because some of the color of their creams were considered as unhealthy by Chinese consumers, which explained their poor results. There are so many things like that that you need to know to attract Chinese consumers so I always recommend going with experts that know their way around these differences. Also, in China everything is digital, much more than in Europe, so I also recommend going with a digital marketing agency.

VH: Do you know if SMEs sometimes come across issues regarding procedures, administrations, safety check, etc.?

RJ: Yes, all the time. To be honest, part of the problems comes from a lack of understanding of the regulations from the European SMEs. But, the legislation and the administration suffers from two major problems: it changes very fast, and often in a very ambiguous way. This creates a hidden barrier for SMEs, because it is very fuzzy and difficult to know whether or not you should continue or stop investing, given that you don't know how regulations are going to change. Chinese firms are more used to this kind of uncertainty, so it is less difficult for them to adapt.

VH: Do you know if the European SMEs are usually satisfied with their Chinese employees?

RJ: I don't really know if they are satisfied, but I know that understanding their local culture is crucial if you want your employees to perform. Also, because there is no unemployment problem (yet?) on the Chinese labour market, they often face the issue that their best employees leave the companies quickly, so you constantly need to give them incentives to stay on board. SMEs find it to be a very big problem actually. I also know that it is often difficult to find the right employee with the right competences.

VH: What about their English level? Can it be a problem?

RJ: Yes, it can because sometimes the opportunities that are interesting for your business lie in regions of China where people are less educated, so finding people with a good English level is very tough there. Speaking Chinese or using translators is therefore necessary to do business there.

Consumer ethnocentrism

VH: Do you know if the customers or business partners of the European SMEs favor purchasing or working with Chinese brands?

RJ: We developed a ten steps program for the European SMEs that want to enter the Chinese market, and among these ten steps, we advise them to check the prices of their competitors before they arrive. They often quickly realize that Chinese products are much cheaper, so if they want to sell a product that is more expensive, they will have to prove that there are reasons why their product is better. If they cannot do that, Chinese consumers will choose to buy from the domestic product.

VH: Do you advise SMEs to emphasize on the Chinese characteristics of their product/service to offset that liability?

RJ: Not really because, as Chinese are still not as rich as Europeans, they will find no reason to buy a foreign product if it is produced in China. They will not want to pay more for something that they think doesn't have the same level of quality as imported products. However, since the quality of 'made in China' products is increasing, it might become a smart move in the future, but not now.

Protectionist policies

VH: How do you advise the SMEs regarding intellectual property rights in China? Do they often encounter issues with the Chinese legislation system?

RJ: For the SMEs we advise, they usually do not have IP per se, but they still have to protect their brand name because it can quickly become a problem if they don't. Personally, I wouldn't come to China without having all my trademarks well protected and checking if all my patents are solid. This is actually the step 1 in our 10 steps program. I am sometimes very surprised to see company telling things about features that are not protected during business fairs or exhibitions, because this is a clear recipe for disaster in China.

VH: Once they have paid all these protections, would you say that European SMEs are safe?

RJ: As long as you did the right things, there are less and less complaints about this, yes. If you suspect someone from stealing your protected IP, the procedure is long and costly, but it works reasonably well, according to our surveys.

VH: Do you know if SMEs have easy access to funding here in China?

RJ: It is almost impossible to get funding here. The banking system in China is very difficult to understand, even Chinese SMEs face difficulties getting funding so it is almost impossible for foreign SMEs. They ask for very specific collaterals, which is why more or less only real estate firms can get funding from them. In a general way, the channels for funding that Chinese firms use are not available for European SMEs. It is according to me one of the biggest problem, because a lot of SMEs actually arrive here upon request of the large companies they supply (auto parts, etc.), but they will need funding to set up their own factory here and they won't get that kind of money in China.

VH: Did your company ever tried to access public procurements? Did you succeed?

RJ: Yes, it is a big issue, and it has been in the agenda of the European Union for years now. Here at the Centre we cannot do anything against that but there are a lot of people negotiating to solve this issue in the near future.

