The Strategic Trends and Factors of Swedish Manufacturing Companies Establishing in People’s Republic of China

Paper within: Strategy

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Jönköping November 28 2011
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Acknowledgement

We would like to acknowledge those who have made this thesis possible.

Firstly, we would like to express our warmest gratitude to Van Hoang at The Swedish Trade Council in Shanghai, for all the time and support he had dedicated for us to conduct this study. Without him this study would not have been possible.

Secondly, we would like to give a special thanks to our tutor Duncan Levinsohn, for the time and effort he has dedicated while guiding us through the process of this study. His feedback and support has been greatly appreciated and very useful in the progress of this study.

Thirdly, we would like to thank all the participants who willingly gave us their time to answer our survey, without them there would not be a result to fulfill the purpose of this paper. We also would like to thank Franscesco Chirico, Anders Melander and our fellow classmates for their critical feedback to proceed with our study.

Last but not least, we would like to thank our families and friends for their support during the construction of this paper.

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Title: The Strategic Trends and Factors of Swedish Manufacturing Companies in People’s Republic of China

Subtitle: A study within Strategy to locate which establishment strategy that is applied and common factors for Swedish Manufacturing companies.

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Date: November 2011

Subject Terms: Strategy; People’s Republic of China; Swedish Manufacturing Companies; National Responsiveness; Pressure for Globalization; Strategy Approaches

Abstract

Purpose: The purpose of this thesis is to investigate implementation strategies of Swedish Manufacturing Companies when establishing in People’s Republic of China, with the objective to determine what strategy that is the most commonly adapted.

Background: Strategy is an important approach, which companies apply when deciding what direction a company should take, in terms of financial, structural and operational. This study takes a deeper look into the different strategy approaches related to business expansions and establishment in PRC. By evaluating the intentions of a business expansion in People’s Republic of China, the different strategy approaches are influenced by the choice of strategy. The background is based on previous research and existing theories related to strategy.

Frame of Reference: The theoretical framework of the thesis has its foundation in Porter’s theory of competitive strategy. It has been reshaped by Shi & Gregory (1998), Bartlett and Ghoshal (1998), Miltenberg (2005) and Luthans and Doh (2008). To strengthen the matrixes by Luthan and Doh and Miltenberg to Porter’s theory, a model has been developed and explained to connect the different frameworks to the primary data.

Method: In order to fulfill the purpose of this study a cross-sectional design is used. A deductive research approach is followed, and applying questionnaires in order to collect the empirical data necessary to answer the research questions uses a quantitative method. The questionnaires were distributed to a selected sample consisting of 39 Swedish Manufacturing companies that are established in China, consisting of a population of 99 Swedish Manufacturing companies in People's Republic of China.

Conclusion: The overall results showed a very scattered placement of the companies within the strategy matrix. Nevertheless, the result indicated that the majority of Swedish Manufacturing companies establishing in the People's Republic of China choose a Transnational Strategy in a global context. Note that the results should only be used as supportive data and not as a valid source of final information.
Abbreviations

MNC - Multi National Corporation
SME - Small Medium Enterprises
PRC - People’s Republic of China
FDI - Foreign Direct Investment
STC - Swedish Trade Council

Definitions

Strategy - is defined to be a plan that clarifies and decides actions to support a business idea, goals and targets for the organisation. It includes in general the organisations’ specific goals and objectives and the action needed to achieve these goals and objectives APICS dictionary (9TH Edition, 1998).

Enterprise sizes - are identified by the total number of employees and annual turnover. See figure 1

<table>
<thead>
<tr>
<th>Industry</th>
<th>Company Size</th>
<th>Number of employees</th>
<th>Annual turnover (MIO CNY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing Industry</td>
<td>Micro</td>
<td>&lt;10</td>
<td>&lt;= 20 000 000</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>&lt;50</td>
<td>&lt;= 100 000 000</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>&lt;250</td>
<td>&lt;= 500 000 000</td>
</tr>
<tr>
<td></td>
<td>Large</td>
<td>=&gt;250</td>
<td>&gt; 500 000 000</td>
</tr>
</tbody>
</table>

Figure 1. Enterprise Size definition, figure is adapted from Europe Commission 2003
1 Introduction

This section will provide an overview of the context in this paper regarding Swedish manufacturing companies’ appliance of strategy and the common factors between the companies when establishing in PRC through a funnel approach.

An up to date topic through various channels of media, attention towards China in an economic context has for a long time been very high. China has been an important and interesting country in the scene of globalization and has developed into one of the most attractive markets with the largest population and with a rapidly growing economy in the world (Fang, T., 2005). This has led to increased attention from investors and foreign companies establishing in PRC, in this case especially Swedish manufacturing companies.

Even though the economic factors are important, there are more important aspects to regard in this context. Phenomenon concerning Swedish manufacturing companies raises the question to why they explicitly choose PRC as a location to re-locate their businesses from Sweden or establish a subsidiary company. As stated in a report from the Swedish Trade Council in July 2008;

“One in four days a new Swedish company is established in China and the strong establishment trend will continue. Manufacturing companies are continuing the largest group of Swedish companies in China. Consumer goods and services increased the most”, according to a study by SEB and the Swedish Trade Council (2008).

Our approach of determining what strategy and factors for the establishing in PRC will create a clearer understanding as to why Swedish companies choose PRC. We aim to locate the strategy of Swedish companies established in PRC between the theories and link these together with our results to pin point under which strategy in our theoretical framework has been applied. To be able to provide us with an understanding and overview to the problem or phenomenon within we are conducting research.
1.1 Background

For nearly a century, western MNC’s have had a growing interest of establishing a subsidiary company or relocating their facilities to the PRC. Over the past decades a trend has emerged where companies from the Western world are taking initiative to establish their own subsidiary companies or relocating their establishments to PRC.

In order to ensure the transition to a more transparent mindset of the Chinese community of businesses, the Chinese government issued approximately 280 laws and regulations with the purpose to issue and ensure that PRC becomes more transparent, to be able to handle the rapid growth and interests from FDI’s and Western companies willing to issue subsidiary companies (Greene, M. & Tsa, C. 2008.) Ease on regulations has lowered the economic barriers for Western SME’s, making the establishing-terms equal to the terms of MNC’s, benefitting PRC’s business environment in terms of growth. A growing interest from SME’s of this kind is a response to the lowered barriers and also to the major economic impact China is having on the countries of the world, developed as well as developing countries. Resulting in a need for countries as well as companies to develop their own strategies and responses to meet the dynamic environment and challenges when trading with or expanding into, PRC (Shenkar, O. 2006).

In the context of establishing in China, the need for companies to create their specific strategies to be able to enter the “new” market and sustain their presence in PRC is essential. Companies rely on their pre-determined strategies for further expansion and growth; however the interest here lies in finding the determining variable(s) from a strategic perspective that the Swedish industry companies share in what terms of reasons and what company strategy impelled them in their desire to expand.

Bureaucratic and legislative obstacles in PRC for foreign companies still creates an obstacle for companies to manage despite the PRC’s government promotion of transparency and ease of regulations, which is a part of the choice of strategy.

By studying and clarifying the choice of strategy for Swedish industrial companies when entering PRC, aspects of different variables may emerge and show the key factors to the companies’ choice of strategy. Whether any of the variables on the external or internal level have an impact on the chosen strategy specifically constructed for the targeted market.

The scene of dynamic economic environments may differ the shaping of a company’s choice of strategy. However, finding the choice of strategy between Swedish manufacturing companies in PRC may relate to one another and show more clearly as to what reasons and factors played a key role for re-locating or establishing a subsidiary company in PRC.
1.2 Problem Discussion

The Swedish Trade Council has located a gap in the information discussion concerning establishment strategies in PRC, from a Swedish company perspective. Which implementation strategies and what factors do these companies have in common when entering PRC. Also, what do they consider is the deciding factors to re-locate or establish a subsidiary in PRC.

We believe that the use of developed strategic frameworks as a basis will give us clarification to what strategy and common factors the companies have. Based on that we will be able to segment the Swedish Manufacturing companies into what strategy they originally applied when expanding into PRC.

1.3 Purpose

Identify which strategies that Swedish Manufacturing companies implemented when established in PRC, and what the common factors are between the companies.

• Which strategies do Swedish manufacturing companies apply when entering PRC?
• What strategic trends and common factors can we find between Swedish Manufacturing companies when choosing PRC?

1.4 Delimitation

We find the lists of Swedish companies that have been in contact with the STC in Shanghai to be delimitation since we know that there are more than 99 companies operating in PRC. Our sampling has been affected from the beginning since the lists does not provide us with all existing Swedish companies operating in PRC. From the contact information we experienced that it was incomplete and not up to date which created a barrier for us when personally contacting them by phone and also when sending the internet survey by email.

