Entering the Chinese Market: Implications for foreign micro E-businesses

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Abstract

Purpose: The purpose of this thesis is to show how the firm-specific resources interact with the institutional context of an emerging country in the case of E-business micro firms. This is done by identifying the factors and investigating the outcomes of those factors which give these firms economic performance from the perspective of the entry, as well as growth. This study aims at extending the knowledge on the entry and strategies of E-business micro firms entering into China. The goal of the study is to answer the research question, “How can firm-specific resources, paired with country-specific institutional context influence the successful entering into China for micro e-businesses?”, and to provide entrepreneurs which desire to internationalize on the Chinese market with a frame of reference and good practices in E-business.

Frame of references: Literature on SMEs and their associated entry modes, institutional context, firm resources and performance was used to develop a theoretical basis for the paper. The research gap was found in the corroboration of these terms in the context of the emerging Chinese E-business market.

Method: This study has adopted an inductive approach and was exploratory in nature. Qualitative case studies were employed to collect and analyze data with regards to micro E-businesses currently active on the Chinese market. The firms found are all foreign to China but active on Chinese soil.
To collect primary data, we have used semi-structured interviews. For secondary data, we have used financial data, websites, and firms’ power point presentations. Following, the data was categorized, coded and analyzed according to professional research methods. Because the study is inductive, the literature was linked and discussed in relation to the findings.

**Findings:** The findings are numerous, stemming from both the analysis of the data, as well as from the coupling of the initial firm-resource findings with the institutional context findings. The discussion and conclusion hold all the findings. Due to their amount, they cannot be presented here in their entirety. However, the two major findings and criteria to be considered in the case of our research questions are:

*Proposition 1:* For micro B2C E-businesses, the tangible resource is less important than the intangible resource. The capability of applying the Chinese market knowledge and experience to the institutional context, and bringing the results into the entry strategy is more important than the tangible resources.

*Proposition 2:* In a matured E-business institutional context, a partnership entry mode which requires lower investment is preferable for foreign micro E-businesses and can lead to a higher possibility for success.
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Table of Contents

1. Introduction ........................................................................................................................................ 1  
   1.1 Background .................................................................................................................................. 1  
   1.2 Problem ....................................................................................................................................... 2  
   1.3 Purpose ......................................................................................................................................... 4  
2. Literature review ................................................................................................................................. 6  
   2.1 Organization of research .............................................................................................................. 6  
   2.2 Theoretical background ............................................................................................................. 7  
      2.2.1 SMEs Entry Mode theory ...................................................................................................... 7  
     2.2.2 Institutional context and entry modes ...................................................................................... 11  
      2.2.3 Interaction between firm resource, country specific institution, and entry modes .............. 15  
      2.2.4 Entry mode and firm performance ....................................................................................... 17  
   2.3. Conclusion .................................................................................................................................. 18  
3. Methodology and method .................................................................................................................... 20  
   3.1 The research approach .................................................................................................................. 20  
   3.2 Design of the research study ......................................................................................................... 22  
   3.3 The data collection ....................................................................................................................... 23  
      3.3.1 Participants .............................................................................................................................. 25  
      3.3.2 The interview method ............................................................................................................. 28  
   3.4 Data analysis .................................................................................................................................. 28  
   3.5 Quality and ethical considerations ............................................................................................... 29  
4. Empirical data analysis ......................................................................................................................... 31  
   4.1. Financial and non-financial performance..................................................................................... 31  
   4.2. The entry strategy and entry modes ............................................................................................ 34  
   4.3 Firm resource .............................................................................................................................. 34  
      4.3.1 The impact of knowledge and experience on business creation .......................................... 35  
      4.3.2 The impact of low or no equity on business creation ............................................................ 37  
   4.4 Institutional factors ....................................................................................................................... 39  
   4.5 Business strategy ....................................................................................................................... 47  
5. Discussion and findings ......................................................................................................................... 54  
   5.1 Links to the literature review ......................................................................................................... 54  
   5.2 Coupling interaction ..................................................................................................................... 59  
6. Conclusions ......................................................................................................................................... 65  
References ............................................................................................................................................... 70  
Appendix ................................................................................................................................................ 79  

IV
Tables

Table 1: Interview structure ........................................................................................................25
Table 2: Case overview ................................................................................................................27
Table 3: 4 case companies' performance ......................................................................................32
Table 4: Financial data, profitability, Company A .................................................................33
Table 5: Financial data, growth, Company A .............................................................................33
Table 6: Case company entry mode description ........................................................................48
Table 7: Used resources .............................................................................................................50
Table 8: Coupling interaction .....................................................................................................60

Appendix

Appendix A: The article basis ..................................................................................................79
Appendix B: Interview questions ..............................................................................................80
Appendix C: The coding scheme ..............................................................................................82
1. Introduction

1.1 Background

Globalization and internationalization are phenomena that, similar to time, cannot be stopped. In the face of such formidable forces, resistance to change spells failure. In the world of business, transformation means competitive advantage, both for large companies, but especially for small and medium ones, which face competition from all directions. Therefore, a good attitude that entrepreneurs can employ, in order for their businesses to stay relevant in an ever-changing world, is adaptation. And in the process of adaptation, knowledge constitutes a very valuable competitive advantage, especially when the subject is SMEs as opposed to large multinational companies (Dung & Rothlauf, 2008). The reason for this is the sheer number of this type of companies, on a global level, and the generalized level of experience that they have, compared to older, larger companies. Increasingly more SMEs are looking to expand geographically, obtaining a share of foreign markets (Zaharieva, 2016). While some companies see opportunity in near-geographical expansion, others consider expanding into far-out countries, or even onto different continents. China, with its high population number and vast market is one of the countries that firms from the EU have, now more than ever, considered expanding into (Ahi, Baronchelli, Kuivalainen & Piantoni, 2017).

According to OECD (2017), SMEs accounts for 99% of all firms in its economic area. World Trade Organization (2016) indicated that micro firms also constitute to SMEs in global economies. An average of 83% out of the 12 million global SMEs is made out of micro firms and among these micro firms, 85% of them are engaged in industry of service, wholesales and retailing. As such, micro firms represent the bulk of the global SMEs. As recorded by the same OECD (2017) Small and medium-sized enterprises (SMEs) refers to firms without subsidiaries and whose number of employees are less than 250 in European Union. However, the number of the employees varies across the countries. SMEs also present subgroups, such as small firms with fewer than 50 staff members, and micro firms with up to 10, or in some case made out of 5 employees. Micro-firms are a dominant and dynamic cluster in each economy, ventured by a large population of entrepreneurs, featuring a higher rate of growing and exiting the market, but drawing little attention in the current literature (Hänninen et al, 2017). Although
today’s OECD countries do not include China, they have intensive economic activities with China.

Internationalization is an intricate process in itself, much more so when it is put in the context of an emerging country (Niñerola et al, 2017). As such the companies that wish to enter the Chinese market “have to face a critical decision to start: the choice of the entry form” (Root, 1994). Until 1991, China has seen very little foreign investment activity (Lin, 2010), however, more recently since 2009, China has become the largest receiver of FDI, according to the World Bank. Moreover, Banchieri et al., (2012) calls it “the market of the world”. And for good reason; Child and David (2001) argue that China has transformed its economy system from centralized to market-oriented in the period of two decades, and as such it is one of the fastest growing economies on the globe. Moreover, in 2013 China surpassed the U.S. becoming the largest E-business market on the globe, and in 2016, 40 percent of all global E-business was represented by Chinese E-business, according to BBVA Bank (2017). Business Sweden reports, in 2017: “Online shopping has simply become the norm in China for many consumers and product categories”.

The emergence of E-business in China is put on the account of its 1.4 billion population, according to World Bank, (as cited in Business Sweden Report, 2017, p.14), and the fast growth of both salaries and purchasing power of the middle-class. According to The Economist (as cited in Business Sweden Report, 2017, p.14), the middle-class in China has grown from 5 million households (2000) to 225 million households (2016). This, coupled with the fact that China has more than 700 million internet users, with 90% of the smartphone users in the country having mobile data subscriptions, more than the U.S., Japan and India combined (Business Sweden Report, 2017) makes China a very rich environment for the emergence of E-business.

“In other countries, electronic commerce is a way to shop. In China, it is a lifestyle.”

- Jack Ma, Founder and Chairman of Alibaba Group

1.2 Problem

Although the subject of foreign E-business micro firms’ entrance onto the Chinese market (i.e. through different platforms) today is a “hot topic”, the academic literature on this matter, especially the western one, does not reflect the popularity of the phenomenon. Today, China is
not only one of the largest and fastest growing markets (Johnson & Tellis, 2008) but also continues to be world’s largest E-business market, according to the Global E-business Report of 2017. Such a fast growing market has caught international large and small sized companies’ attention, and their desire to gain a piece of market share (Sandberg, 2013). Unlike large companies, micro firms are faced with fiercer internal and external challenges due to restricted resource, experience and knowledge (Eriksson et al., 1997) to foreign market. Such difficulties are amplified for SMEs, especially when entering into an institution-specific emerging market, China (Niñerola et al, 2017). Since micro firms are included in the category of SMEs, they are affected as well.

Ranging from Geert Hofstede’s cultural dimensions and international experience, to the immigrant effect applied to companies (Chung & Tung, 2013) and political incentives, the different entry modes into China for foreign businesses have been analyzed and argued by quite a few authors, each coming up with interesting findings and gaps. While Sandberg (2013) focuses on Swedish SMEs that have already successfully entered emerging markets in several countries including China, Teng (2017) argues on the subject of multinationals’ subsidiaries in China and the factors of their success. Hallikainen (2018) analyzes the Chinese consumer propensity towards E-business products through Hofstede’s cultural dimensions view, while Dung Le and Rothlauf (2008) invest their time in researching entry modes for E-companies, be them large, medium or small. However, the subject of E-business micro firms’ entry modes into China is seldom touched upon.

As a result, we chose to investigate this matter, by looking at the internal and external resources and obstacles that these firms face when entering an emerging market, and how does that affect their entry strategy decision-making. Therefore, how can E-business micro firms that do not have the scope, experience and size of large multinationals, acquire competitive advantage in an E-business environment, on an emerging market by leveraging their specific resources? Especially when the information on the matter has not been explored and researched enough? This is an issue that we feel we can address.
1.3 Purpose

We felt that contributing with knowledge to the existing literature by addressing the found gap is the purpose of our dissertation. As such, we have created a framework for the initial part, the literature review.

Following this theoretical framework, we create a basis for the subject of entry modes, which are discussed by the authors and reviewed by us. In addition, we have systematically narrowed down the subject, by using filters to reach our research question. The way in which we have done this was by focusing on a key subject, and then by adding specificity to that subject, progressively going in depth. As such, we have started with the very broad topic of China’s market, continued with entry modes into China, followed by entry modes into China for SMEs, and finally, achieved a very narrow section of research by focusing on E-business SMEs’ entry modes into China. The literature on micro firms in this context is represented by the one on SMEs since they are included in this category. Later, by reviewing the literature, we have found a very interesting subject in combining the specificity of the firm we are investigating, in other words, their specific resource with the specificity of the environment in which it acts, in other words, the institution. As such, we have used our initial narrow section of research in conjecture with two variables, intrinsic and extrinsic to the companies, achieving a gap.

Hence, we came up with the following research question:

RQ: How can firm-specific resource paired with country-specific institutional context influence the successful entering into China for micro e-businesses?

There is no universal agreed definition of success. However, in the business area, the success is often related with firm’s performance (Chittithaworn et al., 2011). Performance reflects a firm’s success in the market segment from at least two aspects: financial, and non-financial (Foley & Green, 1989). We investigate this because our scope includes not only the mere entry mode onto the market that we are discussing, but also the performance of the firm and its ability to be economically viable after the immediate entry.

We intend to answer the research question in two steps. The first step is to show how, under the same institutional context (China), in which foreign e-business entities face formal (political risk) and informal (cultural distance) obstacles, how firm-specific resource in terms of tangible
and intangible resources could influence the entry choice. The second step is represented by an analysis of the companies’ financial and non-financial performance after entry into China, in order to provide validity to the success of a chosen entry mode.

In our study, we adopt Agarwal & Wu (2015) reference of e-business companies which initially and primarily engaged in E-business activities, and those which create value via both online and offline mechanisms. These companies are both domestic and foreign companies which are currently operating in an emerging market.

With consideration to all of the above mentioned information, it is our strong belief that the entry modes and strategies, and their effect on e-business micro firms’ presence onto the Chinese market is of great importance for economists, businessmen and management practitioners alike, as well as for the further research on this topic.

Thus, the purpose of the paper is to investigate how micro e-business firms apply their firm specific resource in the institution specific host market context (China), and decide which entry mode and strategy to use, to achieve successful performance. Such performance will be measured both financially and non-financially (Brouthers, 2013). The significance of the study is in providing a better understanding of the applicability of unique firm resources on the same institutional conditions and to reflect on the different entry mode choices for different business sectors. This research also provides us with the opportunity to investigate the interaction of resource, institution and entry mode choice on micro B2C E-businesses, which is a different approach than the ones used by the authors of our benchmarking papers. For example, Brouthers et al (2008) focuses on how firm resource applies on different institutional conditions; while the differences of the other papers are represented by the object focus; Lindsay focuses on traditional B2B SMEs, and Ekeledo & Sivakumar (2004) focuses on E-business service companies.

The thesis starts with the literature review (chapter 2), followed by the methodology and research methods of the thesis (chapter 3). In chapter 4 the collected data will be presented and analyzed. The findings will be discussed in chapter 5, making connections to the existing knowledge. Finally, chapter 6 will reveal the conclusion of this work, while also will present the limitations of this study and the further recommendations for research.
2. Literature review

2.1 Organization of research

The literature review is based upon 40 articles which have been peer-reviewed. All of the journals in which these articles are present have been tested against an impact factor over 1, successfully passing this preliminary examination.

In order for us to look up the articles, we have used a database named Scopus, in conjunction with the Web of Science. When looking for articles within the Web of Science, we have applied all the core collections within the “more settings” option, in conjunction with the time span ranging from 2010 to 2018. We have tested different combinations of the keywords, with the aim of obtaining the best possible outcome regarding the field that we are investigating.

Firstly, we have used the keywords “entry mode*” AND “sme*” AND “E-business*” (and using the variant e-comm*) AND „Chin*” within the topic area. This search has yielded no results. Hence, we broadened our topic by combining the keywords 3 by 3 with the same filter, obtaining 56 results. After reading the titles and abstracts of all the results, we realized that almost all of them are unsuitable for our purpose by touching upon other subjects. We proceeded in combining the keywords two by two, searching within the “business” and “management” categories for only academic articles, obtaining 221 results. By reading the titles, and where needed, the abstracts of this preliminary list, we obtained 64 articles that seemed to pertain to our research. Using the above-mentioned impact factor over 1 criterion and systematically reading through the articles resulted in the 34 base articles that we have used for our literature review. To that, we have added 3 referenced articles, that have been cited numerous times according to the database, and that proved to be very interesting. Three exceptions under the year criterion have been made and one exception represented by a working paper impact factor criterion has been made, all on account of the relevance found towards our subject, after reading the articles. After the initial literature review, three more articles were added as a benchmark for our paper. From these articles, one does not follow the initial constraint of timespan, since it is from 2004. Nonetheless, this article is invaluable for our benchmark.

All the analyzed articles from our paper are listed under “Appendix” in the Table 1.
2.2 Theoretical background

In order for us to be able to properly go in depth and analyze the existing literature on this subject, we have structured the review on four themes, underlining the research question. These themes are: entry mode theory, the institutional context and entry modes, interaction between firm resource, country specific institution and entry mode, entry modes and firm performance. These four themes encompass all the chosen articles.

2.2.1 SMEs Entry Mode theory

Throughout this literature review we will refer to SMEs instead of micro firms. Since micro firms are also SMEs, the literature on this type of firms is common for the two. As such, we will use the more encompassing term of SME, as it is used in the existing body of literature, for correctitude purposes, while fully understanding that there are the same implications for micro firms.