VH: In a general way, did you ever feel like the government was trying to advantage your Chinese competitors?

RJ: I think that local firms enjoy some advantages, but it depends on the industry. Sometimes you will have to dig very deep into the regulations to realize that very subtle things are affecting the foreign competition, so it is a real problem but it is often not obvious.

Intranational cultural and regulative differences

VH: Did you know if the differences between the different provinces can be a problem for European SMEs?

RJ: The most important thing that SMEs need to know is that the level of knowledge of the consumers regarding the products is much higher in the east than in the west, especially in the FMCG industry. However, these cities are much more saturated so the opportunities lie in the west of China if you ask me. Regarding regulations, there are the same, but you cannot ask for the same kind of expertise in each industry in each province for the authorities, so you will have to wait much longer for approval in certain cities or experience some other troubles.

VH: Do the different economic development between the various parts of China has an impact on things such as pricing for SMEs?

RJ: Of course, the difference in revenues is very high, but the household income is actually rising faster in rural area at the moment, so they want to bridge that gap and have access to the type of products that richer regions already have. Pricing correctly is a problem, but e-commerce is making it easier.

Local competition

VH: What do you think of the level of the Chinese competitors of European SMEs? How are they performing? Are SMEs prepared for such competition?

RJ: We want them to be prepared, which is why we advise them to monitor the competition before they arrive to avoid bad surprises. What I can see is that competition is getting tougher and tougher. But obviously, this is the same everywhere, whenever you enter a country you will always face local competition, and Europeans firms need to be used to that.

VH: What are the advantages and disadvantages of Chinese firms?

RJ: It depends on the category, but in general, the quality of their products is not as good as Europeans', safety is also not as good (even though it is very important for Chinese consumers),

but they are also often much cheaper, and they can leverage their relations with the authorities and they know the market better. European firms can offset this disadvantage by choosing specific entry modes such as import through a Chinese agent, but they will need to be careful when choosing it, because they are basically giving them the key of the car, since they won't be able to decide pricing and other features like that.

Conclusion

VH: Are there other factors that I haven't mentioned so far that can create issues for European SMEs?

RJ: Not really, but I wanted to add that this is probably the good time for SMEs to come to China. The market is really big and very developed now (and still growing), and even though some might say that access to this market is given by the government against certain privileges, the potential is there. Succeeding in China is not easy, but nothing is ever easy in life.

5.3.5. Koen Naber – R&P Lawyers

This interview was conducted on June 2nd in the liaison office of R&P Lawyers in Beijing. The person I interviewed is Koen Naber, the Director of this office.

Introduction

VH: Could you tell me a little bit about yourself?

KN: I studied Fiscal Economics in Groningen, then started working for Baker and McKenzie in their private equity department. After 3 years in Amsterdam, they sent me off to work in their Beijing offices, where I mostly worked for the China Investment Corporation, the very powerful sovereign debt fund of China, and I had to structure their outbound investment, which is very different from what I do now.

VH: What does R&P Lawyers do?

KN: At R&P, we are only focused on inbound work. Nearly all our clients are from Europe and the US. We only have a small team in our liaison office here in Beijing, and our headquarter is in Shanghai where we have 30 people working. All our lawyers are Chinese, and the managers are foreigners, usually from The Netherlands. The service we provide to our clients is to advise them from market entry to when they reach a mature stage on this market (setting up the

company, employees contracts, registration and enforcement of IP, etc.). We mostly serve SMEs, but also some listed companies, all active in very different markets so we are quite polyvalent.

Cultural differences

VH: How would you describe the Chinese culture in term of business style?

KN: Chinese people do not trust each other in a business environment before proven different. Everyone knows that it takes far more time to develop a relationship, because they want to be 100% sure that they are doing business with someone that is reliable. I am very often contacted by SMEs managers who tell me that they are having problems with their business partner, because they met them during a trade show and immediately started doing business together without really taking the time to know and evaluate the partner's ability to perform. A Chinese person would never do this. Also, what can be very different, is the fact that Chinese people do not consider negotiation period as a cost. Sometimes European SMEs have been negotiating for 6 months, they are starting to worry about the time that has been lost and the cost of this negotiation period, but Chinese do not see it the same way, and that can sometimes mess up the relationship between the two parties. Cultures are therefore very different, and I believe that you have to be here for a few years before you can really understand it, which can be an issue for managers that just arrived from Europe.