In the study we followed a deductive, quantitative approach. The choice of method may delimit the depth of this study since we did not have the possibility to ask personalized questions based on previous answers from the respondents. The response rate may affect the end result of our quantitative study. A low response rate delimits the reliability of the study, and the accuracy of the results. Few responses in our quantitative study may even result in an inaccurate conclusion relative to the reality. Our quantitative method with a low response rate delimits the final result of this study.
2 Methodology

According to Saunders, M., Lewis, P. & Thornhill, A (2007), epistemology is concerned with what is considered acceptable knowledge in a field of study. Within this field it is debated whether the positivistic or interpretivistic assumption is the correct method to use. We believe that epistemology of positivism should be used in our study since we are aiming for a quantitative statistical study to identify and measure a statistical value. On the contrary, the interpretivistic assumption is based on social construction, thus the qualitative method. Therefore, having taken these two views into consideration, we will further explain why we have decided a positivistic, quantitative approach.

2.1 Positivism

With our thesis we are trying to describe clear relationships between our objective facts and statistical analysis based on the primary data collected from our Internet survey. For us, it is irrelevant to see each respondent’s answers since we are testing existing theories with summarized data. The important factor for us is to find a common implementation strategy based on statistical variables to test against the framework. Based on the purpose of this study we will adapt a philosophical stance of the natural scientist since our research philosophy reflects the principle of positivism (Saunders et al. 2003).

Remenyi, D., Williams, B., Money, A. and Swartz, E (1998) describe that natural scientists prefer “working with an observable social reality and that the end product of such research can be law-like generalizations similar to those produced by the physical and natural scientists.” (p.32).

As for the interpretive stance, Saunders et al. (2009) advocates “it is necessary for the researcher to understand differences between humans or role as social actors.” (p.116)

Furthermore, because we are looking at the sample as a whole we are better off by conducting the report from a positivistic assumption. As we evaluated the approaches we came to the realization that quantitative research is usually conducted with a positivistic approach, and qualitative research with an interpretivistic approach. Therefore, in accordance with our perceptions regarding the methodology assumptions, the positivistic view is the most accurate method to use for a study like ours. Since the findings can be proven by natural science, compared to interpretivism that is built upon peoples’ perceptions, such as thoughts and reflections, which influence the end results and can make them biased depending on the person conducting the study.

As the positivistic approach led us towards a quantitative approach we compared the definitions to ensure that we selected the approach that suited our purpose the most, which was the quantitative method. However, since the response rate was below the statistical value of 32, the research cannot be seen as a reliable source of reference, but rather supportive data for future studies within the same subject.
3 Theoretical framework

Within this section the needed theoretical background will be used for the analysis. Relevant concepts will be presented, explained and discussed in accordance to the subject in focus. In order for the reader to get a grasp of the context we are writing in. We will search for the common strategic factors of why Swedish enterprises establishing the People’s Republic of China different levels of theories will be presented. The thesis will be based on two relative recent developed strategic theories (Miltenburg, J & Luthans, F / Doh, J.P) which then will be traced backwards to its origins, being Porter’s Generic competitive strategies.

To get a grip of where the two main matrixes, we have to look at the original state. We will start by presenting the foundation of the competitive strategies by Michael E. Porter. We aim to give the readers a basic understanding of how Porter’s theories have been developed and eventually became matrixes. Furthermore, the theories we will then be connected by identify common factors and relate them to our empirical findings.

3.1 Porters’ Generic Competitive Strategies

In order to outperform other corporations in the same industry and gain advantage the corporations should be approaching one of the either three generic strategies; overall cost leadership, differentiation or focus according to Porter, (1980).

The overall cost leadership approach is aimed to gain the lowest cost in the offering products. In order to gain the lowest cost the corporation requires to aggressive construct an efficient-scale facility. The corporations’ need to pursue cost reduction through; cost-control, minimizing cost in R&D, service, marketing etc. Even if the objective is to lower the costs, quality and services and other areas cannot be ignored. Factors that lead to low-cost positions also provide a considerable entry barrier in terms of scale-economies or cost advantage. To achieve cost leadership, this also requires high market share or other advantages, such as good access to raw material. Often when corporation who are approaching cost leadership strategy they are related to offering standardized products, which competes against its competitors through price (Porter, 1980).

Differentiation is the second approach of the generic strategies. It treats differentiation of products or service. The products that are created perceive as something unique, which in the same time fulfills the customer’s demands. The differentiation can be in different forms; in design or even in brand image etc. The customers of a corporation who achieved the differentiation strategies are loyal because of the demand fulfillment in the unique products they been offered which leads to customer who aren’t price sensitive (Porter, 1980).

Focus strategy is focusing on a specific buyer group, segments or geographic markets. The Focus strategy can approach a specific customer through uniqueness or low cost and in combination with these two strategies at the same time; depend on the specific target of customer in each situation. The advantage of this strategy is that corporations can be very flexible when approaching customer in different segment or markets by focusing on uniqueness in on segment and low cost in another (Porter, 1980).

To enhance the knowledge of Porters strategic theory, Porter developed a matrix, which shows the relationship between the strategic advantage and the strategic target shown in figure 1.


STRATEGIC ADVANTAGE

<table>
<thead>
<tr>
<th></th>
<th>Uniqueness Perceived by the customer</th>
<th>Low Cost Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry wide</td>
<td>DIFFERENTIATION</td>
<td>OVERALL COST LEADERSHIP</td>
</tr>
<tr>
<td>Particular Segment Only</td>
<td>FOCUS</td>
<td></td>
</tr>
</tbody>
</table>

Figur2. Three Generic Strategies (Porter, 1980)

3.2 Competition in Global Industries

To achieve the strategies of Differentiation, Cost-leadership or Focus the companies may need to consider an international perspective when competing against its competitors. A company does not necessarily need to compete internationally to be successful, but advantages could be gained through globalization. According to Porter (1980) there are many differences in competing internationally vs. nationally, which are emphasized in the development of international competitive strategies.

2.2.1 Sources and Impediments to Global Competition

There are three basic mechanisms when participating in international competition; through Licensing, Export and FDI. The most common step for companies to be introduced internationally starts off by export or licensing and after it been gained international experiences the companies considers of FDI. Independent subsidiaries in foreign countries are typical FDI when companies faced truly global competition. Porter (1980) argues that there are a number of distinct impediments to overcome before achieving the competitive advantages in global competition. The sources of global competitive advantages are mainly focused on four causes; conventional comparative advantage, economies of scale or cumulative volume achievable in individual national markets, advantages from product differentiation and public-good character of market information and technology. To achieve the advantages the companies has to overcome the impediments, which consist of economic impediments, managerial impediments and institutional impediments.

Comparative advantage is when a country or countries have significant advantages in factors; cost, quality in producing a product. In such cases the companies will strongly consider of producing its products in these countries and export the products (Porter, 1980).

Production-, logistical-, marketing- and purchasing economies of scale advantages will contribute to lowering cost and/or lowering the lead time of the products when the companies achieving the economies of scale of products. The logistical perspective describes the availability of the product demanding in right place (Porter. 1980).
Global experience and technology are related to the experience and technologies that can contribute to efficiency and lowering cost. It can be applied in several national markets where the companies’ are active in. The experience of selling varieties of products in each national market can bring benefits to the next (Porter, 1980).

Product differentiation is associated with the uniqueness of products that can give companies an edge of reputation and credibility in each market, which leads to loyal customers. National responsiveness will be high and the company is striving to fulfill the national demands (Porter, 1980).

The economic impediments’ consist of transportation and storage cost, which increases or decreases depending on the decentralization grade of a company. The global competition difficulties increase when difficulties in supporting the national markets demand on different product varieties arise. In order to support the national or international demands it requires that companies gain access to each national distribution channel to impede the global competition (Porter 1980).

Managerial impediments consist of differing marketing task, intensive local services and rapidly changing technology. Though the product which are sold globally who are similar, the marketing could be forced to be different in each market to achieve result. The companies can find it tough to operate on a globally basis in nationals with tough competition from the local companies which are more responsive. There could be difficulties for global companies to operate in a country where rapid changes in technology require which demands the latest technology in product (Porter, 1980).

Institutional impediments are typical government impediment to global competition, to protect the local companies or employees. The insistence of local R&D, local produced component in products and a variety of different regulations and tariffs and duties is typical institutional impediments (Porter, 1980).

3.3 Shi and Gregory, Map of International Manufacturing Network Configurations

In the theoretical framework by Shi and Gregory (1998), they argue that their article consolidates to Porter’s theory. They describe Porter’s generic competitive strategy to be much focused on the external environment in a strategic perspective from the company. Stated by Shi and Gregory it is not able to be applicable in a global context. Nevertheless, Porters’ external aspects are incorporated into Shi and Gregory’s strategic framework but with several “networks” as they call it, where they are able to determine what “networks” or factors from a internal and external perspective a company should regard before evaluating their level of performance which they are able to choose a strategy in. Creating a company level of competitiveness to the environment in regards to the resources and availability on an international level.