2.2.1 a) The entry theories and entry modes

When faced with the opportunity of entering foreign markets, firms have several options of approaching this process, falling under the category of ownership-oriented modes or non-ownership oriented modes. They can either employ contracts, with licensees, franchisees, distributors or resource suppliers, or they can create subsidiaries abroad. These extensions of the original firm can either be owned entirely by the firm, or the firm can partner up with other companies, creating a joint venture and sharing the ownership of the new subsidiary abroad (Brouthers & Hennart, 2007). The authors that have dwelled in the matter of modes of market entry have yet to agree on a common framework on how can the several entry modes be catalogued (Brouthers & Hennart, 2007). The number of mode structures varies from author to author. Brouthers and Hennart (2007) conclude that “developing better and more realistic models of mode choice will help scholars gain a better understanding of how firms can internationally grow and maintain performance.” The majority of the entry modes literature and reviews focuses on 4 theories on entry mode selection, widely regarded as the most commonly employed (Brouthers & Hennart, 2007), which have brought significant knowledge in the field (Morschett, Schramm-Klein & Swoboda, 2010). These four theories refer are: the transaction cost analysis
Each entry theory core differs from one to another. The transaction cost analysis represents a way to examine the effectiveness of transactions for a company by comparing the prices of buying and selling (Williamson, 1985). The institutional theory posits that the formal structures within an organization are more strongly influenced by the institutional context in which the firm is placed rather than by the market it is in. North (1990) argues that institutions have formal dimensions such as national laws and government regulations, and informal dimensions such as norms, endemic conventions and personal principles at both country and firm/individual levels. The newer institution theory (Scott, 1995) suggested that a country’s institutional dimensions manifest at three levels: regulatory, cognitive and normative. The three dimensions reflect the legitimacy conformity via legal system, cultural cognition, and normal constraints (Laufs & Schwens, 2014). As such, this theory focuses on studying how the institutional environment affects the companies’ entry modes (North, 1990; Scott, 1995). Eclectic is a word synonymous with heterogeneous. By naming it eclectic, Dunning referred to the fact that his theory is composed of more than one concept. This theory looks at entry modes from the perspective of ownership, location and internalization as advantages that a firm may, or may not have, and analyzes the entry choice according to these advantages (Dunning, 1993). Lastly, the resource-based view sees competitive advantage as something that should be obtained through firm resources (Barney, 1991). These resources are instrumental in achieving higher firm performance, according to this theory.

While the four most prominent entry mode theories provide criteria for important strategic decisions of top executives towards which entry mode should they choose, it would seem that in the case of China, executives act more on behalf of opportunity, (of accessing resources or to enter emerging markets) giving less importance to the risk associated with entering new markets (Reuer, 2012). This is an important point for our study, because it constitutes a mistake which firms can produce in their pursuit to achieve a market share on the Chinese market.

Further on, we will continue having an in-depth look at the resource-based view and entry mode, with focus on SMEs, identifying the particularities of this theory and underlining its necessity in answering our research question: How can firm-specific resource paired with country-specific institutional context influence the successful entering into China for micro e-businesses?
2.2.1. b) Resource based view theory and entry mode

The resource-based view looks towards a firm’s strategy creation as being a result of ascertaining the firm’s assets and competencies; in short, its resources (Jolly, 2000). Moreover, this theory views a company’s resources and the way in which they relate to each other as being unique, resulting in competitive advantage (Barney 1991; Capron and Hulland 1999; Fahy 1996; Peteraf 1993; Teece, Pisano, and Shuen 1997). A firm’s performance on a certain market is a direct result of the firm’s resources, acting in an environment, on which opportunities are present, as well as threats or obstacles, this being divergent from the traditional industrial organization rule. The traditional industrial organization opposes this view, arguing that a firm’s performance is the result of the industry structure (Ekeledo & Sivakumar, 2004). Moreover, in the resource based view, the firms competitive advantage safety primes, while the best return on their resources, which are imperfectly mobile and heterogeneous from one firm to another, is a strategy that follows (Hunt and Morgan 1995). Hence, RBV has an inside-out approach at strategy formulation and protects the competitive advantage of a firm (Jolly, 2000).

This theory on entry mode does not only focus on explaining the strategies of entry on a market, but also responds to the question of why they adopt a strategy over another, in relation to their resources. It is also regarded as being the one theory that can produce a full explanation of entry strategies for the international context (Ekeledo & Sivakumar, 2004; Erramilli, Agarwal, and Dev, 2002). By leveraging resources as the internal factor, and the institution as the external factor, an E-business entry strategy could be explained (Ekeledo & Sivakumar, 2004). Knowing this, and considering that the SMEs that we are targeting are quite different from the traditional ones, we strongly feel that RBV is the proper point of view to adopt, looking at our research question.

“Despite the importance of resources in SME entry mode choice, a recent literature review reveals a dearth of studies applying a resource-based perspective” (Laufs & Schwens, 2014). Considering that SMEs are traditionally size-challenged businesses, it would seem very important to have studies that investigate the resource-based view (Aldrich & Auster, 1986; Maekelburger et al., 2012). The decision on an entry mode is associated with a precise level of investment risk, resource commitment, and firm control (Calvet 1984; Caves 1982). We will be focusing on the resources that firms employ, since the RBV is our focus. Firm resource is thought to be an internal resource, splitting into tangible and intangible resources. Currency in
hard money, real estate, equipment and machinery, all of them are examples of tangible resources. On the other hand, intangible resources are the ones that do not have a physical form, represented by the patents that a firm owns, its brand, its reputation, its copyrights and so on (Barney, 1991). The unique combination of such resources, both tangible and intangible, gives a firm its incentives and means to choose the way in which it will enter a new market, the RBV posits.

The emergence of e-business firms raises the question of how existing cross-broader entry modes could apply on their internationalization and whether a certain entry pattern could be generalized (Dung & Rothlauf, 2008), as previously stated. Moreover, the works of Dung and Rothlauf (2008), based on the 4 most relevant internationalization theories mentioned before, have led to a case study on 4 large size e-business companies, Amazon, Google, Monster, Expedia. The study revealed that the resource based view (RBV) holds the most powerful explanation for e-business foreign entry mode among stall of the theories. The core of the RBV lies in the possession of the distinctive resource and firm’s capability to make proper use of the resource, and achieve competitive advantage (Luo, 2002). When firms expand oversea, they transfer the firm specific competitive advantage abroad with a mixture method, exploitation of existing resource, and exploration of new resource (Dung & Rothlauf, 2008). Three reasons supported Dung & Rothlauf (2008) argument of RBV as relevant powerful explanation theory. Firstly, the 4 case companies show the importance of the resource during the internationalization process. Secondly, RBV is a general framework which does not predict explicitly about the entry selection. Thirdly, it does not limit the type of resource and application of various entry modes, even though it does not clearly explain the pattern of resource type and entry mode choice. The authors strongly recommend further research regarding RBV theory on what types and features of resource decide the entry mode. Such resources, according to the authors, could be local market knowledge and rapid market recognition. Singh & Kundu (2002) argued that RBV can be adopted partially to explain the development of e-business companies. The competitive advantages of e-business companies not only reside in the inimitable and non-substitutable resource, but also obtained through the internet network resources (Gulati, 1999). Thus, RBV is the one theory that we will be focusing in our paper.

The resource based view emphasizes on firms’ resource and capabilities as competitive advantages to determine firm strategy, rather than on market and industrial features. Zaharieva
(2016) argued that firm’s performance is a result of the reciprocal interdependence between firm’s resource capability and surrounding environment. This argument was strongly supported by Conner (1999), a firm’s successful performance not only resides in the positive influence of external (institutional) environment on the basis of firm resource and capability, but also depends on the firm’s ability to reflect on its environment. This leads to a closer study in our literature review to the institutional context of the e-business micro-firms ‘entry into China.

2.2.2 Institutional context and entry modes

China represents an emerging market (Johnson and Tellis, 2008). An emerging market is a market in which the economic development stage is transformed from a pre-market stage to a more matured, western economic extent; and this is achieved through structural economic reform policy (Jansson, 2007). Since the end of 1970s, China has successfully adopted economic reform which is a shift from a central-planned to a market-driven economy, and this led to national economic growth (Child &David, 2001; Lin, F. J, 2010; Fung et al, 2004). Today, China is not only one of the largest and fastest growing markets (Johnson &Tellis, 2008) but also continues to be the world’s largest E-business market, according to the Global E-business Report (2017). As previously mentioned, China’s swift growing market has attracted international attention and desire of foreign firms to gain a piece of market share (Sandberg, S., 2013). The SMEs which look to internationalize onto such markets face bigger challenges than large sized firms due to lower resources, experience and knowledge (Eriksson et al., 1997).

Researchers (Zhao et al., 2004) in the internationalization literature agreed that critical strategic entry decision (Root, 1994) must be carefully analyzed (Agarwal & Ramaswami, 1992) to overcome internal and external barriers and reduce the oversea expansion risk. Anderson and Gatignon (1988), Brouthers and Hennart (2007), Ji and Dimitratos (2013) all claim that the entry decision should cover a wide range of evaluation, from uncertainty, risk and control to resource commitment and firm-related strategic objectives. Among these, Trabold (2002) has especially addressed the impact of external environmental uncertainty on the SMEs’ foreign market entry choice. Environmental uncertainty (Lorenzi, 1980) is regarded to be such an incident which cannot be predicted beforehand. It is governed by unanticipated changes of pace, and the volatile nature of these changes hugely affects the numerous elements of the dependent relationship between the entry mode and the market. China is regarded as a challenging emerging market for
foreign companies to enter due to a variety of culture, government regulation and policy changes (Niu et al., 2012; Walters and Samiee, 2003; Yaprak, 2012; Gassmann & Han, 2004).

López-Duarte & Vidal-Suárez (2010) conducted an in-depth study analyzing how external uncertainty (culture distance and political risk) affects firms’ oversea entry mode choice between joint venture and wholly owned subsidiaries (WOS). Notably, López-Duarte & Vidal-Suárez (2010) measured the language diversity between home country and host country as a third variable, moderating the linkage. In addition, many authors have examined the influence of environmental uncertainty on entry mode selection in the context of China (Niñerola et al, 2017; Blackburne & Buckley, 2017; Morschett & Swoboda, 2010; Niu& Chen, 2012). The transaction cost theory (TCT) (Williamson, 1985) and resourced based view RBV (Barney, 1991) are commonly adopted to assess the relationship between the uncertainty and entry decision making. The research conducted by Niñerola et al, (2017) regarding Spanish companies’ entry mode choice to China, approved that the firms are facing challenges related to informal institution referring to culture distance (culture, language, trust and human resource), and formal institution which refers to political risk (legal issues, bureaucracy), as we will discuss these two dimensions in the next subchapters.

2.2.2.a) Informal Institution: Culture Distance

National culture is perceived as the shared collective mindset programming by a group of people (Hofstede, 1980). In other words, different group of people share different sets of beliefs and behavior. The distance between two countries reflects the culture distance in perception of certain value, norms and behaviors (Shenkar, 2001). Such culture distance exposes a firm’s liability towards foreignness, newness (Lee et al, 2012) when entering into a new market on the firms’ perspective. On the consumers’ level, Hallikainen & Laukkanen (2018)’s quantitative study regarding national culture effect on consumers trust in E-business in China and Finland, found that national culture contributes towards 23% of the disposition of their trust on online purchasing.

Research done on the culture distance influence on entry mode selection between joint venture and wholly owned subsidiaries has not reached a conclusion, with Laufs & Schwens’ (2014) systematic review on foreign market entry mode choice revealing that SMEs are prone to lower resource commitment when the culture distance is higher, to avoid the resource loss in case of
failure. The joint venture entry mode will face challenges from the cross-language communication and cooperation (Chiao et al., 2010), and this will increase the monitoring cost of the local partners (Pan, 1996). However, on the other hand, Gatignon and Anderson (1988) argue that a local partner helps the foreign investor to overcome the culture gap as a bridge between home and host country. Thus, a joint venture as entry mode provides a shortcut to the local market, in comparison to wholly owned subsidiaries.

China is characterized as a high-context culture (Hofstede, 1994). As such, the package of culture and communication interpret valuable information, and small details can result in facilitating the negotiation or creating confusion (Niñerola et al, 2017). Social network, also known as ‘Guanxi’ in Chinese, is a typical Chinese ethic (Senik, et al., 2011), and various authors believe that it is a key factor towards successful business (Gao et al., 2016; Lin, 2010, Blackburne & Buckley, 2017). Guanxi refers to a group of people connected with “reciprocal bonds” or “particularistic interpersonal ties” (Chen & Chen, 2004; Gao et. al, 2016). Such a “Guanxi” network sets up an invisible wall, distinguishing the members who are on the inside from those who are on the outside of the network. Being an “insider” of such a business network enables firms to access private, social and political resources which are not available for outsiders (Davies et al., 1995). However, Gao et al (2014) argues that foreign firms, even with many years of business operation experience in China, are still associated with the liability of ‘outsidership’ (Johanson & Vahlne, 2009). Therefore, it is crucial for SMEs to “break the ice” and transform into an insider of the Chinese local business network.

To overcome the liability of outsidership, Jansson & Sandberg (2008) introduced the novel concept of “entry node”. It represents a concept based on a network theory on firm internationalization. Through the internationalization process, a firm will experience a path of establishing, cultivating and maintaining the business relationship towards the target foreign market (Johanson & Mattsson, 1998). Firms accumulate, gain knowledge and discover business opportunity of the local market via the relationship interaction activities (Chetty & Agndal, 2007). The relationship building between home market and host market is linked directly as a “dyad” or indirectly as “triad”, which involves a third party intermediary (Anderson et al, 1994). The role of the third intermediary, referred to as the “network gatekeeper”, is addressed by Gao et al (2016) as the SME exporter’s entry in China, from the structural hole theory and network perspective. They discovered that the commercial gatekeepers facilitate the SMEs exporters
filling the trust gap between insider and outsider network, and decrease the transaction cost in local market learning. In other words, the network gatekeepers are the suppliers who offer internationalization network building service in connection to the foreign market network (Sandberg, 2012). Gao et al (2016) suggested further research directions for SMEs which aim to enter the Chinese market using Alibaba Group’s Tmall Global platform as an E-intermediary or “network gatekeeper” to bridge the network between small foreign brands and the Chinese consumers. Foreign SMEs gain benefit from the low cost of entry via such an e-intermediary to foreign market (Cho & Tansuhaj, 2013)

2.2.2.b) Formal Institution: Political risk

While cultural distance is presented as the informal dimension, political risk is perceived as formal dimension of the institutional theory (North, 1990).

The country risk refers to a country’s unstable political, economic and social aspects; and the political risk is the unpredictable and unfavorable change of the regulation and policies within the country (Henisz, 2000). The institutional theory (North, 1990; Scott, 1995) suggested that the given market’s institutional environment affects firms’ entry mode choice, as the potential business activities must be conducted under the regulated rules in the target market (Brouthers & Hennart, 2007). The study regarding the examination of political risk influence on the entry mode selection by Zhao et al (2004) seems consistent from the transaction cost perspective, and they concluded that joint venture is preferred by the firms over wholly owned subsidiaries. This is because the higher the political risk, the less willing the foreign investor is to commit the resource in the host country (López-Duarte & Vidal-Suárez, 2010) to minimize the cost (Niñerola et al, 2017) and avoid the ownership in a volatile country (Hill et al., 1990).

Although Zhao et al’s (2004) meta-analysis seems quite conclusive, SMEs tend to choose different entry mode in comparison with multinational enterprises (MNEs), in the context of high political risks. High equity investment i.e., acquisitions or wholly owned subsidiaries could increase the SMEs’ capability of coping with the high complexity of institutional situation in the host country (Laufs & Schwens, 2014). The high political risk associated with high asset specificity may lead firms to choose wholly owned subsidiaries over joint ventures, which come with a high cost of monitoring. Niñerola et al, (2017) argues from the transaction cost perspective that, in an uncertain environment, it is recommended for firms to make more flexible
investments and to involve fewer resources. Firms with intensive R&D are associated with high asset specificity. Wholly owned subsidiaries as an entry mode provided a higher degree of protection (Bontempi & Prodi, 2009; Demirbag et al., 2010). Pagnattaro (2012) especially addressed the context of China in which the government regulation against the unfair competition and intellect property right is inadequate and inefficient. She assessed that the choice to opt with a local partner should be carefully judged for the high assets specificity firms. Although the Chinese government devotes to establishment and continuously updated relevant policies and regulations to facilitate the domestic and cross-border E-business throughout years, challenges still appear in the different supervision standards and inconsistency between traditional and cross-border E-business (Yue, 2017).

