1. Introduction

For companies entering foreign markets, the choice of how to organize sales and marketing operations is a crucial one. Companies may choose among a variety of operational modes, ranging from company-external modes (such as using different kinds of distributors or agents) to company-internal modes (e.g. own sales persons which only occasionally visit the market in question, or the establishment of a local unit). Also intermediate forms can be used (for example, jointly owned units). Earlier research has tried to explain the organizational modes that exporting companies have chosen in foreign markets (see e.g. Anderson and Coughlan, 1987; Klein and Roth, 1990), and numerous attempts have been made to explain the sequence of organizational modes in overseas markets (for a review, see Johanson and Vahlne, 1990). Though considerable research has been carried out on these issues, a review of the literature indicates that no clear consensus have emerged concerning how to explain the choice of organizational mode in foreign markets. We know that organizational modes tend to have certain pros and cons which vary depending on local market, industry and company characteristics, but it is nevertheless not clear based on the literature which organizational modes companies will use in, say, a culturally, institutionally, and geographically distant country such as China. Neither is it clear which theoretical framework will be most suitable for analyzing why companies choose to use certain organizational modes. The present paper will draw on ideas from an experiential learning perspective (Johanson and Vahlne, 1977; Levitt and March, 1988), an economic perspective (cf. Young et al, 1989), and an institutional perspective (DiMaggio and Powell, 1983).

Only about a decade ago, in the early 1980s, Chinese decisions to import large-scale products - such as infrastructural development projects, machinery for the manufacturing industry, and large consultancy projects - were made by the central ministries. The Chinese reforms of her economic system have changed this situation. Research (e.g. McGuiness et al, 1991) suggests that decision making has become more decentralized, that the final users of

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1 Thanks to Nicola Lindertz and Annika Vatanen for their help with some of the data collection.
the products tend to be actively involved in the purchasing process, but that provincial and central authorities still take part in the process. Anecdotal evidence also suggests that domestic and overseas Chinese consultants and "middle men" may play an important role. Thus, the rapid changes taking place in China recently (and, to complicate the picture further, changes occurring at a different pace in different parts of the country), have significantly changed the roles played by the Chinese actors participating in purchasing. A growing number of foreign companies are active in the Chinese market. Consequently, companies are today facing a business environment that has changed considerably since the opening of the Chinese market around 1980.

How have foreign companies, over time, handled their sales and marketing operations in China? Although research has been carried out on some facets of contemporary marketing in China, on negotiations in particular, there is a paucity of scholarly work on the organizational modes utilized by western companies in China. With the exception of studies of the equity distribution in foreign investment enterprises, the only paper that I have been able to find is a presentation of a case study by Easton and Li (1993). Further, little research has focussed specifically on sales of industrial goods and project. The aim of this work-in-progress paper is to increase our knowledge of foreign market entry and development in the specific Chinese context, as well as to enhance our understanding of foreign market entry and development in general. The following questions are posed:

1. which operational modes are used by Scandinavian companies?
2. what characterizes these operational modes in the Chinese context?
3. which changes have taken place over time in the use of operational modes?
4. how can the companies' use of operational modes be explained?

The remainder of the paper is structured as follows: first, the empirical study is described, followed by a short discussion of some of the crucial issues facing western companies involved in industrial sales in China. The subsequent section presents the organizational forms used by the companies, and subsequently some characteristics of the operational modes used by the western companies in the present sample are presented. Then, changes over time in the use of operational modes are described, and a preliminary attempt is made to explain the choices companies have made. Finally, some suggestions for future research are forwarded.
2. The study

The paper reports on some of the initial findings from an on-going research project on industrial and project sales in China. The data for the present paper has been gathered through personal interviews with representatives from Scandinavian companies selling industrial products to China. In large groups, each individual company (or division) has been chosen as the level of analysis (cf. Turnbull, 1987). The complete study will include two different approaches to data gathering:

1. In-depth longitudinal studies are carried out of three Scandinavian companies involved in the sales of industrial products or projects to buyers in China. Multiple interviews are conducted in Europe, Hong Kong and China. Data is collected on, among other things, the organization of sales and marketing, and in depth descriptions of two sales in the sampled companies: their first one in China and their most recent one. The companies are followed "real-time" over a period of at least two years. So far, one company (which in this paper is called Alpha) has been studied at considerable depth. In this company interviews have been conducted with six employees, both in Hong Kong and in Finland. Two main informants have been interviewed more than one time, one of them four times over a period of six months. Two other companies (Beta and Gamma) have been approached for inclusion as in depth "cases" for the study, and three interviews have been conducted in each.