Many different researchers’ theories have been indoctrinated in the process of creating Shi and Gregory’s framework. They have taken into account the manufacturing performance priorities and variables stated from DuBois, F.L., Toyne, B., Oliff, M.D, (1993) and Cohen, M.A., Fisher, M., Jaikumar, R (1989) theory considering the including of vendors, plants and markets into an aspect of strategy in a global context.
From Shi and Gregory’s Globalization theory in relation to the manufacturing industry has two distinct characteristics being geographic dispersion and interdependent coordination between factories. From their research, they have been able to map the necessary aspects as to what a company should regard when strategically considering a new approach in a domestic/international setting (See figure 2).

Figure 3. Map of international manufacturing network configurations (Shi & Gregory, 1998)

On the Y-axis, regards the geographical dispersion on the left side which is linked to the vertical integration on the right and networks of the company will be displayed and determined in the VAC (Value Added Chain). Explaining the relation of gathering favorable resources in the company, each point where the resources meet in the VAC, creates access to beneficial resources that can be regarded when choosing a company’s strategy for global purposes. However they may be linked to one another, the diverse fields of operational level and accessibility describes different perspectives from an organizational and geographic point of view.

On the X-axis the geographical dispersion and horizontal coordinated establishments provides an option as to how a company can replicate and deliver a synergy advantage from a shared common structure in the network. This model will expand and help companies focus more on competences’ relevant to the strategic approach. Centralizing and/or specializing upstream manufacturing operations and localizing down-stream operations based on the local market demands.

Purpose is to find a balance or optimize the factors of the companies and increase their efficiency, control of security, market accessibility, and level of responsiveness to various changes in the business environment.
3.4 Bartlett and Ghoshals’ Managing across borders theories

The theories of Bartlett and Ghoshals (1998) about managing across borders, is divided in different parts where they guide readers through an application handbook. The application handbook is then divided into three section of challenges; Strategic, Organizational and Management.

To understand the relevance to Porters’ theory and how Luthans and Doh are adapting the information, we will delimit the challenge sections to the strategic challenges of the framework to suit our purpose. The reason to exclude the organizational and management challenges is also because of Bartlett and Ghoshal only focus that part in a transnational strategy perspective. The transnational strategy is discussed in both Miltenburgs and Luthans and Doh theories.

*The strategic challenge* is describing forces that are driving companies to understand their business and includes the forces of driving towards global integration and national responsiveness. During the past decade or so it has been an era of reforming the global political boundaries. Companies where emerging to gain capability for the global demands and the technology were changing. These are just a few of all forces, which drove companies into global integration, which lead to more integration and coordination across national boundaries. The companies did also understand that there were forces toward the national responsiveness, which were required. The degree of global integration and national responsiveness differ in how the competition of the competitors was, governmental requirement and the global or regional market demands. The challenge section goes then further into the importance of analyzing the conditions of the company’s capabilities and internal objectives. Tools in be aware of the different implications from different actions are broad up to understand during the strategic challenge section. The new strategic requirements of this section is regarding the three forces on how organizations need to combine capabilities; global efficiency, local market responsiveness and worldwide learning in innovation. With these different capabilities companies are supposed to do a competitive benchmark and to locate the strategic capabilities of is own company. The global efficiency describes the degree of how a global company develops strategies dominated by global-scale efficiency. The local market responsiveness is the degree of multinational companies develops strategies dominated by national responsiveness. The worldwide learning is comparing the degree of how international companies develop strategies dominated by worldwide knowledge transfer (Bartlett & Ghoshal, 1998).

3.5 Miltenburgs’ Pressure for Globalization vs. Local responsiveness strategies

John Miltenburg developed a matrix (figure 2) to enhance the knowledge’s of the differences when combining the pressure for globalization and local responsiveness after adapting the theories from Shi and Gregory (1998) in article; International manufacturing networks, to develop global competitive capabilities.

*The pressure for globalization* describes the need for companies to design and manufacture products according to the global demand. The degree of pressure for globalization depends on the competition domestically and internationally. When the pressure is low, a company only operates in their home country, and when the pressure raises companies’ starts to export internationally. Eventually when the pressures are high companies starts to acquire or build fa-
ilities in the foreign countries and create an international network of production (Miltenburg, 2005).

The pressure for local responsiveness is when companies respond to specific customer demands, different employees and governmental requirements. Specific customer demands differs in different markets where the companies compete. The requirement of the employees can be different in different regions, and the governmental requirement can be different countries where the companies are located (Miltenburg, 2005).

When pressure for local responsiveness is low, companies often produce standardized products and use standard practices in their operations. When the pressure rises to high, companies must decentralize the control of activities and give the operations in different market rights to respond to the local demands (Miltenburg, 2005).

### 3.5.1 Pressure for globalization vs. pressure for local responsiveness Matrix

The vertical axis of the matrix describes the pressure for globalization from low to very high, in combination with the pressure for local responsiveness on the horizontal axis (from low to high degrees). The matrix below show seven different strategies that suits different circumstances companies faces, in relation to Pressure for local responsiveness and pressure for globalization.

<table>
<thead>
<tr>
<th>Pressure for Local Responsiveness</th>
<th>Pressure for Globalization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
<td><strong>Very high</strong></td>
</tr>
<tr>
<td>Transnational Strategy</td>
<td>Global Strategy</td>
</tr>
<tr>
<td><strong>High</strong></td>
<td><strong>High</strong></td>
</tr>
<tr>
<td>Multinational Strategy</td>
<td>Multinational Strategy</td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td><strong>Medium</strong></td>
</tr>
<tr>
<td>Multidomestic Strategy</td>
<td>International Strategy</td>
</tr>
<tr>
<td><strong>Low</strong></td>
<td><strong>Low</strong></td>
</tr>
<tr>
<td>Domestic Export Strategy</td>
<td>Domestic Strategy</td>
</tr>
</tbody>
</table>

**Global strategy** is used when companies faces high pressure for globalization and low pressure of local responsiveness. The strategy considers standardized products with the strength of price competition. Companies strive for economies of scale through production, marketing and distribution. The economies of scales and benefits of experience achieves when companies sell large volumes of standard products globally. Each regional operation operates centralized and tightly controlled with activities (Miltenburg, 2005).
*Domestic strategy* considers one of the simplest strategies where pressure for globalization is low and companies are competing in the local domestic markets. The pressure for local responsiveness can differ depending on the business or branch the business are in. In branches where the companies are selling standard products typical everyday used product the companies don’t need to fulfill specific customer demands. In branches when companies sell specific customer ordered products it will be one of the main focuses to satisfy the customers’ specific demands (Miltenburg, 2005).

*Multidomestic strategy* is used when the pressure for globalization is medium and the pressure for local responsiveness is high. This strategy is often related to companies with manufacturing facilities in different markets around the world to fulfill local demands. Economies of scale is hard to achieve because the uniqueness of the products to satisfy the local demands, the uniqueness lead to less price sensitive customers (Miltenburg, 2005).

*International strategy and domestic export strategy*, the international strategy is common when the pressure for globalization is medium and pressures for local responsiveness are low. The customer need is the same in each country, which leads to production and selling of standard products. The main competition is within price and companies must achieve economies of scale to compete, which leads to large factories in different regions around the world. To achieve larger productions it is common to merge and acquisitions with other companies. When the pressures for globalization are less medium or close to low, the domestic export strategy is used. Companies will structure large domestic factory with production of standards products, which will then exported worldwide (Miltenburg, 2005).

*Multinational and transnational strategy*, the multinational strategy is used when pressure from both globalization and local responsiveness is high. The common factors of this strategy are when companies establish factories in most countries where there are high demands of their products and to meet the need of the local markets. Joint venture or acquisitions are often used to gain access to new countries and markets. When the globalization pressure is even higher there is a transnational strategy to treat that. The transnational strategy is to optimize the manufacturing network to lower the price of the specific demanded product. The companies will strive to act locally and think globally (Miltenburg, 2005).

### 3.6 Luthans and Dohs’ Global vs. National strategies

From the article of Bartlett and Ghosal (1998) about managing across borders, Fred Luthan and Jonathan P. Doh have during 2008 released a developed matrix of the relations of Global vs. National strategies. The matrix describes four different types of strategies when considering globalization shown in Figure 5.

In the *global integration* companies are described in high demand of integrate into various markets globally. With a high level of globalization perspective companies are focusing in producing standardized products. Global integrations generates economic scale and takes advantage of large size of productions batches which result in lowering unit cost, this benefits companies who moves into worldwide markets selling larger amounts of products. The economies are capturing through specific activities in control of centralized coordination. The activities are also been repeated distributed geographically to achieve the economic benefits (Luthans & Doh, 2008).

The *national responsiveness* perspective is a sense of having pressure for local responsiveness. The ability of understanding different customers desires in the specific regional market,
respond to different national standards and government regulations. The national responsiveness is also being related to the need of adopting technique for managing local workforce and decentralized control of activities of each MNC (Luthans & Doh, 2008).

3.4.1 Global integrations vs. National responsiveness Matrix

The matter of global integrations vs. national responsiveness can further be analyzed via a two-dimensional matrix, figure 3. The vertical axis in the figure measures the need for global integration. The degree of movement in the axis results in the degree of economic integration. The horizontal axis measures the need for multinational companies to respond to the national responsiveness or differentiation. This means that MNCs must address to local desires and government regulations.