2.2.3 Interaction between firm resource, country specific institution, and entry modes

2.2.3.a) Micro B2C E-business firms as focused group

Entrepreneurs choose E-business as a business model for startup because of its associated easy entry and exit, involving low resource investment (Agarwal & Wu, 2015). However, from another perspective, facing fierce home and global competition, SMEs need to actively seek new strategy and tools to overcome the limited internal resource and stay competitive, in comparison with a large firm. E-business, facilitated by internet, is one such tool (Raymond et al., 2005). By adopting e-business operations, Abebe (2014) argued SMEs gained benefits of increasing their visibility globally, achieving more efficient customer service, responding more quickly to customers’ dynamic needs. The e-business adoption has significant and positive impact on SMEs’ performance and firms which adopt it achieve higher average sales growth than those which do not (Abebe, 2014).

Is there a possibility to generalize a pattern of entry modes when talking about E-business firms’ entry onto an emerging market? (Dung & Rothlauf, 2008) Cho and Tansuhaj (2013) are two of the few authors who have investigated entry modes related to e-business focusing on Korean SMEs. Their study looks to explain, from a transaction cost perspective, the use of e-intermediary or online platform to facilitate the Korean SMEs’ export entry mode. The digital revolution has caused great impact on the traditional business, and has led to the change of strategic implication on foreign entry. Although entry studies on E-business service firms (Ekeledo & Sivakumar, 2004) have been conducted, little research has been examined on micro
E-business firm’s foreign entry (Dung & Rothlauf, 2008; Cho & Tansuhaj, 2013; Agarwal & Wu, 2015; Lindsay et al, 2017). In addition, Lindsay et al (2017) selected B2B firms as the context to examine the interaction of firm resource and host country institution influence on firms’ entry mode choice. Their research provides benchmarking on a further investigation on B2C firms.

2.2.3.b) Resource, Institution, and Entry Mode

Resource-based theory and institution theory are two of the most dominant international business theories to examine the firms’ foreign market entry mode study. A considerable number of scholars conducted a combination of resource and institution influence on firms’ foreign entry mode in an emerging market (Ekeledo & Sivakumar, 2004; Meyer et al., 2009; Agarwal & Wu, 2015; Lindsay et al., 2017). However, they have done so with slightly different focus. For example, Meyer et al., (2009) has compared different entry modes on the basis of how firm integrate resource-based strategy within different contexts of institutions to overcome the market inefficiencies in different emerging markets, such as India, Vietnam, South Africa, and Egypt. Results showed that under weaker institutional condition, joint venture is preferred, with regards for resources, while under stronger institutional condition, acquisition functions better to attain resources. Ekeledo & Sivakumar (2004) used the resource-based view as the conceptual premise as they examined how firms’ internal factors (firms’ unique resources), and external factors (institutional consideration, such as cultural difference, language, and governmental regulation) and level of digitalization, impacts the E-business service firms’ entry mode choice into India. The findings showed that the business digitization redefined the traditional entry-mode selection, and shed the light on today’s E-business reality. Similarly, in the context of E-business firms, whose heterogeneity is derived from both internal entrepreneurial ability and external virtual network alliance, Agarwal & Wu (2015) proposed a conceptual framework which partially covered firm-specific resources and strategy adaption to external institutional circumstances in an emerging market, to achieve e-business growth and oversea expansion. Three levels of institutional factors, namely global, national and transaction level were identified. Trabold (2002) pointed out that external environmental uncertainty caused by the distance in the host country has an impact on the firms’ entry strategy. Therefore, further consideration regarding country-specific factors should also be included in the mode to evaluate the e-business growth and expansion. Differing from the above authors, Lindsay et al (2017) brought in both home and
host country under the umbrella of institutional context. The focus was on how the mixture of firms’ resources (both internally and externally sourced) and institutional context (home and host) influences the New Zealand B2B SMEs entry mode choice in the emerging country of India. The different configuration of resource and institution brought out different entry choices, e.g., direct exporting, agents, representative office, and joint venture.

The host country’s institutional context, both informal (e.g., cultural distance) and formal (e.g., political risk) conditions the “rules of the game” (Brouthers & Hennart, 2007) of SMEs foreign entry strategy, and stresses firm resources (Schwens et al, 2011). SMEs foreign entry choice largely relies on the firm specific resource, which mostly determines the extent of investment commitment in host country. On the other side, SMEs are also sensitive to the target country’s institutional situation such as regulation, policy, and culture difference, due to their lack of knowledge and experience or limited intangible resource (Laufs & Schwens, 2014).

### 2.2.4 Entry mode and firm performance

Firms’ foreign market entry mode choice plays key strategic roles, and demonstrates foreign venture performance implications in the host country (Hollender et al, 2017). Most studies regarding SMEs foreign entry mode choice agreed SMEs commonly prefer non-equity and low resource commitment (Paul et al, 2017), because of limited financial and managerial resource, inadequate target market knowledge and experience, and high level sensitivity to external institutional uncertainty (Hollender et al, 2017). SMEs’ firm capability to achieve successful performance in the host market stems from both the resource based view and the institutional view. Such capability refers to how to use and adapt resource (e.g. physical product) to favor the local market, with proper understanding and reaction to the local norms and legitimacy. In turn, this firm-specific ability which is difficult to copy and posits the firm being unique, maintains firm competitive advantage. In Hollender et al.’s (2017) quantitative study of 133 Germany SMEs study, the authors do not find any direct impact of entry mode on performance, however they find that there exists a joint moderating effect of firm intangible resource (international experience) and firm capability (firm’s strategic behavior based on its resource in relation with the institutional situation).

However, it is widely accepted that the entry mode choice influences firms’ performance (Brouthers, 2013). One of the few studies of examination of mode choice performance from the
resource and institution perspective was done by Brouthers et al. (2008). They argued that the applicability of resource-based advantages is subject to the different institutional context across countries. Their finding, in consistence with the hypothesis, was that the entry decision was predicted by a framework incorporation of resource and institution theory, which led to better subsidiary performance.

Later entry mode performance studies were conducted by Brouthers (2013), although the study of entry mode choice and firm performance was shifted from resource-based to the perspective of the transaction-cost, but still remained under the institutional context. However, performance as a consequence of the entry mode decision provides us with the same rationale; to have a closer look at the “indicator” of the result. As a result, we will focus our study’s data collection on non-financial (or subjective) (Shrader, 2001) components of the firms, as well as financial (or objective) performances, that we will measure. The benefits of investigating both dimensions are, for instance, that in certain cases firms may be reluctant to provide financial data; or that in the early stage, the firm is not financial profitable but has a growing pace.

2.3. Conclusion

By reviewing the literature on E-business SMEs and entry modes onto an emerging market (China), and focusing on the internal (resource) and external (institutional) contexts of such SMEs, we have adopted the resource-based view and institutional theory in our review, leading to our research question and research gap findings.

“How can firm-specific resource paired with country-specific institutional context influence the successful entering into China for micro e-businesses?” stands out as our research question, which we intend to investigate and provide answers to, while also adding to the existing body of literature on this field. In order to do so, we separate the investigation of the research question into two steps. The first step is to show how, under the same institutional context (China), in which foreign e-business entities face formal (political risk) and informal (cultural distance) obstacles, how firm-specific resource in terms of tangible and intangible resources could influence the entry choice. The second step is represented by an analysis of the companies’ financial and non-financial performance after entry into China, in order to provide validity to the success of a chosen entry mode.
The next chapter of our thesis presents the methodology and method which we used in our study, with the aim of answering our research question.
3. Methodology and method

During this chapter, we will present the methodology and method used in this paper. While displaying the methods and reasoning behind them, this chapter also reveals the handling of data collection and analysis.

3.1 The research approach

The aim and scope of this thesis is to provide insights to how does the E-business approach of micro firms which decide to grow and expand into China influence their entry (according to their firm-specific resources and institutional factors).

According to the literature, there are 2 ways of conducting research. The positivism approach employs mechanisms such as measurement and observation in order to obtain trustworthy, objective data based on facts, while disregarding the subjectivity of the human components (be them the stakeholders of the firm, or the researchers) (Easterby-Smith, 2015). On the other hand, the constructionism approach studies thoughts, meanings and motivations that underline actions, and their interpretation. Researchers who use this approach aim to better understand the subjective truth of their object of study, in order for them to provide insights with their findings (Saunders et al., 2009). Since this paper focuses on the intricate nature of entry selection and decision making, we felt that using the constructionism approach would be more suitable, since the human component is crucial in these matters.

Following up the literature review, we have decided to adopt an inductive research approach. The inductive rationale centers on understanding of the meaning that people give to certain events. We chose to approach our research by collecting data, which we later analyze and connect to the theory. Since the research outcomes of an inductive approach are usually specific and not generalizable, issue that is often accused by the researchers which use the inductive approach (Saunders et al., 2009), we aimed that, by using multiple cases we could provide a better framework to be used by the “stakeholders” of this study.

Further on, we had to choose a study type. By reading the literature on this matter, we found out that there are several types. The descriptive study is centered on situations, events and people, and describes and explains them. The exploratory study type focuses on depth in understanding problems. This second study also has flexibility in regards of the research direction, should new
events demand it. The explanatory study targets the relationships of variables and the explanations of such relationships (Saunders et al., 2009). Therefore, since our study needs deeper understanding of the problem and clarification of that problem across several examples, we have found the exploratory study to be the most suitable.

Depending on the type and depth of data that a researcher wants to collect, one can employ a qualitative or quantitative research approach. Moreover, one of these two approaches has to be taken keeping in mind the research philosophy and type. Since our study necessitates a qualitative approach, to reveal insights and knowledge about the researched object (Easterby-Smith et al. 2015), we have decided on focusing on the exclusive information and experiences provided by interviewing the founders and key top managers of the companies selected, on which we will elaborate further. Otherwise, by employing a quantitative approach, we would miss out on the information regarding “why” and “how” (Easterby-Smith et al. 2015), with views to our research subject.

In-depth interviews can be unstructured, semi-structured, or standardized. We have decided on semi-structured interviews, for the reason that it provides flexibility to us, as researchers, to address unpredicted aspects during the interview, while still having a “backbone”, a framework on which to conduct the interviews (Sreejesh, Mohapatra, & Anusree, 2014). By stressing the focus of the study, acquiring in-depth knowledge on the topic of choice, we have conducted qualitative research in the interviews.

True to the research design, four case studies were decided upon, to be conducted, and they will be discussed later in this paper.

The literature review is closely done along the center of the research question, “How can firm-specific resource paired with country-specific institutional context influence the strategic entry into China for micro e-businesses?”. The whole review is organized in the rational sequence of resource based review and entry mode, institutional context and entry mode, firm resource configuration with institutional context and entry mode, and in the end, it is followed by the discussion of entry mode and performance. The organization of the literature review has laid a foundation for how the empirical data was collected, which has helped us towards the analysis and findings. Therefore, our interview question list with the four target companies is constructed with the guidance of the literature review. It is designed under four groups: The first group,
namely, general questions regarding the company, including in which way they established their business in China, for example, with or without partner. The second question list group is related to the firm-specific resources. The questions are mainly designed according to Barney’s (1991) summary of firm resources, in terms of physical capital, human capital and organizational capital. Williamson (1975) referred to physical capital resource as applied physical technology, real estate, facility and raw materials. Such forms of resource can be counted as tangible resource. Human capital resources (Becker, 1964) and organizational capital resources (Tomer, 1987) are more on the intangible resource side. Human capital resource refers to the training of the employees, the staff or managerial or founder’s experience, and their knowledge and insights of constructive input towards the firm. Organizational capital refers to a higher level of resource, focusing mostly on the relationship of the business partners within the organization and the relationship with the external third party, for example the suppliers. The third group consists of questions related with the intuitional context. The questions are comprised of two dimensions, informal culture perspective and formal governmental regulated perspective. The fourth group, are the measurement questions in relationship with the firms’ performance, both financial and non-financial. As discussed in the literature review, firms might be reluctant to provide financial data. Under such consideration, it would be valuable to examine the firms’ performance from a non-financial angle. By looking at firms’ performance after the decision regarding foreign entry, the “strategic” aspect of the entry, which we have defined as financially viable, becomes evident.

3.2 Design of the research study

According to Easterby-Smith (2015), a qualitative case study is a way through which a researcher can investigate a certain object of study or phenomenon in its own context. Traditionally, this method focuses on in-depth looking at either a single or a very small number of organizations, institutions, individuals or events. Yin (2014) argues that, in the case of having research questions that have to do with the “how or why” of certain situations, when the focus of the study is a contemporary phenomenon and/or the researcher(s) do not have control over the behaviors of the decision-makers, case study research should be the preferred method. Case study research allows the gathering of data and insight regarding how people think and why do they think and act in a certain way.

For the purpose of this research, investigating the real-world cases of entrepreneurs which have penetrated through their micro e-businesses the Chinese market was paramount. Their
experiences and unique thoughts required close contact with these participants. In using case studies, different methods of acquiring data become available (Yin, 2014). By using just a handful of cases, while concentrating on them, better understanding and in-depth knowledge surfaces.

With the continuous globalization and the shift that networking through the internet has provided, E-businesses are and continue to be more and more popular (Abebe, 2014), while not sufficiently investigated and theorized from the point of view of small businesses entry into a developing country such as China. In the virtue of this, the need for a deeper understanding of the matter, in order to contribute to the existing body of literature in a helpful and informative way, becomes apparent. Considering the patterns within the cases that we investigate, as well as the unique divergences from the traditional entry strategies and modes that we find, this paper can provide a base for further investigation, and also a form of generalization of the findings, however only valid within the specific context investigated by the paper (micro-firms, entry modes, China, E-business).

### 3.3 The data collection

After conducting the literature review in order to obtain an analysis of the existing body of knowledge, we have used this knowledge to cement our research study. Although we have not pursued any existing framework in our study, we have used previous authors’ findings and assumptions to try to frame our own findings. The primary data collected is in the style of qualitative interviews, and it is unique data collected by us, to be able to address the research question. The interviews were conducted with key people from each company. We have conducted interviews with the entrepreneurs and owners from four micro E-businesses that have penetrated the Chinese market. Although the literature states that it is beneficial to have more than one view from inside one company, due to the nature of our companies (micro-businesses), they are essentially governed by one man who holds all the information about them. The secondary data has been obtained, where possible, in the form of financial data, websites, online stores and company power-point presentations.
Sampling criteria of the firms:

- All the firms have a “foreign” identity, which is interpreted in 2 ways, the firm is legally a “foreign firm”, or the founder of the firm is a foreigner (in relation to China). The underlying reason here was to provide us with flexibility in selecting the sample firms.
- SMEs and/or subgroups (micro firms which are under 10 employees).
- Currently operating the e-business in China.
- For horizontal comparison, only the firms that are online B2C e-retailers are selected.

The way in which we have conducted the interviews:

The interviews were done using the Chinese App called WeChat. Due to the unstable connection of Skype within China, coupled with the popularity of WeChat among Chinese or foreigners in China, we assessed WeChat to be the better tool in some the cases for our task.

Before the interviews, the question list was sent out to the interviewee and the informed consent was made, with us providing complete confidentiality. Prior to the interviews, we have also had done research regarding the firms, learning about the interviewee’s firm background, through channels such as the companies’ web site, online stores, personal in-advance contact or conversations, companies’ power point presentations.

Our aim was to interview the founder for each firm. Through persistence, we were able to do so for all of the cases. We have aimed for extensive interviews, of over 2 hours.

