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Conquering China's Second-Tier Cities:
An Empirical Analysis of the Relationship
between a City's Degree of Internationalization and
Foreign Companies' Market Entry Decisions in China's
Second-Tier Cities

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ABSTRACT

China's emerging second-tier cities attract more and more foreign companies that are looking for business opportunities. Although much has been written about companies' internationalization strategies, including companies' market entry decisions and market entry mode strategies, research on the relationship between a city's degree of internationalization and foreign companies' market entry decisions and market entry mode strategies in second-tier cities in China is still relatively scarce. Thus, the central research question of this study is: Why and how does a second-tier city's degree of internationalization influence foreign companies' market entry decisions and market entry mode strategies in second-tier China? This study is based on a qualitative research approach; an embedded multiple-case study is applied and interviews with two different target groups are conducted. The first target group consists of foreign companies having established business operations in China's second-tier cities directly and have had no previous business operations in first-tier cities. The second group is made up of foreign companies that initially operated in first-tier China, and then moved to second-tier cities. The company sample comprises small- and medium-sized foreign companies with various industry backgrounds and market entry modes in Chengdu and Chongqing. Since 2015, Maxxelli has been publishing its China International City Index (CICI) on a yearly basis in which it measures and compares China's cities' degree of internationalization. Because Maxxelli revised this year's CICI methodology comprehensively, this study also aims at feedback to improve the overall CICI. This study concludes that a second-tier city's degree of internationalization is particularly important to foreign companies having first set up in Chinese first-tier cities. Companies having established themselves in second-tier cities directly, do not pay a lot of direct attention to a city's degree of internationalization and tend to base their market entry decisions more on business opportunities they identify in a city. In addition, this study argues that in most cases a city's degree of internationalization does not influence the type of market entry mode companies choose to enter second-tier China.

Keywords: entrepreneurship, market entry decisions, market entry modes, second-tier cities, China, foreign companies, consulting

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ABBREVIATIONS

ADA	Area Development Agreement
APS	Advance Producer Service (Firms)
AT	Andrew Thomas (Kearney)
CAC	Corporate Apartments China
CICI	China International City Index
CJV	Contractual/Cooperative Joint Venture
DSP	Destination Service Provider
ECFO	n/a
EJV	Equity Joint Venture
F&B	Food and Beverage
FDI	Foreign Direct Investment
FP	Foreign Policy
GaWC	Globalization and World Cities
GDP	Gross Domestic Product
IEC	International Education Consultancy (Abroad)
IP	Intellectual Property
IT	Information Technology
JLL	Jones Lang LaSalle
JV	Joint Venture
MC	Maxxelli Consulting
R&D	Research and Development
RO	Representative Office
SME	Small-Medium-Sized Enterprise
UN	United Nations
WFOE	Wholly Foreign Owned Enterprise
WHO	World Health Organization
WTO	World Trade Organization

1 Introduction

“These cities [second-tier cities] are the lighthouses of China’s economic, political and cultural development and offer tremendous opportunities for western companies to explore.”

(Maxxelli Consulting n. d. a: n. p.)

In the past decades, numerous foreign companies have developed and deployed strategies to enter China and conquer one of the world’s biggest consumer markets. The decision to enter a foreign market, or which entry mode strategy to select, is crucial for a company’s success. Dickson and Giglierano even emphasize that a wrong market entry strategy can result in *“sinking the boat”* (Dickson, Giglierano 1986: 61). Since China implemented its Opening-Up Policy in the 1970s, the country has become one of the world’s most favoured destinations for foreign direct investment (FDI), which was valued at USD 170.557 billion in 2016 (World Bank 2017a: n. p.). According to China’s National Bureau of Statistics, 481.179 foreign founded companies were registered in China in 2015 (National Bureau of Statistics of China 2016a: n. p.).

With the implementation of the Go West Development Strategy in 2000 and the Rise of Central China Plan in 2004, the Chinese government aimed to reduce economic disparity between China’s high-developed coastal areas in the East and its underdeveloped provinces in the West and Inland China as well as to attract foreign investors to China’s inland provinces (Liou 2011: 17; Tan, Yuan, Yoong 2015: 172). Consequently, FDI has experienced a shift from the coastal regions to Inland and Western China. Nevertheless, FDI inflow to China indicates a downward trend in recent years (OECD 2017: 15). In times when the Chinese economy struggles and double-digit growth rates cannot be taken for granted anymore, the role of Chinese emerging second-tier cities has become more and more important for the country’s economy, as their growth rates are still much higher than the national average of 6.7 percent in 2016 (World Bank 2017b: n. p.). China’s rising second-tier cities often still show close to double-digit growth rates¹ and are therefore often considered as the country’s new economic hubs. However, China’s second-tier cities have not only accelerated in recent years in economic terms, they have also become more and more international (Maxxelli 2017: 6). This trend started in China in the 1990s, when more than 40 Chinese cities set an agenda to become

¹ Some examples for second-tier cities’ gross domestic product (GDP) growth rates in 2016 are: Chengdu (7.7%) (Sichuan Provincial People’s Government 2017: n. p.), Chongqing (10.7%) (Chongqing Statistics 2017: n. p.), Hangzhou (9.5%) (Hangzhou Bureau of Statistics 2017: n. p.), and Xian (8.5%) (Xian People’s Government 2017: n. p.).

international cities in the future. These cities based their goal on China's understanding that international cities can express the country's economic power (Lu 2007: 454).

1.1 Statement of the Research Problem

Since the Chinese government has not yet published an official comprehensive classification of Chinese city tiers, the term second-tier city is ambiguous and scholars and consulting companies develop their own approaches to classify China's city tiers (Nielsen 2011; Jones Lang LaSalle 2015; Fung, Silk, Qi 2014; South China Morning Post 2016). This also accounts for the Dutch FDI consulting and real estate company Maxxelli (see section 1.5 for a detailed company introduction). Maxxelli defines Chinese second-tier cities based on three criteria, namely: population size, economic development, and a city's degree of internationalization (Maxxelli 2017: 7). Because a systematic approach to measure Chinese cities' degree of internationalization was lacking, Maxxelli developed with its China International City Index (CICI) an initial approach to measure and rank the degree of internationalization of Chinese cities.

Literature on market entry decision theory and market entry mode strategy often distinguishes between two types of factors that shape companies' market entry decisions: internal and external. Although, much has been written about companies' internationalization strategies, including companies' market entry decisions (Koch 2001, Hollensen 2004) and market entry mode strategies (Koch 2001; Hollensen 2004; Anderson, Gatignon 1986; Driscoll, Paliwoda 1997), previous research does not imply a city's degree of internationalization as an external factor for a company's market entry decision making process and market entry mode strategy. Koch, for example, argues companies are considering three main external factors when they enter a market, namely: country market potential, competitive significance of the market, and anticipated overseas market rise (Koch 2001: 355-356). Hollensen on the other hand, distinguishes between economic, socio-cultural, and political and legal factors that influence a company's market selection (Hollensen 2004: 204, 233). Concerning the market entry mode, Koch identifies six external factors that impact companies' strategies: characteristics of the overseas country business environment, market barriers, industry feasibility, market growth rate, image support requirements, and global management efficiency requirements (Koch 2001: 358-359). Hollensen expands on these factors by including the following six external factors: socio-cultural distance between home country and host country, country risk and demand uncertainty, market size and growth, direct and indirect trade barriers, intensity of competition, and the number of relevant intermediaries available (Hollensen 2004: 281-283). Furthermore, Anderson and Gatignon research country specific variables, such as country risk and market potential (Anderson, Gatignon 1986: 7, 14), while Driscoll and Paliwoda consider governmental interventions, market attractiveness, and socio-cultural distance country risk as

external factors for companies' market entry mode type strategies (Driscoll, Paliwoda 1997: 59). In addition, research on foreign companies' market entry decisions and market entry modes in second-tier China is limited in general. As a result, an analysis of the relationship between a city's degree of internationalization and foreign companies' market entry decisions and market entry mode strategies in second-tier China has been identified as a research gap.

Hence, the central research question of this study is:

Why and how does a second-tier city's degree of internationalization influence foreign companies' market entry decisions and market entry mode strategies in second-tier China?

Maxxelli has revised the methodology of its CICI 2017 report comprehensively. However, Maxxelli published the third edition of its CICI this year and is aware that its methodology still leaves room for further improvements.

Therefore, this study is in addition guided by the following sub-research question:

How can Maxxelli's CICI report be improved further?

1.2 Purpose of this Study

This study's research interest lies in foreign companies' market entry strategies in second-tier China and Maxxelli's CICI. The main purpose of this study is to understand the relationship between a city's degree of internationalization and foreign companies' market entry decisions and market entry mode strategies in Chinese second-tier cities and to address an existing gap in research. The major objective of this study can further be divided into the following associated objectives: 1) figuring out whether a city's degree of internationalization has an impact on foreign companies' market entry decisions and market entry mode strategies, 2) understanding how a city's degree of internationalization influences foreign companies' market entry decisions, and 3) exploring whether a city's degree of internationalization impacts foreign companies' market entry mode strategies. Since this year's CICI methodology was comprehensively revised, this study also aims at receiving some general feedback on the CICI and gather recommendations on how the CICI report can be further improved. Concerning the CICI, this study is guided by the following objectives: 1) identifying categories or indicators that are not yet included in Maxxelli's methodology to measure a city's degree of internationalization, 2) finding out whether the CICI 2018 should include additional indicators or other cities in the sample, and 3) deriving general recommendations on how the CICI can be further improved.

1.3 Research Methodology

This study is based on a qualitative research design. An embedded multiple-case study is applied and in-depth interviews conducted with foreign companies having set up in Chinese second-tier cities. To obtain a comprehensive understanding of the relationship between a city's degree of internationalization and foreign companies' market entry and market mode strategies, two target groups are selected for this study. The first target group includes foreign companies that establish business operations in acknowledged first-tier cities, before they enter Chinese second-tier markets whereas the second target group consists of foreign companies that set up business in second-tier cities directly. Maxxelli's CICI serves as the main theoretical framework of this study and is used, for instance, to determine the second-tier cities being analysed in this study: Chengdu and Chongqing. The company sample focuses on small- and medium-sized companies and includes companies ranging from different market entry mode types, city locations, and industry backgrounds. The data analysis follows Mayring's qualitative content analysis. A comprehensive explanation of the research methodology is presented in this study's methodology section.

1.4 Study Outline

This study is organized in seven sections: introduction, literature review, theoretical framework, research methodology, findings, discussion, and conclusion. First, the introduction gives an overview of this study's topic, research problem, purpose, and methodology. Since this study was conducted in cooperation with Maxxelli, the introduction section also includes a brief company profile. The literature review section aims to provide an overview of existing literature on city concepts (international city, world city, global city), approaches to measure a city's degree of internationalization, and China's tier city system. Afterwards, the theoretical framework section introduces all the theoretical concepts required for this study. The focus of the theoretical framework section is on Maxxelli's CICI, its methodology and market entry mode types foreign companies' can select amongst when they decide to enter a market. The fourth section explains this study's research methodology comprehensively, including the research design, the role of the researcher, the sample selection, general data analysis procedures, and chosen quality criteria. The fifth section presents the main findings of this study. These findings are then discussed and hypotheses and recommendations concerning the unit of analysis are derived. This study concludes by offering recommendations for theory, research and practice.

1.5 Company Introduction | Maxxelli Group

After travelling around the world for more than eight years, Peter Kuppens settled down in Chengdu and founded Maxxelli in 2006 (Maxxelli Consulting n. d. a.: n. p.). Maxxelli Group was established with the mission to make life easier for foreigners living in China, especially for foreign companies setting up in China's emerging second-tier market. Maxxelli Group initially started as a real estate company with a focus on being a destination service provider (DSP) in second-tier cities in China. As a DSP, Maxxelli Real Estate offers foreign companies services such as home search, temporary housing bookings, school search as well as registration, and 24-hours tenancy management (Maxxelli internal database). When Maxxelli identified demand for consultancy services for foreign companies considering entering and investing in Chinese second-tier markets, Maxxelli Group established Maxxelli Consulting as a subsidiary company in 2013 (Maxxelli Consulting n. d. a.: n. p.).

Maxxelli Consulting is guided by the following vision:

“Maxxelli Consulting believes in excellent opportunities for foreign businesses in China. We partner up with people or organizations who have a visionary idea, product, or service and kick-start and grow their businesses. Through our local networks, expertise, and hard work, Maxxelli Consulting drives projects to success” (Maxxelli Consulting n. d. a.: n. p.).

Maxxelli Consulting's services mainly focus on three areas: opportunities in China, kick-starting in China, and business growth (see Figure 1 for a detailed overview of Maxxelli Consulting's services).

Figure 1. Overview of Maxxelli Consulting's Services in Second-Tier China



Source: Maxxelli Consulting n. d. b.: n. p.

In the same year, Maxxelli Group founded another subsidiary company, Corporate Apartments China (CAC), which specializes in finding high-end accommodation for expats in China's second-tier cities (CAC n. d.: n. p.). Thus, Maxxelli Group mainly consists of three pillars: Maxxelli Real Estate, Maxxelli Consulting, and Corporate Apartments China. Nowadays, Maxxelli employs more than 80 Chinese and foreign consultants in its eight offices across China. Since Maxxelli's business operations are focused on second-tier cities, Maxxelli's offices are located in the following cities: Changsha, Chengdu, Chongqing, Suzhou, Wuhan, Xi'an, and Xiamen, with Maxxelli Group's headquarter in Chengdu. In addition, Maxxelli recently set up an office in Shanghai, which pursues the goal of acquiring investors and clients that intend to establish business operations in Maxxelli's second-tier markets (Maxxelli internal database). All in all, Maxxelli's focus on second-tier cities guarantees its unique position in business across China.