2. Brief case studies are carried out in some 30 Scandinavian companies. The aim is to cover a majority of the Finnish companies exporting industrial goods or projects to China. The interviews are carried out in late 1993-mid 94. The companies represent different industries and different types of products. Data is gathered through interviews with the central participants in these processes, both in Europe, Hong Kong, and China. The focus is on the organization of the sales and marketing work, and on various characteristics of the company's latest sales contract. The respondent are also asked to compare the focal process with earlier ones, and to elaborate on why there were differences between the processes.²

To date, in addition to the case companies Alpha, Beta and Gamma mentioned above, interviews have been carried out in 14 companies. Most of the interviews have been conducted in Hong Kong and southern China, and in Finland. Multiple informants have been interviewed in four of these companies. Currently I am in the process of contacting additional companies and additional representatives for those companies already included in the sample. In particular, an effort is made to interview people stationed in the eastern and northern parts of China as well as in Europe.

² A broader mail survey may be added at a later stage.
There are mainland Chinese, overseas Chinese and Westerners among the persons who have been interviewed. When approaching the companies, they were asked to suggest a person who was personally involved in developing and carrying out the company's marketing and sales in China. The companies were promised anonymity. Typically, the interviewees in East Asia had the position of general manager, business area manager, or sales/marketing manager. The interviewees based in Europe were typically responsible for exports to China. With one exception, all interviews were taped. A loosely structured interview guide was used during the interviews.

3. Some challenges facing western companies in China

The interviews carried out so far as well as extant research (e.g. McGuiness et al, 1991) indicate that western companies selling industrial goods in China are facing at least three different challenges: i) how to obtain information about potential orders in China, ii) how to influence the Chinese decision makers so as to win business deals, and iii) how to handle the implementation of the orders that they receive in China. Although these challenges face foreign companies in all markets, arguably they are particularly difficult to handle in China.

How to obtain information about possible customers and up-coming purchases was commonly viewed as a difficult task. Furthermore, due to the decentralization of economic decision making in China, this task has become even more difficult during the last few years. For major governmental infrastructural projects, there were sometimes official lists available from which it was possible to get information about forthcoming tenders. Occasionally, the Chinese buying organizations used newspaper and trade journal advertisements to spread information about tenders. Sometimes well-known western companies were contacted by the prospective buyers and asked to submit price quotations for a certain order. The typical situation, however, was that western companies had little information about potential customers. In fact, for many companies it was difficult to get information about which the potential buyers were, and where they were located. For instance, a company exporting machinery to China was unable to obtain a satisfactory list of Chinese companies operating in the industry in question. Sometimes it was possible to buy this kind of information in e.g. Hong Kong, but not even this information was seen as totally reliable.

Concerning very large orders, it was common practice among the Chinese buyers to arrange public tenders. Like elsewhere (cf. Ahmed, 1993; Bansard et al, 1993), if exporters managed to influence the specifications of the tender they were in a better position to win the final
deal. Thus, an additional challenge for the exporters was first to locate, and then to influence the buyers already before the specifications of the purchase had been done. Domestic or foreign experts, e.g. consultants appointed by international financial institutions, sometimes took part in the process leading up to the final business deal. To the extent that the exporters were able to influence these experts, they had an advantage compared to their competitors.

How to influence the Chinese decision makers so as to win business deals was of course a crucial question for the exporters. Companies that had good guanxi (relationships) with the "right" people were seen to have a big advantage. The respondents sometimes referred to a certain province as "belonging to company X" because this company had good friends which controlled purchasing decisions within that province. It was viewed as very difficult to break into an existing friendship between a representative for a foreign producer and Chinese employees on the buyer's side. However, even if the central decision maker was the friend of another company, it was sometimes possible to win business deals. The reason for this seemed sometimes to be related to the personal benefits of the decision maker (typically that the person would be invited on an inspection tour overseas; if s/he already had visited the "friend's" factory, it was very difficult to obtain a visa to go there another time), sometimes seemed to be the outcome of an agreement among the Chinese decision makers that the friend of another company was allowed to win at least one business deal. Further, the authority relationship between different Chinese organizations seemed sometimes unclear, changed over time, and varied depending on the characteristics of the business deal (in particular, how it was financed, and what the size of the contract was). The general perception, however, was that provided you managed to develop a good relationship with the central decision maker you had a good chance of winning business deals controlled by this person.