VH: How would you say that the concept of guanxi impacts the business life of European SMEs in China? Do they need to have relationships as much as Chinese firms?

KN: I think it is the same for European firms. However, as a foreign company, if you have a product that is very special and different, then you might need a little bit less guanxi. But if you want to put your foot in a business that is already well developed in China, then you're going to need to have a very extensive network because you'll have strong competitors. This is a little bit what Uber did wrong, because when they arrived here, they were a little bit arrogant and they thought that they just had to come here to succeed, but they lost a lot of money because of their lack of support on this market. In conclusion, I would say that guanxi is very important, but that the degree of importance varies from one industry to another. You can see that very clearly when you look at certain things: for instance, all the fashion designers are in Shanghai and the car manufacturers are in Beijing, because they want to be close to

whoever is calling the shots in their industry. Guanxi can sometimes be more complex, because I often see some SME managers getting very close to very powerful and rich Chinese individuals, but monetizing that relationship is very difficult, so having the relationship is not enough.

VH: How do you see the problem of corruption in China? Did you or any of your customers ever come across corruption?

KN: It is happening less and less, but it is definitely still there. It is often a result of weak management regulations. Sometimes, European SMEs have a subsidiary in China and do not have a direct line of supervision of their activities here, which is why they eventually learn that there has been a lot of wrongdoing by their employees. This happens throughout the whole system in China. We organized a seminar the other day, about compliance and the need of due diligence, because we believe that if you make it very clear to your employees that this kind of behaviour is not accepted, it will not happen. However, if you do not say anything and you let them think that they can do anything to get to their objectives, it will happen. This is why I think that corruption is more of a company culture issue than anything else.

VH: But if SMEs stay out of this game of corruption, can it hurt their chances in some cases?

KN: I think that relationship is what matters the most. A big problem of Europeans is that we are often too proud or too polite in the way we are doing business. In Europe, if someone crosses a payment deadline, we will say "it is ok, let's give him one more week, etc.". In China, they will call the other company three times a day. So, if Europeans do not do that with Chinese firms, they will think that it means you do not really care about this payment, that they can delay it even longer. So, when European SMEs think about giving a gift to speed up procedure, they should just behave like Chinese do and call them all the time until it is done; If they do that, corruption is not really necessary, but you of course have to be careful not to make your partner loose face because it could have bad consequences.

VH: How do you deal with mianzi? Did it ever affect your or your clients' business relations with Chinese business partner?

KN: It is very important. To come back on my previous answer, when you push Chinese people, make sure you talk directly to them and not to their superior, because that is the worst thing you could do. You should also try to be subtle and social, by asking several people around the

managers and put a little bit of pressure on each of them. In China, everything is about leverage. SMEs often do not use their leverage, and provide their whole service without asking for intermediary payments. In this case, the Chinese counterpart will know you have no more leverage, and you can kiss that money goodbye. You need to integrate the fact that they might pay the last bit very slowly or even not at all, and ask for intermediary payments that cover the whole cost of your service to avoid making losses in the end.

VH: Did your customers ever come across issues regarding procedures, administrations, safety check, etc.?

KN: Everything is very time consuming in China, and things that are time consuming are expensive, it is as simple as that. Again here, it depends a lot on the industries and the regions you are operating in. Setting up a company in Beijing is far more complicated than setting up a company in Shenzhen. The implementation of the different AICs is quite different. Employment laws in Shanghai and in Beijing are also implemented in a very different way, and that creates uncertainty and that is bad for business. This is why it is important to set up shop close to where decisions are taken, because that can reduce that uncertainty.

VH: How did you adapt to your Chinese employees' working style?