2 Literature Review

This section provides an overview of previous studies concerning the research subject. Literature on existing city concepts (international city, world city, global city) are discussed, approaches how to measure a city's degree of internationalization introduced, and China's tier city system reviewed.

2.1 City Concepts | International City, World City, and Global City

Over the past few decades, city concepts have captured the research interest of scholars. Cities such as London, New York, Berlin and Shanghai are often being referred to as world cities, global cities or international cities. But what attributes characterize these cities? In the past, scholars did not pay attention to the term international city as such. So far, there has been no clear definition of the term international city itself. However, world cities and global cities are often used in the same context and can be considered city concepts connected to international cities. The term world city was first mentioned in the book *Cities in Evolution* by Geddes in 1915. Although Geddes mentions the term world city in his book, he does not elaborate on the concept itself (Geddes 1915: 46). In an increasingly globalized world, scholars expanded on Geddes' term and framed city concepts over the years. Hall for instance describes world cities as the follows “[...] *great cities, in which a quite disproportionate part of the world's most important business is conducted*” (Hall 1966: 7). According to Hall, world cities can be identified if they have the following four roles: centres of political power, national centres of trade, centres where professional talents of all kinds congregate, and great centres of population. In addition, each of these city roles is assigned a set of several attributes (see Table 1 for a detailed overview) (Hall 1966: 7-9). Furthermore, Hall emphasizes a world city's economic strength as its most important characteristic (Hall 1966: 8). Also, Friedmann and Wolff focus on world city research and define world cities if “[...] *the world economy [...] is*

dialectically related to the national economies of the countries in which these cities are situated” (Friedmann, Wolff 1982: 312). Friedmann and Wolff further argue that world cities exercise a dual role, meaning world cities assure worldwide capital flows and express the national economy in the world’s economic system (Friedmann, Wolff 1982: 313). Moreover, world cities have a command and control role and regulate the global economy (Friedmann, Wolff 1982: 61, 320). Friedmann later developed seven world cities hypotheses, which aim to understand what happens in major global cities in the world economy. In addition, Friedmann expands the world city definition and adds several attributes, such as the concentration and accumulation of international capital, point of destination for large numbers of domestic and international migrants, number of headquarters of transnational corporations, number of international institutions present, rate of growth of business activities, and population size (Friedmann 1986: 67).

Table 1. Overview of World City and Global City Concepts

Scholars	City Concept	City Categories/Attributes
Geddes (1915)	World City	Unclear, term mentioned, but not further defined and elaborated further
Hall (1966)	World City	<p>Major Centres of Political Power:</p> <ul style="list-style-type: none"> • Seats of most Powerful National Governments and International Authorities • Government Agencies (Trade Unions, big Professional Organizations, Employers’ Federations, Headquarters of major Industrial Corporations) <p>National Centres of Trade:</p> <ul style="list-style-type: none"> • Great Ports Distribute Goods to all Parts of the World • Within each County, Roads and Railways meet in the Metropolitan City • Sites of Great International Airports • Leading Banking and Finance Centres • Host the Central Banks, Headquarters of the Trading Banks, Offices of big Insurance Organisations, Series of Specialised Financial and Insurance Agencies <p>Centres of Professional Talents:</p> <ul style="list-style-type: none"> • Great Hospitals • National Court of Justice • Great Universities • Specialised Institutions for Teaching and Research in Sciences, Technologies and Arts • Great National Libraries and Museums • Information is Gathered and Disseminated: Book Publishers, Publishers of Newspapers and Periodicals, Headquarters of the Great National Radio and Television Networks <p>Great Centres of Population:</p> <ul style="list-style-type: none"> • Significant Proportion of the Richest Members of the Community • Luxury Industries and Luxury Shops • Traditional Opera Houses, Theatres, Concert Halls • Luxurious Restaurants, Cinemas, Night Clubs

Friedmann, Wolff (1982)	World City	Command and Control Centres for: <ul style="list-style-type: none"> • Corporate Management, Banking, Finance, Legal Services, Accounting, Technical Consulting, Telecommunications, Computing, International Transportation • Research and Higher Education
Friedmann (1986)	World City	<ul style="list-style-type: none"> • Integration in the World Economy • Global Functions • Concentration and Accumulation of International Capital • Point of Destination for Large Number of Domestic and International Migrants • Status as financial, manufacturing and transportation centre • Number of Headquarters of Transnational Corporations • Number of International Institutions Present • Business Activities' Rate of Growth • Population Size
Sassen (1991)	Global City	<ul style="list-style-type: none"> • Highly Concentrated Command Points in the Organization of the World Economy • Key Locations for Finance and for Specialised Service Firms, which have Replaced Manufacturing as the Leading Economic Sectors • Sites of Production, Including Production of Innovations, in Leading industries • Markets for the Products and Innovations Produced
Clark (2016)	Global City	<ul style="list-style-type: none"> • Cross-Border Trade through Connectivity • Diverse and Entrepreneurial Population • Innovation and Influence over Systems of Exchange • Discovery of New Markets, Products and Practices • Geopolitical Opportunity

Source: Own Table based on Geddes 1915; Hall 1966; Friedmann, Wolff 1982; Friedmann 1986; Sassen 1991; Clark 2016

The term global city was framed by Sassen. Sassen's work is based on earlier definitions of world cities. But in contrast to Friedmann who focuses more on the role of multinational corporations to define world cities, Sassen focuses in her global city concept on the role of advanced producer service (APS) firms. The starting point of Sassen's work is spatial dispersion and global integration, which generated new strategic roles for major cities (Sassen 1991: 3). Sassen defines global cities as:

“[...] sites for the production of specialized services needed by complex organizations for running a spatially dispersed network of factories, offices and service outlets and the production of financial innovations and the making of markets, both central to the internationalization and expansion of the financial industry” (Sassen 1991: 5).

Sassen cites Tokyo, London and New York City as examples of leading global cities (Sassen 1991: 5). Furthermore, she also highlights the role of world cities during past centuries and makes the argument that many of today's world cities were also colonial centres of their time (Sassen 2010: 126-127). In contrast, Clark's global city characteristics are not based on an

attempt to create a new global city concept but rather rest on historical observations (Clark 2016: 1-2). Clark's definition of a global city is based on five main attributes: 1) cross-border trade through connectivity, 2) diverse and entrepreneurial population, 3) innovation and influence over systems of exchange, 4) discovery of new markets, products and practices, and 5) geopolitical opportunity (Clark 2016: 2-4).

2.2 Approaches to Measure a City's Internationalization

Some may argue that New York City is more international than London, or vice versa. But one legitimate question that arises is how the degree of internationalization of cities can be operationalised and compared? Based on Sassen's focus on APS firms in her definition of a global city, scholars in the past used the presence of APS firms in a city as a proxy to measure a city's world-city-ness, global-ness, or degree of internationalization. One example is a study by Huang, Leung and Shen, in which the scholars apply Sassen's methodological approach and measure the degree of internationalization of cities based on the presence of APS firms. The dataset includes 100 APS firms and a sample of 314 cities (Huang, Leung, Shen 2013: 213-214). Based on the number of APS firms present in a city, the scholars classify cities into four different types of international cities: A, B, C and D (Huang, Leung, Shen 2013: 216). A city covering all the 100 APS firms included in the dataset is to be classified as a highly internationalized city (Huang, Leung, Shen 2013: 214). In addition, also the Globalization and World Cities (GaWC) Research Network's methodology refers to Sassen and is based on a city's integration into a world city network, which is operationalized by studying APS firms in a city. Since 1998, the GaWC Research Network uses its annual World City Index to quantify a city's world-ness. The APS firm assessment is conducted by asking the following question: *"What is the importance of this office in this city within the city within the firm's overall office network?"* (GaWC 2010: n. p.). Based on a score system from zero to four points, GaWC Research Network classifies cities as Alpha World Cities, Beta World Cities and Gamma World Cities. In GaWC Research Network's understanding, an alpha city plays the role of a global service centre (GaWC Research Network 2010: n. p.). In its 2016 report, GaWC Research Network's data set includes 707 cities from around the world and hinges on the office networks of 175 APS firms (GaWC Research Network 2017: n. p.). Another approach is provided by the global management consulting firm Andrew Thomas (AT) Kearney, the Foreign Policy (FP) Group, and the Chicago Council on Global Affairs, which in collaboration designed the Global Cities Index. The Global City Index is published on a yearly basis since 2008 and aims to analyse the world's most global cities in terms of business activity, human capital, information exchange, cultural experience, and political engagement (AT Kearney 2008: 65). In the Global City Index 2017 Report, 128 cities' global influence, expressed by their integration with the rest of the world, are analysed and ranked by applying 27 metrics (AT Kearney 2017: 1).

First approaches to measure Chinese cities' degree of internationalization are also existing. Zhou refers to Friedmann and Wolff and analyses, which Chinese cities are on their way to becoming international. Based on the above understanding of the term, Zhou uses the following nine indicators in his index: foreign-funded industrial enterprises, enterprises with largest import and export value, offices of foreign-funded telecom enterprises, offices of foreign-funded computer enterprises, foreign-funded financial institutions, foreign capital actually used, imports and exports through customs, international flights and foreign travellers. Zhou concludes that Beijing, Guangzhou and Shanghai show a much higher degree of internationalization than other Chinese cities and have a huge potential of becoming international cities in the future. Furthermore, he describes Dalian, Nanjing, Qingdao, Shenzhen and Tianjin as large cities with a comparatively high degree of internationalization (Zhou 2002: 69). Another approach is offered by Zhang who compares and analyses the internationalization level of provincial capital cities in China, based on the following twelve indicators: import and export trade volume, GDP, GDP per capita, GDP growth rate, fixed assets investment, FDI, finance, proportion of tertiary sector to GDP, average income, transportation, number of internet users, and number of scientific research institutions (Zhang Ke Yun 2011: 52). According to Zhang's study, Beijing, Guangzhou, Shanghai, Shenyang, and Tianjin show the highest level of internationalization in China (Zhang Ke Yun 2011: 53).

2.3 Introduction to China's City Tier System

Chinese cities² are commonly classified in city tiers; but the Chinese government has not yet published an official classification of China's city tiers. However, Beijing, Guangzhou, Shanghai and Shenzhen are widely recognized as first-tier cities, but disagreement exists on what classifies second-, third-, or even fourth tier cities in China. Hence, research institutes and consulting companies develop their own classifications of Chinese city tiers, which are elaborated on in the following section. Nonetheless, the debate on which city belongs to which tier continues.

In its annual assessment, the global management company Nielsen classifies China's cities into Tier 1 (Beijing, Chengdu, Guangzhou, Shenzhen), Tier 2 (provincial capitals and economically developed cities), Tier 3 (prefecture-level cities), Tier 4 (county-level cities and country governments), and Tier 5 (town government, townships, villager committees) (Nielsen 2011: 146). Another approach to define China's city tiers is provided by Jones Lang LaSalle (JLL), an American service and investment management company. JLL categorizes China's city tiers, based on economic size and growth, population, wealth, infrastructure, exports, FDI and fixed investment, education, business environment, real estate investment volumes, office,

² According to China's National Bureau of Statistics, China had 295 cities at prefecture level and above in 2015 (National Bureau of Statistics of China 2016b: n. p.).

retail and logistics stock, developer activity, corporate presence, retailer presence, and internationally branded hotels, into: Alpha Cities (Beijing, Shanghai), Tier 1, Tier 1.5, Tier 2, Tier 3 Growth, Tier 3 Emerging, and Tier 3 Early Adopter (JLL 2015: 6). In addition, the South China Morning Post offers another methodology to classify Chinese cities into city tiers. The South China Morning Post's classification is based on three main factors: GDP, politics (political administration of a city), and population (core city and urban areas surrounding the main city to define metropolitan areas) (SCMP 2016: n. p.). In contrast, Fung, Silk, and Qi simply suggest counting the number of Starbucks coffee shops to categorize China's cities into different tiers (Fung, Silk, Qi 2014: n. p.). However, Fung, Silk, and Qi fail to specify, how many Starbucks coffee shops need to be in a city for it to be classified in a certain city tier.

3 Theoretical Framework

The focus of the theoretical framework section is on Maxxelli's second-tier city definition, Maxxelli's CICI, and companies' foreign market entry decisions and entry mode strategies. Since the CICI serves as the main theoretical framework for this study, the CICI methodology is comprehensively introduced in this section. In addition, foreign companies' market entry mode types are presented to understand companies' entry strategies, and are analysed later in terms of a Chinese second-tier city's degree of internationalization.

3.1 Definition Second-Tier City According to Maxxelli

Maxxelli classifies Chinese second-tier cities based on three attributes: large population, strong economy, and a certain degree of internationalization. For Maxxelli, cities show a strong economy if their GDP reaches at least USD 50 billion, whereas a city is defined as having a large population if it houses at least three million people. Maxxelli measures a city's internationalization using its own index, the CICI. Maxxelli argues that a city shows a certain degree of internationalization, when it obtains an average score in at least one of the CICI's categories to measure a city's degree of internationalization (Maxxelli 2017: 7).

3.2 Maxxelli's Approach to Measure Chinese Cities' Degree of Internationalization – The China International City Index (CICI)

Since 2015, Maxxelli has been publishing the CICI on a yearly basis. With its CICI, Maxxelli aims to measure and compare Chinese cities' degree of internationalization. In its report, Maxxelli further analyses a city's degree of internationalization based on three primary perspectives: strengths, weaknesses, and overall recommendations on how cities can further improve their degree of internationalization. The following section introduces the CICI's methodology in detail and gives an overview of the CICI's categories and indicators that are used by Maxxelli. In addition, the city sample selection and score calculations are explained.