Companies selling to China had of course noticed the importance of guanxi, and therefore attempted to develop relationships with people believed to influence the purchases. To provide decision makers with personal "favors" of different kinds was the common way to develop friendships. Competitors from different parts of the world had thus developed friendships with Chinese employees in the central ministries in Beijing, with employees at the provincial level, and with persons within the buying organization itself. Different producers sometimes also had different friends within the same Chinese organization. It was quite common that companies competing for the same deal tried to pull their guanxi with a number of different participants at the Chinese side.

In spite of the perceived importance of guanxi, the respondents stressed that, with a few exceptions (usually concerning orders in South China), suppliers which were not able to
compete in terms of technical quality and price had scant chances of winning business deals in China. Most of the industrial buyers were state-owned organizations, which were controlled by higher-level authorities. Commonly there existed centrally approved lists of suppliers and the supervising organization obtained information about the contracts that were signed. Thus, at least for large projects, there was limited possibilities for the buying organization to sign contracts which were not competitive in comparison with those signed by other Chinese organizations.

The final, somewhat smaller challenge concerned how to implement the orders that had already been obtained. There were, among other things, a number of practical issues to take care of in connection with overseas shipments. Other issues concerned training of the buyer's personnel within China or overseas. The respondents told a number of stories of instances when there had been problems in the implementation phase, the result of which had been considerable costs to the exporter and/or reduced future business possibilities for the company. The challenge was thus to handle the implementation smoothly. The geographical and cultural distance between company head-quarters in Scandinavia and the customers in China exacerbates this problem.

Different ways to organize the company's operations were found to have certain advantages and disadvantages in terms of the ability to meet the challenges discussed above. Different operational modes also differ in terms of investments, variable costs, the extent to which the company learns how to operate in China, and in the parent organization's control over the Chinese operations. The next section describes the operational modes used by the sampled companies.

4. The operational modes used by the sampled companies

Table 1 describes the operational modes used by the companies that have been studied so far. It must be noted that there is probably an over-representation of companies with a Hong Kong-unit involved in sales and marketing in China. This is due to the fact that much of the data collected for this paper has been gathered in Hong Kong and South China. There is also a bias towards companies with extensive Chinese sales in the sample. A representative sample of Scandinavian companies selling industrial goods and projects to China would surely rely heavier on indirect and direct export than the companies in the present study (cf. Easton and Li, 1993).
Table 1. Operational modes currently used (and those in the process of being implemented within brackets) by the companies included in the study (n=17)

1. rep.office, China & own sales persons, Europe & manufacturing joint venture, China 1
2. rep.office, China & Hong Kong unit (joint venture, China) 1
3. (rep.office, China & Hong Kong unit & European sales persons 1
4. manufacturing joint venture, China & several sales offices, China & own sales persons, Europe 1
5. foreign representative, China 1
6. Hong Kong unit & own sales persons, Europe & service joint venture, China (rep.office, China) 1
7. (rep.office, China & individual employees, China & Hong Kong unit & contractual service joint venture, China 1
8. Hong Kong unit & information brokers, China 1
9. (rep.office, China & western representative, China & Hong Kong unit 1
10. Hong Kong unit & own sales person, China & middle men, Hong Kong 1
11. own sales persons, Europe & rep.office, China & joint venture, China & foreign representative, China 1
12. Hong Kong unit & foreign representative, Hong Kong 1
13. (rep.office, China & representative, Hong Kong & own sales persons, Europe 1
14. Hong Kong unit & liaison and service office, China (rep.office, China & personal sales representatives, China) 1
15. own sales persons, Europe & western representative & (rep.office, China & joint venture, China) 1
16. rep.office, China & Hong Kong unit & foreign representative, China 1
17. Hong Kong unit & representative, Hong Kong 1

Thus, only 5 out of 17 companies neither had nor were in the process of establishing own presence in China through a representative office or a joint venture. All companies used more than one operational mode for their Chinese marketing and sales. The next section describes some important facets of each organizational form.

5. Characteristics of different operational modes

Table 2 describes the operational modes that companies are using in China. The characteristics of the modes have been classified by the author based on the information provided by the respondents.

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3 A vast majority of the companies at least sometimes engaged people from the European marketing or production units in the sales and marketing work in China. Included in the table are only those companies in which the European sales people were seen to have a substantial input in at least some of the sales processes.
4 This company has recently merged with another company in the present sample. The information in table 1 describes the situation prior to the integration of operations in 1993.
5 This agreement will be cancelled when the rep.office is in place.
6 This agreement will be cancelled when the rep.office is in place.
Table 2. Some central characteristics of the operational modes used by Scandinavian companies selling industrial goods and projects in China.