![Global integration vs. National responsiveness matrix](image)

Figure 5. Global integration vs. National responsiveness matrix, Luthans and Doh adapted it from C.A, Bartlett and S, Ghoshal (1998).

**Global Strategy** is based on high level of global integration and low level of national responsiveness. According to Luthans and Doh (2008) this strategy is the simplest strategy. It describes when the need for integration is high and the awareness of differentiation is low. The global strategy strives for economies of scale, and base the competition in a low price segment related to standardized products. To fast gain access to big production systems mergers and acquisitions often occurs (Luthans & Doh, 2008).

**Multi-domestic strategy** is the opposite situation from global strategy. The multi-domestic strategy is referring to high differentiation and low level of global integration. Companies using this strategy are highly focused in satisfying the demands of differentiation. The economies of scale are not important since customers are less price sensitive, and more focused in the uniqueness of the products. Products are often produced in smaller scales and specific to each customer and market (Luthans & Doh, 2008).

**The international strategy** reflects a more complex environmental situation; the strategy incorporates those cases in which both the need for integration and awareness of differentiation are low. Customers’ needs are the same in all markets, so the main selling products are standards. The standard products leads to price competitions, but obtaining economies of scale are of less value. Corporations who are characterized by increasing international standardiza-
tion of products and service, is typically reflecting the international strategy approach. This strategy can lead to lower needs for centralized quality control. This strategy is mostly used in industries facing either pressure for global integration and local responsiveness, or both. These companies often experience a temporary phase in this quadrant with its standard stage in one of the other strategies (Luthans & Doh. 2008).

The transnational strategy is typically used when the need for integration and differentiation is high. There is a strong need for integration in production along with higher requirements for regional differentiation in the market. When companies are trying to achieve these objectives simultaneously, it is a typical approach in the transnational strategy. This approach reflects companies with high need of satisfying customers need and to operate globally. It is targeting customers who are not price sensitive which lead to higher margins and profit. Transnational strategy is the most challenging strategy, which many corporations seek to operate in (Luthans & Doh, 2008).

3.7 Ownership structure

There are different types of ownership structures when deciding on operating abroad; Export/import, subsidiary, mergers/acquisitions, alliances and joint venture, licensing and franchising. The export/import structure is more often the only available choice for small and young corporations when striving for internationalisation. The export/import structure could also be a huge income for larger corporations when they want to expand to new market with less investment. Export and import is all about how the corporation buy, sells and moves the products between countries. The subsidiary is a fully operation abroad with full control from the MNC. The primary reason for using subsidiary is to have full control of the operation and believing that it will have greater effect on efficiency with shared visions and clearer communications. Mergers/acquisitions are expanding through purchasing or exchange equity involving two or more corporations. Many corporations merge or acquire another corporation in order to expand their resources quickly or eliminating competition. Alliance is any type of cooperative relationship between two or more corporations, some alliances are temporary in order to cope with a specific order and others are more permanent. Joint venture is more and permanent agreement through two or more partners in controlling a business. Alliances and Joint venture can be in different forms, including cross marketing, technology- sharing and production contracting deals etc. The licensing structure is another way to gain market entry; it is a form of alliance to acquire the rights to produce or/selling a product in a specific location. Franchising is closely related to licensing structure. A franchise is a business agreement between the franchisor to allow the franchisee to operate an enterprise using the franchisors trademark, logo, product line and other methods of operation in return for an agreed fee (Luthans & Doh. 2008).
3.8 Theory summary

To get an overall view and a visual understanding of the structure in the theoretical framework, figure 5 of theory summary have been created to illustrate how the theories are connected to each other.

![Theory Summary Diagram](image-url)

Figure 6. Theory summary

Porters’ matrix in figure 1 is describing the two main strategy approaches, namely cost-leadership and differentiations. There are also focus approaches, which are a mix of both cost-leadership and differentiation, and the choice depends on the suitability in each market. Porter also influence his strategy approaches to globalization, which extends to gain competitive advantages. Both Shi and Gregory and Bartlett and Ghoshal have then developed Porters’ strategy approaches.

Bartlett and Ghoshal are developing the strategy approaches in a global context, which has a main focus on the transnational strategy approach in how to manage across borders. Shi & Gregory are mainly focusing on the internal capability, which will then use Porters’ strategy approach to define were in the global context the companies are able to expand to gain competitive advantage.

Furthermore, Miltenburg has developed the strategy approach of both by Porter, Shi and Gregory to define a matrix who easily can describe different strategy approaches companies can use to extend competitiveness locally or globally depending on the pressure from the competitors. Luthans and Doh are also using a similar approach as Miltenburg, but developed Bartlett and Ghoshals approach to four main strategies, which is a complement to the transnational strategy approach. Luthan and Dohs’ matrix is in a more international management approach, which is not in depth as the Miltenburg matrix, but is using same parameter within
level of global integration and national responsiveness. The main differences between the two matrixes are that Miltenburg are going in depth within manufacturing operations and Luthans and Doh are focusing on a management level strategy approach.

The Miltenburg matrix is designed for manufacturing companies, which is of high relevance of our thesis because of the delimitations to Swedish industrial companies already established in China. The main differences within Miltenburg and Luthans and Doh different strategies in the matrix, is the dept in each quadrant. The main difference in the Multinational and Trans-national strategy approaches is in the ownership structures of the operation in the foreign country. We believe that Luthans and Dohs’ matrix gives an easier picture, of the main strategy differences and an overhaul description of each strategy.
4 Method

This chapter presents the research approach and the chosen method we used in our thesis. The method provides a description of the research process, the chosen methods for the data collection, survey development and the data analysis. Reliability and validity of the study are also discussed along with the limitations of the chosen method.

4.1 Choice of Method

The choice of methods and design is normally critical for the researcher in his or her attempts to establish validity. Within the positivistic view, Auguste Comte (1974) sees science as the study of facts that can be observed through sensory input. The following subheadings will have a significant effect on the execution of the thesis.

4.2 Quantitative Approach

Since we are investigating existing theories of global integration, and will test the strategic variables to why Swedish enterprises establish business operations in China, based on primary data. Our goal is to test the theories rather than formerly explore how something is. In accordance with Holme and Solvang (1997), the most appropriate approach to use would be the quantitative approach since we are interested in showing how strong relationships there are between variables. We want to say something about the selected sample, and in order to understand the selected population we want to base our research on statistical evidence such as numbers (Fred Kerlinger, 1980). Our objective was to create a quantitative research which enables us, the researchers to investigate a phenomenon that are unaffected or unbiased by ourselves (Jacobsen, 2002). On the contrary, qualitative research is based on emotions and thoughts.

4.3 Deductive

In accordance with our purpose, Saunders, Lewis, Thornhill (2009) argue that existing theories and ideas that will be tested should follow a deductive approach. Since our research objective for this study is to investigate why Swedish manufacturing companies establishes in PRC we test and analyze primary data with existing strategy theories. Our starting statement led us to an approach where we mainly focus on comparing two current theoretical frameworks of Luthans and Doh (2008) and Miltenberg (2005) related to global strategy. By using the theoretical framework as a base, we wanted to see the strategic trends within the manufacturing sector, and to find which business strategy most companies use during the establishment process in PRC. We also wanted to investigate what incentive the companies had with the expansion into PRC, which demanded a lot of information from the respondents. Therefore, to be able to investigate business implementation strategies Eriksson and Kovalainen (2008) suggest that the deductive approach is aiming to produce statistical generalizations traditionally by using experimental and quantitative methods. Since we believe that a statistical measurement can capture the reality of implementation strategies more efficiently that interviews we decided to create a five point Likert scale survey to find the origins of Global Strategy and move forward and locate any strategic factors that are shared by researchers after Michael Porter’s research.
Cross-sectional, Longitudinal

In the aspect of the time horizon, our research of the phenomenon is conducted in the setting of the present situation to the trend that more Swedish companies are relocating to PRC. Determining the reasons to which factors that are contributing to the emerging globalization, make this process a cross-sectional setting in a time perspective. Our study differs from a longitudinal study, since we are trying to find a relationship between two variables (global integration and national responsiveness) in a present context related to the research.

Our investigative approach is set from an exploratory perspective in a Global context. We believe researching the Strategic frameworks and finding combining factors between these theories and answers from the survey will strengthen our discovery.

4.4 Data collection and data analysis

To support our theories we make use of both primary and secondary data, which includes a survey providing us with numerical figures we are using and articles to provide credibility and validity to our results and analysis in the end. The multiple methods are increasingly used within research of business and management (Curran & Blackburn, 2001).

Secondary Data

The collection of secondary data for this thesis is mainly comprised of literatures within strategy that were included in our theoretical framework. The various literature used are an essential part in the thesis in order to gain an overview of the existing theories and previous research that has been done in the field of globalization strategies, and more specifically for Swedish Manufacturing Companies establishing in China. Theories included in the framework have been used to shape the research design with regard to the questionnaire design. The literature has also been used as the basis for the interpretation and analysis of our data. The literature has mainly been collected from the Jonkoping University library, while the journal articles were mainly collected from web-databases.