Two of the firms have foreign identity, but are founded originally by Chinese; therefore the interview was conducted in Chinese on WeChat. The other two interviews were conducted in English, since the entrepreneurs are of American and Swedish nationality. The interviews were also recorded with an additional device. The voice records for all of the interviews were reviewed and transcribed into English.

All the transcripts after the interviews were sent back for confirmation. For the Chinese interviews, we kept the original transcription for confirmation, and afterwards translated it into English. We have frequently interacted and communicated with the interviewers via WeChat.
3.3.1 Participants

The participants of these interviews have been divided according to the firms that they pertain to. They have been named with the initial E from Entrepreneur. Since these E-business micro firms are essentially “built” by a single entrepreneur which is also the owner and holds all of the information about his/her firm, we have been limited in the number of inside-firm interviews that we could have.

1. FIRM A – E1
2. FIRM B – E2
3. FIRM C – E3
4. FIRM D – E4

The participants of the interview have been selected from the personal network of the authors, based on the criteria of the research question. This accounts for a purposeful sampling. Although the initial sample was larger, only four of the companies have proven to be timely enough and financially viable to be able to be included in our study. We have managed to set up appointments with the participants to make the interviews. Within the interviews, the participants provided their experiences, initial thoughts and expectations before becoming entrepreneurs as well as insights and perceptions on their current and further businesses. Prior to each interview, the interviewee was briefed on the study, the purpose, risks, and sensitive data protection as well as own anonymity and company anonymity was ensured.

The next table shows the interviews structure:

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Position</th>
<th>Language</th>
<th>Interview duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>E1</td>
<td>Founder</td>
<td>Chinese</td>
</tr>
<tr>
<td>Company B</td>
<td>E2</td>
<td>Founder</td>
<td>English</td>
</tr>
<tr>
<td>Company C</td>
<td>E3</td>
<td>Founder</td>
<td>Chinese</td>
</tr>
<tr>
<td>Company D</td>
<td>E4</td>
<td>Co-founder</td>
<td>English</td>
</tr>
</tbody>
</table>
Following, the four selected companies are going to be described.

**Company A**

Company A is Japanese company, established in Japan in 2016. It is founded by a Chinese native entrepreneur who is living and working in China. Company A is an online e-retailer of Japanese consuming products, such as skin/body care products and diapers. The company imports Japanese brands and products from Japan, stocks the inventory in a duty free warehouse in Shanghai, China and sells through the cross-border E-business platform named “Kua Jing Tong” to Chinese online consumers. The founder owns a Chinese company too, which works as a partner of the Japanese company to provide customer service. It is a one-man company. Therefore, the founder is in charge of product selection and purchasing from Japan, online store management and marketing. Warehouse pick and pack, and logistics delivery is offered by the platform provider which was free in the first one and half year. The founder states his business model is called “cross-border E-business” which is promoted by the Chinese government since 2014.

**Company B**

The business concept of company B is initiated by a Swedish entrepreneur, who had education experience in China since 2013. The business was setup with a 50% - 50% partnership between the entrepreneur and a Swedish company based in Shanghai China in 2015. The company is registered in Hong Kong, which is outside of mainland of China, and considered to be a foreign company under Chinese context. The partnership offers the Swedish entrepreneur free inclusive in-house office resource, e.g., work space, accounting, staff. The Swedish entrepreneur contributes with all the business operation and management. In case of business failure, the Swedish entrepreneur faces limited risk of loss. Company B buys American and European brands supplement from the brands’ dealer in China, keeps the inventory in a “normal warehouse”, and sells online to foreigners in China via WeChat platform. There are 2 staff members (including the entrepreneur) involved in the daily operation, 2 accountants from the partner company for financial purpose, and 2 outsourced staff for handling logistics. The initial language on WeChat store was English, as the target customers are foreigners in China. As the business has grown, the online store also added the Chinese version.
**Company C**

Company C was established in 2014 in Sweden, by a Chinese woman who is married to a Swedish husband. The family is living in Sweden. It is an online kid garment e-retailer. Company C buys European brands, keeps the stock in Sweden, and sells via WeChat into China. The products are delivered by post office (PostNord) once sold. The wife is mainly in charge of the business, in terms of brands and products selection, customer communication, online product management etc. The husband facilitates with the business where Chinese related factors are less of matter.

**Company D**

Company D is an American-registered company which entered the Chinese e-market in 2016. The business concept is to build an “American E-business platform” on WeChat in China on which to sell American manufactured products into China, covering beauty, baby and bath products. With limited knowledge about the Chinese e-market, and with no staff in China, the business operation including customer service and marketing is outsourced to a Swedish service company based in China with a team of 10. Company D manages the products inventory from the USA into a warehouse in HK, and creates the product portfolio for the online store. Company D is also featured as “cross-border E-business”.

*Table 2: Case overview*

<table>
<thead>
<tr>
<th></th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
</tr>
</thead>
<tbody>
<tr>
<td>establishment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country of business</td>
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<tr>
<td>Products</td>
<td>Body/skin</td>
<td>Supplement</td>
<td>Kids garment</td>
<td>Beauty, baby and bath products</td>
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<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Staff</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>10</td>
</tr>
</tbody>
</table>
3.3.2 The interview method

According to Easterby-Smith et al. (2015), face to face interviews are the most dynamic, they provide in-depth understanding of the interviewee and they contribute with non-verbal communication. They are also recommended by the literature. Because of the spatial constraints between us and the interviewees, it was not possible for us to have make traditional face-to-face interviews. As such, we had to use computer-based communication software to complete the interviews. The literature refers to this as “Synchronous mediated interviews”, resembling face-to-face interviews (Easterby-Smith et al., 2015). However, this allowed us to pause and resume the interviews, achieving the possibility of a longer, more in-depth data collection. The interview guide that we used has been attached in the appendix. This guide, as previously stated, has open interview questions that were elaborated upon by us, ad-hoc. True to the research design of choice, the interviews were structured as following:

- Initial general question (to lay the “first stones”)
- Questions that sought reflection and own opinion from the interviewee
- Narrowing of the interview to achieve desired data

The question list, as it can be seen in the Appendix, has been designed to reflect the four parts of the research question (Entry mode and strategy, firm-specific resource, institutional context and performance). Furthermore, in the coding part, as it can be seen in the Appendix, we used the same reasoning.

3.4 Data analysis

Easterby-Smith (2015) posits that there are several analysis methods specific to qualitative research. They are content analysis, grounded analysis, narrative analysis, visual analysis, discourse analysis, conversation analysis and argument analysis. According to the research design, we have chosen content analysis for the purpose of our paper. By using this method, we were able to systematically obtain data and later, codes from the information that we have collected.

Since the qualitative data is different to quantitative data, in the way that it is not standardized, it requires conceptualization, categorization and classification (Saunders et al., 2009). This
information has been collected using an audio-recording application on our mobile phones, which was afterwards transcribed. The transcribed information was later sorted and analyzed, transforming it into usable data.

Analysis of the data is examining, categorizing, tabulating, testing and recombining (Yin, 2014). With this in mind, we have sought for common concepts, patterns or insights in the data, in order to create empirical findings. We have analyzed, coded and re-coded these key words according to Yin (2014). All the coding was done in a manual fashion, using Microsoft Word for the comments, and Microsoft Excel for the coding. We have coded the text, by using Microsoft Word’s “Comment” function. Afterwards we have exported all the coded comment from Word to Excel, by using the “Macro” function. In Excel, we have organized all the codes, undergoing the process of first hand coding and second hand coding. Once the final coding sheet was produced, we have attached the coding schema in the appendix of this document, and used it to structure our findings.

Once the similarities and differences between the cases were found, categorized and analyzed, they were put against the existing body of literature, revealing the effect that the particularities of the E-business approach and the micro-firm approach have on the traditional entry modes into an emerging market. The outcomes are then presented and the way in which they contribute to the literature is discussed.

3.5 Quality and ethical considerations

Research Quality

Using a constructivist approach, the researchers aim to understand and reconstruct the data they collect, and as such, they need tools to prove the authenticity and trustworthiness of their study (Easterby-Smith et al., 2015). First presented by Lincoln and Guba (1985), trustworthiness has 4 parameters, credibility, transferability, dependability and confirmability. They represent, respectively, the truthfulness of the findings, their ability to be put in other contexts, the data consistency and the capability of the findings to be produced by the respondents, as opposed to the researchers.

By using the interviews as a method to collect the data, we have gained a better understanding of the cases. Secondary data, in the form of financial sheets (where obtainable), websites and
written data such as power-point presentations describing the companies contributed to our understanding, and show a better validity of the data. By triangulating this data, we have obtained further confirmation of our findings. Considering the research design used, we followed the aforementioned approaches of credibility and confirmability. By targeting firms under the criteria of being foreign to China, using E-business as their approach to business, and being micro-firms, we ensured transferability, as these criteria applies to said firms from all over the world. The monthly evaluation of our progress, together with other researchers and the transparency with which we have conducted our research accounts for the dependability of our study. Defined by Lincoln and Guba (1985), the criteria of quality compliment a study and show proof that a study is fit into modern scientific research.

*Ethics*

Before undergoing the interviews, we have made sure that the participants are correctly informed towards the purpose of this study, and we have confirmed their confidentiality and ethical standards under which they agreed to share information with us. However, due to business concerns, not all of the firms agreed to share financial data with us. The ethical standards that we have insured are the standards described by Easterby-Smith (2015), as “key principles in research ethics”. Proof of this can be seen throughout the paper, where the criteria are distinguishable in writing, as in the example of the anonymity of participants.
4. Empirical data analysis

The purpose of this paper is to investigate entry modes and strategies in order to successfully enter and conduct business on Chinese soil. To do so, we have chosen E-business micro firms as the focus, due to the easiness and accessibility that they provide nowadays towards any foreign entrepreneur who wishes to penetrate the Chinese market, usually doing so with a start-up. We investigate said type of micro firms, collect their practices, strategies, obstacles, knowledge, analyze them within case and cross-case, and find out the similarities and differences in order to create findings which, ideally, a foreign entrepreneur (i.e. from Europe) can use as a starting point to conduct business in China. Our research question, “How can firm-specific resource paired with country-specific institutional context influence the successful entering into China for micro e-businesses?” provides a focal point for the data collection and analysis, as the coding scheme attached in the appendix proves this. The reasoning behind the coding is looking at the research question through the lens of firm-specific resource, institutional context, and the strategy that they shape for the business. Firm performance serves as proof to the correct selection of the companies investigated, without which the relevance of the company cases would have been questionable (in the case that they were not economically and financially viable, or/and they would not have achieved their purpose). Hence, firm performance will be presented and analyzed first, as a preliminary test for the rest of the data collection and analysis. The financial and non-financial performance of the firms analyzed is represented by numerical indicators as well as non-numerical data, obtained towards interpreting the firm’s current economic situation and future predictions. Emerging themes and findings are highlighted in bold.

4.1. Financial and non-financial performance

Each firm has achieved positive growth (shown in the table below) by the time they were studied. However, companies B, C and D were very concerned about sharing financial data in a limited extent. Their feedback regarding the company growth still provides valuable insight to our academic research in order to examine the performance after the entry decision into the Chinese e-market. Company B achieved healthy organic growth of 400% from 2016 to 2017. The downside of this is the 50% ownership that E2 has given to his partner “…I got access to the resources that I needed by giving them access to 50% of the ownership. If I would have failed, I would not have owned them anything.” Company C has seen increased growth of 200% from
2015 to 2016, with the sales revenue climbing from 2million Swedish Krona to 6million Swedish Krona. For E4, the growth was steady and they appreciate that the future holds even faster growth “The products become more and more popular, since import products are very popular nowadays in China. The brands from us are also a bit more expensive than the average...” E4 shared with us that the company has become profitable and growing in the period of two years. “...I can tell you that it has grown in the two years that it has been active.”

We are not able to see a horizontal data comparison among the companies, because company A has not reached two full completed financial years, while company D is reluctant to provide financial information in any form. Provided that A supplied us with detailed statistics, we are able to have an in-depth analysis from the financial perspective to evaluate Company A’s performance and growth.

<table>
<thead>
<tr>
<th>Table 3: 4 case companies' performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
</tr>
<tr>
<td>Financial</td>
</tr>
<tr>
<td>Non-financial</td>
</tr>
</tbody>
</table>

By look at the single product, company A has had a profitable business since the begging, by taking advantage of the government incentive, where it does not need to pay for the platform service fee, and it has no warehouse management costs. Each product is sold at a price with margin added. But if looking at the first inventory as a whole investment, profitability is not the situation. The profit on the products is around 20% so far (table 4). As the policy changes, after May 1st, 2018, the platform provider will start to change for the service fee, and a warehouse management fee will be applied. Thus, E1 estimated that the profit will drop by 20% compared with the current number, which will mean that the profit for the next year will be 16%. “As my business is already profitable, I will have the capability to manage the cost” (E1, Company A).
With a financial analysis of each stock investment and sales during the entire period from the start of the business until today, the growth reveals a positive trend. “When I double my products types, my sale revenue increased 3 times.” (E1, Company A) (see table 1). More product options give consumers the feeling that the store or the company behind is larger. This helps the company sells more online. The same product strategy reflects on company B’s online store. “We are adding new brands and products to make our customers think we are very big, even if people were coming back generally for the same products”, says E2. Company B’s financial statistics show that 80% of the turnover is generated from 3 key products. For the Chinese customer, the size of the business is also important. In the Chinese perception, size denotes importance, which in turn means quality products. As such, all the firms we investigated had tried to give a sense of size to their businesses, be it through their website, their products (or rather the quantity of them) or their partners.

Below, there are two tables showing the outcome of the financial data provided by company A, proving its economic viability.

**Table 4: Financial data, profitability, Company A**

<table>
<thead>
<tr>
<th>Timeline</th>
<th>Revenue (before tax)</th>
<th>Profit (RMB)</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>After 2016-08</td>
<td>27 031,50</td>
<td>4 259,34</td>
<td>18.1%</td>
</tr>
<tr>
<td>2017</td>
<td>304 995,70</td>
<td>54 465,29</td>
<td>20.86%</td>
</tr>
<tr>
<td>Before 2018-03</td>
<td>112 154,30</td>
<td>20 305, 89</td>
<td>21.3%</td>
</tr>
</tbody>
</table>

**Table 5: Financial data, growth, Company A**

<table>
<thead>
<tr>
<th>Company A</th>
<th>Capital Investment</th>
<th>Types of products</th>
<th>Monthly Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st investment</td>
<td>100,000 RMB</td>
<td>108 SKU</td>
<td>5000 RMB</td>
</tr>
<tr>
<td>2nd investment</td>
<td>240,000 RMB</td>
<td>218 SKU</td>
<td>15,000 RMB</td>
</tr>
<tr>
<td>3rd investment</td>
<td>260,000 RMB</td>
<td>377 SKU</td>
<td>45,000 RMB</td>
</tr>
<tr>
<td>4th investment</td>
<td>N/A</td>
<td>N/A</td>
<td>80,000 RMB</td>
</tr>
</tbody>
</table>

(estimated)
From a non-financial perspective, with his commitment, company A has become one of the top 5 stores on the “Kua Jing Tong” platform. The owner’s future plan is to continue growing in this “niche platform”, rather than one of the other, “giant” platforms. “Better be the head of a dog than the tail of a lion”, were the words used by E1 from company A to describe its marketing strategy choice. As a small business and a late comer into the E-business market, company A will be invisible among the competitors on a platform such as Tmall or JD, which also require big amount of service fee. That would be a heavy entry investment for micro business in the like of company A. E3 stated that, with only time investment and selling products via the social media platform WeChat, allows her to obtain 90% sales from Chinese market. She thinks that the western brands she selects are a key factor to the success of the business. Company B has, as stated, 25% of the market share of foreigners in the Shanghai area.

Generally, the market share of micro E-businesses is very low. This is due to their very small size and the popularity of already established E-businesses in a highly technological and developed context. The scalability of business in terms of customer attainably capability gives brand partners incentive to partner up with micro E-businesses.