KN: In our business, we have to think about what our clients want and what they want is a certain approach. They want problem-solving and structure, and that is something we have to teach to our employees. If you teach them from the beginning, it will work without a doubt. The education system here is a little bit different, but we can definitely spot a learning curve in the people that have been working with us for a long time.

VH: What do you think of their English level?

KN: All our staff is bilingual, which is necessary because our clients are foreigners, but I think that more and more people speak good English in China, and I think it is because there is a lot of western influence and Chinese travel more and more around the world. It is a matter of a lot of time, but it is getting better. Which is why if you can speak a little bit of Chinese, that will help greatly and makes your life easier here.

Consumer ethnocentrism

VH: Do you feel like Chinese customers or business partners favor purchasing or working with Chinese brands?

KN: It depends of course, but I think that firms operating on the Chinese market need to understand that only working with foreign firms, although it can be easier, offers far less potential than working with Chinese firms. If you can prove to Chinese consumers or firms that your product has a superior quality, they will be ready to pay for it.

Protectionist policies

VH: As a lawyer specialized in this topic, what do you think of the current IP Rights protection system in China?

KN: It is getting better I think, because now you can actually enforce your protection. But something managers from European SMEs forget is that, when you do not register your IP, you are not the actual owner of it. Not registering your IP because you are afraid to see it stolen is a very bad strategy if you ask me. This is why, nowadays, all the professional players register, but enforcement is sometimes more difficult, in the sense that the penalty for IP thieves is still very small, and doesn't really discourage from stealing. If they could increase it, I think less people would take the risk of stealing IP. A proof that the system is improving is the recent case of Michael Jordan, that didn't register his Chinese name in China. Someone else started to use it but the court ruled in favor of Michael Jordan, which is something that would not have happened a few years ago. One of our client was making a product, when they realized that another company in Shenzhen was producing the exact same product, but with a different logo. We first investigated and realized they had a sales office and a factory, both in different cities. We went to the authorities and explained them the situation, and they were actually very happy to hear this because they had their targets in term of enforcement. Not long later, two teams raided the two places and stopped their operations. So, there is enforcement, but make sure to use your resources in a good way. If you just go to the police and say that your product is being sold by someone else online on Taobao, they will do nothing, but if you go directly to Taobao, there will be more probability that it works.

VH: How do European SMEs find funding in China?

KN: There is almost no access to finance, it is only via private capitals that you can be funded here. It is very problematic, but to be honest banks do not really lend money to start ups in Europe anymore to.

VH: Did any of your customers ever tried to access public procurements? Did you succeed?

KN: I don't know a lot about it, but it is definitely not a fair competition between foreign and Chinese firms.

VH: In a general way, would you say that Chinese firms are advantaged by the government?

KN: Yes, there is that feeling. Especially if you are competing against a State-Owned Enterprise: good luck.

Intranational cultural and regulative differences

VH: You mentioned it already, but do your customers sometimes notice differences between the different provinces they are doing business in?

KN: Yes, there are differences and that can create issues. When you want to move your company for instance, it is made difficult because of all the different requests from the tax authorities. There is a loss of flexibility because of that, but Chinese firms face the same issues I guess.

VH: In term of culture, do you see different business styles across provinces?

KN: Yes, there are some examples like the fact that in Shenzhen they often go way quicker, but it really depends on which person you are talking to.

Local competition

VH: What do you think of your clients' and your Chinese competitors? How are they performing?

KN: The major problem of our clients that are European SMEs is that, when they think that a product is selling in Europe, it will automatically sell in China. Based on what? They often do not conduct any research and do not have any strategy for their market entry... They far too often mistakenly think that Chinese will like the product because it is European. Before taking any step, you need to come here and make some research, otherwise the local competitors will take your idea and make it better for the Chinese market.

Conclusion

VH: Are there other factors that I haven't mentioned so far that could raise issues for European SMEs?

KN: The cost of entering the Chinese market. It is completely underestimated, I would say businessmen often only plan for half of the amount of money that they will need. People do not realize how expensive it is to do business here. If you don't have sufficient money to come here, then don't come. And have a long-term strategy, 5-year plans, etc. because you will not be successful here in 3 years if you are in a traditional market, you need to have deep pockets and patience.