3.2.1 CICI Categories to Measure a City's Degree of Internationalization

In this section, Maxxelli's categories with the assigned indicators to measure a city's degree of internationalization are presented. Maxxelli quantifies a city's degree of internationalization based on seven categories, namely: Global Economic Strength, International Commerce, International Community, Culture and Tourism, Education, Infrastructural Connectivity as well as Governmental and Political Engagement (Maxxelli 2017: 41). Maxxelli assigns four to eight indicators to each of these categories, totalling in 44 indicators and gives each category and indicator an individual weighting to calculate a city's overall score (see Appendix 1 for a detailed overview of the weightings).

3.2.1.1 Global Economic Strength

The category Global Economic Strength consists of seven indicators, including GDP per Capita, FDI, Total Import and Export, Number of Fortune 500 Companies, Number of Major APS Firms, Number of Foreign Companies, and Number of Completed Foreign Development Projects. Maxxelli believes a city's competitiveness and participation in the global economy is a major factor that determines a city's degree of internationalization. Therefore, Global Economic Strength is assigned the highest weighting, representing 20 percent of a city's overall score. Within this weighting, Maxxelli places emphasis on the weighting of APS firms³. Maxxelli's focus on APS firms is based on Sassen's works which highlights the role of APS firms in a city and related international interactions (see section 2.1). Furthermore, the Number of Fortune 500 Companies and the total Number of Foreign Companies are integrated in this category and are also used to show the general economic strength of a city. Total Import and Export as well as FDI are furthermore included in Global Economic Strength to highlight foreign economic interests in a city (Maxxelli 2017: 40).

3.2.1.2 International Community

An International Community is regularly associated with a city's international flair. Indicators included in this category are: Number of International Schools, Number of International University Students, Expatriate Population, Expatriate Population Percentage, and the Number of Foreign Clinics. International facilities like international schools or international clinics are included, because Maxxelli considers them as essential factors for foreigners when they relocate to a city in China. All in all, international facilities, and the international community itself, foster a city's international environment. Consequentially, International

³ Maxxelli's defines APS firms in its CICI as major banks, accountancy firms, law firms and management consultancies, in its CICI methodology. In its APS firms indicator, Maxxelli integrates a set of 40 leading APS firms (Maxxelli CICI 2017 internal data).

Community is the CICI's second most important category, indicated by a weighting of 17.5 percent (Maxxelli 2017: 40).

3.2.1.3 International Commerce

The category International Commerce comprises most indicators (eight), which are: Number of International Fashion Retailers, Number of International Luxury non-Fashion Retailers, Number of International Fast-Fashion Retailers, Number of other International Retailers, Presence of Large Multinational Food and Drink Chains, Number of Restaurants Selling Foreign Cuisine, Number of Foreign Operated Hotels, and Number of Foreign Serviced Apartments. Some of these indicators consist of a basket of sub-indicators, namely: International Luxury Fashion Retailers, Number of International Luxury non-Fashion Retailers, and Presence of Large multi-national Food/Drink Chains. Overall, the category has an assigned weighting of 15 percent. International Commerce is integrated in the CICI because Maxxelli believes that foreign retail brands will set up stores in a city when they see potential and opportunities for their expansion. Furthermore, Maxxelli is convinced that foreign retailers, foreign restaurants, foreign operated hotels, and foreign serviced apartments contribute to a city's international atmosphere (Maxxelli 2017: 40-41).

3.2.1.4 Culture and Tourism

The category Culture and Tourism consists of the following indicators: Number of Tourist Attractions, 72-Hours Free-Visa Option, Number of Top and Major Theatres, Number of Major Museums, Online Content, Top Tourist Attraction Review Count, Sports Online Content, and Number of Large Sports Stadia. Maxxelli believes tourists contribute to a city's international atmosphere, but not as much as foreigners permanently living in a city. Hence, the category only has an assigned weighting of 12.5 percent, which is relatively low compared to International Community (17.5 percent). However, both, foreign citizens and tourists create a demand for cultural activities in a city. A large number and high quality of cultural facilities can also shape a city's image and further attract tourists. Cities having tourist spots attract many tourists, but if a city has many tourist attractions and only very few visitors are going there, a bias can occur. Thus, the Top Tourist Attraction Review Count is designed as a proxy for tourist attractions. In China, the 72-hours free-visa option exists for several cities and provinces. The 72-hours free-visa option lowers barriers for tourists, who are not willing to pay for visa costs and thereby attracts foreign tourists in a city. The overall Online Content available on a city can give information on how well-known a city is in general. The indicators Number of Major Museums, Number of Top and Major Theatres and Number of Large Sport Stadia provide city show entertainment options for tourists and expatriates living in a city. The indicator Sports

Online Content is designed as a proxy and aims at showing how many sports activities and events or competitions are taking place in a city (Maxxelli 2017: 41).

3.2.1.5 Education

A city's Education is quantified in the CICI by five indicators: Level of Education, English-Speaking Population, Number of Top Universities and the Number of International Intern Recruitment Agencies. The indicators Level of Education and English-Speaking Population are included in the CICI, because both are often important factors for foreign companies that want to hire well-educated Chinese staff. Besides, English is a global language, and thus, the English-speaking population shows how international a city is. Top universities contribute to an international atmosphere in a city by fostering the level of education and English proficiency as well as by attracting students and academics from all around the world and hereby contribute to an international atmosphere in a city. Maxxelli integrates the Number of International Intern Recruitment Agencies, because they also attract foreign students and stress how well a city is known and how attractive it is for foreigners. Overall, the category has an assigned weighting of 10 percent (Maxxelli 2017: 41).

3.2.1.6 Infrastructural Connectivity

Indicators contained in the category Infrastructural Connectivity are: Number of Direct International Flights to Asian Destinations, Number of Direct International Flights to non-Asian Destinations, Annual Passenger Capacity of Airports, International Rail Links, High-Speed Rail Links, Number of International Tourists Entering each Year, Having an International Seaport, and the Development of a Metro System. Infrastructural Connectivity is designed as a category, because Maxxelli considers a very well-developed infrastructural connectivity is supporting a city on its way to becoming international. The Annual Passenger Capacity of Airports expresses the size and importance of a city's international airport, but also gives an impression of a city's inflow of foreign tourists. Other indicators are the Number of International Flights to Asian Destinations and the Number of International Flights to non-Asian Destinations. Both indicate how well connected a city is. Also, the Number of International Rail Links and the Number of High-Speed Rail Links contribute to a city's infrastructure: numbers, which matter for trade, but also foreign companies when they consider to setting up business operations in a city. But it should be acknowledged that a well-developed infrastructure does not necessarily make a city international. Hence, this category is only assigned a weighting of 10 percent (Maxxelli 2017: 41-42).

3.2.1.7 Government and Political Engagement

Since a city's governmental and political setting is also an important factor, which contributes to trade and FDI, Maxxelli further integrates Government and Political Engagement in its index. Government and Political Engagement is measured by four indicators: Number of Foreign Consulates, Foreign Chambers of Commerce, Number of Sister Cities, and the Number of Trade Exhibitions (Top 200 by Area). Foreign consulates and foreign chambers of commerce usually support foreigners and foreign companies abroad and foster economic and political relations between countries. For this reason, the number of consulates and chambers of commerce also indicates how international a city is. On the other hand, if cities have a comparatively high number of sister cities, they might be more well-known and a comprehensive cooperation between the sister cities might contribute to more tourists visiting the city, more exchange programmes, or cultural activities in general. Furthermore, Maxxelli integrates the Number of Trade Exhibitions, which are held in a city, to show how organized it is in attracting trade. Government and Political Engagement has an assigned weighting of 10 percent (Maxxelli 2017: 42).

3.2.2 Calculating CICI Scores and Data Collection

The CICI's score calculations are based on a score normalization approach. This means that, an indicator's score is normalized before weighting. The following formula is applied:

$$\text{Normalized } x = (\text{Max } (x) - x) / \text{Range } (x) * - 100 + 100 \quad 4$$

Based on this formula, the lowest scoring city in an indicator obtains a normalized score of 0 and the highest scoring city a normalized score of 100. Based on their position between the lowest and the highest scoring city in an indicator, all other cities are assigned a normalized score between 0 and 100. In the next step, the normalized scores are multiplied by the indicator's assigned weighting. The overall category score is obtained by adding up the individual indicator scores. Afterwards, the overall score of each category is also multiplied with its assigned weighting and added up to obtain a city's final score of internationalization. A city's internationalization score generally ranges between 0 and 100. It is important to note that normalizing the scores does not only have advantages. Examples of disadvantages are outliers, which might influence the individual city scores. In the case that a city scores very high or very low in an indicator, differences between the cities are revealed to a lesser extent.

⁴ X is a city's score on an indicator, whereas Max (x) shows the highest score in an indicator from all cities included in the sample and the Range (x) is the difference between the highest and lowest value obtained by a city for an indicator (Maxxelli 2017: 42)

Consequently, if indicator scores do not differ much, small differences may appear larger (Maxxelli 2017: 42).

Maxxelli's CICI sources rely on official data published by the Chinese government and data obtained by independent institutions. In terms of data published by the Chinese government, Maxxelli currently uses data from the China Statistical Yearbook (GDP per Capita, Total Import and Export, FDI, Number of International Tourists Entering each Year, Population Census) and data from the cities' local bureaus of statistics (Number of Fortune 500 Companies, Number of Foreign Companies in a city). Except for the mentioned indicators, Maxxelli applies data from various independent sources. For instance, the data on the Number of International Luxury Fashion Retailers is based on data published by the luxury fashion retailers themselves.

3.2.3 CICI City Selection and City Sample

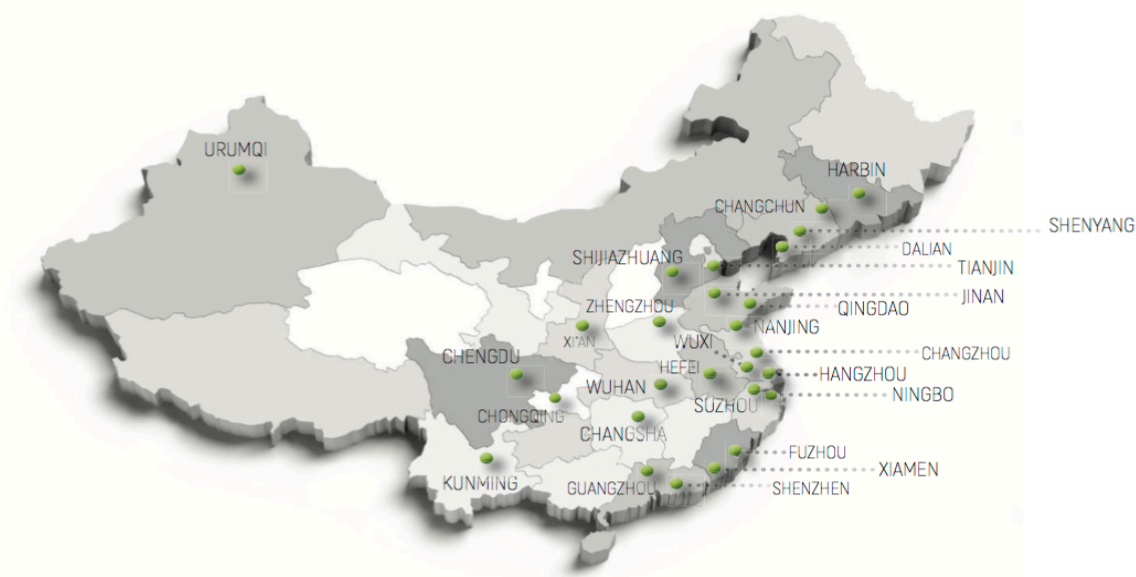
In accordance with Maxxelli's definition of a second-tier city, the cities included in the CICI are selected based on their population and regional GDP. Two premises are applied: first, a city's urban agglomeration population⁵ must cover at least three million people, and second, the city's annual regional GDP must at least be USD 50 billion (Maxxelli 2017: 7). Based on their geographical locations, the cities are organized in four categories: North, Central/Southwest, Greater Shanghai, and South (Maxxelli 2017: 7), which include the following cities (see Figure 2):

- North: Changchun, Dalian, Harbin, Jinan, Qingdao, Shenyang, Shijiazhuang, Tianjin, Urumqi, Zhengzhou
- Central/ Southwest: Changsha, Chengdu, Chongqing, Hefei, Wuhan, Xi'an
- Greater Shanghai: Changzhou, Hangzhou, Nanjing, Ningbo, Suzhou, Wuxi
- South: Fuzhou, Guangzhou, Kunming, Shenzhen, Xiamen

The CICI's score normalization calculation approach has implications for its city sample. Beijing and Shanghai, which are considered as China's most developed and most international cities, are not included in the city sample, because Beijing and Shanghai's high scores would render the degree of internationalization of the other cities included in the sample invisible. Since Guangzhou and Shenzhen are widely recognized as first-tier cities, both cities are used as benchmarks in the sample. Due to their high degree of internationalization, Guangzhou and Shenzhen's function in the CICI is to highlight existing differences in Chinese cities' degree of internationalization (Maxxelli 2017: 42).