Population and Sample

Regarding the population, it was determined from several lists and a number of companies within various industries that we received from the STC in Shanghai. The companies on the lists had previously been in contact with the STC regarding their establishment process in PRC. The population for our study was chosen based on two criteria’s; firstly, the company had to be entirely Swedish owned. And secondly, the company had to be conducting an operation of manufacturing in the PRC. The criteria limited down our population to 99 companies.

The sample frame was set according to the population established through the 99 companies that fulfilled the criteria of this study. We used the method of non-probability sampling, and incorporated both convenience - and judgment sampling in this process. Due to the fact that we conduct this study in collaboration with the STC in Shanghai, we firmly believe that the most reliable sample for this study is the information we receive from the STC. Thus, note that our study does not include all Swedish manufacturing companies in PRC, but only those that have been in contact with STC themselves. This is partly due to economic factors and lack of time to gather data, but also because STC want to investigate their clients’ strategic decisions. Convenience sampling was therefore adapted since we only took companies that we received from the STC into consideration of this study. Based on the lists we selected the elements we believe is the most interesting and important to get information from, which we based on the manufacturing industry through judgment sampling. Furthermore, since the lists
were outdated we only had 39 companies that fulfilled the requirements in 2011, while we originally had 99 companies in 2009.

To sum up, the population of this study consisted of 99 companies, and the sample of 39 companies.

**Primary data**

**Survey**
We believe that a survey gives us the ability to analyze the characteristics of global integration and national responsiveness in the context of global strategy. This is contrary to qualitative research with open-ended interviews and focus groups where there is a risk of strategic drift and biased results in the research execution (Saunders et al., 2009).

**Survey Structure**
We started by establishing personal contact by phone with the representatives to the chosen companies before submitting further information in detail. This is a concept of informed consent, which means that the participant will receive information on two separate occasions from different communication channels to understand the purpose of the research in detail. We did this to increase the willingness to participate in the survey since we believe personal contact and information will increase the response rate. At the end of the survey we have an open-ended question to allow the respondents to leave a comment if they wanted to add a personal message.

**Likert Scale**
We decided to implement the Likert scale in our questionnaire to create the necessary responses to locate what strategic approach the respondents take during the establishment process in PRC. Our questions are developed to be bipolar in conditions to the Likert Scale, meaning that all questions are reflecting an either a very negative or positive attitude to our attitudinal stated questions. Our choice of using a numerical rating in an interval through one to five, a five-point Likert scale, is suggested by Dawes, John (2008), to bear more of a statistical significance to the end results than what the proposed scale of one to ten by Cummins, RA and Gullone, E (2000). Our methodological method from the very beginning has been to proceed towards finding the truth and common factor to the phenomenon.

**Measurement Development**
A key aspect in the creation of the survey was the development of adequate measurements for our previously selected theories within global strategy. We formed the questions based on a Y and X axis to be able to measure the level of globalization and level of national responsiveness that companies take on during the implementation of business operations in PRC, in order to see what type of implementation strategy each company undertook. Furthermore, each question has a rating scale from one to five. Adding the sum of all answers a number will be reveled than can be translated and transferred into the Strategy Mix, where the X and Y axis is functioning as a function of the answers from the survey. In addition, the survey includes screening questions aimed to determine the eligibility of the survey, but also some basic information questions regarding the company and the respondents’ positions. This was incorporated to increase the reliability of the research to ensure that the respondents had sufficient knowledge. 13 of the questions are related to level of national responsiveness, X- axis (see Appendix 3), while the other 13 are related to the level of globalization and the field of business growth, business integration, cost efficiency etc., Y-axis (see Appendix 4).If a company answers 1 on all the questions, the minimum point will be 13. On the contrary, if a re-
respondent answer 5 on all questions, the respondent will end at 65, which is the maximum point in the survey.

4.5 Method for Analysis

Evaluation of Methods
As stated in the section above, we called the designated sample before we sent them the survey, to increase the probability of a response rate higher than it would if we didn’t call them beforehand. To ensure that our online survey was eligible we had a test group conducting the survey so we could evaluate whether to enhance the survey as we gain more insight knowledge and deeper understanding of the design and formulation of the questions. The test group was not a part of our designated sample, and the result was therefore not affected by the changes in the survey and the reformulations of statement and questions. Nevertheless, one of the most important factors for us was the time constraint. We were very determined that the survey could take a maximum of 10 minutes, due to managers’ lack of time.

Practical Problems
We encountered some practical problems during the information gathering process. The lists of companies that we received from the STC were not up to date. Another practical problem that we experienced was the language barriers and time difference. When we tried to call the managers in China we often got connected to assistants that did not speak English very well, and it was sometimes hard to understand what they were saying. Furthermore, the geographical location was also an inconvenience since we had issues to reach the respondents during office hours. This was especially hard when some managers had office hours in the mornings and meetings in the afternoon. As a result, we had to leave messages to the receptionist or just send them an email. The most significant issue that we experienced was the low response rate. Even though we tried to call in advance, everyone in the sample did not choose to participate in the survey. As a result, our response rate was only 23%, which is extremely low in relation to our small population and sample size. Therefore, our study cannot and should not be used in any scientific purpose since we don’t have a sample large enough to give us any validity in our research.

Quality of Method
In this section of the study we will elaborate the reliability, validity and limitations of methods. We will present threats and weaknesses, and explain what actions we have taken to minimize them.

Reliability
We have based our reliability on one of Robson’s four threats to reliability of a study: subject- or participant error, subject- or participant bias, observer error and observer bias (2002). In this study we can exclude subject- or participant bias, since we do not have to interpret the data based on thoughts and feelings since we focus on numerical data. In addition, the observer error can also be excluded as a threat since we are conducting an Internet based survey, and not interviews. We are exposed to subject and participant errors due to the fact that the respondents in this study are from various companies of different size and age. Some respondents have also worked longer with certain operations within strategy than others. Furthermore, we also run the risk that respondents’ are not taking the survey in a serious manner and answering the questions in a hurry, rather than thinking it through before submitting the answers. Nevertheless, the observer bias is related to how people interpret data differently.
Before sending the survey we had clearly defined our questions in a way that we could easily interpret and put into our framework. Due to this fact, we excluded the threat of observer bias and increased the reliability of the study.

Validity

In the context of validity, Robson (2002) charts threats to validity in six different categories, namely; history, testing, instrumentation, mortality, maturation and ambiguity about casual direction.

We decided to conduct an anonymous study, since the result may affect the corporations and the respondents in some negative way. By taking this action, we also minimized the risk of “testing”, which is the risk that respondents will answer a survey wrongly if the research may be to a disadvantage in some way for the participating company. In the study, we had a short interval for the respondents to answer our Internet based survey. This was made in an attempt to decrease the “instrumentation” risk. The “history” risk was a non-existing risk in our research since we did not focus on products or brands, but toward global strategy and implementation. Therefore we did not focus our study on the effects of people’s brand perceptions. Morality refers to participants dropping out of studies. That risk will be there, but to ensure that our respondents did not drop out the study or did not answer all the questions, we made all questions mandatory (not including the open ended question for comments). Nevertheless, we experience the risk of low participation due to the fact that the respondents had to answer each question in the survey. Furthermore, ambiguity about causal direction is a particular difficult issue to define. We believe that our study is exposed to ambiguity about casual direction since we did not know in beforehand whether the respondents had a positive or negative attitude when they answered our survey. The study could therefore be affected by this threat. Nevertheless, we believe that it has little effect on the results since we are investigating strategy rather than personal behavior and feelings. A study within another context would run higher risk than we do.

Limitations of Methods

There are however, limitations with each chosen approach. As discussed in the earlier sections Robson’s chart of threats to validity had us think closely about the study. There are both pros and cons related to chosen approaches of this study.

By using a survey in our approach we have to take the possibility of low response rate into consideration. We also have to take a population into consideration since we used convenience and judgment sampling. If our result would have a low response rate, the result we got may be misleading and incorrect, as we would only have a small number of respondents. Nevertheless, the most crucial limitation to our thesis is the selection process. By adapting convenience- and judgment sampling we targeted a distinct group that fulfilled our requirements for this study. Due to the selection process, we also indirectly gave the study a biased picture since we selected the requirements based on our own personal opinions through convenience- and judgment sampling. Moreover, the Likert scale measurement limits the study to an overall perspective, rather than firm-specific knowledge for each respondent.
5 Empirical Findings

In this chapter the result of our research will be presented and the result of our survey.

Nine different companies have answered the survey that was sent out to the sample of Swedish manufacturing companies established in China. Our sample consisted of 39 companies who received the questionnaire and we had a response rate of 23.0%, which is relatively good, but since our sampling is narrowed down to only 39 companies the result will consider as a pilot study.