<table>
<thead>
<tr>
<th></th>
<th>external</th>
<th>intermediate</th>
<th>internal</th>
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<tbody>
<tr>
<td></td>
<td>ad hoc middle men</td>
<td>personal agents</td>
<td>foreign representative</td>
</tr>
<tr>
<td>compensation:</td>
<td>commission</td>
<td>commission</td>
<td>commission</td>
</tr>
<tr>
<td>customer information</td>
<td>medium- high</td>
<td>medium- high</td>
<td>low</td>
</tr>
<tr>
<td>communication capabilities</td>
<td>medium-very high</td>
<td>medium-very high</td>
<td>medium- high</td>
</tr>
<tr>
<td>product knowledge</td>
<td>low</td>
<td>low</td>
<td>medium</td>
</tr>
<tr>
<td>implementation</td>
<td>low</td>
<td>low</td>
<td>medium</td>
</tr>
<tr>
<td>investments</td>
<td>none</td>
<td>very low</td>
<td>very low</td>
</tr>
<tr>
<td>variable costs</td>
<td>medium</td>
<td>medium</td>
<td>medium</td>
</tr>
<tr>
<td>MNC knowledge dev.</td>
<td>very low</td>
<td>medium</td>
<td>low</td>
</tr>
<tr>
<td>MNC control</td>
<td>low</td>
<td>low</td>
<td>low</td>
</tr>
<tr>
<td>Other</td>
<td>goodwill; low trade barriers</td>
<td>image</td>
<td>tax advant.; case for expat; communication</td>
</tr>
</tbody>
</table>

Space constraints prohibit an in-depth discussion of each organizational form. Therefore, below is only a short description of some of the main characteristics of the various operational forms. First, various kinds of external operational modes are discussed, followed by a presentation of intermediate and company-internal modes.

External operational modes
A possible distinction when it comes to the role of external operational modes used by companies exporting to China can be made between ad hoc middle men, personal agents, and foreign or local representatives.

All companies had experienced that ad hoc middle men had contacted them, e.g. in Hong Kong, promising that they were able to help the exporter reach a certain business deal provided that they were paid a commission on the deal. The middle men included, among others, well established trading companies but also individuals and persons representing "post box" companies in e.g. Hong Kong. Sometimes the middle men offered to take care of the whole sales process themselves, sometimes technical and commercial negotiations were
to take place between the western exporter and the Chinese buyer. (In the latter case, the sales and marketing work was not entirely externalized.) Offers to help the exporter obtain the order were sometimes also presented during on-going negotiations. Occasionally there were several middle men offering their services, everybody promising to have good connections with the decision makers in China. Sometimes the Chinese foreign trade corporation wanted one of its overseas offices to act as "agent" during the process. For the exporters it was difficult to know the real ability of the middle men to influence the purchasing decisions. In other words, the connection between the middle men and the Chinese decision makers was often unclear. The Chinese or Hong Kong-Chinese staff members usually judged whether or not to use the middle men. This decision was also influenced by factors such as the exporter's own guanxi (compared to that of its competitors), and its competitiveness in terms of price and product qualities. The commission payment to the middle men was commonly labelled as consultance or agency fee, for which the exporter obtained a regular receipt.

The exporters varied considerably in their perception and their approach to the middle men. Some companies viewed the middle men as a convenient way to obtain information about potential customers. Viewed in this way, using middle men can be seen as an alternative to developing an own information network within China. Accepting the offers presented by middle men in Hong Kong might thus help the exporter win orders in China with little own involvement in China. Some of western companies believed that using middle men sometimes might help the company win a certain business deal. The exporter also avoided getting involved in the illegal practices that may be part of doing business in China. The western company typically knew very little of to whom the consultance fee was paid. In most export deals, the formal export contract was signed with a governmental Chinese foreign trade organization. However, in some instances, the buyer requested the exporter to sign the export contract with a particular company in Hong Kong or somewhere outside China. This overseas company would then charge a commission, something that the governmental import/export organization otherwise would do. The connection between the owners of the overseas company and the decision makers in China was often unclear to the exporter.