⁵ Maxxelli defines an urban agglomeration based on the definition of the United Nations, which describes an urban agglomeration or metropolitan area is defined as "*the population contained within the contours of a contiguous territory inhabited at urban density levels without regard to administrative boundaries*" (UN 2015: 101)

Figure 2. CICI 2017 City Sample



Source: *Maxxelli 2017: 7*

3.2.4 CICI 2017 City Ranks and Scores

In the CICI 2017, Guangzhou (82.99 points) and Shenzhen (47.93 points) score highest and are the most internationalized cities included in Maxxelli's index. Chengdu (46.93 points) and Tianjin (46.26 points) achieve a slightly lower score than Shenzhen (see Table 2).

Table 2. CICI 2017 City Ranks and Scores

Rank	City	Score (in Points)			
1	Guangzhou	82.99	15	Harbin	20.04
2	Shenzhen	47.93	16	Changsha	18.73
3	Chengdu	46.78	17	Ningbo	18.67
4	Tianjin	46.26	18	Kunming	16.27
5	Wuhan	37.83	19	Jinan	16.00
6	Chongqing	36.83	20	Zhengzhou	14.97
7	Hangzhou	36.65	21	Changchun	14.20
8	Nanjing	35.91	22	Fuzhou	13.35
9	Xi'an	33.09	23	Wuxi	13.31
10	Suzhou	29.54	24	Hefei	11.47
11	Qingdao	28.80	25	Changzhou	8.83
12	Xiamen	28.00	26	Urumqi	7.32
13	Dalian	27.69	27	Shijiazhuang	6.96
14	Shenyang	25.43			

Source: *Maxxelli 2017: 8*

The score itself gives the impression that Shenzhen and Chengdu have a similar level of internationalization. However, due to its geographical proximity to Guangzhou, Shenzhen scores relatively low in some indicators in comparison to other cities (Maxxelli internal data). One example is the Number of Consulates in a City. Guangzhou, which houses a total of 51 consulates, is usually chosen as the location for South China’s consulates, whereas not a single consulate is located in Shenzhen. Another example is Suzhou. Due to its geographical proximity to Shanghai, Suzhou does not have an own airport. Thus, Suzhou scores in three of eight indicators (Number of Direct International Flights to Asian Destinations, Number of Direct International Flights to non-Asian Destinations, Annual Passenger Capacity of Airports) of the category Infrastructural Connectivity zero (Maxxelli internal data). These two examples show that some indicators are favourable for cities and push their degree of internationalization or vice versa. Nevertheless, the CICI’s results highlight that Chengdu and Tianjin are becoming increasingly more international and are catching up with Shenzhen and Guangzhou. In this year’s report, Maxxelli identifies Hefei (11.47 points), Changzhou (8.83 points), Urumqi (7.32 points), and Shijiazhuang (6.96 points) as the least internationalized cities in the sample.

3.2.5 Classification of China’s Second Tier Cities According to Maxxelli

Based on the CICI’s results, Maxxelli classifies in accordance with its second-tier city definition 20 out of 27 cities included in the sample as second-tier cities (see Table 3).

Table 3. Second-Tier City Classification According to Maxxelli

Chengdu	Chinese Second-Tier Cities
Changchun	
Changsha	
Chongqing	
Dalian	
Fuzhou	
Hangzhou	
Harbin	
Jinan	
Kunming	
Nanjing	
Ningbo	
Qingdao	
Shenyang	
Suzhou	
Tianjin	
Wuhan	
Xi’an	
Xiamen	
Zhengzhou	

Source: Maxxelli Internal Database

In this year's assessment; Changzhou, Hefei, Shijiazhuang, Urumqi, and Wuxi fail to meet Maxxelli's premises and cannot be classified as second-tier cities. Thus, these cities did not cover a population of three million people or above, show an annual regional GDP of USD 50 billion, or obtain an average score in one of the CICI's seven categories.

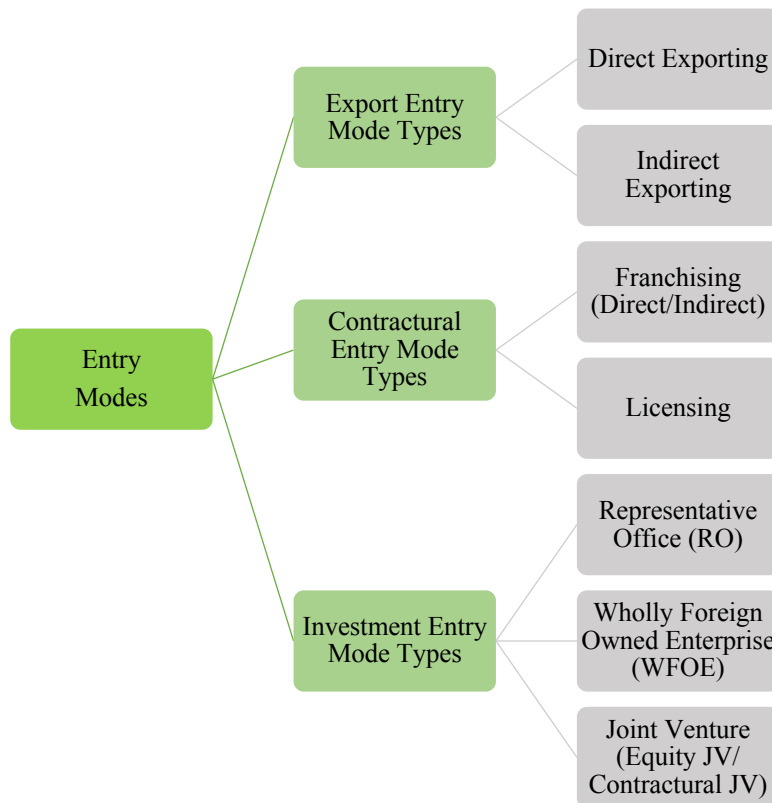
3.3 Definition Companies' Market Entry

Referring to Maxxelli's definition of a second-tier city, market entry is defined as foreign companies' market entry to China's second-tier cities by setting up business operations in these cities. This definition applies to both target groups in this study, meaning, foreign companies directly setting up business activities in China's second-tier cities as well as foreign companies that first established operations in first-tier cities and then moved on to second-tier cities. This study further limits the market entry of foreign companies to two second-tier cities, namely: Chengdu and Chongqing. The selection of the cities is based on Maxxelli's CICI 2017 results (see section 4.3 for a detailed explanation of the selection of Chengdu and Chongqing).

3.4 Companies' Market Entry Mode Strategies

According to Root, a company's foreign market entry mode can be defined as "*an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other reasons into a foreign country*" (Root 1987: 5). When companies consider entering markets in different countries or as is the case in this study, Chinese second-tier markets, companies face the question of which market entry mode is best suited to their strategy. In general, a company's market entry mode is an essential decision for a company's overall market entry strategy. Dickson and Giglierano even argue that a wrong market entry mode strategy can result in "*sinking the boat*" (Dickson, Giglierano 1986: 61). Entering a new market is a challenge and therefore making the right market entry mode decision is critical for small-medium sized enterprises (SMEs), since they have limited resources (Hollensen 2004: 273). Since choosing the right market entry mode is a crucial decision for a foreign company, entry mode research has attracted scholars' interest. In literature, various concepts of market entry modes exist. Three key categories of market entry modes are widely recognized: 1) export entry modes, 2) contractual entry modes, and 3) investment entry modes (Root 1994: 6; Pan, Tse 2000: 538; Driscoll, Paliwoda 1997: 57-97). Because a company's market entry mode is important for its success or failure, advantages and disadvantages of market entry mode types need to be discussed (see Figure 3 for a detailed overview of the market entry mode types).

Figure 3. Overview of Foreign Companies' Market Entry Modes and Market Entry Mode Types



Source: Own Figure Based on Root 1994, Hollensen 2004, Doole and Lowe 2001, Duniach-Smith 2004

3.4.1 Export Entry Mode Types

Export entry modes are considered as one of the simplest forms of entering a foreign market and are a common approach adopted by companies to enter a foreign market for the first time (Hollensen 2004: 291). Reasons for this are low resource requirements, high flexibility for companies as well as financial, marketing and technological benefits. However, companies, which engage in exporting activities must obtain market specific knowledge to reduce investment risks (Kotabe, Helsen 2014: 541). In exporting, a company's products are not manufactured in the foreign market, but are either directly or indirectly exported to a target market. These two different exporting approaches are elaborated on in the following section.

3.4.1.1 Direct Exporting

Direct exporting is given “[...] when a manufacturer or exporter sells directly to an importer or buyer located in a foreign market area” (Hollensen 2004: 297). Thus, companies do not use middlemen in the target market, but may use intermediaries (Osland, Taylor, Zou 2001: 154). Linking individuals and organizations that would not have been connected otherwise is the intermediaries' main task (Peng, Illinitch 1998: 610). In direct exporting, companies are usually in charge of their products' delivery and their pricing strategy, but sell

products via intermediaries (Doole, Lowe 2001: 260). When selecting intermediaries, companies have two options: distributors and agents. Distributors are paid based on the difference between the buying and selling price and not based on commission. They are often exclusive sales representatives of a company in terms of sales and servicing in a foreign market. Since distributors buy the product from the manufacturer, they bare the risks for unsold products, but also for the profit. Thus, they usually aim at a higher percentage margin to cover their costs and risks and usually seek exclusive rights for a specific sales territory. Initial investment can be high for distributors if the distributed product is associated with comparatively high transport or storage costs (Doole, Lowe 2001: 260). In contrast, agents who work on a commission basis, represent an exporting company and sell to wholesalers and retailers in a target market (Hollensen 2004: 298). To be successful with a direct exporting strategy, a company should carefully select suitable agents or distributors (Doole, Lowe 2001: 259). Particularly SMEs use direct exporting as a common approach to enter foreign markets (Hessels, Terjesen 2010: 204). To be legally permitted to directly export goods to China, companies need an import/export license and need to be registered in China. Therefore, direct exporting may be a more suitable market entry mode for products that are exported at a smaller quantity, for services, and technology (EU SME Centre 2015: 4).

3.4.1.2 Indirect Exporting

Indirect exporting refers to “[...] *when the exporting manufacturer uses independent organizations located in the producer’s country*” (Hollensen 2004: 293). Hence, manufacturing companies are not directly involved in the exporting business of their products to target markets. This task is taken care of by an export intermediary (Hollensen 2004: 293). Main export intermediaries are: freight forwarders, customs brokers and trading companies (located in the foreign target market) (Peng, York 2010: 329). In a survey among Dutch SMEs, Hessels and Terjesen identify three main reasons why companies use export intermediaries: 1) finding customers abroad, 2) reducing risks and uncertainty of operating abroad, and 3) compensating a lack of market knowledge (Hessels, Terjesen 2010: 209). When a company decides to adopt an indirect exporting entry mode type, the company is generally not involved in global marketing because its products are carried to the target market by other parties (Hollensen 2004: 293). Comparing indirect exporting with direct exporting, indirect exporting provides a company with less risk, control and resource commitments (Hessels, Terjesen 2010: 205). SMEs often do not pursue exporting strategies, because they lack country specific market knowledge, only have limited resources available and fear the associated risks. Consequently, using export intermediaries can provide SMEs with contacts, experience and specialization in a foreign market’s business environment, thereby lowering the costs (Peng, Illinitch 1998: 610). On the one hand, indirect exporting offers companies lower risks, but on the other, companies

lose the control over sales activities, which means the time, location and customers the products are sold to (Doole, Lowe 2001: 250).

3.4.2 Contractual Market Entry Mode Types

Contractual market entry modes occur “[...] *when the owner of the service concept (principal) enters into a contract with the unrelated party (agent) to use a specifically format business service concept to sell services or goods under the principal’s trademark*” (Jarmalaite, Sekundo 2004: 266). Thus, the agent carries out local services, such as maintenance, or the management of local operations (Jarmalaite, Sekundo 2004: 266). Two key contractual market entry mode types are franchising and licencing. Both concepts are introduced in the following section.

3.4.2.1 Franchising

The word franchising is derived from French and means literally “*to be free from servitude*” (Hollensen 2004: 313). In the world of business, franchising is an international market entry mode in which a market entrant company (franchiser) grants a third-party company (franchisee) the legal rights to use its branding, trademarks, products, and method of operations in exchange for a franchise fee (Doole, Lowe 2001: 261). In a franchise agreement, the franchiser and the franchisee contract all relevant information concerning their franchise relationship. Among other things, this includes information on the franchise fee (which commonly is a percentage of the sales), the duration of the franchise relationship, and information regarding the product purchase (Vazquez 2004: 145). Franchisees often have investment capital, but limited business experience (Hollensen 2004: 314). Most of the companies that decide to enter a market by a franchising approach are in the retail industry and export entry modes might not be possible for them (Wang 2009: 64). In China, franchise activities are mostly set up in traditional first-tier cities and not in second-tier cities (Wang, Zhu, Terry 2008: 177). When companies adopt franchising as a company strategy, they must set up a company in China and can decide among several equity investment types (Lee 2003: 974).

This research classifies different entry modes available to a franchiser seeking for international expansion into direct and indirect market entry modes. Based on the type of franchise agreement, different types of franchise structures can be adopted by companies. In entering a market through franchising, companies usually select their franchising type based on three criteria: 1) firm and industry specific factors, 2) country characteristics, and 3) firm strategic intent and preferences (Jarmalaite, Sekundo 2004: 267).