5.1 Company information

In the result of the conducted survey only middle management or higher participated, the participant can be related to a higher knowledge of the companies’ strategies. The distribution of the different levels of management of the participants are 66.7% to High level management, 22.2% to Board of directors, 11.1% to Middle level management and 0.0% to workers level. Because of the middle to board of director’s level of management, participated companies there can be concluded to provide a higher credibility to the survey result than if it were worker who answered the questions. Since subjects of strategies are held in a high level management in companies we were aiming our survey for the people in higher positions. The high level of management can be reflected to one of the survey question, which controls the awareness of the respondents’ knowledge of the company’s strategy, shown in figure 6. The reasons of why it shows a majority of high awareness are directly connected to the level of management. The reason of why we chose to include this question on our survey is to strengthen the surveys credibility of the participants’ answers.

![Chart: Awareness of the company's strategy](image)

Figur7. Awareness of the company’s strategy

The different ownerships structure of the Swedish manufacturing companies consists mostly in the form of wholly owned subsidiaries, 66.67% see figure 8. According to the theories, companies are starting the globalization through export/import to explore a new foreign market. When companies are more mature in the foreign market they usually start to involve some kinds of operations in the country, which is related to the subsidiary structure. There are
also companies who merge or are acquisitioned by other companies, which provides for a faster immigration into a foreign country. The reason of merging or acquire is also related to the need of expansion of the internal capabilities. The alliance and joint venture structure relates to companies who can see need of each other when entering into a certain country. The partnership can benefit everyone in the group. The result form the survey shows clearly that most of the participated companies are using owned subsidiaries, which relates to the maturity of the company. There are also shown that there are companies who are importing the Chinese local products to Sweden. The need of alliances and joint venture can relate to uncertainty in the companies who established in China. In the merging front can relate to achieve the economies of scale which relates to need of high scale of production and therefore need for high capabilities to meet the standard product demands.

Figure 8. The ownership structure of the foreign operations

Further more information about number of employees and the annual turnover are shown in figure 9. The figure is a result of the different size of the companies who been answering the questionnaire. There are also information of how long the companies been operating in the Chinese market. Through the figure 9 we can define that none of the respondent companies are within micro size, and the companies were within small, medium and large sized companies in regards of number of employees. However the result will differ if the definition of what size the companies are in turn of the annual turnover. There are two companies who are having a turnover less than 10 million RMB which consider as micro size, and there are three companies who are consider as small sized companies with a turnover from 10 to 99 million RMB. One company are within the interval of medium sized and three companies are considers as large companies with a turnover of 500 to 999 million RMB. To define the size of the companies can be difficult depend on what factor is in consideration. In the analysis and further in the result we will consider the size of the businesses in regards if the companies turnover. The definition of which sized the respondent companies are shown in figure 9.
5.2 Mapping the Companies into the Matrix

In the result of our survey we found out that the majority of the companies are using a transnational strategy, see figure 10. The companies are having a high level of globalization pressure and a high level of pressure of national responsiveness. Even if we would have used the matrix of Miltenburg, the outcome into a transnational strategy is affected by the factor of the ownership structure, which is dividing the upper left quadrant to transnational and multinational strategy. The multinational strategy according to Miltenburg, places the companies to have a high pressure for local responsiveness and high pressure for Globalization and is typical for companies that use joint ventures or acquisitions to gain access to a foreign market.

We can therefore base our result of the survey that the transnational strategy approach is most common. All of the participated companies in our survey have also been operating in China for more than 5 years, which tells us that the companies are experienced, and not new to the Chinese market. Based on the result we can tell that the Transnational Strategy are commonly used in companies who have been operating in China for more than 5 years, but since our result has a low number of participants and does not consist of companies who have been operating less than 5 years we cannot generalize that Transnational Strategy only are usable by mature companies in the market. The characteristics of the companies who approaching the Transnational Strategy are for the most consider as large companies. All of the large companies whom attended the survey are within the Transnational Strategy which can be considered as one common factor.

In the result there are three companies who differ from the other in regards that they are using a Global strategy approach. Of these two companies there is only one of them who are specific within its ownership structure. The main differing company is Company 6, see figure 10, which is in the Global Strategy quadrant in the matrix and is using an ownership structure of alliance and joint venture. The company has also been operating in China for more than five years but has not taken the leap to operate in China through a subsidiary. The Company 1 who also has been using a Global Strategy context are consider as small sized company as well as company 9 who are micro. The common factor the companies who are approaching in the Global strategy context is consider as micro or small sized companies in regards of their...
annually turnover, because if the companies been considered as numbers of employees the companies would be considered as medium or large size companies.

The only company who are differing from the others is company 8 who are approaching an International Strategy context where is used when the demands is considers as the same in all the markets the company are in. The International Strategy approach relates to standard product with no necessary economies of scale objectives. Company 8 is the only company who don’t have high pressure for globalization or global integration and combining it with low level of national responsiveness which is not aiming to satisfying the local demands. Even though the company are not featuring with price competition or uniqueness the companies considers as medium sized with 1000 to 4999 employees. However the company is having a turnover from 100 to 499 million RMB. There are no concrete factors that can be related to this kind of approach except that it is the only company who are consider as medium sized.

**Level of Globalization**

The level of Globalization in the Y-axis is describing both the level of Pressure for Globalization (Miltenburg, 2005) and the Globalization Integration (Luthan & Doh, 2008). If the companies experiences pressure for Globalization from the competitive environment and a high level of Global integration, the Level of Globalization in the Y-axis will sum up to a high or low level for both Global integration and pressure for Globalization factors.

**Level of National responsiveness**

The X-axis contributes to the same principle which sums up the high or low pressure but for National responsiveness and National responsiveness factors from the both theories’. If the companies are striving to satisfy the national demands the companies will be described as high level of national responsiveness in the X-axis, and if the companies are not operating in the foreign country to fulfill the local the demands they will be described as low level of national responsiveness.

<table>
<thead>
<tr>
<th>Position X</th>
<th>Position Y</th>
<th>Company</th>
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<tbody>
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<tr>
<td>36</td>
<td>40</td>
<td>Company9</td>
</tr>
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</table>
5.3 The common factors between Swedish Manufacturing Companies

In order for us to determine what factors are most important in the approach of choosing a strategy. We are showing the factors that have a part in each of the strategies in Luthan and Dohs’ model. To use this as support, we are able thoroughly show what questions from our survey are connected to which strategy. As seen in figure 11, we find the fourteen questions fitting in the figure, to represent the characteristics and factors included in Transnational, Global, and International and Multi-domestic strategy. However, we have only included the results from each company if they have answered a four or five. We find it important to display this because if the companies would have answered three or below on the question they show that they do not full fill one factor in the strategy. For example, if they state a four or five on the question concerning the production of standardized product, then we can draw an assumption that on this question they are categorized to applying a Global Strategy. In figure 11 we can see that the Strategic growth factor is the factor that permeates in all of the companies that participated in the survey. The other common factor, according to six of nine com-
panies is to increase market share. The increasing market share and strategic growth factors are closely related to each other since the strategic growth factor are important for companies striving to gain market shares. From our findings, there were no companies entering the Chinese market neither to utilize the internal capability, nor to gain technology advanced and R&D. The findings also indicated that low labor cost was not the main reason to enter PRC. The factor of producing customized or standard products are directly related to economies of scales or satisfying specific local demands. If the strategy was to gain economies of scale there was not a clear trend of strategy, since the companies are using a mix of both transnational- and global strategy. Factors to gain specific material in the country are not, nor has the main factor since only two companies answered that the reason was to establish China. Some of the companies experienced declining market share in their home country or in the established countries, as a result decided to enter a new market to stay competitive. The factor to increase profit margin is also a factor of why companies established China. To get an easier picture of what factors are the most common between all companies, see figure 11.

<table>
<thead>
<tr>
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<th>Company 4</th>
<th>Company 5</th>
<th>Company 6</th>
<th>Company 7</th>
<th>Company 8</th>
<th>Company 9</th>
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<td>To produce customized products</td>
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<td>Gain competence labor</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Gain technological advances</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers request</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquiring specific product</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilize internal capabilities</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D purpose</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Experienced declining marketshare</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Increase profit margin</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic growth</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Figure 11. factors for establishing China

When speaking about ownership structure, we can say that the majority of answering companies are subsidiary structured and are centrally controlled by the parent company. However, the factors that all companies have are strategic growth and increase of market shares. This section of prioritizing for the companies is an effect of the level of pressure from customers and demand of the products locally and internationally. Levels of maturity of the companies are all at the same level in the sense that they desire to achieve strategic growth and increase of market shares.
6 Analysis

In this section the results will be analysed in debt.

Since there are 11% of our participated companies who are using an ownership structure as Alliance / Joint venture there could be a reason for the Swedish companies’ uncertainty of the national laws, government regulations and personnel recruitment. The long-term partnership with another company who got great knowledge within these factors they can focus on their core competence which minimizing the waste of energy loss. The ownership structure can also be related to the maturity of the company operating in the foreign country. If a company is new in a market it usually starts with Export / Import ownership structure, since it is considered to bear little risk. The Joint venture and alliance structures are also common when companies consider entering a new market. Lack of competence in a company that alliance with a second firm may merge competences, and contribute to synergy effects. However when companies are feeling more secure in the entered market they are willing to take more risk to gain higher profits. Subsidiary ownership structure is related to the increased risk when companies establish and purchase operating facilities. With a subsidiary structure, companies can control all activities, such as costs and operations. The calculated risk increases when companies mature.