Several companies tried to avoid the middle men. They insisted that they would themselves negotiate with the final customer rather than let e.g. a Hong Kong-company handle the contacts with the buyer. Several different arguments were presented by the respondents in favour of this strategy. First, they avoided the extra consultance fees that the middle men charged, which among other things increased the price that the buyers had to pay for the product. Second, they believed that by having direct contact with the buyers they would in
fact have a better chance of reaching a deal. Their perception was that the Chinese buyers very much preferred to buy directly from the western producer, and involving middle men (unless, of course, it was known that the middle men had own connections with the Chinese decision makers) might therefore have a negative effect on their chances to get the order. Fourth, they avoided situations in which they actually would compete with their own middle men for a certain business deal.

Some companies used officially appointed representatives. Such representatives seemed most commonly to work on a commission basis, but some would also take title to the product. Some of the exporting companies in our sample used either representatives based in Hong Kong (but often with offices on the mainland), domestic Finnish trading houses with offices in China, or a Japanese trading house. One company had started to develop a network of domestic Chinese representatives. The trend seemed to be in the direction of the latter. A couple of other exporters with a large potential number of customers in different parts of China were considering the establishment of domestic Chinese representative networks, and the respondents mentioned several competitors that were in the process of appointing local representatives. The main perceived advantage with such a network was the guanxi of the local representatives in their regions. The guanxi of potential representatives with important decision makers was therefore an important issue when deciding whether to appoint the company as sales representative. Information about potential representatives was obtained from personal "friends who knew the company."

The main advantage of using foreign representatives in China was their experience and connections in China (compared to those of the Scandinavian exporters), while one of the drawbacks was the reluctance on the part of the Chinese buyers to deal with representatives. The Chinese buyers rather wanted to deal directly with the western exporters, several of the respondents believed; thereby the buyers would avoid the extra costs involved in having one additional organization between them and the producer. The advantage of using the Japanese trading house was that it seemed to facilitate the reception of Japanese soft loans to the Chinese buyer.

A few companies used domestic or overseas Chinese personal agents. One company relied heavily on a consultant, who had excellent personal connections to Chinese decision makers. The consultant was paid on a commission basis. A serious drawback with this organizational solution was the dependence on the consultants, who were in a position to profit from their strong bargaining position. Also, there was limited knowledge development on the part of the western company. Another company was in the process of appointing a handful of Chinese individuals who would work as sales representatives in different parts of the
country. They were going to operate on a commission basis, governed by a one-page contract with the European company. The sales representatives would try to obtain relatively small orders, while the company's own employees would take care of the bigger deals.

Intermediate organizational modes

The role of an information broker is primarily to provide the exporter with information about potential customers in China. Given the size of the country, in many industries it was seen as impossible for the company to cover a sufficient number of potential Chinese customers. One solution was to try to develop a network of persons in different parts of the country that knew them personally, and the company and the products it was offering. It was with no exception either Mainland or Hong Kong Chinese sales persons who took care of the development of this kind of network. According to the respondents, it would be close to impossible for a Westerner to develop and maintain such networks. The network was very much linked to the sales person himself, and it was unlikely that it could be transferred to another employee. (This was viewed as a serious problem in Hong Kong, where employee turnover was high.)

Sales persons tried to develop this kind of network by extensive travelling in China, and by attending fairs and exhibitions. By subsequently keeping in touch with the people they met at different occasions, they tried to maintain a broad network of people who knew whom to contact in case they obtained information about up-coming purchases. The information broker then informed the sales person about the possible customer. The contact to the potential buyer was taken either directly by the sales person, or, sometimes, through the introduction of the information broker to some employee of the buyer. Provided that the business deal materialized, the information broker was commonly paid a certain personal commission. The commission was not based on any contracts, but rather on the trust that the exporter's sales person had been able to establish with the person acting as information broker. This person did not have relationships which enabled him to significantly influence from which supplier the buyer would buy the product.

To establish a joint venture in China typically meant considerable investments. The management problems of joint ventures in China are well documented in the literature (Child, 1991; Björkman, 1994), and were mentioned by western respondents in the present study as well. On the other hand, the potential advantages were significant, too. The "right" local partners had the guanxi needed both to obtain information about potential orders and help the company to win them. The strong local presence also facilitated the implementation of order.
Internal organizational modes
Most of the sampled companies at least sometimes engaged people from the European or North American marketing and/or production units in the sales and marketing work in China. These persons had up-to-date knowledge of the products, the investments in the Chinese market were relatively low, and if the persons remained involved in the China business for a long period of time they (and the parent organization they represented) gradually acquired some knowledge of the Chinese business conditions. On the flip side, their possibilities to acquire information about upcoming orders were limited, their knowledge of how to do business in China was at least initially very limited, and the implementation of received orders was costly and/or cumbersome without own presence in China.