3.4.2.1.1 Direct Franchising Mode Types

When a company decides on a direct market entry through franchising, a direct relationship exists between franchiser and the foreign franchisee without an intermediary (Duniach-Smith 2004: 251). Key types are to be distinguished: 1) direct franchising, 2) establish a subsidiary, and 3) area development agreements (ADA). Direct franchising covers single unit and multiple unit franchising. In a single unit franchising strategy, the franchise agreement is concluded with a single franchisee, whereas in a multi-unit franchising strategy the franchisee is operating more than one unit (Doole, Lowe 2001: 261). Another direct franchising market entry mode is to set up a subsidiary in the target market in order to be able to control and develop a local network (Duniach-Smith 2004: 251). Moreover, companies can adopt an ADA. In an ADA, the franchisee has direct interaction with the franchiser and the exclusive right to operate all franchise outlets in a defined region (Wang 2009: 71). Direct franchising offers a franchiser short-term and long-term advantages. On the one hand, the company remains in control of the franchise system including marketing activities and has a greater market coverage. On the other hand, a rather low capital investment is needed to enter a market since the company does not have a presence in the targeted foreign market (Doole, Lowe 2001: 261). However, direct franchising also has its disadvantages. Since the franchiser provides the franchisee with assistance in terms of management support and training as well as access to product and process knowledge, the franchise systems' expansion to foreign markets can be time consuming (Zou, Kim 2009: 64).

3.4.2.1.2 Indirect Franchising Mode Types

In indirect market entry modes via franchising, an additional third party exists in the franchiser-franchisee relationship, an intermediary intervening party. One strategy for companies is to establish a joint venture (JV) with a local company. In this case, the JV is in charge of the local network on behalf of the franchiser (Duniach-Smith 2004: 251). Another common approach is a master franchising agreement. When a franchiser and franchisee sign a master franchise agreement, the master franchisee obtains from the franchiser the right to set up its own franchise outlets and have sub-franchisees, which have the right to set up their own franchise outlets (Wang 2009: 70). The master franchisee is exclusively permitted, for a determined period of time, to use the licensor's business format (Duniach-Smith 2004: 251-252). Companies usually decide to enter a market through master franchising, when they do not possess or do not want to invest capital and resources in a market on their own. Thus, franchisees also minimize the franchiser's risk to enter a market. Usually the franchisee is familiar with the foreign market's country specific market conditions and can foster the development of the franchise system in a market. When a company adopts master franchising or establishes a JV, the franchiser shares profits with the master franchisees, sub-franchisees or JV partners (Wang 2009: 69-71).

3.4.2.2 Licensing

Besides franchising, licensing is another contractual entry mode type for companies to enter foreign markets. If a company decides to enter a market via licensing, it grants other companies or organizations the right to use its intellectual property (IP) (Osland, Taylor, Zou 2001: 154). The IP transfer from one company to another is defined in the licensing agreement (Zou, Kim 2009: 62). In general, companies license patent rights, manufacturing know-how not subject to patent, technical advice and assistance, marketing advice, and trademark rights or trade name rights (Hollensen 2004: 311). To obtain the license rights, the licensee pays the licensor an initial fee or percentage of the sales, a so-called royalty (Osland, Taylor, Zou 2001: 154). Licensing has advantages for the licensor and the licensee. Since the licensee pays a predetermined amount or percentage of its sales, the licensor can also increase its revenue. Moreover, licensing is a favourable strategy for companies that aim to enter markets with high market entry barriers, in which direct business operations may not be possible. By using a licensor's IP, the licensee can reduce its research and development (R&D) costs and use well-established know-how (Doole, Lowe 2001: 266). On the other hand, licensing also incurs risks for companies. Since the degree of IP protection is not the same in every country, IP may also be reproduced and the licensee may become a future competitor (Zou, Kim 2009: 62-63).

3.4.3 Investment Market Entry Modes Types

This section concentrates on different types of investment market entry modes that foreign companies can select from, which are representative offices, wholly foreign owned enterprises and JVs (equity and cooperative/contractual).

3.4.3.1 Representative Office

A representative office (RO) is not an independent legal entity and is therefore only allowed to engage in indirect business activities in China. This means, a RO is not allowed to sign contracts on behalf of the foreign company (Invest in China 2010: n. p.). In China, ROs function more as liaisons between the foreign companies' headquarters and Chinese government agencies, trade organizations, and business partners (Wang 2009: 158). In general, liaison activities include market surveys, product or service campaigns, and domestic procurement (Invest in China 2010: n. p.). First laws concerning ROs were issued in 1980, but nowadays ROs are guided by the Detailed Measures for the Implementation of the Provisional Regulations Governing the Approval and Control of Resident Representative Offices of Foreign Enterprises (Detailed Measures on Foreign Representative Offices), which were adopted in 2011 (Invest in China 2010: n. p.). ROs are said to be one of the easiest and fastest market entry strategies to enter the Chinese market. For instance, ROs do not have capital

requirements (Prange 2016: 11). To establish a RO, foreign companies must meet four basic requirements: 1) being a legally registered enterprise in their country of origin, 2) having a solid business reputation, 3) providing true and reliable documents and information required by law, and 4) carrying out the required application procedures (Wang 2009: 158).

3.4.3.2 Wholly Foreign Owned Enterprise

Wholly foreign owned enterprises (WFOEs) are “[...] *firms solely invested by foreign investors, such as foreign companies, enterprises, organizations or individuals*” (Zhang Ning 2011: 18). Thus, a company owns all the stock of a company or subsidiary in a foreign (Chinese) market (Kazmi, Naaranoja, Takala 2013: 552). In contrast to ROs, WFOEs are legally allowed to do business in China, which means, they can conduct sales, issue invoices and generate revenues (Prange 2016: 11). With the implementation of the WFOE Law in 1986, WFOEs became a legal market entry mode type for foreign companies in China (MOFCOM 2003a: n. p.). The WFOE Law not only guaranteed the protection of foreign investors’ property and attempted to attract more FDI, it also marked a change in China’s FDI policy (Ng 2013: 10, Chen 2011: 86). Most WFOEs in China have a single foreign investor, but two or more foreign investors are permitted under Chinese Law (MOFCOM 2003a: n. p.).

With a WFOE, a foreign company has the full management control over the local entity in a foreign country (Motohashi 2015: 109). Thus, WFOEs can follow the company’s management style and do not have to adapt to their JV partner’s company culture. In addition, the profit margin is fully appropriated by the foreign investor and does not have to be shared with JV partners (Kazmi, Naaranoja, Takala 2013: 552). Moreover, WFOEs can protect their innovations and IP rights better than JVs (Schmutzler de Uribe, Ebel, Hofer 2010: 62). Since WFOEs do not have to reconcile the interests of their local JV partners, the decision-making process is relatively fast and more flexible compared to JVs (Hennart 1988: 363). However, *“the risk for a wholly-owned operation in China is to be a self-sufficient island, cut off from guanxi and therefore at risk of not winning contracts and placing orders”* (Story 2010: 97). The Chinese society is relationship based; the so-called guanxi-system is crucial for the success of any company. The lack of a local partner, which possesses business connections and knowledge on the Chinese market and its regulations, can be highly disadvantageous for foreign companies entering the Chinese market. Not possessing a local partner can cause the failure of business operations in China (Kazmi, Naaranoja, Takala 2013: 553). Furthermore, a WFOE is not able to share its investment risks (Motohashi 2015: 109). Moreover, statistics show that WFOEs have a relatively lower profitability in comparison to equity JVs (Yan, Warner 2001: 8-9).

3.4.3.3 Equity Joint Venture

Equity Joint Ventures (EJVs) describe a company set-up in which at least two independent legal entities contribute given assets and establish as partners an independent legal entity. Based on their equity shares, JV partners share profits and losses earned by the company (Hennart 1988: 361-362). In 1979, the Chinese central government passed the Sino-foreign Equity Joint Venture Law. After its implementation, China opened-up and initially formalized and legalized investments for foreign companies. Furthermore, the law introduced the possibility for foreign companies, enterprises or individuals to establish JVs with Chinese companies (MOFCOM 2003b: n. p.). Thus, the EJV Law had a significant impact on the decision-making process of foreign investors. The EJV Law marked a change in Chinese FDI politics; FDI was no longer forbidden and was from then on encouraged by the Chinese government (Zheng, Scase 2013: 40).

To establish an EJV in China, a company must acquire at least 25 percent of a company's stocks, which is relatively high in comparison to other countries and can be a barrier for investment (Zhang Ning 2011: 17). Investment in EJVs can be in cash, machinery or industrial property rights (Lo, Tian 2006: 63, 68). In most cases, the foreign company contributes by product and technology inputs, while the Chinese partner provides Chinese market knowledge (Prange 2016: 12). Depending on the amount of equity the JV partner holds in the company, profits are shared between the partners. The governing structure of EJVs is the same as for limited liability companies (Schmutzler de Uribe, Ebel, Hofer 2010: 61). In general, companies have to consider the equity distribution. A 50:50 equity ratio means that JV partners share equal power, but an equity ratio of 49:51 implies that one partner has control over the other (Kazmi, Naaranjoa, Takala 2013: 550). Selecting a suitable JV partner is a crucial decision for a company. Kazmi, Naaranjoa and Takala define four main factors companies are considering when selecting a JV partner: 1) size of a partner company and its financial capabilities, 2) partner's complementary value, 3) element of trust, and 4) location of the partner's company (Kazmi, Naaranjoa, Takala 2013: 550).

In a foreign market, foreign companies may face a high level of uncertainty and risk (Lee, Huang, Chan 2009: 29). Local JV partners may reduce these risks while providing a deep understanding of the target country's market, a distribution network, customer knowledge and cultural background (Schmutzler de Uribe, Ebel, Hofer 2010: 61-62). JV partners share costs and risks for R&D, production and financing (Kazmi, Naaranoja, Takala 2013: 550). Hence, entering a JV is often associated with a reduction of investment risks (Motohashi 2015: 110). Sharing financial risks is particularly important in the case of large-scale investments that a company is not able to afford by itself (Yan, Luo 2001: 8). Having a local partner is important in China, where a network of relationships (*guanxi*) plays a crucial role and determines the

success or failure of a company (Ambler, Witzel, Xi 2009: 157). If a local partner is either a state-owned enterprise or has close ties to the government, companies benefit from this relationship (Kazmi, Naaranoja, Takala 2013: 551). Additionally, Sino-foreign JVs are said to be better capable of handling economic and political hurdles more effectively (Zheng, Scase 2013: 99). However, foreign companies fear “*the risk of being squeezed out*” by their Chinese local partner and a continuous struggle for control of the companies’ operations can ensue (Shishido, Fukuda, Umetani 2015: 11). In addition, diverging interests can cause conflicts between JV partners (Wang, Kwok, Luk 2006: 50). Furthermore, surveys show that JVs fail more often than they succeed. The failure rate of JVs is higher than 50 percent (Lee, Huang, Chan 2009: 29). Moreover, foreign companies often worry that they cannot fully protect their IP and innovations (Schmutzler de Uribe, Ebel, Hofer 2010: 62). For instance, companies fear that their JV partner acquires their technology and uses the partnership for their individual advantage (Osland, Taylor, Zou 2001: 155). Since China is a big country, the local JV partners’ knowledge can be restricted to a specific region and province, which limits the value of the JV partnership (Yan, Warner 2001: 7-8).

3.4.3.4 Cooperative/Contractual Joint Venture

In contrast to EJVs, cooperative or contractual JVs are not always legal entities. CJVs can be both, legal and non-legal entities. When a CJV is a legal entity, it must be a limited liability company. As a non-legal entity, the JV partners act as separate entities and handle liabilities independently. Non-legal entity CJVs must also set up a joint management committee (Lo, Tian 2006: 70). In both CJV entity types, JV partners share profits and losses as stipulated in their contract. Moreover, foreign JV partners are not required to undertake a minimum investment in CJVs (Schmutzler de Uribe, Ebel, Hofer 2010: 61). First regulations for CJVs in China were issued in 1988 with the implementation of the Law on Sino-Foreign Cooperative Joint Ventures, which was comprehensively revised by the Chinese government upon China’s accession to the World Trade Organization (WTO) in 2000 (MOFCOM 2003c: n. p., Chen 2011: 86). Specific advantages of CJVs are their project-oriented and short-term character. For instance, investors are more flexible regarding the management of a CJVs assets (Lo, Tian 2005: 85).