The owners have also been asked about an eventual exit strategy, which was common between E2 and E4. E2 replied: “I expect continuous growth in the near future in sales. Then at some point, as I have said, the company will be sold and I will start something else.”, while E4 said: “we want to keep growing and at some point we want to sell to another platform”. The fact that these companies have thought of an exit strategy and are working towards it shows that the project so far has been successful and that the perspective of future proves it.

4.2. The entry strategy and entry modes

When asked about the insights and perceptions of the e-market development status in China today, E4 described it with the following words: “easiness, quickness, high developed and advanced, platform-focused.” E2 said “It is probably the best in the world... everything is very high-tech... It is definitely extremely advanced and developed in all aspects”. “China is a market where E-business develops very well in terms of technology, market size, logistics, payment security...” were E1’s words on the matter. E3 shared this collective view, by saying: “opportunities and competition come from this matured and large market size”.

34
Therefore, online population, infrastructure and technology become a very good institutional incentive for foreign micro E-businesses. As such, this is proof towards another opportunity E-business provides over traditional commerce, in China. The advancements in technology and internet has brought along more and more businesses that provide services in this area. When asked about contextual incentives, E4 replied: “The E-business right now is very easy, there is a partner for everything. There is a partner for outsourcing anything and you can also do whatever you feel like you want to do.” This availability of partners, coupled with the low investment opportunities in this kind of business is what makes micro E-businesses so valuable on the Chinese market for entrepreneurs today.

Moving on from the performance part, by looking at our coding scheme, one can infer that the train of thought which we used when assessing the rationale behind the different modes and strategies employed stems from three other areas, Firm resource, Institutional factors and Business strategy.

4.3 Firm resource

Firm resources are represented by the set of tangible and intangible resources that a firm has and that give it its uniqueness and competitive advantage. The companies that we have investigated have differences and commonalities in these resources, and the task that we aimed for with the analysis of their resources was to identify patterns, and later, to distinguish important resources to be had in the context that we are analyzing.

4.3.1 The impact of knowledge and experience on business creation

In our research, the data showed that the intangible resources the entrepreneurs possessed before entering the Chinese e-market play key roles. Such intangible resources include entrepreneurs’ personal knowledge and experience with China. This knowledge and experience is gained in different ways through direct and indirect learning according to different personal background. Such knowledge and experience helps the entrepreneurs to identify niche business opportunities on the large Chinese e-market, and locate their target consumer segment from amongst the large population of online Chinese buyers.

E1 and E3 both, as born Chinese growing up in China, had an advantage in knowledge and experience, which aided them to better identify the business opportunity. However, focused
learning and experience in a certain area provides further knowledge in ascertaining the business opportunity.

E1 has spent one year on learning about the Chinese e-market development. The interviewee stated that he had an interest in the E-business of China, under the incentive of new business opportunity, providing evidence towards E-business being a good entry mode onto this market for a micro firm. Also, his status as a Chinese national provided him with knowledge which a foreign person could not access that easily. “... In 2015, it was already late to start regular E-business business in China. However, as initially promoted by the Chinese government in 2014, the cross-border E-business is a relevant new type of E-business, and I saw business opportunity in the new trend regarding e-business.” (E1, Company A).

E2 learned the “Chinese way” through one year studying in Zhejiang, China. During this time, he was able to identify business opportunities via personal experience in China. The problem he found was related to the “fake products” present on the Taobao platform. His life experience has taught him: “There are many other foreigners like me in China, who are into fitness, but have difficulty to buy genuine product online.”

E3 discovered new business opportunity as an extension of the old business, through previous informal cross-border C2C business experience within kids’ segment, by actively being part of the Chinese e-business and continuously learning about the customers demand trend, E3 explained “My first experience with Chinese market as mentioned before was baby milk powder and healthy nutrition. Gradually, I shift my products towards kid garment as I found out that American and European Kid garments brands started to become popular in China.”

Company D has limited knowledge about China, but non-related with E-business. “We are based in the US, so I would say that the knowledge we have is very limited in what actually works in China or not. We just saw China as an opportunity.” (E4). Their main business focus is to promote their niche e-platform, which they plan to expand by adding more American brands who seek to sell online in China. Lacking the knowledge of China, these companies make up for it by partnering up with an agent: a service company in China.

Knowledge of the Chinese market in some form is required when deciding to start a micro E-business. As for what accounts for previous Chinese experience, (the information that would
be very hard to obtain for a person who does not live in China) although useful, it is more subjected to the specific firm or product that the entrepreneur wants to create or sell, as it will be later described.

4.3.2 The impact of low or no equity on business creation

Launching an e-business into the Chinese e-market does not require heavy physical investment, in our research cases. All the firms are categorized into micro business, with employee numbering less than 10. Four interviewees stated that running e-business on Chinese e-market is very simple and easy. Company A acts as a one-man company. Company B has a team of 3 in-house staff, and 3 outsourced. Company C is operating the business as wife and husband. Company D is partnered up with the Chinese agent, for a total of 10 people, making up the team.

As for the offices, company D has no official office in China; they use their partner company for that. Company B has an office in China, which was set up with a minimum of investment by E2 and his initial partner, endeavor which was made possible by his previous Chinese experience. When asked about the time and money constraints that setting up in China had, E2 replied: “That was very low, as i found a partner which had all those things. Money-wise, very low. If i would have launched it by myself it would have been a different story. I do not have exact number of the total of that, but i got access to the resources that i needed by giving them access to 50% of the ownership. If i would have failed, i would not have owned them anything.” Company C is based in Sweden. Company A is from Shanghai, and as such has free office access.

The business models are strategically selected as low-cost entry modes. Entrepreneurs are good at accessing different low cost resources, and integrating them in the way that makes possible the launching of the business. For example, low cost or free office space for e-business is reachable via business or personal network. The most suitable e-platform, with regards to cost advantage, but that still has popular channels is identified.

By learning the Chinese E-business macro development and trend as well as governmental regulation and policy towards E-business, the entrepreneur from company A takes advantage of market incentives. “When I started my cross-border E-business business, it was at quite early stage, where the local government was indeed promoting the new business concept. For example, the platform provider doesn’t charge any service fee, which also covers the warehousing fee, warehouse operation fee e.g. pick and pack.” (E1, company A). The zero cost
of e-platform setup and warehouse management facilitated the low-cost entry as cross border e-business.

E3 stated that even though they have their own store website, which is in Swedish, Chinese and English, the most popular used e-intermediary to sell their products is through the social media, for example, the most popular Chinese App called WeChat. As a normal user, it costs nothing to post product information through WeChat moments. “… that 90% of my e-business are from Chinese market. Almost 100% are sold through WeChat...I just post them like sharing normal life pictures...even my store website is very cheap to host” (E3, company C).

Within the whole low-cost entry package, as an e-retailer, the investment of the products could be considered the heaviest capital investment comparing to other physical investments, among the 4 case companies. Only the reliable and trustworthy products and brands are carefully selected for the e-business. On the Chinese Taobao online marketplace, fake products are commonly found. This online phenomenon drives the consumers’ eagerness towards genuine brands and products. The channels of purchasing “foreign brands and quality” are perceived as more reliable when the sellers are tagged as “foreign identity”, either as a “foreign company” or “foreigner” or “foreign based”. As such, the companies adjust their strategy towards selecting and presenting their foreign brand products to the customers in China in a trustworthy way.

Therefore, none of the firms studied have their own brand. Instead they act as a reseller overseas, providing access to the emerging market of China for foreign products and brands. Although the products type differs across the firms, ranging from kids’ products to workout supplements, all the companies can be considered to be operating similarly, due to the E-business particularity. Even if products and brands are firm-specific resources, they will be discussed in depth later, under the business strategy subchapter, as the findings we identified pertain more to that area.

Since the context that this paper investigates is micro E-businesses, it is natural to show what channels these firms have used to sell their products. These channels are also firm specific resources. All the firms conduct their business 100% online. As such, the usage of internet is required. Moreover, the incentive to have a 100% online business is not only convenient, as E2 has identified, “Also, the regulations are different in China, depending on whether you do your business online or offline. The regulations are much tougher if you have an offline store than for
having an online store.” Business B has started with an own website, and they are also selling their products through WeChat. When asked which one of these channels sells more, E2 replied “WeChat, definitely.” Business D has, through the usage of a marketing partner, obtained a platform for their website in China. The rationale behind having an own website is that one can include it into WeChat, and as such one can avoid some obstacles and avoid the major online platforms for products in China. “You would be never sure about what you would receive inside the box. Back then Taobao was infected with a lot of fake products, so it had a bad reputation.” – E2. **Company B, C and D are using WeChat as their main selling channel.**

### 4.4 Institutional factors

The institutional factors are all regarded as external to the companies investigated, and present onto the Chinese environment. They influence business strategy and they represent unique obstacles and opportunities that firms will face when deciding to enter the Chinese market through micro E-businesses. China, as the world largest e-market, and with its volatile governmental regulation, presents great business opportunities as well as challenges and obstacles. Within the four cases observed, we found that companies identify business opportunities, and benefit from governmental new regulation. On the other side, the new regulation also provides difficulties during the business operation, for example, difficulties leading to high cost, which in turn means losing customers. However, if the firms are flexible and fast to respond to the relevant regulation and learn to adapt, it always opens doors to new opportunities.

Our data reveals that the regulation reflects the business on two perspectives, which are within country, and cross-country perspective.

Regulation released by the Chinese government is regarded to be the “within-country” dimension. All our participants mentioned the word “regulation” frequently during the interview. Governmental regulation provides fundamental guidance during the whole business process. The regulation helps the entrepreneurs recognize and capture the business opportunities; it provides the “rules of game” within the business scope; creates challenges and obstacles when policy is updated and brings business loss when it is ignored.
Institutional opportunities

The new business term “cross-border E-business” was born after the Chinese government regulation regarding the individual’s online oversea consumption launched in 2014. The new regulation boomed the niche E-business business mode out of the regular domestic E-business. To cultivate the cross-border e-business development, local governments initiated specialized bonded warehouses in the harbors of industrial parks for the foreign brands storage. The government enforced attractive incentives to encourage cross-border business venture and creation. Such one-stop-service incentives include free cross-border e-platform, free bonded warehouse storage and management and coordination with third party logistics partner. The regulation also clearly requires a partnership of a legal entity registered outside of mainland China, and a customer service center provided inside China, and the storage in the bonded warehouse. “Only foreign registered legal business entity is eligible for cross border E-business business. In my case, I also registered a Chinese company as the partner of my Japanese company.” (E1, company A) In the case of company C, they only have one company, registered in Sweden. Legally speaking, their business model is not under the Chinese business term of cross-border e-business. However, this is what the Chinese call “HaiTao”, which means “buy abroad direct”. There are also less regulations and more opportunity for firms which engage into cross-border e-business. “My group partner has 5 companies. Some are registered in China, some in Hong Kong, depending on the needs. Now we’re trading in cross border trade, which means we have to work with the company in Hong Kong which is different from commercial trading inside China.” –E2. By using cross-border trade, firms can register in the country that offers them the most advantages, institution-wise: “There are different benefits for different registrations. For us when we crossed border we needed Hong Kong.” – E2. This is an idea that stems from all of the interviews that we have had. For company B, using cross-border trade enabled them to comply with the legal aspects regarding their company; a product selling company. For a consulting company, in example, these legal aspects would be different, and overcoming them would be different. Being the type of company mentioned, they registered their website and company in Hong Kong, and their WeChat account to which the website and company are linked, in China. This also facilitated the transaction of money out of China. To quote E4: “...everything is cross-border, nothing is stuck in China. So it is all sent from Hong Kong and it is cross-border payment, cross-border trade.” As it can be observed, although company B is registered in Hong Kong and company D is not, company D, through their partner
which is registered in Hong Kong, has obtained the same advantages as company B. “Hmm, there are a lot of regulations that are changing in China all the time. That is also why more and more people are doing cross-border; less regulations.” –E4.

**Regulation impact on firm logistics**

The Chinese Custom follows the cross-border e-business regulation once the products enter into the bonded warehouse. It also supervises the cross-border purchasing, the products until they get to the customer. “According to the cross-border E-business regulation, each purchasing is linked with 3 documents, purchasing order, logistics order, and personal custom clearance order, once the 3 documents are proved by the custom, the product will be delivered from duty free warehouse.” (E1, company A). Cross-border E-business becomes very easy and fast, if all the business process is conducted by following the rules. The delivery from the duty free warehouse in China to the customer takes around 3-5 days, which is a couple of days longer than regular E-business, but much faster than the international delivery. Even though Company C does not submit any order documents to the Chinese custom for approval before delivery, when the products package reaches China, it will be also examined by the Chinese custom.

The cross-border E-business regulation only allows each Chinese customer a maximum of 20,000 rmb purchasing per year for products with the only purpose of self-consumption. This means, if a customer has purchased products through a cross-border platform, the Chinese Custom will not let the parcels go through the custom clearance. However, our participants stated that, as a seller who is sales driven, but at the same time follows the regulation, a company must be flexible to handle such a situation. Examples are given by E1 and E3. Both companies had the situation in which they had regular customers which bought from them, but with a commercial purpose. Both have suggested the buyers to break the large order into several small orders with reasonable amount, under several family or friends’ names as buyers. “...it is matter of how to interpret the laws, personally, this is the best way, I don’t lose business and customer, I don’t break government regulation, and customer receives what he or she buys...” (E1, Company A). The same situation presents more challenge and risk to company C from a logistics perspective. “...I post from Sweden to China, and it cost more for deliver and time... if big value parcel stopped by custom and returned to Sweden, I lose time for return and money for logistics... and customer gets unhappy....so I break down into small parcels, and post via HK as a cheaper solution...” (E3, company C). The logistics cost is charged based on the number of parcels.
Alternative solution solves the risk of “being stopped by the custom”, but at the cost of increased logistics fee. The regulation shows direct impact on the daily business operation. In our cases, when the e-business scale is small in the beginning stage, the entrepreneurs react smartly to the regulation to achieve the desired outcome for all the three parties.

**Regulation infringement**

Since 2014, the Chinese government and the cross-border e-business society has been “crossing the river by groping the stones” (E1, Company A) along the cross-border E-business sector development. To achieve an E-business ecosystem with a healthy development, issues that occur during the business practice must be solved through continuously amending the regulation “…Such reform is in order to better support and advocate the cross-border E-business business concept” (E1, Company A). Subjected to the nature of the business model, the regulation reform affects different businesses at different levels. The new “positive list” released in April 2016 sets boundaries of which products are legally accepted under the cross-border E-business sector. “…I cannot sell Japanese infant milk powder after April 2016 in my online store, as it is not listed as the positive products for cross-border e-business model; I am not allowed to stock in the bonded warehouse. Therefore, I will select consuming products which are only listed…I started my cross-border e-business in August 2016.” (E1, Company A). In opposition, company C is operating as a different business model which is categorized as “Haitao”, E3 is allowed to sell baby milk power to Chinese customers. Following the regulation within one’s business scope is vital, as it not only provides guidance and easiness for business conduction, but also helps the firms to keep business focus by removing ill practices. A new VAT tax reform was introduced in China on 1st of May 2018 with the purpose of lowering companies’ taxation burden. In general, the VAT will be decreased from 17% to 16%. “In cross-border E-business business, consumers only need to pay 70% of the VAT; the new tax policy is definitely beneficial to my business and consumer...” (E1, Company A). This means the customers will pay 11.2% vat instead of 11.9%. Same benefit applies to company D, but it has no effect on company C.