5.3.6. Robbert Görris – The Sovereign Group

This interview took place in The Sovereign Group's Beijing office on June 12th. The person I interviewed is Robbert Görris, who works there as a Business Development Manager and is the head of the Beijing office.

Introduction

VH: Could you tell me a little bit about yourself?

RG: I am Dutch, I studied at the Rotterdam School of Management, with a bachelor in business administration and a master in change management. I then won a scholarship to go study abroad, and I ended up in Taipei. When I came back I started working for a hedge fund, but since my wife had a job offer in China, I followed her here and started working at Bencham, the Benelux Chamber of Commerce. After 3 years in different positions I became the general manager. It was a really exciting job because I had a lot of contact with interesting people, heard lots of stories and different opinions on how to be successful in China. In the beginning of 2016 I decided to move from Bencham and I started working for Sovereign as a Business Development Manager.

VH: What does Sovereign do?

RG: Our office here mainly helps foreign companies to come to China (company set-up, accounting, market entry strategy), while the other offices usually deals with corporate set-up, off-shore structuring, and so on.

VH: What was the main reason behind Sovereign's choice to set up an office in China?

RG: I wasn't there when it happened, but it was to seize the opportunities that this market offers in term of market entry services. It was also a good way for the company to diversify, since they were mostly active in the trust industry before, but with all these cases such as the Panama papers, this industry has a bad reputation and regulations are making it more and more difficult, which is why we thought helping companies to start operations in China was a good way to diversify from that industry. They also opened the same kind of office in Dubai with the same objective in mind. The other reason is that Sovereign does a lot of private wealth management, and the Chinese market shows great promises in that sense, since a lot of Chinese people are getting very rich. This industry hasn't really started yet in China, but we think it will soon in the future and we want to be here when it happens.

VH: What is the percentage of Chinese employees in your staff?

RG: In the Beijing office it is 50/50, but in Shanghai there are just 2 foreigners and 25 Chinese employees.

Cultural differences

VH: How would you describe the Chinese culture in term of business style?

RG: There is a different way of doing business in China, but every country has its own way of doing it. One example is when you are talking about consumer goods, Chinese customers can be very different, they want different things from the product, they are interested in different set of values, etc. Since your customer is different, you need to do business differently, and Chinese people adapted to that I think. Also, I think that this Chinese way of doing business changes a lot from one industry to the other so it is difficult to explain it in general.

VH: How would you say that the concept of guanxi impacts the business life of European SMEs in China? Do they need to have relationships as much as Chinese firms?

RG: Personal relationships are important, yes, but I would say that foreigners first and foremost need business sense. People often think that they are going to need guanxi, relationships, etc. but at Sovereign, we believe that using guanxi to realize something is going to backfire on you 9 times out of 10. We have many examples, where foreign companies want to set up a factory, use guanxi to get the land and all the permits, but later when the guanxi-

guy is gone and the government comes to check, they realize that there were a lot of issues such as the permits that were not done correctly, etc. so you'll need to pay fines, make changes, and sometimes even close the factory. Furthermore, I think that a foreigner will never have guanxi, at least in the way Chinese consider guanxi, because it has to do with family links, years of mutual trust, etc. More and more Chinese companies also rely less and less on it, and just go to consulting firms when they have issues.

VH: How do you see the problem of corruption in China? Did you or any of your customers ever come across corruption?

RG: Yes, of course. I don't think it's happening less and less like many people, I just think it is more sophisticated. Before people usually gave red envelopes to "corrupt", but now it is called service fee. You pay someone to do "a consulting project", the company gets a bill for this service, and it is then placed in the books as a consulting project. That way it looks clear in the books, and the CEO can pretend he didn't know what it was. I think that it is naïve to say that foreign companies do not engage in these activities, because there are some industries where it is just impossible to do business without a little bit of corruption. I think it is a choice that companies need to do, but if they choose not to do it in certain industries, I think they should not come to China then, because some things will be impossible to do for them.