Local presence within China was perceived as instrumental in several different respects: First, to obtain information about, and, in particular, to handle relationships and contacts to prospective buyers. The number of prospective buyers was commonly relatively large and it was difficult, if not impossible, for sales persons situated in Hong Kong or Europe to establish and maintain contacts with them. In some industries and for very substantial orders, information about up-coming orders was available from the ministry responsible for the industry in question. More often the seller had to confront the substantial problem of how to obtain information about potential deals and how to get in touch with the potential buyers. An own unit in China was perceived as instrumental in helping the company to obtain such information. By employing Chinese persons from the industry in question -often from organizations with which they had been negotiating- the exporting company obtained employees in China with guanxi to buyers and/or governmental organizations. Speaking Mandarin as well as the local dialect facilitated communication with people in the business. Let us use the Alpha case as illustration:

In connection with sales negotiations in China, Alpha’s western sales manager was approached by one of the participants of the Chinese company who said that he would like to work for the manager in China. The Chinese had already discussed the idea with Alpha’s employees in hong Kong. The sales manager liked the idea of having somebody in China to take care of practical issues, and an agreement was reached with the Chinese person’s work unit. Later on, three additional persons were employed by Alpha in the same geographical area, and two in two other Chinese cities. No formal unit was established in China. The Chinese employees handled a range of issues, ranging from taking care of travel arrangements to discussing Alpha’s products with potential customers. Over time, they started get more and more involved in the sales negotiations, often acting as the local interpreter for the European sales people who came to China for technical and commercial negotiations. To use the Chinese persons rather than Hong Kong employees was far cheaper for Alpha.
Second, the implementation of deals was being facilitated by having a local unit in China. When supplying e.g. machinery to a Chinese buyer, there were many things that could go wrong. Alpha, for example, had a number of problems with its first export order to China. Some parts were missing, some were broken, and there were thus a number of things to take care of locally in China. Although the company finally managed to complete the order in a satisfactory manner, there were staggering costs in keeping foreigners in China for a several months period. His experience of the problems involved in this initial order was the actual reason why Alpha's sales manager a couple of years later accepted the offer to employ a Chinese for the company in China. Shortly afterwards, there was another event further strengthening his conviction that local employees were needed in China. A Chinese buyer received three engines, one of which was painted with a different paint. The Chinese employee solved the problem by buying some paint, and then quickly repainting the machine with the help of some local people. A problem which might had lead to bad reputation for Alpha had been solved quickly and at a very low cost.

Third, a local unit was perceived to be instrumental in the process of developing and maintaining good relationships with the central authorities. Even if the role of the central authorities was viewed as declining in the early 1990s, it was still seen as an important advantage to have good friends in the ministry responsible for the industry in question. Thus, one of the aims with representative or liaison offices in Beijing was to handle such relationships. This was the case even if the end buyers were found in other parts of the country. Bank connections were also viewed as important.

The staffing of the units in China varied considerably. The representative offices had at least one foreign manager present in China. Companies with only a liaison office in China relied on domestic Chinese employees. Regardless of the operational mode that was utilized, there was a clear tendency towards higher use of domestic Chinese in the sales and marketing work. To employ domestic Chinese was perceived to have several different advantages. First, costs were only a fraction of those of an expatriate manager. Second, the Chinese employees were able to pull the guanxi that they had prior to being employed by the foreign company. Third, the serious cross-cultural communication and interpretation problems encountered by non-Chinese were avoided. This was a considerable advantage during negotiations, where experienced foreign managers usually relied on the judgment of the Chinese employees concerning e.g. whether to grant personal favors to the Chinese decision makers or to third parties. (The final decision was however made by the foreign managers.)

"You must be extremely patient, listen to things that are completely ridiculous. They are telling you this for one good reason, which might not be apparent, but you have to find it out... I am very well helped by our Beijing people, who... negotiate 24 hours per day..."
through different third parties. This is where the real negotiation is. In China, there is
the problem of face. If you want to say something to the other one, you cannot tell it
straight to him. Instead you talk to this guy, you talk to this guy... who says that "don't
go that way, because that is not the way to do it; if you accept this, we would be in
position to accept this." That's the way it is. Before we had the Beijing-people we
probably missed some deals... It's absolutely mandatory to have that. We were silly not
to understand that."