4 Research Methodology

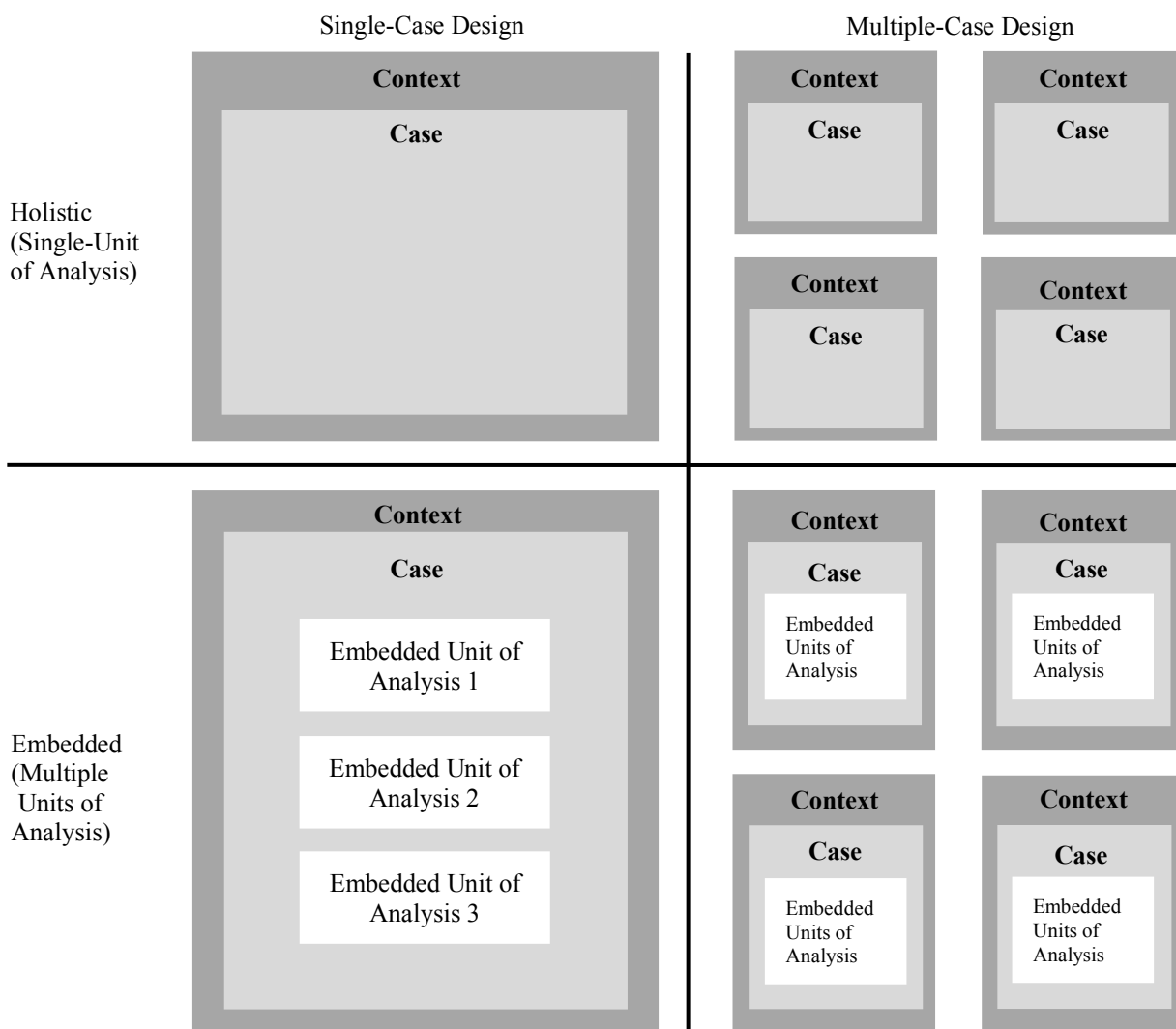
This section presents this study's methodology. The methodology focusses on the research design selection, the role of the researcher, the sample selection, and how the data is collected and analysed. Finally, data validity and reliability measures are discussed.

4.1 Qualitative Research Design

In research, scholars can generally choose among three main research designs: quantitative, qualitative and mixed methods (Creswell 2014: 3). The quantitative research design is usually applied when the research problem aims to identify factors that influence an outcome or the utility of an intervention, whereas the qualitative research design is adopted, when the research aims to explore and understand a concept or theory where limited research has been previously conducted. On the other hand, the mixed methods approach is used, when either the qualitative, or the quantitative research approach is not sufficient enough to understand a research problem (Creswell 2014: 20). Since the relationship between a city's degree of internationalization and foreign companies' market entry decisions and market entry mode strategies in Chinese second-tier cities has not been researched so far, this research is based on a qualitative research design. The qualitative research is considered most adequate to understand the research problem. A need to apply a mixed methods design was not identified. Literature further distinguishes between five main research approaches in qualitative research: narrative research, phenomenological research, grounded theory, ethnography, and the case studies approach (Creswell 2014: 13). This study's research interest lies with foreign companies' market entry decisions. Narrative research describes the life of individuals and the phenomenological research a phenomenon experienced by individuals. In comparison, grounded theory aims to generate an abstract theory in several steps, or the ethnography, which researches behaviours, languages or actions of cultures in their natural setting. Another possible approach is writing a case study (Creswell 2014: 13-14). A case study can be defined as an *"empirical inquiry that investigates a contemporary phenomenon (the case) in depth and within the real-world context, especially when the boundaries between the phenomenon and context may not be clearly evident"* (Yin 2014: 16). Yin offers four scenarios in which researchers may decide to use a case study as their research approach: 1) explaining links in real-world interventions that, due to complexity, cannot be explored in the form of surveys or experiments, 2) describing an intervention and the real-world context in which it occurs, 3) illustrating subjects within an evaluation in a descriptive mode, and 4) enlightening situations in which the factor being explored has no clear outcome (Yin 2014: 19). Based on Yin's above stated arguments and considering the research questions framed for this study (how and why questions), this study uses the case study approach. In the case study approach, researchers have to further decide further whether they study a single case, or multiple cases. A single-case study has the advantage of being more in-depth, whereas multiple cases are studied more superficially,

but include multiple perspectives on the research subject (Creswell 2007: 74, 76). This study aims to understand foreign companies' market entry decisions and not only for a single case, so a multiple-case study is applied in this study to generate more information and insights. According to Yin, once scholars have decided on whether they apply a single- or multiple-case study, they need to select either a holistic (single-unit of) analysis or an embedded (multiple units of) analysis (see Figure 4 for an overview of types of design for case studies) (Yin 2014: 50). Yin recommends to use a holistic case study design when no sub units of analysis can be identified or the relevant theory is itself holistic (Yin 2014: 54-55). As this study is based on analysing the market entry decisions and market entry mode strategies of foreign companies, it is based on individual companies. For the purpose of this study, the companies are divided into two types of sub-units: companies that enter second-tier cities after they have established business in first-tier cities and companies that have directly set up in China's second-tier cities. Therefore, an embedded multiple-case study is applied in this study.

Figure 4. Basic Types of Design for Case Studies



Source: Yin 2014: 50

4.2 Role of the Researcher

Mullen describes the qualitative research process as a “*developmental journey of becoming that is expressive at conceptual, emotional, ethical and aesthetic levels*” (Mullen 2000: 9). Since a researcher’s personal education and experiences can influence the choice of research approach as well as the data analysis and interpretation, the role of the researcher is discussed in this section (Creswell 2014: 20). During her studies in political science and China Business and Economics, the researcher was especially trained in qualitative research methods and not in quantitative research methods. However, before conducting the research for this study, she applied a literature review based approach and theories in her scientific works. This study was the first time she used interviews as a data collection method and applied an embedded multiple-case study. Thus, the researcher also underwent a journey of qualitative research. While she was working for Maxxelli, she gained her first work-related experience in FDI project consulting, meaning the researcher was exposed to the topic on a daily basis. She was also responsible for the revision and execution of Maxxelli’s CICI 2017, which included the review of the CICI’s methodology, gathering data and writing this year’s report. Qualitative research emphasizes the role of the researcher as an instrument, the research’s knowledge, perspective, and subjectivity in data collection, but also the data analysis procedures (Barrett 2007: 418). The researcher’s working background at Maxxelli’s may therefore be connected with a subjective bias and may influence the outcome of this study. This in particular applies to the data selection for the analysis.

4.3 Sample Selection

The sample selection is an essential step of the research process for every study. In studies with a small number of cases, the cases studied should be consciously selected to avoid a selection bias (Levy 2008: 8). In addition, the researcher should also ensure that a study’s cases are representative in order to be able to generalize the outcome and derive hypotheses (Creswell 2007: 74). For this research, a total of eight representatives from foreign companies were interviewed regarding their market entry decisions and market entry mode strategies in second-tier China in relation to a city’s degree of internationalization. For the purpose of this study, foreign companies are defined as companies that are either registered abroad or initially set up in China as a foreign company. The company sample consists of two target groups: companies that entered the Chinese market in a Chinese second-tier city directly and companies initially entered the Chinese market via a first-tier city and then second-tier China at a later point in time. The company sample selection for this study is based on two premises. First, in order to compare the entry decision of foreign companies to second-tier China, two different cities, which differ in their degree of internationalization are chosen as testing grounds. The two second-tier cities chosen for this study are Chengdu and Chongqing. The selection of the cities for this study is based on Maxxelli’s CICI 2017 results. In Maxxelli’s CICI 2017,

Chengdu is ranked China's most international second-tier city, scoring 46.78 points, whereas Chongqing is ranked sixth, obtaining a score of 36.83 points (see Table 2). Another reason why Chengdu and Chongqing serve as good testing grounds is their geographical proximity in Southwest China. Chongqing is nowadays one of China's directly controlled municipalities, but was part of Sichuan province until 1997 (Hong 2004: 252). Thus, Chongqing and Chengdu share a long history and the same cultural conditions. Since China is a very big country, economic and cultural conditions may differ in the North, South, or Central China. Choosing Chongqing and Chengdu as locations for this study aims at avoiding such possible intervening variables. Thus, the city selection is based on a Most Similar Systems Design and selects cases that share most similar characteristics, instead of choosing a Most Different Systems Design, which aims at finding cases that are different and range widely (Przeworski, Teune 1970: 32, 37). Second, based on the framed research question, a sample of small- and medium-sized companies with different industry backgrounds and different market entry mode types is selected. Since this study focuses on a company's and not on an individual's decisions and strategies, characteristics of the interviewees such as age and gender are not considered, which may be relevant for other research. Since this study aims to research foreign companies market entry strategies of not only one country, the company's country of origin is important in the company selection as well. All in all, the sample comprises a range of different companies.

Due to the fact that not every employee in a company is aware of the company's market entry decision and market entry mode strategy in Chinese second-tier cities, the selection of suitable interview partners is essential to obtain the answers to the research question. Thus, companies' Asia managers who are in charge of the company's market entry strategy in second-tier China, company owners, or the CEOs themselves are selected as interview partners. For this reason, efforts are made by the researcher to find the most suitable and knowledgeable candidates to answer the interview questions.

In the following section, the foreign companies included in the sample are introduced. The target group first- to second-tier includes three companies: ECFO (financial advisory company), Glacio (Belgium premium ice-cream manufacturer), and Renaud Air (air purifier business) (See Table 4 for a brief overview of the companies and the Appendix 3 for detailed company profiles and company representatives' names).

Table 4. Company Sample for First-Tier to Second-Tier Market Entry

Company Name	Industry	Country of Origin	Location	Market Entry Mode Type
ECFO Services	Financial Consulting	USA	Shanghai, Beijing, (Chengdu) ⁶	WFOE set-up in Shanghai (Chengdu: back office set-up, similar to RO)
Glacio	Manufacturing/ Food & Beverage (F&B)	Belgium	Shanghai, Chengdu, Chongqing	Shanghai: EJV Chengdu & Chongqing: Direct Franchising (ADA), Indirect Franchising (Master Franchisee)
Renaud Air	Manufacturing	Canada	Shanghai, Chengdu	Shanghai: WFOE Chengdu: Direct Exporting (Distributor)

Source: Own Table

The company sample for the direct market entry to second-tier China includes five companies: Coding First (IT education), DocChat (medical application software), Gebrüder Wurst (German sausage business), International Education Consultancy (IEC) Abroad (education consulting), and an anonymized German F&B company (F&B business) (See Table 5 for a brief overview of the companies).

Table 5. Company Sample for Direct Market Entry in Second-Tier China

Company Name	Industry	Country of Origin	Location	Market Entry Mode Type
Coding First	Information Technology (IT)/Education	Lebanon	Chengdu	WFOE (set-up as individuals)
DocChat	IT	United States of America /Hungary	Chongqing	WFOE (set-up as individuals)
Gebrüder Wurst	F&B	Germany	Chongqing	EJV
IEC Abroad	Education/ Consulting	United Kingdom	Chengdu	WFOE (company set-up)
n. a. ⁷	F&B	Germany	Chongqing, Chengdu	Direct Exporting: No intermediary

Source: Own Table

⁶ ECFO has offices in Shanghai and Beijing and operated an office in Chengdu until April 2017.

⁷ In order to keep information regarding an interviewed German F&B company confidential, the company's name was anonymized

4.4 Data Collection

“There is no doubt that qualitative interviewing is a flexible and powerful tool to capture the voices and the ways people make meaning of their experiences” (Rabionet 2009: 203). Referring to Rabionet, using interviews for data collection has particular advantages. Interviews are focused in their nature, as interviewers can directly ask questions regarding their research question. Furthermore, interviews can be very insightful and give the researcher a personal view of a case (Yin 2014: 106). Moreover, interviews are especially useful when the research subject cannot be observed (Creswell 2014: 191). On the other hand, using interviews for data collection also has its disadvantages. Potential researcher bias due to poorly phrased questions can be an issue as well as response bias, meaning the respondents provide the interviewer with the answers desired for answering the research question (Yin 2014: 106). Nevertheless, this study used interviews for data collection and conducted interviews in the cities of Chengdu and Chongqing between April and May 2017. Interview techniques usually distinguish between the structured and the semi-structured approaches (Edwards, Holland 2013: 29). The semi-structured interview is more flexible compared to the structured interview, as it makes spontaneous interactions between the interviewer and respondents possible. In the structured interview, the interviewee consents to an interview manual, and the sequential order of the question is for every interview the same to make sure that the outcome of the interview is not influenced. Whereas in the semi-structured interview the interviewer is guided through the interview by means of an interview manual, the order of the questions is not static (Edwards, Holland 2013: 29). To obtain more insights of the companies’ strategies, the semi-structured interview was viewed as the most suitable data collection approach. Researchers also have to decide on a data recording approach. Two main approaches are data recording and an interview protocol (Creswell 2014: 193-194). The advantage of audiotaping interviews over taking interview notes is that it is easier afterwards to analyse the data and to minimize bias by memorizing what the respondent said, but also being able to directly quote the interviewee. On the other hand, the interviewee may be nervous about being recorded and may not feel comfortable talking about the research topic. Thus, for very sensitive topics it is not recommended to record the data (Kuckartz 2012: 134). Given the mentioned advantages of audiotaping over an interview protocol, the researcher decided to audiotape the interviews.