**Intellectual property**

Our participants shared the idea that intellectual property should not be neglected on the Chinese market. Proper legal intellectual property action in China not only provides direct business protection to the brand, but also provides indirect protection to its retailers. Lack of such
Awareness can lead to tragic business loss. E3 (company) urged a trademark registration within China prior to the business launch for new foreign brand owners who are looking into Chinese e-market entry. This valuable advice derived from a disaster experience of an Israel kid garment brand, which was one of company C’s supplier. She explained that Israel brand has weak awareness to register its trademark in China, even the products are hot selling online via its Chinese e-retailers. Finally, when the Israel brand took action for the registration, the same trademark was already taken by a local Chinese. The tragic business consequence exposed after the Chinese company sent a legal letter to those e-retailers to charge the so called “trademark fee” ranging from 2500 USD to 8000USD depends on the e-retailer’s business scale. This legal action, which was conducted under an “immoral business” cover or, in other words known as legal “blackmailing”, has forced lots of small e-retailers to give up the dealership. As the brand owner, due to own “mistakes”, the Israel company is trapped in the legal issue, and suffered from huge economic loss. “Therefore, it is important for the foreign brand owner to keep the intellectual property awareness, and they can even initiate the registration before they officially sell the product into China” –E2.

With company A’s cross border e-business model, the intellectual property comes as a business advantage and opportunity instead. KAO, a famous Japanese consuming products brand, has a sole dealership agreement with the Chinese partner for the China market, under the concept of traditional trade concept. Such exclusive dealership means KAO is not allowed to sell to any other Chinese companies, in order to protect the Chinese counterparty’s benefit. However, Company A, as a Japanese company, is able to buy KAO products in Japan, and sell through its online cross-border store for China market. The cross-border e-business concept created survival space for company A to escape the legal conflict from the intellectual property issue. “...Such sole dealership agreement is between the Chinese company and KAO. Even I’m sued to the court the Chinese government can’t get my company as a Chinese entity; nor the Japanese government can do anything to me in Japan, as there is no such law says my Japanese company buys KAO products in Japan, but not allowed to sell in China. In this sense, I’m safe in any side.” (E1, Company A).

National conflicts and bilateral agreements

Politics and economy are closely interlinked. China and Japan have a controversial history. The relationship between the two becomes tense whenever approaching historical memorable dates,
or when any political territory issue arises. As a result, the national conflict reflects on the economic world. “Come back to the political relationship between two countries. Take example of China and Japan. When political relationship becomes tense, it sets alarm to the economic relationship, and increase barriers to the business trade. When such alarm is on, if I have more Japanese product in the inventory, that is an advantage for me, because my competitors have difficulty to buy from Japan.” (E1, Company A). The entrepreneur’s business attitude and personal insight contributes to the company’s competitiveness. In this case, business challenge becomes business opportunity for company A.

The China-USA trade war has become a hot topic these days, after the announcement of the two governments’ tariff increase on listed products. When asked about the recent “trade war” between the US and China, a high-profile event that had the potential of affecting all the cross-border businesses in China, the answers of the interviewees were negative. “Not at all, due to the nature of the business.” – E4. This is because their products are not included the mentioned list.

**Cultural differences**

One of the common reasons that attract our samples companies’ interest into Chinese e-market is the large market size. Consumers are very keen to buy high quality and genuine brands with trustworthy purchasing channels. As discussed above, the “foreign identity” tagged with the sellers which are perceived by consumers as reliable and trustworthy, means that consumers are willing to purchase at a higher price, accept longer delivery time, and deal with the trouble of custom risk. However, this consumption orientation phenomenon is driven to a great extent by the Chinese culture, which reflects as “collectivism”. Consumers, first of all, accept foreign brands within the influence of the “trend”, and then the second step is to buy from a reliable online source. The perception is supported by all our interviewee E1, E2, E3, E4.

E1 from company A described the Chinese consumers are kind of “trend followers”. “…you see there are lots ‘internet famous products’ or ‘hot selling’ products, not because of the quality and value, but only because they are recommended by an influencer. This is ‘blindly following’ or in other words believe in what others say,…or what I would call it as ‘herd behavior, individual consuming behavior are heavily affected by the large group.’” (E1, Company A). Consumers place the collective cognition higher than their personal perception, which makes the personal preference of products selection less valued. The consumer behavior indicates that the sellers
have two directions when it comes to business strategy, **either the sellers should create a “trend” for consumers to follow, or the sellers should sell products which are already popular on the market.** For the former one, the “influencer” strategy is selected by company D. Whereas company A’s business focus is more on the products selection rather than the marketing strategy. As a one-man company, E1 has limited manpower on products marketing conduction; however, he does online market research and analysis to observe the “hot selling products” from large platforms, such as Taobao, Tmall, as well as the Japanese suppliers’ website. As a well-known Japanese brands e-retailer, his main concentration is to be aware what specific products are the trends, what products are seasonal, what products are updated. The key business strategy is product-focus, instead of brand-focus. “Consumers who buy from my cross-border online store, they know the products are genuine, price is cheaper comparing with Taobao. They know what they need to buy. They believe all the products information collected from their social network rather than the seller. That’s why I do very simple product profile on store.” (E1, Company A).

When company C identified the niche market trend of American and European Kid garments’ brands popularity in China, E3 officially launched the business. Holding the same business strategy as company A, her focus is also on the products. Consumers learn about the western brands and accept the collective perception of the popular brands, which are associated with superior design, even at a higher price than the domestic brands. Approaching the cheapest sourcing channels with the same quality becomes the consumers’ next challenge. “I would say the brand names attached with their unique design. Quality I will say after the brand name, but of course superior quality than the Chinese domestic brands. Price is also another factor. There is no standard set price of same foreign brands among the sellers, but to consumers, they will definitely choose the sellers who offer cheapest. It is universal rule for global consumers.” (E3, Company C)

Customer behavior is different in China as compared to the western world. “They are mostly following the trend, observing what others are buying, and they do the same for sure, or going on recommendations.” –E2. E4 had something very similar to say: “...you need to make use of the different trends that pop-up in China all the time. Converting customers in China is expensive and they are not very loyal. New customers are not likely to return unless you have something that people really like. Otherwise they will just buy it from another store. So the
tradition challenges you face are with the long term challenges, when you are more used to customers buying the same product next month, while in China people buy new products all the time.” This “trend” provides opportunity for foreign entrepreneurs, in the form of knowledge on how to market their products in order to have high sales. From this quote there is also a hint of Guanxi, a phenomenon which we have investigated, but that turned out not to be crucial in the case of E-businesses. However, Guanxi still provided our interviewees with strategic opportunities: “I did not have a network in the fitness industry, but now i have a network of a couple hundred people. Of course, this is beneficial for the business. What can benefit them can benefit us, and it is good. We do different promotions with them for instance.”- E2.

Language as one of the most communication tool is placed as extremely important role for cross-culture e-business. Language makes as biggest difference in the culture distance. In our four case samples, the cross-culture communication appears between the suppliers and sellers, between the sellers and buyers.

Each participant speaks different languages which influences their business communication differently. E1 speaks Chinese, Japanese, and very limited English. E2 speaks English, Swedish, and very limited Chinese. E3 speaks Chinese, Swedish, and decent English. E4 speaks English. E1 stated that sourcing Japanese products and selling in China is no issue, however, when he experimented with the extension of Australian products, he found very challenging to communicate with the supplier because of the language barrier. Even though E2’s targeted segment is composed of mainly foreigners in China, other business issues, for example logistics and delivery are coordinated in Chinese. E2 and E4 overcame the language issue by employing a partner with Chinese speaking staff. E3 faces no language difficulty. All in all, to sell foreign products in China, it is crucial to deliver the brand and products message in a correct and acceptable way. “It is key to deliver the right message of the product to consumer by using the correct Chinese expression.” (E1, Company A). When the company lacks such resource and capacity, the external alternative is always available.

The cultural differences between the Chinese people and the entrepreneurs also have to be taken into account. E2’s sayings: “You need to have someone that has an entity in China, so that’s a very good reason to find a partner, to find offices, Chinese speaking people. I can probably start it by myself but i don’t think i would have succeeded” show an underlying theme regarding the language. Depending on the customers that the business is targeting, this could prove to be very
important. E2 targeted the foreign customers in China, initially. Later he considered expanding into the Chinese customer segment as well. As such, the website has both the languages of English and Chinese available.

4.5 Business strategy

This chapter of the findings and analysis part looks at the decisions that every firm in our study has made, in conjunction with their firm-specific resources (capabilities) and institutional context. We have tried to frame the decisions that every firm has made by also linking them to the resources and context, while looking at the possibility of finding the optimal entry pattern and strategy onto the Chinese market.

Firms’ business strategy on entry model decision towards the target market is a result of strategic analysis of the internal resources which the firm possesses and external resources which can be accessed. This strategic decision allows the firm to be competitive amongst the competitors, to overcome the institutional challenge and obstacles with the capability to adapt, and to gain market share in the target segment.

All our selected case companies are running small-scale B2C e-retailing businesses, and they reflect “partnership” in the distinct chosen entry modes towards the Chinese e-market.
According to the cross-border E-business regulation, company A is a “self-partnership”, which means his Japanese company is pairing up with his Chinese company. His business is motivated by personal learning and interpretation of the government regulation about the Chinese e-market development. The company accesses resources via previous personal working experience and social network covering the product suppliers in Japan, and the potential consumers in China. Strategic low-cost business is set up by taking advantage of the governmental incentive. Trust is the backbone of the business and as an owner, E1 has the full responsibility to guarantee the genuineness of the products that he sources from Japan and sells in China. Apart from products, personal trust via social networks provides additional credits to the online store. Even without spending more effort than needed on its products marketing, with a focal strategy on providing a wide range of updated popular products, Company A’s online store positioned in the top 5 on the specialized cross-border e-platform which is called “Kua Jing Tong” in Chinese. To gain more competitive advantage on the “Kua Jing Tong” platform and expect future growth, E1 would like to widen the stores products portfolio by adding products from other countries. The business rationale is “partnership and cooperation makes us more competitive” (E1, Company A).

<table>
<thead>
<tr>
<th>Entry Mode</th>
<th>Definition</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company A</strong></td>
<td>Cross-border E-business</td>
<td>Foreign registered entity, with a customer service center in China, and stock in the bonded warehouse in China</td>
</tr>
<tr>
<td><strong>Company B</strong></td>
<td>Domestic E-business, with a Swedish Company as shareholder in China</td>
<td>Foreign registered entity, all service inside China with a shareholder</td>
</tr>
<tr>
<td><strong>Company C</strong></td>
<td>“HaiTao”, or buy abroad directly</td>
<td>Foreign registered entity, all service outside of China</td>
</tr>
<tr>
<td><strong>Company D</strong></td>
<td>Cross-border E-business, through an Agent in China</td>
<td>Foreign registered entity, stock in HK, serviced by partner in China</td>
</tr>
</tbody>
</table>
Company A’s business experience demonstrates wider product selection equates higher sales. “…My future partner can add their products on my online store. He can immediately take advantage of my store with stable customers visit. But he will take care of his products sourcing and delivery to the warehouse. For me, more selection of products will encourage customers to come back often and buy more. That will be win-win situation.” (E1, Company A). Such a partnership is built on the complementation of mutual resources. A new foreign company to the Chinese e-market, with limited knowledge and experience about the Chinese customers, caused by culture distance, can absorb valuable in-operation business resources and knowledge from the partner, and launch the business quickly.

The “partnerships” of company A and company C both rely heavily on their Chinese nationality. The embedded relationship within China makes it possible for e-businesses with “no partner” to exist without any physical presence in China. The advantage of company C’s presence in Sweden and constant communication and sharing through WeChat social media gives credibility and trust for consumers. As an e-retailer, the capability of capturing the “consumption trend” in China provides company C with great business insight and business creation. Buying from the West and selling to the East is presented in a totally opposite manner in company C, where the owner describes the relationship with her suppliers in Sweden and Europe as ‘business is business’; however, the Chinese customers are very ‘social and informal’. E3 stated that “…if I am a big customer of a Chinese supplier, they would have treated me closely, differently. But nothing is special here in Sweden…culture difference”. The Chinese culture helps E3 to treat the customers “in the Chinese way”, and keeps her business grow. Nevertheless, the business challenges arise from more and more competitors appearing online. It is a result of the “trend followers”. Many e-retailers in China seized the “trend” and entered the same business segment. “They will source directly from the brands, instead of me…. there are foreign small brands going Chinese market by themselves, rather than going intermediate dealers. This also makes my business space smaller.” (E3, Company C). If a foreign company enters China, E3 strongly recommended a partnership with a local partner, or hiring local Chinese employees. “…It is impossible for foreign to understand and adapt to Chinese culture immediately…also difficulty to deal with government…” (E3, company C). If the foreign company is a brand owner, trademark registration in China is strongly suggested by E3. The disaster experience of the Israeli company is a very good example, as a result of weak awareness of intellectual property, and slow action taking for the trademark registration.
In terms of partnership, interviewees’ opinions differ. For E2, “...you have to have good relationship with competitors. You don’t want to have a financial war with them. You try to work with them. Almost all competitors in the supplement business work together. Some competitors have exclusive rights to their products, so if you are not smart about it, they will keep those rights, instead of sharing them with you and growing their business.” By collaborating with their competitors, firm B has access to a bigger share of the market. Since that market, as discussed, is 80% made up of foreigners living in China, it is a market which the competitors are interested to access, and a foreign small business accessing that market proves a valuable ally. “That’s a very good way for us to come to work with our competitors because they cannot access foreign markets, so we are not competing against our competitors on the same customers.”-E2. Firm D on the other hand, since it does not have experience about China, or a physical presence there, acts more like an investor, based in the US, who builds strategy on account of the information received from the partner active on the Chinese market. All the activities which include “…fulfillment, marketing activities which come from also making the design, the different posters, the material, the translations, the store, handling payments, customer interactions, booking influencers, helping influencers to create content, creating schedules for social media and creating content for it, etc.”-E4, are therefore outsourced for them, making it very easy, but at the same time more expensive to conduct business than it is for company B.

We have developed a table, showing the conclusion to the resources used by each company investigated.

<table>
<thead>
<tr>
<th>Resources</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible</td>
<td>Inventory, platform fee, One man</td>
<td>Inventory, platform fee, staff, home base</td>
<td>Inventory</td>
<td>Inventory, Service fee</td>
</tr>
<tr>
<td>Intangible</td>
<td>Nationality, experience, knowledge</td>
<td>Learning, experience, knowledge</td>
<td>Nationality, experience, knowledge</td>
<td>Limited unrelated knowledge</td>
</tr>
</tbody>
</table>
In the firm-specific resources chapter we have briefly talked about brands and products. Now we will explain how those two resources influence the strategy of the firms we analyzed. All the E-businesses are resellers, and as such, they do not own any brand other than their own (store brand). However, the role that the brands they are selling have is very important. All of the entrepreneurs who started their own micro E-business from our study have understood the importance of branding for the Chinese customer. Branding as strategy, in this case, comes under the form of country of origin. “The products become more and more popular, since import products are very popular nowadays in China. The brands from us are also a bit more expensive than the average, which can be a problem, because they are aimed for the upper-middle class, for bigger cities, which is a limited and very competitive market. So many people want to sell to these customers.” -E4. The Chinese customer will be interested to buy a product for the simple fact that it is from Sweden, the US, Germany, or from the western world for that matter. When asked “from where are your products”, E2 replied: “all of them are from the US or they are from companies started in the US but with European owners, which has the effect of everyone thinking that they are American companies”. The subtle idea here is that the country of origin is a very important aspect, and a big competitive advantage. “In the beginning, we only looked at prices. Less famous brands but cheaper. It worked, so we started to experiment a bit by trying more expensive brands. That’s when it started to take off. Famous brands were actually sought.” -E2. For company D, brands are even more important since their active role in the business is, amongst other things, to communicate with the brands and make sure that the value proposition for the Chinese customer is adequate. Also, having the sole role of strategist, firm D could have obstacles in creating promotions, since they act on the information received from another actor, and not from their own experience. Although there are clear downsides to enter the market as company D has done it, there are advantages to this entry mode. “For us it is the cheapest solution, otherwise we would have needed to go out and recruit people, set up an office, pay rent, salaries, social security and these sorts of things that you have to pay in China. For us it is the cheapest solution and it involves the lowest risk.” -E4.