According to the western managers, the major problem with the Chinese employees was that
they tended not to take initiatives and to avoid making decisions themselves. A similar
behavioral pattern has also been found in research on Chinese-western joint ventures (Child,
1991; Björkman, 1994). Consequently, most foreign managers believed that it was necessary
to have a foreign manager leading the Chinese operations either from within China or from a
unit situated in Hong Kong. In the present sample, this person was always a western
manager. Both the Chinese and the western respondents saw also other advantages in letting
western managers take part in sales and marketing. First, it gave face to the customers and
showed that the foreign company was committed to the customer. Second, the Chinese
buyers tended to trust the technical knowledge of the western managers. However, these
advantages could be attained also with managers stationed outside of China.

6. Changes over time

There was a clear trend over time towards more direct involvement by the companies within
China itself. Three development patterns can be identified in the data material:

(i) Several companies had started their Asian operations in e.g. Singapore, from which they
handled all Asian markets. In the late 1980s or early 1990s they had established an office in
Hong Kong, typically as a regional headquarters but in at least one company in order to take
care of the Chinese market. These companies had then handled their Chinese operations
from their Hong Kong office. Over time the Hong Kong employees had noticed the
advantage of having some kind of presence within China itself, and had therefore employed
own Chinese personnel in China. Finally, in 1993 or early 1994 they had decided to establish
a full representative office in China and/or increase the presence in China in some other way
(e.g. through a joint venture). This pattern was followed by 7 companies (belonging to six
different groups). The story of Alpha illustrates a fairly typical sequence:

Some 15 years ago Alpha made an agreement with a Hong Kong company to work on a
case-by-case basis. At this point the Singapore unit was responsible for sales in Asia.
This arrangement with the Hong Kong company was later turned into a full agency
agreement. Eventually, the company decided to establish an own subsidiary in Hong
Another measure was to employ first one Chinese person, and subsequently some
other local persons to take care of various kinds of practical arrangements in China.
Over time, the work of these Chinese employees became more and more sales oriented;
potential and existing customers visited their office, and the employees stayed in touch
with people in the industry in order to obtain information about up-coming orders.
Finally, a decision was made to establish a representative office at one location in
China. At other locations, the company employed local employees. At the same time, the
company initiated a feasibility study of whether to commence local production in China.

(ii) A second pattern was to get directly involved within China itself. The companies in this
group were more diverse in how they had developed their organizational presence within
China. Two companies had relied heavily on a foreign representative in China for a period of
several decades, before one of them eventually established a manufacturing joint venture.
Two companies (belong to the same group) had started immediately with a sales office in
China, and later entered into joint venture negotiations. A fifth company had used own sales
persons from Europe and a foreign representative until, in late 1993, a decision was made to
establish a representative office and joint ventures with Chinese partners. A sixth company
had used Western sales persons and, though in a limited role, a Hong Kong-employee before
they established a representative office and a joint venture in China. The seventh company
had sold extensively to China, mostly via Hong Kong traders and representatives before a
decision was made to set up a China representative office. Compared to group (i) the role of
domestic Chinese employees was more limited.

(iii) A third group consists of four companies that mainly used a Hong Kong unit for their
China sales and marketing. Three of them used middle men, information brokers, and a
Hong Kong representative in their sales work in China. The fourth company used own sales
person from the Hong Kong unit to reach the relatively few potential customers that the
company had in China. Three of these companies had established their Hong Kong unit to
take care of the East Asian region, while the fourth operated out of an office which was
shared with other group companies.

None of the companies reported a withdrawal from operations in China.

7. Preliminary analysis

The companies in the present sample followed quite closely the "traditional" sequence of
market entry modes predicted by the so called Uppsala Internationalization Model (Johanson
and Vahlne, 1977). With only one possible exception (a group that established a sales office
prior to obtaining the first order in China), the companies moved gradually from low
commitment organizational forms to higher commitment ones. The results are at odds with recent research which has indicated that companies quite often deviate from a process of only gradually increasing their operations in a foreign market (see e.g. Hedlund and Kvarneland, 1984; Turnbull, 1987; Björkman and Eklund, 1991; Lindqvist, 1991). A plausible explanation is that the psychic distance is so great between Scandinavia and China that decision makers -facing considerable uncertainty and lack of knowledge of the Chinese market- are reluctant to jump directly to high commitment operational modes. Several of the cases support this conjecture.

Several companies with Hong Kong-units had over time increased -albeit slowly- their presence within China. Comments by the respondents indicate that the changed had been problem-driven (cf. Cyert and March, 1963). When trying to handle sales and marketing within China itself they had noticed that there was a need for a representation on the mainland. This had materialized, although only at a limited scale. For instance, within Alpha the general manager of the Hong Kong unit had tried to persuade corporate top management that investments within China were necessary. However, it was not only until the Fall of 1993 that top management approved such investments.