The questions for this study’s interview manual were framed thoughtfully. Interviews are recommended to start with an open question as an ice-breaker to create an open atmosphere (King, Horrocks 2010: 55). Consequentially, before the interviewees were asked about their market entry decisions and market entry mode strategies, they were prompted to define an international city. The interview manual consists of ten main questions and is structured in four parts: 1) questions on a city’s internationalization, 2) questions on companies’ market entry decisions and market entry mode strategies in second-tier China in connection with a city’s

degree of internationalization, 3) questions on the companies' market entry mode, and 4) questions concerning Maxxelli's CICI report in particular (see Appendix 2 for the detailed interview manual).

In this study, two different interview approaches are applied: face-to-face interviews and Skype interviews. Since some companies included in the sample are just about to set up their business in second-tier cities, such as Chengdu, they have no established business yet in China. Thus, responsible market entry strategists, entrepreneurs or company owners are still based in their home country's market. For this reason, the interviews with Glacio and IEC Abroad were conducted as a Skype interview. In addition, Skype interviews were also conducted with companies being based in Shanghai (Renaud Air, ECFO) as geographical barriers made it impossible to arrange face-to-face interviews. Another factor, which contributed to the decision to conduct a Skype interview with ECFO is the fact that, the interviewee is currently based in Bangkok. Therefore, the advantage of Skype interviews is that they can be conducted no matter where people are currently located in the world and are also relatively cheap (Deakin, Wakefield 2014: 607). Skype interviews are chosen over telephone interviews, because computer software can support the recording of an interview better in a Skype call. The researcher used the software Call Recorder to record the Skype interviews. Call Recorder has the advantages of being able to save the Skype interview in a good quality and as a MP3 document, which can later be easily uploaded to a transcription software program. However, Skype interviews also have disadvantages over face-to-face interview. If the interviewer and interviewee have not met in person before, it is rather difficult to build a relationship between both parts in the interview and to create an open atmosphere (Deakin, Wakefield 2014: 610). An open atmosphere is required to make the interviewee comfortable and questions are responded to in a natural way and to establish informal communication (Creswell 2007: 132-133). This problem does not occur the same way in face-to-face interviews, where interviewer and interviewee can build a relationship more easily. The researcher conducted the face-to-face interviews in the cities of Chengdu and Chongqing with an anonymized German F&B company, Gebrüder Wurst, Coding First, and DocChat. Nevertheless, the researcher used the same interview manual for Skype interviews as well as face-to-face interviews. During the face-to-face interviews, the interviewer showed the interviewees the question concerning Maxxelli's seven categories of internationalization with its 44 sub-indicators as well as the overview of the 27 cities included in the CICI, whereas in the Skype interviews, the interviewees received the content regarding these two questions in a document file during the interview. Except for the interview with DocChat, where both company owners participated in the interview, the researcher decided to conduct one-on-one interviews. Since this study targets company owners, or strategists, who are responsible for the company's strategy to enter second-tier China, the researcher saw no advantage of focus groups.

In focus groups, several respondents are interviewed simultaneously (Edwards, Holland 2013: 36). The length of the face-to-face and Skype interviews varied between 30-60 minutes.

Since this study's target group are foreign companies, the language the interviews were conducted in was mainly English. Because an interviewed Gebrüder Wurst and an anonymized German F&B company are owned by Germans, and because the researcher is also German, both interviews were conducted in German. The advantages of using German as the interview language is that expressing yourself in your native language is often easier making the interview more natural (Welch, Piekkari 2006: 422).

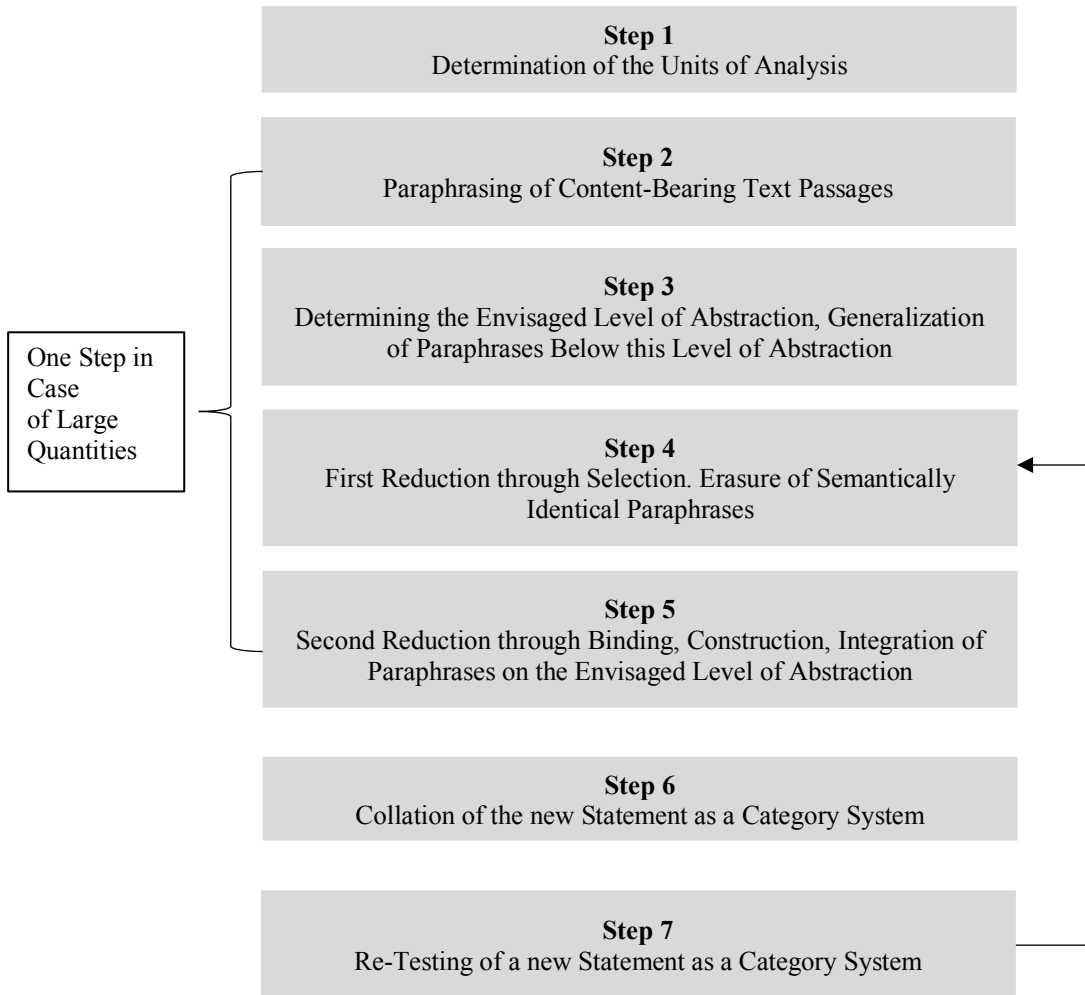
4.5 Data Analysis Procedures

Before being able to analyse the gathered qualitative data, the interviews needed to be transcribed. Two main approaches for interview transcription exist: de-naturalist transcription and naturalist transcription. The naturalist transcription approach aims to include idiosyncratic elements, such as pauses or stutters, whereas the de-naturalist transcription emits the subconscious utterances. Instead of focusing on the way the participants articulated themselves, the de-naturalist transcription approach focuses more on the content itself (Aurini, Heath, Howells 2016: 112). Therefore, the de-naturalist transcription approach is chosen for the purpose of this study. To transcribe the data, the researcher used the F5 Transcription Standard software for Macintosh. The F5 Standard software supports the transcription process with features such as a speed reduction as well as the option to alter the sound volume and to repeat short intervals. Thus, the software is very useful for transcribing and makes the whole process more efficient. The transcription of the interviews was commenced before the last interview was conducted. As two of the interviews were conducted in German, both had to be translated and prepared for the analysis. Nevertheless, a translation no matter how well it is done, will always lack small details and language nuances, so a bias may occur (Filep 2009: 69).

In order to analyse the qualitative data, a suitable method of analysis has to be selected. Mayring distinguishes between three main types: explication, structuring, and summary. First, the explication approach aims at a more in-depth understanding and explanation of text passages. The structuring approach is more focused on cross-sections of the data based on ordering criteria determined before in the analysis. The third approach, the summary, aims at reducing the data to the essence without losing the core, and making an overview (Mayring 2010: 65). For this study, the summary approach was applied. Computer software was not used to support the qualitative data analysis process.

One technique for the summarizing approach is the Summarizing Content Analysis by Mayring, which was applied in this study. Before the qualitative analysis follows Mayring, the researcher read through all the transcripts carefully to get a first overview of the conducted interviews. Mayring recommends seven steps to summarize qualitative data (see Figure 5).

Figure 5. Step-by-Step Model of Summarizing Content Analysis



Source: Mayring 2014: 66

In the first step, the researcher reduces the interview transcripts and deletes contents that do not concern the main research question of this study or the sub-research question, and defines the units of analysis for this study. Afterwards the remaining text passages are arranged into groups based on the research questions. In the second step, the researcher paraphrases the selected material and erases garnishing text components, which are also not required to answer the research questions. In the third step, the level of abstraction of the selected material is determined, meaning statements are generalized. The fourth step marks the first reduction through selection. The researcher deletes text passages that have the same meaning and selected paraphrases that she views as bearing content. In the fifth step, the categories are further reduced in order not to refer to the single case. The researcher organizes statements with the same

content as one category. In the sixth step, the researcher compiles the statements as a category system. In the last step, the researcher reviews the summarized category systems based on the raw materials and affirms that the summarized category systems still reflect the raw material statements (Mayring 2010: 68-83). For the purpose of this study, an excel sheet was used to keep track of Mayring's seven steps.

4.6 Validation and Reliability

In qualitative research, the researcher also has to pay attention to the validation and reliability of a study. According to Creswell, validation in the context of qualitative research can be defined as “*an attempt to assess the accuracy of the findings, as best described by the researcher and the participants*” (Creswell 2007: 206-207). Researchers can use several strategies to assure the validity of their research. In this study, a potential researcher bias was discussed in the section on the role of the researcher. Furthermore, the researcher checked the transcripts several times to avoid mistakes in the transcription process. In addition, the researcher paid attention to the coding process itself. The researcher compared the coded categories with the raw data and aimed at making the coding process as transparent as possible. This was done, so that the coding process could be replicated by other researchers with similar findings.

5 Findings

Based on the interview transcripts, this section provides the findings of this study. The findings are organized in identified categories found during the application of the summarizing content analysis by Mayring. This section is divided into three main parts. First, attributes of an international city that are not yet included in the CICI, the CICI's categories that influence foreign companies' market entry decision in second-tier cities, and the relevance of a city's degree of internationalization for foreign companies' entry in second-tier cities. Second, foreign companies' market entry modes in second-tier China in connection with a city's degree of internationalization. Third, respondents' recommendations on how Maxxelli can improve further the CICI methodology are presented. A first summary of the main findings concerning the relationship between foreign companies' market entry decision in second-tier cities and the degree of internationalization is provided in Figure 6.

Figure 6. Summary of the Findings of a City’s Degree of Internationalization and Foreign Companies’ Market Entry Decisions to Enter Second-Tier China



Source: Own Figure Based on this Study’s Findings

5.1 Defining International Cities

Being asked what characterizes an international city, respondents look at international cities from multiple perspectives and assign an international city several attributes. Since this study does not aim to develop a new definition of an international city, but rather uses Maxxelli's definition of an international city, the respondents' statements are analysed regarding attributes of an international city, which are not yet included in Maxxelli's methodology. Thus, the respondents' answers are either categorized in accordance with Maxxelli's methodology to measure a city's degree of internationalization or as indicators that are not included in the methodology so far.

In the overall, the respondents name many characteristics of an international city that the CICI already considers in its methodology. However, analysing the respondents' definitions of an international city reveals five attributes, which Maxxelli's methodology does not yet contain. First, two respondents (Evan Forrester, Martin Hinkens⁸) assign an international city the following attribute: local people are open to foreign cultures' way of living and include them in their daily lives. Evan Forrester, for example, points out: *“I think a really good way to judge an international city is when you see the locals indulging a Western [...] or other cultural habits [...] that [are] not their own”* (Evan Forrester, 15.05.2017). Second, two respondents (Serge Hovnanian, Daniel Csontos) view government support in terms of business set-up for foreign companies and investment incentives, or effective visa application processes as further attributes of an international city: *“An international city is usually supported by the government and there are lots of subsidies that the government [is] using to promote this specific city. [...] this is the case of Chengdu. The government is doing its best to push Chengdu to become the leader in West China”* (Hovnanian, 10.05.2017). Third, one respondent (Iannique Renaud) also considers landmark developments as important to show a city's degree of internationalization. One example is Shanghai. When people think of Shanghai, they often immediately think of Shanghai's skyline with all the skyscrapers. Fourth, the same respondent considers a city an international city, when people can get various foreign goods and services: *“Well, when I think of an international city, I really look at [it] [from the perspective of] an expat, [it is when] anything that I could find back home, I can find in a city in abundance”* (Renaud, 18.05.2017). Fifth, one respondent (Serge Hovnanian) also emphasizes that not only infrastructure in the traditional understanding of transportation is an attribute of an international city, but also the degree to which modern water and sewage systems are in use.