Even though the E-business aspect of the firms facilitates the creation of new ventures, due to reduced regulations, the interviewees still accused obstacles from the institutional context. E2 stated “We follow the rules and updates, and when there are big meetings, you cancel orders. This sort of things happens all the time, but you adapt, you move quickly. No one is prepared. In general China adapts extremely quickly. When you’re here, doing business in China, you cannot
get upset about governmental issues; you need to be patient and smile.” The size of these firms provides them with another advantage; adaptability. “You just need to be smart and follow the rules, do the things that you do correctly. We are a small company; it is not hard to follow the regulations.” –E2. The issue of adaptation spans across cases, as E4 confirmed: “China is changing very quickly, you need to be on your toes all the time, and adapt, and long term very quickly becomes short term.” E1 and E3 hold the same perception of “being flexible” to respond to the governmental change. The small-scale business does not allow them to go against the regulation or run into the risk of losing customers. In this sense, being small is being flexible, and being able to adjust their business practice to fit into the scope of regulation.

Following on customer behavior, E2 answered that “Most of them are easy to manage. Some of them are more demanding, expecting you to be 24/7 available, and answering questions. They are mainly young consumers.” After corroborating this information with the other cases, we have found out that, due to globalization and the channel of these businesses (online), younger people are more prone to making purchases, and as such they are more inclined and qualified to demanding customer support. Depending on the case, the product category, this obstacle cannot be generalized.

Another particularity to the Chinese customer behavior is the propensity towards “coming back and buying the same products” – E2. Due to this, the companies have adapted their offers, promotions and products to be as efficient as possible. This will be discussed in depth in the strategy subchapter.

The trend and the networking present in the Chinese environment provide great opportunities. “They (the customers) come back and buy the same products. We do not promote the products very heavily. We try to share knowledge with the customers, our main focus is to give the best customer service, that’s why people recommend us to other people, we are more expensive than the average supplement store on Taobao.” –E2. Although not as important in the entry phase, networking provides good opportunity for attracting more customers, as E2 told us: “We have a different approach to our customers i would say. I cannot name only one thing, but i can say that because we are recommended we are very profitable. We joke with our customers, we are informal. We try to build relationships with our customers.” This can be seen in the case of company D as well, through their promotions and attain of customers: “That’s why we have campaigns with celebrities who recommend the products and website to their followers, and
hopefully the followers would recommend to friends. It’s good to have a personal network, if you can get products out very quickly.” -E4. To motivate the customers into buying more, E1 promotes one or two” hot” products with incentive price. Once customers come back to the store, the possibility of them to buy other products as well becomes higher. “I make customers happier by giving up some profit of one or two products. But I earn back when customers are attractive by the promoted products and continue buying other products.” –E1.

Social media constitutes an important tool for marketing in China. “It is all about reputation. Social media spreads news very quickly, so it is all about reputation.” -E2. Since the companies always use their store, regardless of being standalone website or WeChat, they have to promote this store and closely link it with the brands that they sell. For them, it is important that the Chinese customer immediately makes a connection between a product brand and the website/store brand. When we investigated this, E2 told us: “… we use a combination of promotion, our store, and the brands. Though the brands are much more famous, of course we benefit from selling those brands. You cannot promote one without the other.” Company A’s store is hosted on a niche platform which requires a separate installation on mobile, “I don’t promote this platform APP, the platform owner has a professional team to market the APP. But I do use WeChat a lot to tell my friends that I am running this E-business.” - E1. In opposition to company A, company C relies 100% on the Chinese social media WeChat to do marketing, communication and after sales. “To be more efficient, I have to log onto WeChat on laptop. It allows me fast typing and responding to my customers.” E3 explained.

Lastly, keeping brand value is an essential element to consider onto the E-business Chinese market. When asked to elaborate on this, E4 told us: “Many companies have lost control of their brand in China, they lost the brand value after a while, because they were just interested in selling, selling, selling, and they sold to everyone, so people started discounting the products, and eventually stole the brand.” This relates to the intellectual property issue discussed in the institutional factors chapter. However, since the brands are not owned by the micro E-businesses, this is an issue that needs closer attention when internationalizing in E-business China.
5. Discussion and findings

5.1 Links to the literature review

This paper begins with a literature review on entry modes and their relation to the intrinsic capabilities of a firm (firm-specific resources) and extrinsic environment that the firms are subjected to (institutional context). Also, the entry modes have been reviewed from a firm performance point of view, to show its economic value. The aim of this literature review is to provide a basis for the existing knowledge, while giving us incentive to pursue further knowledge through our own study in the field. The research question, “How can firm-specific resource paired with country-specific institutional context influence the successful entering into China for micro e-businesses?” is the underlying theme stemming from our literature review, and the way in which we have investigated this is reflected in the findings and analysis part.

As stated before, we have to stress the word “successful” here, as there is no general definition of success. However, Chittithaworn et. al., (2011) posits that success is “often related with firm performance”, while Foley and Green (1989) identify firm performance as financial and non-financial. As such, we use the word “successful” to prove the achievement of financial and non-financial objectives set by the entrepreneurs that started the businesses we investigated.

From our study, 4 elements have arisen which describe and answer the research question. They are: “Entry mode and strategy”, “Firm resource”, “Institutional factors” and “Business strategy”. The examination of the firm cases followed the performance assessments, and as such “Performance financial/non-financial” has to be included as a side element into our discussion. However, “Business strategy” is an element that we have identified and which arises from firm resource and institutional factors, and advances the study towards the entry modes and strategy. As such, the literature review does not directly link towards this element, which is present across all the following subchapters. All the other elements will now be linked and discussed.

Performance

Brouthers (2013) argued that it is commonly acknowledged that the entry mode strategy affects firms’ performance. A firm’s performance on a certain market is a direct result of the firm’s resources, acting in an environment on which opportunities and threats are present. Brouthers et
al (2008) stated that the applicability of resource-based advantages depends on the various institutional contexts cross over countries. Our study followed Brouthers (2013)’s examination of performance after entry choice from a financial and non-financial perspective. By looking at the digital and descriptive “indicator” of a firm’s performance, we hope to answer the 2nd step in our research question, which is a measurement of business success. **The results show that each firm, within two years of market entry into China, is positively growing.** Company A obtains a profit of around 20%, and today is acting as one of the top 5 stores on the selected platform. Company B gains 400% growth in the second business year, and owns 25% market share of the target segment. Company C sales revenue reached 6 million Swedish Krona in 2016, from 2 million in 2015. 90% of the sales are from the Chinese market. Company D indicated the business “has grown” with a confidential concern, and products have been gradually accepted although with a higher price than average. **Generally, the market share of micro E-businesses is very low.** This is due to their very small size and the popularity of already established e-businesses in a highly technological and developed context. However, from the targeted niche market point of view, each business is growing healthily both financial and non-financial, and we can conclude that all firms are running successfully since the business are active.

**Entry mode and strategy**

The key findings show that the essence of the foreign micro e-businesses towards the Chinese e-market entry mode is **“partnership”**, even though the phenomenon is seen in different business formats, for example as cross border e-business, domestic business, ‘Haitao’, or cross-border e-business with an agent. The entry mode towards the target country is influenced by the configuration of the internal firm resources and external institutional factors (Lindsay, 2017). Different level and mixtures of a firm’s specific resource and external environmental challenge leads to different entry mode choice. Each micro firm examined in our paper indicates the importance of “partnership” as the business rationale behind their entry mode decision into the Chinese e-market. Comparing to traditional business, e-business is characterized by having “easy entry and exit”, with low resource investment (Agarwal & Wu, 2015). With limited firm resource, micro firms need to adopt the entrepreneurial ability to adapt their business strategy to external institutional circumstances in order to reach business growth. With the resourced-based approach to examine the interaction of firm internal tangible and intangible resources with external institutional consideration, Ekeledo & Sivakumar (2004)
suggested that the level of digitalization impact on business redefined the traditional entry-mode selection, and shed the light on today’s E-business reality. Our studies show that, although all the business formats appear to be different, the core of all the businesses reflects “partnership”.

Much of the entry mode literature is related with the B2B context, and it explores the business strategy towards the interplay of firm resource and their exposure to the external institutional context (Lindsay, 2017). **Our study with a niche focus on B2C e-retailer market provides direct insight for the managerial strategic consideration on the entry decision.** Different than the industrial market, firms are able to investigate the customers’ orientation and learn about consumer behavior through internet without a boundary at a lower cost. E1, E2, E3 recognized the great impact of “trend” on consumers’ behavior under Chinese norms when selecting brands and buying products online. Hallikainen & Laukkanen (2018) argued that national culture contributes to 23% of the disposition of consumers’ trust when buy online in China. Chinese culture featured with collectivism is the driving force behind such “online trend”, where the individual believes in what others say online via separate social network. The trend of certain brands and products, therefore, delivers business lead to a firm’s strategy of how to enter China market. If the firm is an e-retailer of other brands, the firm must intelligently follow the “trend”, and provide what consumers are chasing. Our finding shows that inventory appears as relevant heavy investment among all the tangible resources, in case of micro e-retailers sector. If the firm is a brand owner, the firm must initiate a creative marketing strategy of how to create such a “trend”, so that the Chinese customers will follow. Our participants perception of the Chinese online market is consistent with what Hollender et al, 2017 refers to as the firms’ capability on how to use and adapt resource (e.g. physical product) to favor the local market, with proper understanding and reaction to the local norms and legitimacy.

Gao et all (2016) suggested further study on the SMEs which aim to enter the Chinese market using Alibaba Group’s Tmall Global platform as an E-intermediary or “network gatekeeper” to bridge the network between small foreign brands and the Chinese consumers. Foreign SMEs gain benefit from the low cost of entry via such an e-intermediary to foreign market (Cho & Tansuhaj., 2013). However, our research shows that none of the micro firms have chosen the Tmall platform or other large platform like JD.com, or Yihaodian. This is mainly because of the high membership fee comparing to, for example, the WeChat store. SMEs foreign entry strategy largely relies on a firm’s specific resource, which mostly determines the extent of investment
commitment in host country (Laufs & Schwens, 2014). The platform that the firms chose also limited the online consumer segment. A larger platform with a higher membership investment opens the door to a larger customer population, whereas a smaller and cheaper platform limits the population.

**Firm resource**

Featured with a small size challenge, SMEs decision on the oversea market entry is attached with a specific level of investment risk, resource commitment and firm control (Calvet 1984; Caves 1982). Thus, it is important to examine from the resource based view perspective (Maekelburger et al., 2012). Barney (1991) stated that firm resource is perceived from two dimensions, tangible and intangible. Tangible resource is represented in physical forms, such as currency in hard money, real estate, machinery and facilities; while on the other hand, intangible resources are the ones that do not have a physical form, represented as firms’ managers and staff’s knowledge and experience, its brand, its reputation, intellectual property etc. The core of the resource based view resides in the possession of the distinctive firm resources and the firm’s capability to make proper use of the resources and achieve competitive advantage in the foreign market. This is an inside-outside approach to make the proper entry strategy towards the host country. In our study, all firms entered their e-business into China with non-equity or a lower investment business mode. The similarity of the all 4 cases is in their capability to combine their business concept with internal resources and external resources which they can absorb, and conclude the lowest economic scale to launch the business.

**Institutional context**

The majority of the literature on SMEs which enter into China focuses on traditional business as opposed to E-business. Hänninen et al. (2017) admits that although micro-firms are present in a very large number in each economy, and a large amount of entrepreneurs venture in them, they still draw little attention in the literature today. Hence, the findings that we have at times diverge from the concepts found through the literature review. This had to be specified before the links towards the existing body of knowledge, for the reader to understand the discrepancy, and not interpret our findings as contradictory to the review.

The reason behind investigating micro-SMEs is the desire to show that, for entrepreneurs that wish to start a business in China, micro E-business is a very good start-up. Eriksson et al. (1997)
argues that SMEs which internationalize on emerging markets are facing sizeable challenges, as compared to large firms, because of their lower resources, experience and knowledge. Although the case of large companies was not investigated by us, our study has shown that it is this lack of resources, experience and knowledge one of the reasons to choose to create a micro E-business. The study shows that, through the right mode of entry, all of these obstacles can be surmounted, confirming Agarwal and Ramaswami’s findings (1992) “to overcome internal and external barriers and reduce overseas expansion risk, the strategic entry decision has to be carefully analyzed”. We found that the biggest challenges our case companies faced are in relation to cultural differences and existing regulations, as well as the constant change in regulations vis-à-vis of the E-business firms’ environment. This is exactly the finding of Niu et al. (2012), when they investigated the challenges for foreign companies when entering an emerging market.

True to Hofstede’s (1980) cultural dimensions, China’s high-context culture shows in the trend that we have discovered. The typical Chinese E-business customer follows the collective buying habit, in the way that if a product is popular, generally all the Chinese customers tend to converge on buying it. However, when discussing the Chinese typical ethic known as “Guanxi” (Senik, et al., 2011), we found out that in the case of E-business, it is not as crucial as it is for traditional business (Gao et al., 2016). Our findings have shown that, although useful for the firms in terms of strategy such as promotions, Guanxi is not “a key factor towards successful business” (Blackburne & Buckley, 2017), for the E-business firms who chose the entry modes that we described. This is mainly because by having a local partner, that partner takes over all cultural obstacles that a foreign firm may have, proving Anderson’s (1988) argument that “a local partner helps the foreign investor to overcome the culture gap as a bridge between home and host country”.

Gao et all (2016) suggested as further research aim, to investigate SMEs that wish to enter the Chinese market using a global platform such as Tmall. The purpose of using an E-intermediary is to bridge the network between small foreign brands and the Chinese consumers not only for overcoming the liabilities of a small firm as discussed but also because it provides lower cost of entry (Cho &Tansuhaj., 2013). We found that, although all the firms used a platform, the platform differs from one company to another. The reason for using the platform is exactly in line with the above mentioned literature. However, depending on the aim, some of the firms have
chosen to create their own platform aside from their own website, or to go through a more complex service, such as WeChat.

With regards to the political risk, the literature posits that the higher this risk is in a target country, the more prone companies are towards joint ventures, minimizing cost and avoiding ownership (Zhao et al., 2004; Niñerola et al, 2017). Our study has shown that by opting to enter with a partner present on the emerging market, which has the institutional knowledge and experience of the market has the same result of minimizing the risk and maximizing the desired outcome as described by the various authors in our literature review.

5.2 Coupling interaction

In this subchapter, we will use the analysis above to create a table in which the found resources interact with the found contextual factors to create unique findings in the context of micro E-businesses active and economically viable on the Chinese market.
### Coupling interaction of found resources and institutional factors

**Table 8: Coupling interaction**

<table>
<thead>
<tr>
<th>Resource</th>
<th>Institution</th>
<th>Market Status</th>
<th>Regulation</th>
<th>Culture difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Advanced/matured E-market</td>
<td>Regulation volatility</td>
<td>Intellectual property</td>
</tr>
<tr>
<td>Tangible</td>
<td>Low physical investment, inventory as the heaviest investment</td>
<td>X₁</td>
<td>X₁</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Brands and products</td>
<td>X₃</td>
<td>-</td>
<td>X₄</td>
</tr>
<tr>
<td></td>
<td>Physical presence</td>
<td>-</td>
<td>X₈</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Foreign identity</td>
<td>X₁₀</td>
<td>X₁₁</td>
<td>X₁₂</td>
</tr>
<tr>
<td>Intangible</td>
<td>Knowledge and experience about China</td>
<td>X₄</td>
<td>X₅</td>
<td>X₁₆</td>
</tr>
</tbody>
</table>
Valuable components of resources and institution are identified from our case companies, and presented in the matrix. The most important factors are highlighted in green and market status is highlighted in orange, showing the fact that it is the basis for our analysis. Afterwards, the variables are coupled, and market with one of the 3 possible outcomes. An uppercase “X” indicates high interaction between the two, a lowercase “x” represents low interaction between the two and a line “-” indicates no interaction. How did we define the level of interaction? With regards to the impact of the interaction to the entry decision and firm potential performance.

The interaction outcomes between the two variables determine the answer to our research question, “How can firm-specific resource paired with country-specific institutional context influence the successful entering into China for micro e-businesses?” Further, the analysis of the interaction shall be presented.