Since the result showing us that the companies been operating in the Chinese market for 5 years or more it can be consider as a higher level of maturity. To act in the Transnational strategy approach according to Miltenburg, the companies need to be in a higher level of maturity phase of the internationalization, which could be the reason of why 66.7% of the participated companies are using the subsidiary ownership structure see figure 8. The reason of why companies are more willing to operate in a Transnational Strategy approach could be that it contributes to selling high quantities and gaining market shares. We believe that the companies operating in China want to achieve economies of scale and in the same time realizing that the local demands in China are affecting the branch market shares in total. Companies would then want to lowering costs to gain profit of the global sales and in the same time fulfil the Chinese demands of their product which are closely related to high pressure for globalization and high level of national responsiveness.

The results of the companies who are using the Global strategy approach reflect to companies who are in need to gain high capability and economies of scale to satisfy the high demand of the standard products who is offered. And to gain market share the companies has to compete with price, and the specific demands from the locals are ignored. In the figure 9 it shows that the companies who are approaching the Global Strategy are small or micro size. There is then more importance to gain high capability when the company are small to gain economies of scale and to be able in competing with price. However, we believe that the reason that company 6 is using alliance and Joint venture ownership-structure is to reach higher capability related to the strategy.

Company 8 who are differing the most to the others, are using the International strategy approach which neither has pressure for competing globally or to satisfy the local demands. We believe that this company are producing products who interests a few or a certain customer which got a constant level of demand. The reason is that this customer only buys from this supplier which relates to the low competition level and low level for satisfying the local demands. We believe that this company got a long-term supply contract with the buyer since the operation is considering as a medium sized company with 450 employees in the Chinese operation only and 1000 - 4999 in total. If there was not a long term commitment the operation would not be in that sized which is risky for the company.
7 Discussion

We will discuss around the connections to our findings and factors from a statistical perspective the Swedish manufacturing companies regarded before establishing in PRC.

We have been able to show and locate as to which strategic factors in the theoretic model that Swedish Manufacturing companies in PRC have in common. We were able to segment the companies based on the survey answers and to determine which factors are in focus from the companies, before entering PRC. However, due to the late progress of creating a survey and several fluctuations in agreements with our previous partner firm, we have been forced to change direction of our research. Meaning our time line of conducting our research has been very limited, which we believe may have a negative impact on the collection of data and impact the results. Not only time being a limitation, the Swedish Trade Council (STC) has affected our research since our sampling has been fully based on lists of Swedish companies who have been in contact with the STC in Shanghai. We are aware that there are more Swedish manufacturing companies operating in PRC than the companies found in the Swedish Trade Councils’ company-list. Not only did the list not cover all Swedish manufacturing companies operating in the country, we found the contact information to be incomplete since it had not been updated since the year of 2009. Some of the companies on the list had been acquired by non-Swedish owned firms or the contact information was to insufficient for us to contact the company by phone or email. So we decided to narrow down from 99 to 39 companies from the available contact information changing our approach from focusing on a whole population to sample out of convenience and contacting the companies where the contact information was complete.

Our results from the quantitative data showed us that the majority of companies are drawn to the section of a transnational strategy in the theoretical model of Luthan and Doh. The results indicate that the majority of the companies had a high level of response to their local market and pressure of being as globalized as possible. We believe that they had the ambitions to sell as much of their products to the local market, PRC, and at the same time provide their products globally. In relation to their time spent of operating in PRC, we can make the assumption that the reason these companies are moving towards a transnational strategy is because they have an increased focus to supply and sell products to the market in China. When they entered five to ten years ago, these companies may have differed in strategic thinking. However, there were four companies out of the nine who did not get placed within the transnational strategy. More specifically, three companies were placed in the Global strategy; they have in common that they share a common factor to have been operational between five to ten years in PRC. However, they differ in the total amount of turnover and employees at the establishment, these figures shows that company six is clearly a medium sized company and therefore completely different from company eight and nine. Who clearly are large companies and may have a focus from the start to be more globalized and not to sell their products to the Chinese market, which company six is showing a tendency to do.

Other factors, not included in figure 11, we found that all companies have been operating in PRC for a minimum of five years. However, the companies differ in their ownership structure of their establishment in PRC. We can see that the companies placed in the Transnational Strategy segment possess an ownership structure to be in form of subsidiary companies which has been obtained by acquisitions or a joint venture.

In the other group of companies placed in the Global Strategy category, the factor is that they are all micro- small sized companies in terms of turnover. According to the figure 10 we believe that these companies are rapidly trying to achieve high capabilities and economies of
scale to satisfy a demand in their other markets. To achieve that much capability in a short period of time, the ownership structure can clarify as to why they are placed in a Global Strategy approach. We believe that based on our supporting data that they have created alliances and/or joint ventures to rapidly achieve goals of economies of scale.

For the single company being placed in an International Strategy, we believe that company eight has no pressure for globalization or a very high level of national responsiveness. Meaning that company eight does not have the need to achieve economies of scale to satisfy markets in a global perspective or to the local market. However, from the answers in figure 11, they produce customized products and it shows that they established in PRC on request from their customers. We believe there is a clear link between the customers’ request, increased market share and strategic growth. If there would have been no demand from their customers, then company eight maybe would not have established in PRC and their establishment would not have been a part of their plans for strategic growth. We believe that this company is not in a position of need to acquire economies of scale and they fulfill a satisfactory level of output to supply their products globally and locally to satisfy their customer needs.

As the reader you might conclude that “Strategic growth” and “increase market shares” are obvious factors to why Swedish manufacturing companies establish in PRC. However what we have discovered is the order of factors the companies find most important for their strategy of entering PRC. Many assumptions are that the main reasons are because of the low labor cost and ability to increase their profit margin which we see are false when comparing these assumptions to the results.

We believe that we have been able to fulfill our purpose of locating common factors and placing each of the Swedish Manufacturing companies to a strategy in the framework of Luthan and Doh (2008) and locate the common factors. However, we do not have enough participants to be able to make a generalization but in our results we can display and argue that these companies are mostly being drawn to have applied Transnational, Global or International Strategy and that they have had strategic growth and increase of market shares as main factors, which has been our purpose.

With the results in hand, we were proven to be wrong about our assumptions. As an example of a pre-survey assumption we had, we believed that low cost labor played a significant role in specifically choosing a strategy for PRC as a new entry. We could see that low labor cost in Luthan and Dohs’ model was an important factor that contributes to be able to achieve economies of scale. However, from our results we could see and determine that this generalized assumption is in fact completely inaccurate. In fact low cost labor was not one of the main reasons for the strategy choice of entering PRC.

Our expectations were very different to the answers we received; we were expecting the majority of the companies to be placed in the Global Strategy section of the theoretical model. Instead, we received a very scattered placement in strategy of all nine answering companies, where the majority of companies where placed in a Transnational Strategy.

Distributed results showed more specifically that five companies were placed with having a Transnational Strategy, three companies within Global Strategy and one single company in International Strategy. We believe that these results are affected on the ownership structure that each company has, which gives us a picture of the companies’ strategy approach and we are able to connect the annual turnover with the size of the company and determine what their strategic objectives are with their establishment in PRC.
8 Conclusion

In this section we will summarize the outcome of this study.

Our purpose was to be able to place each of Swedish Manufacturing companies in PRC into a strategy and then to locate if there are any strategic trends and what the common factors they share in the strategy they have been placed. We applied the strategy matrix of Luthans and Doh (2008) Pressure for Globalization and National Responsiveness to answer the first research question.

We found that according to the survey answers and research that 1) five companies show that they bear characteristics from a Transnational Strategy where factors that characterize this strategy are that they share the same ownership structure and that they are trying to reach economies of scale to answer the demand of the local and international market. 2) Three companies were placed in a Global Strategy; we determined that they have goals of achieving economies of scale in a very short period of time, which is connected to the ownership structure. Their structure in form of alliances/joint ventures plays a significant part in which strategy they are placed. 3) Company eight was placed in a International Strategy because of the fact that they have no need to achieve economies of scale to satisfy their markets locally and internationally, and that they provide a satisfactory level of products and hence have no need for acting in a short period of time.

Based on our results we conclude that the reasons as to why Swedish manufacturing companies are establishing in People’s Republic of China, is because each company has a production of standardized products. However they differ in approach of strategy. We believe that the companies who apply a Transnational Strategy do so with long term goals, meanwhile the companies in the Global Strategy have very suddenly been approached by customers and increased the demand which means that they have been forced to achieve economies of scale in a short period of time. Company eight, has simply not had that pressure from the customers since we believe that they are tightly partnered with their customer(s), which could be the reason for low competition level.