Suddenly in 1993 or early 1994, a majority of the sampled companies made decisions to establish a China representative office and/or joint ventures in China. This also concerned some companies with limited sales volume in China. How can this be explained? It is not a direct consequence of the decentralization of the Chinese economic system; this was started already during the 1980s. In my view, a neo-institutional explanation is very plausible. The Finnish business community experienced a strong China-boom starting during the latter half of 1992. In late 1992, but especially during the Winter and Spring of 1993 a number of China-seminars were arranged in Finland. Orders obtained by Finnish companies obtained considerable publicity in the press, and members of the tightly structured Finnish business community found a new discussion topic for the sauna evenings. It became an institutionalized myth (Meyer and Rowan, 1977) that China was the place to be if you wanted to make money during the rest of the 20th century. Although also the other Asian markets received some attention, China was by far the issue number one. Several very senior business delegations travelled with Finnish ministers to China on sales trips. Within the sampled companies this change could be seen in increased expectations from top management on business unit managers to develop their China business. All of a sudden, top management was not difficult to convince about the appropriateness of investments in China. The problem was rather for business unit managers to find the time to develop the China operations.
As described in table 1, only 5 out of 17 companies neither had nor were in the process of establishing own presence in China through a representative office. An additional company had a manufacturing joint venture and several sales offices. An attempt was made to analyze the difference between the two groups in terms of some of the variables typically used for analyzing the choice of market entry mode:

- the company's international experience
- the company's size
- the need for individual adaptation of the product to the customer (as viewed by the respondents)
- the level of technological product knowledge needed to handle sales and marketing satisfactory
- the need for local after-sales service (as viewed by the respondents)
- the number of competitors of the firm (as viewed by the respondents)
- the number of (potential) buyers (as viewed by the respondents)
- the size of individual deals
- sales in China

None of the these variables were statistically significant (at p <=0.05, double tailed t-tests). With a sample only consisting of 17 companies this is perhaps not particularly surprising, and additional research on larger samples is obviously needed. For example, there was a slight tendency for companies with limited sales in China to be less likely to establish an own unit within China.

Concluding discussion

This work-in-progress paper has described how Scandinavian producers of industrial goods and projects have responded to the challenges of: i) how to obtain information about potential orders in China, ii) how to influence the Chinese decision makers so as to win business deals, and iii) how to handle the implementation of the orders that they receive in China. Different ways to organize the company's operations were seen to entail certain advantages and disadvantages in terms of the company's ability to meet these challenges. The perceived characteristics of the various operational forms have been described earlier in the paper.

All 17 companies covered by the present study used several operational modes in China. There was a clear trend towards more direct involvement on the part of the western
The companies expanded their sales network in China through their own employees but also through the use of various kinds of representatives. Concomitantly, especially the companies with a long track record in China started to give Chinese employees a more important role in their business undertakings. For the companies with a base in Hong Kong, it seems that the experiential knowledge of managers involved in the China business typically triggered a gradual expansion of the companies' presence in China itself. Underlying factors were obviously the decentralization of economic decision making in China and the particular socio-cultural Chinese setting, both of which were seen as favoring a local presence in the country itself. Similar expansion strategies seem to be found also among companies producing and selling consumer goods in China (Osland, 1993).

Suddenly in 1993 or early 1994, a majority of the sampled companies made decisions to establish a China representative office and/or joint ventures in China. Interviews indicate that a strong corporate presence in China became a "must", an institutionalized myth (Meyer and Rowan, 1977).

The sampled companies followed closely the kind of sequential adoption of gradually more advanced operational modes proposed by the Uppsala Internationalization Process Model (Johanson and Vahlne, 1977; 1990). While recent studies in other markets have suggested that it is currently fairly common to use advanced operational modes when entering new markets (Turnbull, 1987; Björkman and Eklund, 1991), the present study suggests that a different pattern can be found in China. The extremely high psychic distance has probably contributed to this pattern.

Finally, it needs to be pointed out that this paper is only the first attempt to analyze the data that has been gathered so far in this ongoing research project. Additional data will permit some statistical analysis. Further, there are several ideas that will be pursued. For instance, the case studies indicate that the personal experience of the decision makers is an important indicator of the market entry strategy that the company chooses. There is also some indication that the action of major competitors as well as the expectations of the Chinese government officials occasionally influence companies to invest in China.

References