The high interaction (uppercase X group):

X1: The low physical investment gives the firms the flexibility to respond to the change of regulation from an uncertain external environment. This low commitment to a new foreign market not only reduces the entry threshold, but also decreases the risk of investment loss and provides easy exit in case of business failure.

X2: This interaction highlights the importance of language advantage in relation to costs. If the firm possesses better language advantage, the need of hiring Chinese speaking staff or partners is reduced. When the language presents no challenge to the firm, the entry mode will involve lower cost.

X3: The foreign identity of the products brings the country of origin (COO) effect into the equation, which is paired with the fact that the Chinese consumers are trend followers. The “trend” leads to more sales and the increased revenue, and helps the firm to reach better performance.

X4: The interaction between a matured e-market and firms’ knowledge and experience of the market influences the chance of market entry and business success. In-depth perceived know-how of the matured e-market allows the foreign firms to have a higher chance of obtaining
resources which are internally missing or in short supply. Partnering up with an external party speeds up the entry process.

X5: The combination reflects the choice of a partner and performance outcome. With high knowledge and experience about China, which includes knowledge about the fact of regulation volatility, firms need to be prepared and adapt to change. Such business strategy saves the time otherwise invested in struggling with these regulations. Commitment to the business adaptation will increase the business performance.

X6: The interplay of knowledge and experience about China and language provides direct insight to a “partnership” entry structure. Missing any advantage of these two components requires a need of external complementation.

X7: This turns out to be a very valuable effect on the business strategy. The trend facilitates products’ entry strategy and business success in two directions. The firm either captures the trend, as what are already hot products, and takes the market advantage, or creates a trend of its own brands and products. Either path helps firms towards better sales and performance.

**The low interaction (lowercase x group):**

x1: A matured market status in general provides business opportunity and access to a rich external resource. However, it does not determine the level of investment. The higher investment in the market features a higher risk of loss and potential higher return, and vice versa. To reduce the risk it is possible to lower down the investment by seeking an external partner from the matured market.

x2: Trend knowledge provides better understanding of the 80/20 product strategy. 80% of the sales revenue is generated by 20% of the products. To large extent, the perception of trend determines the physical resource investment allocation.

x3: A matured market shows equal possibility for all products and brands.

x4, x12, x16: The awareness of intellectual property and the action of trademark registration prior to entry practice provides the business with protection, which avoids business loss.
x5, x17: Affected by the mutual country political and economic relationship, a positive or legal product list is regulated. By knowing the boundaries of the product list, firm develop their entry decision making.

x6: The knowledge of language correctly delivers the message of products and brands to the consumers, which helps the business grow. This combination helps with market strategy.

x7: The interaction of brands and products, and customer trust leads to after-entry products strategy development.

x8: This coupling indicates the firm’s capability to quickly adapt to change. Being closer to the market can mean better performance of this task.

x9: This interaction leverages the costs associated with physical presence in China and the language barrier. Low or no language skills result in the employment of a third party, for overcoming this barrier. This third party, for cost purposes, will be located in China and will represent the firm. Therefore, language skills are associated with physical presence in China of the entrepreneur/owner, and with overall lower investment costs.

x10: E-market maturity permits firms of any nationality to enter.

x11: The tag of foreign identity creates distance in understanding the regulation. Therefore a Chinese partner is demanded.

x13: Language barrier can be overcome through a local partner or Chinese speaking representative.

x14: Networking helps with partner-seeking before entry.

x15: Consumers’ trust in the firm’s foreign identity presents the entry opportunity, and contributes to the revenue growth.

x18: This interaction helps the firm shape the business strategy and growth.
No interaction (“-“group):

This group does not have interaction impact on the entry strategy and business performance.

Conclusion from this matrix:

By reading the matrix results, from left to right, we can see 4 uppercase X’s showing under “knowledge and experience about China”, 2 uppercase X’s appearing under “lower physical investment”, and 1 uppercase X under “brands and products”. These results help us in putting more emphasis on the importance of “knowledge and experience” amongst the firm resources. Therefore, the row “knowledge and experience about China” shows that intangible resource has more impact for micro firms entering into the Chinese e-market, when compared to the tangible resource. Nevertheless, most of the tangible factors have interaction impact with the intuitional factors.

Looking at the matrix from top to bottom, we can see 2 uppercase X’s for every green highlighted institutional factor. As such, these columns, “regulation volatility”, “language” and “trend follower” are found to be the most valuable components of the institutional context, from amongst all the institutional factors.

By reading the uppercase X analysis part, the factors regarded as important, from the resource group, and the institutional group arise. When they interact, they help the firms to build up the strategy about the foreign market entry, with the consideration towards achieving better performance. Our findings show that this strategy is achieved by accessing external resource to compliment the missing resource.

As the reader can see, several outcomes (i.e. x5 and x17) overlap. They constitute commonalities between the cases and between the different resources and institutional context factors. They also point towards the answer to our research question. This matrix’ outcome and analysis answers our research question, based on the case analysis and data collection that we have made.
6. Conclusions

This qualitative case study on the successful entry and strategy of micro E-business in the Chinese market has revealed compelling insights and approaches of the different entrepreneurs currently active on said market with the said business model. The purpose of this paper was to examine and comprehend how does the intrinsic and extrinsic elements of a micro E-business in China affect the entry and strategy of such firms for the purpose of successfully internationalizing.

The preliminary tests allowed us to obtain financially viable companies, for the purpose of investigating good practices, and our performance study has proven the initial speculations, allowing us to continue with the next step, the case studies.

The firm specific resources revealed important competitive advantages that these firms had. The knowledge of the Chinese born entrepreneurs allowed them to access business in a different manner from the non-Chinese born, and gave them the advantage of not having to access a third party, based in China with Chinese knowledge and market information. The first conclusion from the analysis of firm specific resources is that knowledge of the Chinese market in some form is required when deciding to start a micro E-business. The analysis of tangible resources has shown that launching e-business into the Chinese e-market does not require heavy physical investment in our research cases. This gives incentive for a sizable base of foreigners to become micro e-business entrepreneurs since the costs and associated risks are very low. This is also a reason for the chosen entry modes. Lastly, the brands and products that these firms sell have shown that they all act as overseas resellers, providing access to the emerging market of China for foreign products and brands. Thus, the entry and strategy take shape from the very beginning, the nature of the firms.

*Proposition 1: For micro B2C E-businesses, the tangible resource is less important than the intangible resource. The capability of applying the Chinese market knowledge and experience to the institutional context, and bringing the results into the entry strategy is more important than the tangible resources.*
The findings were later discussed and analyzed, from which certain entry modes and patterns of strategy have arisen. The chosen mode of entry of the companies we investigated differs from the traditional ones. This is due to the nature of the business and the market environment. **Partnerships have emerged as crucial for the success of micro E-businesses, and cross-border trade was employed by all companies, proving it to be a sizeable opportunity for all the firms.**

*Proposition 2: In a matured E-business institutional context, a partnership entry mode which requires lower investment is preferable for foreign micro E-businesses and can lead to a higher possibility for success.*

The institutional factors represent the context to which all the investigated firms are subjected. Analyzing the collected data has revealed opportunities and obstacles present on the Chinese market due to the institutional context. The biggest findings are: **By using cross-border trade, firms can register in the country that offers them the most advantages** - this finding shows a good practice that can be followed in the form of entry strategy to minimize regulation threats. **Because of the e-business approach of the firms, they benefit from less strict regulations than traditional businesses.** This has been confirmed by both Chinese-born entrepreneurs as well as the foreign-born. **Intellectual property is very important in China.** Having to do solely with the context of China and not with the nature of the business, the entry mode, or the industry, in China is even more important than anywhere else to protect one’s business. From the cultural point of view, **the Chinese are trend followers.** As such, firms can either sell products that are in the current trend and always adapt, or become trend “influencers”. The social media is a very powerful tool in China to do so. Moreover, we have found out that **Guanxi, a phenomenon which we have investigated, but that turned out not to be crucial in the case of E-businesses.** However, Guanxi still provided our interviewees with strategic opportunities. **Language** is also part of the cultural point of view, and the firms investigated, through different means, made sure that they use both Chinese and English.

The business strategy study showed that **brand marketing yields great results on the Chinese E-business market.** Since the Chinese are trend followers, coupled with the excitement that they show towards foreign products (labeled with the brand of Sweden for example), makes foreign brands seem better and preferable over Chinese brands of the same quality. Also, the study of
strategy has shown that **the small size of the firms provides them with an advantage: adaptability.** Another particularity to the Chinese customer behavior is the propensity towards “coming back and buying the same products”. Due to this, the companies have adapted their offers, promotions and products to be as efficient as possible.

The entry and strategies of the companies investigated have created a body of data for us to investigate, from which we identified practices to be followed by further entrepreneurs that wish to start a micro e-business on the Chinese market, and wish to do so in an optimal and economic way. Also, it allowed us to enrich the existing body of literature on the field.

**Contribution to the current literature**

1) Most of the entry mode studies examine from the resource based view and institutional theory, the emerging markets among the industrial business to business context (Meyer et al., 2009; Lindsay et al, 2017). Our study contributed to the entry mode study with a specific focus context on the micro B2C e-business, and in a specific emerging market, China. Such approach allows researchers to investigate the impact of internal variable firm size, and external variable end-customers’ behavior on a firm’s foreign entry strategy.

2) Due to the development of information technology and infrastructure, the traditional business has been digitalized. Despite the widespread acceptance of e-business, little international entry mode study has been done regarding e-business’ entry into an emerging market (Dung & Rothlauf, 2008; Agarwal & Wu, 2015). Ekeledo & Sivakumar (2004) suggested that the digitalization had redefined the e-business entry mode concepts comparing to the traditional ones. In our study, we discovered that the “cross border E-business” has been such an official business entry mode legally regulated by Chinese government for foreign entity to entry the Chinese e-market.

3) Although a large number of entry mode research has been conducted, by investigating firm internal resource and external institutional environment (Meyer et al., 2009; Laufs & Schwens, 2014; Lindsay et al, 2017), only a few pay attention to the follow-up investigation on firm’s performance at a post entry stage (Brouthers et al, 2008). Our study provides an inclusive examination with 3 stages of a firm’s foreign market entry, in other words, prior to foreign market entry, the entry point and decision making, and post market entry. This provides us better
consideration of conducting the research on how does a firm decide on a “successful” entry strategy with a proof of financial and non-financial performance measurement.

**Limitations and future research**

1) Our paper focuses on the Chinese specific market, which is characterized as emergent (Johnson & Tellis, 2008). However, different emerging markets have different particularities (Niñerola et al, 2017), and as such the strategy for micro E-businesses internationalization in China varies from other emerging markets.

2) Due to the time constraints, this study was done on four companies. Although that has allowed us to investigate the depth and breadth of the cases, it also caused a limitation. Future research should include more case companies, for a more accurate result.

3) All the selected firms are the B2C brand e-retailers. As such, the resources obtained as a retailer, and strategy that they used to penetrate the market in the host country, would have been different in the case of brand owners, and thus would have led to a different entry approach into China.

4) Although we take culture difference into institutional context, the focus on the distance between home country and host country is not stressed in this paper. This paper puts more weight of understanding the host country’s culture.

Future research directions should include a higher, more diverse sample of firms from outside China, as well as firms which sell the same products, for benchmarking purposes. This can reveal more emerging best practices for future firms. Another future direction stems from our limitation to product selling companies. Research on firms which provide different value propositions (i.e. consulting companies, services) could reveal other themes, strategies and entry modes.

**Managerial implications**

1) Our findings have shown that it is possible to start a micro E-business online in China without a Chinese business registration. Physical presence inside of China is not mandatory, but it is strongly recommended. Partnership with a partner that has a “Chinese identity” is also highly advised. The local party could be a local Chinese company, or an experienced foreign company
as an “intermediary”, with similar culture background. Such partnership helps to overcome the institutional barriers, both from cultural and political perspectives.

2) Entrepreneurs who decide to internationalize through a micro E-business in China should recognize the “trend” through their network, online or offline, generate business lead, and make their business strategy accordingly. The power of online mouth of words on the Chinese social media is strong, make well usage of it.

3) By following the Chinese governmental rules, new start-ups of the manner explained previously could actually take advantage of the Chinese E-business context. However, the entrepreneurs have to be mentally prepared for the change in regulation that happens at irregular and frequent times, and learn to adapt to it.
References


Appendix

Appendix A: The article basis

Green = Very relevant article; Orange = Relevant articles; Dark brown = Borderline relevant articles

(Double-click on the table to view the excel sheet, in the .docx version)
Appendix B: Interview questions

The purpose of the interview questions is to collect data for our academic study project. Sensitive data such as the name of the interviewee and the company names will be presented as anonymous. This data will be used for our own internal analysis.

General Questions

1. Can you introduce your background, and your connection with China?
2. When did you start your e-business in China? Can you explain your business concept, i.e., products, brand and business mode? Why do you select these brands?
3. What was your major objective when decided to entry Chinese e-market?
4. Where is your company legally registered? In or outside of China? Do you find it difficult to register company in China as a foreigner?
5. How many employees do you have in your company?
6. What is the percentage of your online and offline business revenue?
7. Do you have business partner in China? And who is your partner? Can you explain why do you choose a partner? How do you perceive the “control of your business” between you and your partner?
8. What is your personal role within the business?
9. Do you find personally presented in China help you operate your business?
10. What is your overall opinion regarding Chinese consumers’ attitude towards foreign brands?

Firm specific Resource

1. To launch and operate the e-business in China, what is your physical capital investment, such capital in terms of physical technology (or in your case, it might be the online store hosting), raw material (or in your case it might be the inventory in terms of financial capital), firm plant/equipment (or in your case it might be the office and warehouse), floating capital, geographic location?
2. Core competency is a management theory concept. One definition for it would be: the mix of different resources and skills that give a firm its competitive advantage and separates it from other firms. What is your core competency?
3. What counts the biggest investment in above question 1?
4. What is your human capital investment in your business? Such human resource including number of employees hired, regular staff training, managerial or founder’s knowledge and experience, constructive insights input to the business from employee?
5. How is your organizational relationship among the partner within your organization?
6. How is your organization relationship with your external partners, for example, your logistics partner (both warehouse, and the delivery company), and your products suppliers?
7. To conduct the business, how does your personal network help your e-business in China?
8. What obstacles did you encounter during the whole business setup in China?
9. What are your key resources, which give you the competitive competence (in terms of valuable, rare, imperfectly imitable, or non-substitutable).
10. Is there else resource which you think are very important?

**Institutional Context**

1. For doing business in China, do you count Chinese language as one your advantage or disadvantage to your business in China?
2. What is your main language in your online business? What is in general impression of online communication with customers in China?
3. Do you find the culture distance to your home country, present your challenge to your business operation in China? Where do you perceive such challenge in E-business context?
4. Is your business closely related with the local government regulations? Since the regulation regarding E-business keeps updating, does that closely affect your business?
5. Are you very sensitive to the government regulation? Are you consistently cautious about the regulation change?
6. Does the tariff affect your business?
7. How does the intellectual property regulation in China affect your business?
8. Do you find it easy or challenge to deal with the Chinese Custom during the whole e-business supply chain?
9. When you face issues related with government for example regulation or Custom, or bilateral relationship, and affected your business decrease, how would you seek for solution?
10. What is your general impression or comment of E-business environment (i.e. infrastructure, logistics, online payment etc.) in China?
11. China-America tariff battle, has that affect your e-business?

**Performance**

1. Since you started the e-business in China, how is your business growing? Can you tell us in percentage?
2. When did your business start to gain profit? Would it be possible to share us your financial report in terms of revenue, growth and profitability?
3. Among your competitors in e-business, how much market share do you think you have?
4. How is your business reputation according to your customers’ feedback?
5. What is your effective business strategy in order to reach larger online consumers?
6. What are biggest opportunities and challenges will you say, for operating e-business in China?

Finally, based on what you have experienced throughout the business development, and what you have achieved in business, what is your future business ambition? What suggestion you will give for the new comers who are small sized E-business startups and interested in Chinese market
Appendix C: The coding scheme