VH: How do you deal with mianzi? Did it ever affect your or your clients' business relations with Chinese business partner?

RG: I have never been treated as badly than in China (laughs). There is definitely another way of communicating such as the fact that yes and no doesn't have the same meaning than in Europe, but I think that this whole concept of mianzi is just a way for Chinese to say that we foreigners need to go with their rules, but they don't need to go with ours. It also impacts the way you deal with your employees, you cannot always say what you want to them or you have to use subtler ways to communicate your message. I also noticed that, when two companies meet, while the big bosses talk about pleasant things and have fun, the number twos are the ones that need to talk about the unpleasant things. But to be entirely honest, I never really worked in the Netherlands and I've always worked here, so I don't really know how business is done in other countries and I cannot really say what is part of mianzi and what isn't.

VH: How different are the advertisement of your clients in China compared to the ones in their home country? Did you advise them to adapt the image of their brand to fit the needs of Chinese consumers?

RG: I believe that adaptation is needed, every foreign SME coming to China should reflect on whether or not its product is fit for the Chinese market, if the Chinese people want that kind of product, etc. Companies need to understand that Chinese have different values and want different things. Yesterday I was at an event and I talked to some guy from BMW, who told me that they adapt their cars for the Chinese people. For instance, the steering wheel is much lighter, the seats are bigger and softer, etc. Communication also has to be adapted, Philipps for instance tries to put the emphasis on family in its advertisements,

VH: Did your clients ever come across issues regarding procedures, administrations, safety check, etc.?

RG: Yes, rules change constantly and that is a big issue for us. Clients come to us because we are supposed to know things, but we cannot predict how the rules are going to change and that is very frustrating for them, they don't understand why things change all the time. It can also be an issue when they need to communicate with their headquarters, since these people are in Europe and do not know how things are done in China, so they don't understand why things change all the time and the people in the Chinese office look incompetent because of that.

VH: How would you say that your Chinese employees and your clients' perform?

RG: China has been growing at a remarkable speed, and in this new economy, new skills are needed for employees. I think that Chinese people are not all ready for the new expectations, since I believe they might have a problem with responsibilities, "owning your job", etc. There are great employees in China, but I think that lots of them didn't develop skills at the same pace as their economy, which explains why some people might have risen to high positions without actually having the skills required. Having had this type of managers, this makes communication between European managers and Chinese employees sometimes difficult, because they have a certain understanding of how they should be managed, and this is not the way Europeans usually manage people. The skillset that the Chinese have and what the European companies expect are often not aligned, which is why there is often a feeling of

underperformance. Personally, I have had several difficulties with understanding and communicating with them, I would like them to have much more ownership, but I don't know if that is because they don't have it or because of my management skills.

VH: What do you think of their English level? Is having a good level of Chinese important for European SMEs managers?

RG: It can be a problem because English is already my second language so information's are already lost in translation, and my Chinese is only good enough to understand certain things that they are unable to express in English. Speaking Chinese is therefore an advantage, because there is a lot of information's that is shared between the people in your surrounding and you can be in the blind during these moments if your Chinese is not good enough. If my Chinese was better, I would probably be able to do more, such as tap into certain markets. For instance, we work with a lot of lawyers here, but I can only do business with the ones that speak English, and there are not that many of them. The managers of SMEs that do not speak Chinese are often dependent on their office manager, and this person might not always fully understand the culture of a product, the nature of the brand, etc. so these sorts of things get translated and translated and it loses its strength.

Consumer ethnocentrism

VH: Do you feel like Chinese customers or business partners favor purchasing or working with Chinese brands?

RG: It has been a topic of discussion for a while, that they would prefer more and more buying from Chinese brands, and I think it has to do with the current leadership in China, that promotes the Chinese dream and try to push these feelings. I think that this preference for Chinese product exists in certain industries, but not in others, such as food for instance. Also, I noticed that it has a lot to do with the government's indication. If the government has issues with South-Korea, nobody buys from Samsung anymore, because the government said so.

VH: Do you advise your clients to produce their products in China to emphasize on the Chinese side of the company to counter these effects, if existing?