The common factors that we were able to locate were the fact that all companies establishing in PRC were focusing on gaining strategic growth and to gain market shares. These are the main factors and are prioritized by the companies in the context of establishing in PRC, see figure 11.

Current trend shows an increased number of establishments in PRC by Swedish companies, and the majority of our respondents have been representatives from very large corporations. Our results from the representatives have a very large organization both in number of employees and turnover per year. Another aspect is the time difference the large companies have been in PRC, because the business environment is highly dynamic. What we have discovered is what strategy they implemented five years prior to the environment that is in PRC today.

Reflecting on our findings and results we are in agreement that there are other directions we believe future generations of researchers can direct their research to concerning the presence of foreign companies in PRC from a strategic perspective. During the research we encountered one particular perspective we believe may be of interest, which is investigating the strategic process behind the strategic decision that Swedish Companies are making before they establish in PRC. Determine what factors having the highest impact on the strategy they want to implement.
References:


Dawes, J. 2008. Do data characteristics change according to the number of scale points used? An experiment using 5-point, 7-point and 10-point scales. International Journal of Marketing Research, 50 (1), 61-77.


Milttenburg, J. 2005, “Manufacturing strategy; how to formulate and implement a winning plan”, 2nd ed. Productive press


Appendix 1.

Dear Mr. __________________

It was a pleasure speaking with you earlier regarding our strategy survey. As we discussed during the call, we are interested in your response and would be delighted if you participated. Your information will be kept confidential during and after the survey, and your answers will be treated anonymously in the report. You will notice that you are asked not to include your name anywhere in the questionnaire. The survey will close at 11.59 am October 25th, so please make sure to complete the survey before that date and time.

Background
This questionnaire is part of a research project to understand why Swedish Companies establishes in China. Your response is important in enabling us to obtain as full an understanding as possible of this topical issue.
The questionnaire should take you about 10 minutes to complete. Please answer the questions by using the ranking system of 1-5, where 1 stands for Strongly Disagree and 5 for Strongly Agree. If you wish to add further comments, please feel free to do so in the spaces provided at the end of the survey.
The answers from your questionnaire and others will be used as the main data set for our report that will be submitted to the Swedish Trade Council in Shanghai after completion. You will be able to retrieve a copy of the report by sending an email to one of the email addresses found at the end of this document.

The Research Team
The team consists of three highly educated students from Sweden, in collaboration with the Swedish Trade Council in Shanghai. The main objective with the survey is to gain further knowledge and understanding why Swedish enterprises establish in China in a strategic approach.

To enter the survey, please press on the link below:

https://www.surveymonkey.com/s/tradecouncil

We hope that you will find completing the questionnaire enjoyable. If you have any questions or would like further information, please do not hesitate to email or telephone us.

Thank you in advance!

Sincerely,

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+46 703 31 17 26
info@fridawallin.com

Robert Truong
+46 707 77 87 65
trro0999@student.hj.se

Mattias Granat
+46 705 20 22 19
mattias.L.granat@gmail.com
Appendix 2.

Survey questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the current position that you hold in the company?</td>
<td>(This information will not influence the result, but will be used in the calculations of the response rate.)</td>
</tr>
<tr>
<td>What entry and ownership structure did the company use when entering China?</td>
<td></td>
</tr>
<tr>
<td>How many employees does the company have in China? (Answer with percentage, a ratio or number of people)</td>
<td></td>
</tr>
<tr>
<td>What is the annual turnover of the business (in Mio RMB)?</td>
<td></td>
</tr>
<tr>
<td>How long have the company been operating in China (in years) ?</td>
<td></td>
</tr>
</tbody>
</table>

Why does Swedish Companies Establish in China?

Please Fill in the most suitable alternative for each question

<table>
<thead>
<tr>
<th>Answer Options</th>
<th>1. Strongly Disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5. Strongly Agree</th>
<th>Rating Average</th>
<th>Response Count</th>
</tr>
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<tbody>
<tr>
<td>I am aware of the business implementation strategy of our company.</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>7</td>
<td>4,67</td>
<td>9</td>
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<tr>
<td>Our company is globally integrated.</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>5</td>
<td>4,56</td>
<td>9</td>
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<tr>
<td>We have niched products for the given markets.</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>3,89</td>
<td>9</td>
</tr>
<tr>
<td>We produce customized products.</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>5</td>
<td>3,89</td>
<td>9</td>
</tr>
<tr>
<td>We have high demands on cost efficient solutions for our products.</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3,44</td>
<td>9</td>
</tr>
<tr>
<td>Our sales are not affected by price changes, in regards to customized products.</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>2,11</td>
<td>9</td>
</tr>
<tr>
<td>Low labor costs was the main reason we established in China.</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>2,44</td>
<td>9</td>
</tr>
<tr>
<td>The reason to establish in China was due to the domestic compe-</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>2,11</td>
<td>9</td>
</tr>
</tbody>
</table>
We have had difficulties to find labor for our factories. 4 2 1 1 1 2.22 9
Labor with the right competence was difficult to obtain. 1 2 3 2 1 3.00 9
The products we produce in China are only exported. 6 0 1 1 1 2.00 9
We sell large quantities of our products internationally. 0 0 3 3 3 4.00 9
We produce and sell products after the local demand. 3 1 2 1 2 2.78 9
We established in China because our customers requested our products. 2 1 3 2 1 2.89 9
The reason of the establishment in China was to increase market shares. 2 0 0 2 5 3.89 9

**answered question**

**skipped question**

Please fill in the correct ranking.

<table>
<thead>
<tr>
<th>Answer Options</th>
<th>1. Strongly Disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5. Strongly Agree</th>
<th>Rating Average</th>
<th>Response Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D is the main focus to enhance cost efficiency.</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>2.78</td>
<td>9</td>
</tr>
<tr>
<td>We believe that China is the emerging market for our business.</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>4.22</td>
<td>9</td>
</tr>
<tr>
<td>There are great reasons for us to continue to expand our business in China.</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>4.22</td>
<td>9</td>
</tr>
<tr>
<td>We started with occasional exports before starting a production company.</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2.67</td>
<td>9</td>
</tr>
<tr>
<td>The political environment in China was a deciding factor to enter the country.</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>2.44</td>
<td>9</td>
</tr>
<tr>
<td>The domestic economic growth rate affected our decision to enter China.</td>
<td>1</td>
<td>0</td>
<td>4</td>
<td>4</td>
<td>0</td>
<td>3.22</td>
<td>9</td>
</tr>
<tr>
<td>The demographic attributes affected the geographic location</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>3.00</td>
<td>9</td>
</tr>
</tbody>
</table>
We experienced a decline in market shares before establishing in China.

| 2 | 3 | 0 | 4 | 0 | 2,67 | 9 |

We had the capability internally to expand the business in China.

| 0 | 0 | 1 | 6 | 2 | 4,11 | 9 |

The strategic growth was the main reason to expand our business to China.

| 0 | 0 | 0 | 6 | 3 | 4,33 | 9 |

Our financial objectives with the internationalization have been obtained.

| 0 | 0 | 3 | 6 | 0 | 3,67 | 9 |

The profit margin has increased since the establishment in China.

| 0 | 1 | 3 | 2 | 3 | 3,78 | 9 |

Level of technological advances contributed to the establishment.

| 2 | 2 | 3 | 1 | 1 | 2,67 | 9 |

**Appendix 3.**

**X - Axis**

| We have niched products for the given markets. |
| We produce customized products. |
| Our sales are not affected by price changes, in regards to customized products. |
| The reason to establish in China was due to the domestic competence. |
| We have had difficulties to find labor for our factories. |
| Labor with the right competence was difficult to obtain. |
| The products we produce in China are only exported. |
| We produce and sell products after the local demand. |
| We established in China because our customers requested our products. |
| We believe that China is the emerging market for our business. |
| There are great reasons for us to continue to expand our business in China. |
| The political environment in China was a deciding factor to enter the country. |
| The demographic attributes affected the geographic location of the business. |

**Appendix 4.**
<table>
<thead>
<tr>
<th>Y - Axis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our company is globally integrated.</td>
</tr>
<tr>
<td>We have high demands on cost efficient solutions for our products</td>
</tr>
<tr>
<td>Low labor costs were the main reason we established in China.</td>
</tr>
<tr>
<td>We sell large quantities of our products internationally.</td>
</tr>
<tr>
<td>The reason of the establishment in China was to increase market shares.</td>
</tr>
<tr>
<td>R&amp;D is the main focus to enhance cost efficiency.</td>
</tr>
<tr>
<td>We started with occasional exports before starting a production company.</td>
</tr>
<tr>
<td>The domestic economic growth rate affected our decision to enter China.</td>
</tr>
<tr>
<td>We experienced a decline in market shares before establishing in China.</td>
</tr>
<tr>
<td>We had the capability internally to expand the business in China.</td>
</tr>
<tr>
<td>The strategic growth was the main reason to expand our business to China.</td>
</tr>
<tr>
<td>The profit margin has increased since the establishment in China</td>
</tr>
<tr>
<td>Level of technological advances contributed to the establishment.</td>
</tr>
</tbody>
</table>