RG: I haven't advised in that sense, because it can also backfire. A good example of that is FrieslandCampina, a Dutch company that created a joint-venture with a Chinese firm to

produce milk powder, but a few weeks ago they got involved in a huge scandal, because of the very low food safety and because the business partner was kind of a crook. You need to be very careful when you produce in China, because problems do occur and in the case of FrieslandCampina, reputation is key so they are in big trouble now.

Protectionist policies

VH: What do you think of the current IP Rights protection system in China?

RG: I think there are good laws in China regarding IP and IP protection. In many cases, managers of European SMEs forget their brain when they come to China, and they make the mistake themselves: they didn't register, they thought they could go with guanxi and not go through the right steps, and then they complain that their technology was stolen but who should be blamed for that? The foreigner that was careless and unprepared or the Chinese that saw an opportunity and was smart enough to take it? European SMEs tend to trust their Chinese business partner way too much, and do not follow the rules of due diligence. Since they do not know the rules of the market in China, they tend to do whatever their partner will tell them.

VH: If they go through all the right steps, would you say that enforcement of IP rights is good enough for the protection of SMEs?

RG: Yes, although it could be better, but enforcement is good enough I think, but you'll need to be aggressive in using these rights because Chinese people have no shame in trying to use patents or to go around it.

VH: To your knowledge, do European SMEs have an easy access to funding and public procurements in China?

RG: No, they cannot get a loan at the bank, but I don't really know about public procurements but I have heard it is difficult.

VH: In a general way, would you say that Chinese firms are advantaged by the government?

RG: The easy answer is yes, but I think it is important to see this in a bigger picture. The goal of China is to promote China and create richness for Chinese people. They will always try to

advantage their firms, but even though most countries do the same, it is probably exaggerated here, so yes, foreign companies are more scrutinized than local ones.

Intranational cultural and regulative differences

VH: Do your clients sometimes notice differences between provinces, in terms of culture and regulations?

RG: Yes, there are a lot of differences, and adaptation is needed, but if you are a company in Louvain-la-Neuve and your boss tells you “we are going to take over Europe”, how many different cultures, languages and regulations are there in Europe? Of course, there is the European Union, it should be the same everywhere in an ideal world but it isn't. For China, it is the same. People are not the same in the North, in the South, in Guangdong, etc. In terms of regulations, some things are very localized such as employment laws, and in many cases, it is the person in charge of the local government that decides how he or she is going to interpret their local law. It is difficult and unexpected because people have big expectations when they come here and they believe they are going to be able to spread around China, but no one would have the same expectation when coming to Europe.

Local competition

VH: What do you think of your clients' competitors? How are they performing? Do they expect that level of competition?

RG: European companies often make the mistake of coming here thinking that because they are foreigners their product is superior so everybody is going to want to buy it. Not true, many Chinese people are not waiting for European products, and many of these products are not adapted to the Chinese market, but this is where the strength of the Chinese companies are and what European SMEs usually don't expect: they are extremely flexible, they move fast, they can try something and if it doesn't work, drop it after one week while European SMEs would debate it for months, they have more of a long-term strategy while Chinese firms are much more about short-term. In my opinion, both sides should take inspiration from what the other side is doing.

VH: You mentioned the advantages of the Chinese firms, what are their disadvantages in your view?

RG: Chinese brand are bad at branding. While European firms are good at keeping a constant and strong way of communication, Chinese usually shift left and right, do not really set values for their company which makes it difficult to set a real brand. To give you an example, I know a firm that kept changing the color of its business card or the position of the logo of the company on it, etc. to suit the taste of certain clients better. If you keep doing that, you are never going to create a strong brand.

Conclusion

VH: Are there other factors that I haven't mentioned so far that could raise issues for European SMEs?

RG: I think that, in the end, the biggest problem is the European managers' predetermined ideas about China. When you come here, you need to understand where you are coming from, and lots of firms often think that they are going to success here with a little amount of money, but China is NOT cheap, because knowledge and valuable information's are not easily accessible, which is why you will have to invest money to get it.