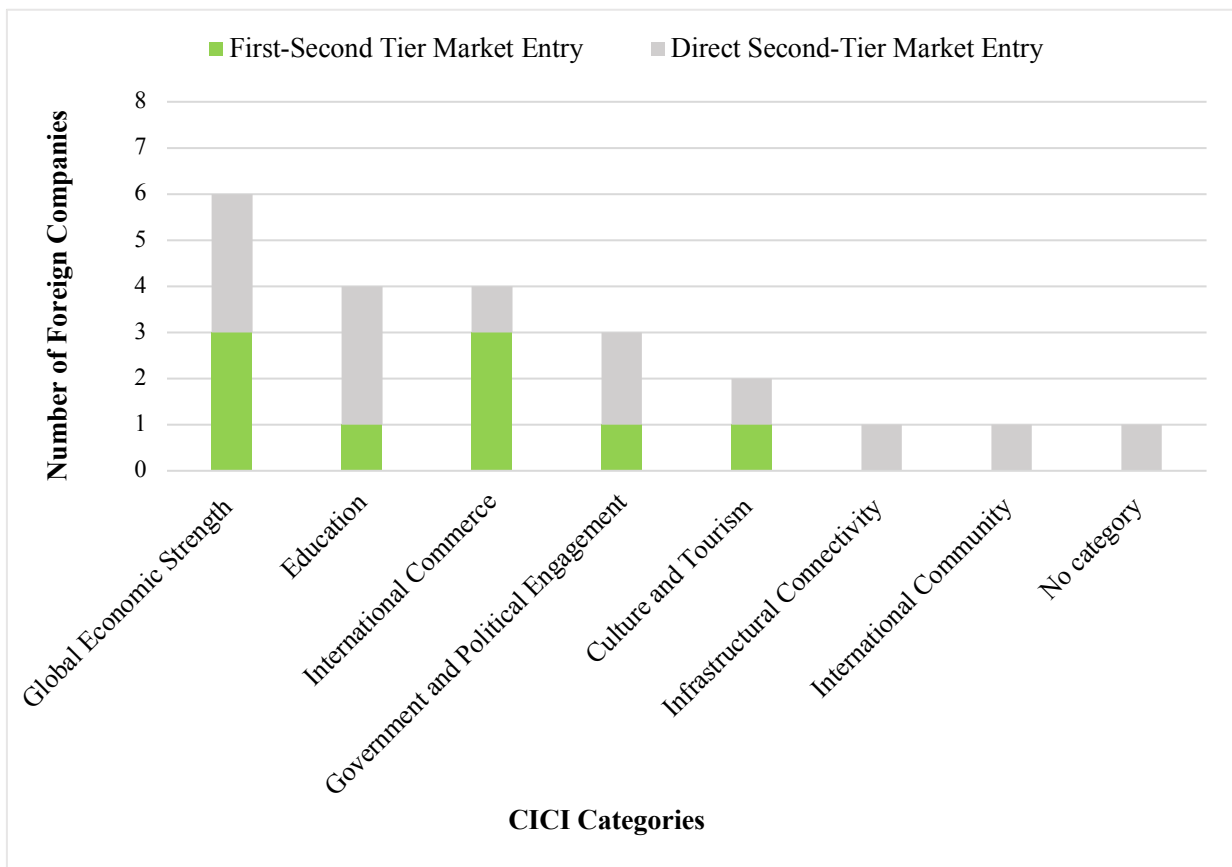
⁸ See Appendix 3 for company profiles and company representatives' names

5.2 CICI Categories that Influence Foreign Companies' Market Entry Decisions in Second-Tier Cities

Based on Maxxelli's methodology to measure a city's degree of internationalization, the respondents were asked, which of Maxxelli's seven categories and assigned sub-indicators influenced their decision to set up in second-tier China the most and why. Before the categories' sub-indicators are observed in more detail, the findings concentrate on the categories, which influenced the overall market entry decision of foreign companies in both target groups of this study. Foreign companies view four of the seven categories as most important for their market entry decision, namely: Global Economic Strength, Education, Government and Political Engagement and International Commerce.

Six of the eight foreign companies (Coding First, ECFO, Glacio, IEC Abroad, anonymized German F&B company, Renaud Air) consider Global Economic Strength as one of the most important categories for their decision to enter second-tier China (see Figure 7).

Figure 7. Relevance of Maxxelli's Categories to Measure a City's Degree of Internationalization for Foreign Companies' Market Entry Decision



Source: Own Figure Based on this Study's Findings

The categories Education (Coding First, Gebrüder Wurst, IEC Abroad, Renaud Air) and International Commerce (Coding First, ECFO, Glacio, Renaud Air) are each named by four foreign companies. In addition, the categories Government and Political Engagement are mentioned by three foreign companies (ECFO, Gebrüder Wurst, IEC Abroad) and Culture and Tourism by two foreign companies (ECFO, Gebrüder Wurst). The categories Infrastructural Connectivity (IEC Abroad) and International Community (Coding First) are each named by one company. One company (DocChat) even points out that none of Maxxelli's categories influenced the company's decision to enter Chinese second-tier cities.

A closer look at the categories selected by the foreign companies shows that companies having entered the second-tier market directly and those who initially entered first-tier cities, mention different categories as important for their market entry decisions. All three foreign companies included in this study that set up in first-tier cities before moving to a second-tier market emphasize that the categories International Commerce and Global Economic Strength influenced their market entry into second-tier China the most. Education, Government and Political Engagement and Culture and Tourism are each only relevant for one company for their market entry decision. None of the foreign companies having entered second-tier China after entering first-tier cities put emphasis on the categories Infrastructural Connectivity and International Community. Considering the sample of foreign companies having entered the second-tier market directly, it is noticeable that these companies emphasize the importance of Global Economic Strength, Education and Government and Political Engagement, and focus to a lesser extent on International Commerce, Culture and Tourism, Infrastructural Connectivity and International Community. In contrast to the companies having first entered a second-tier market, one of the companies that directly entered second-tier China states that none of Maxxelli's categories to measure internationalization of a city influenced the market entry decision.

After demonstrating, which categories influence the market entry decision of foreign companies in second-tier China the most, the categories' indicators are analysed. The category Global Economic Strengths influences foreign companies' market entry decisions for various reasons. First, foreign companies (Coding First, ECFO) emphasize that the Regional GDP, GDP growth and the GDP per Capita of a city could be viewed as a proxy for investment opportunities. Serge Hovnanian for instance stresses: *“That [regional GDP and GDP growth] is something really impressive, and it's definitely an indicator for investors that they should be there [...]”* (Hovnanian, 10.05.2017). Furthermore, Serge Hovnanian highlights that due to the city's Global Economic Strength his business' start-up was easier in Chengdu. Second, foreign companies view a city's Global Economic Strength as an expression of the number of potential clients, since premium brands require a certain purchasing power: *“Purchasing power is an important factor for us as premium brand, so certain regions in China which are lagging too*

far behind on this aspect will not be considered at this stage” (D’Hondt, 19.04.2017). Another company (anonymized German F&B company) considers the Number of Completed Foreign Development Projects, and the manner in which they are executed, as important. This argument evolves because China’s retail is mainly based in shopping malls. Therefore, for a company’s location strategy it is also important to take foreign development projects in a city into consideration.

Foreign companies consider Education in their market entry decision in second-tier China for several reasons. One very important indicator is the English Level of the local population. However, foreign companies often face problems to find suitable English-speaking staff, as Iannique Renaud highlights: *“When we have interviewed in various cities we found it [the English proficiency] was drastically lacking in some of the cities [...]”* (Renaud, 18.05.2017). Another company (Coding First) points out that the demand for foreign education itself in a city is another factor, which influence their market entry decision. This argument is also supported by IEC Abroad: *“[...] Education is also one of the most important factors for us to enter Chengdu. [...] the nature of our business is for study abroad”* (Huang, 11.04.2017).

In the category International Commerce, respondents name the following indicators as decisive for their decision to enter a second-tier market: Number of Large Multinational Food/Drink Chains, Number of Restaurants Selling Foreign Cuisine, and the overall Number of International Retailers. Foreign companies whose products or services particularly target foreign restaurants as clients and sales channels, view the number of foreign restaurants in a city as an estimation of potential clients. In Glacio’s case, Henrik D’Hondt explains: *“[...] [The] number of restaurants selling foreign cuisine of course [...] is [...] very important, because these are also our customers. It is very hard for us to get into traditional Chinese restaurants, as they don’t have the eating ice-cream after a dinner [tradition], as we do in Belgium or Germany”* (D’Hondt, 19.04.2017). In addition to Glacio, another company (ECFO) stresses the importance of International Commerce. International Commerce in general expresses the companies’ number of potential clients in a city. Since ECFO targets big corporates with its consulting services, the overall Number of Foreign Retailers in a city influenced ECFO’s decision to set up business in Chengdu: *“It seems to be similar to Global Economic Strength for us at least, from the perspective of a consulting company, as it shows the number of clients”* (Winter, 11.05.2017). The case of Glacio shows that if a foreign company’s product is not yet popular in a market, foreign companies consider the number of competitors in a city, because competitors can help promote a product in a market.

Hence, Glacio analysed the number of their competitors in the F&B industry in Chengdu:

“It is actually good for us also to have competitors there, because ice-cream [...] is just a very starting business in China [...]. So, having competitors allows us to make ice-cream more popular in China. So, that’s also important that there are competitors or other people doing similar or same things” (D’Hondt, 19.04.2017).

Maxxelli measures Government and Political Engagement based on four indicators: Number of Foreign Consulates, Sister Cities and Foreign Chambers of Commerce as well as the Number of Trade Exhibitions (Top 200 by Area). The three companies (ECFO, Gebrüder Wurst, IEC Abroad) that consider Government and Political Engagement important for their market entry decision do not explicitly mention these four indicators, but emphasize the importance and the general role of local governments: “[...] *the government [...], when it comes to inviting foreign companies to invest in Chengdu, their policies are to some extent relatively liberal in comparison with those in Shanghai and Beijing*” (Huang, 11.04.2017). Although Government and Political Engagement was of no concern for DocChat to set up in second-tier cities, as defined by Maxxelli, Daniel Csontos also supports Kaka Huang’s statement, by proclaiming: “[...] *Chongqing is a really important city in China and it has a lot of support, I kind of feel they actually support [...] foreigners [...] to start companies*” (Csontos, 15.05.2017). ECFO also took Government and Political Engagement into account, when they set up in Chengdu.

However, Government and Political Engagement is interpreted more as support by the local government for foreign companies:

“The decision to move to Chengdu, was definitely more the directional decision [...], but not under the sub-indicators the [category] government has, because [...] all the indicators [...] seem to be static indicators and the main reason for us moving to Chengdu, was a forward looking [direction], we believe the government and the direction of the city was very proactive” (Winter, 11.05.2017).

The category Culture and Tourism is mentioned by two companies (ECFO, IEC Abroad), but both could not name any sub-indicators that influenced their decision to set up in second-tier China. For both companies, Culture and Tourism cannot be broken down into indicators, as it is more about the overall feeling of a city:

“I just generally believe, a city that has something going on, other [than] the business community [...]. [...] when you look at Chengdu versus Zhengzhou or Hefei, maybe economically Chengdu is still bigger, but maybe not [...] much bigger. But if you go on to Zhengzhou and Hefei, it’s wasteland [...] in terms of culture and [...] I don’t really see as much happening there” (Winter, 11.05.2017).

Infrastructural Connectivity is named only by one company (IEC Abroad). IEC Abroad points out that Chengdu's infrastructure is highly developed, which made Chengdu appealing to IEC Abroad: *"Infrastructure Connectivity is another very important contributor for our decision to enter Chengdu. Apart from that, Chengdu is not as much developed as Beijing and Shanghai"* (Huang, 11.04.2017).

The category International Community is argued to be important for the market entry decision by one company (Coding First). Coding First considers one out of five indicators assigned to this category important: the Number of International Schools in a city. Coding First targets not only Chinese students with its services, but also international students. Serge Hovnanian explains that they arranged their classes in accordance with the international baccalaureate of international schools. Thus, for Coding First, the number of international schools in a city expresses the number of potential customers. Before setting up in Chengdu, Coding First conducted market research on the location of international schools and analysed further growth for foreign education in Chengdu.

DocChat's Evan Forrester even stresses that none of Maxxelli's categories directly influence their market entry: *"what brought us to Chongqing was [...] not necessarily because Chongqing [is an] international city, because it's a city of this incredibly vast size, yet it's not that international, and we see that as an advantage [...]"* (Evan Forrester, 10.05.2017). Forrester's business partner, Daniel Csontos, supports his statement by emphasizing: *"[...] I think it's mostly a domestic powerhouse [Chongqing] with a lot of potential to become a more international city in the future"* (Csontos, 15.05.2017).

5.3 Relevance of a City's Degree of Internationalization for Foreign Companies' Entry in Second-Tier Cities

This section focuses on the relevance of a city's degree of internationalization for a foreign company's overall decision to enter a second-tier market. The findings are organized into two main parts: first, findings on the relevance of a city's degree of internationalization for both target groups and an individual review of the two different market entry strategies included in the company sample; second, findings based on the company's strategy of the degree of internationalization of a city.

The interviewed company representatives evaluate a city's internationalization for their company's overall decision to set up in second-tier cities as: important, important but not decisive, or not relevant. Four of the eight foreign companies included in the sample argue that for their market entry decision, a city's internationalization is an important, but not decisive factor. This counts for Glacio, ECFO, Renaud Air, IEC Abroad, whereas the other four companies included in the sample (Coding First, DocChat, Gebrüder Wurst, anonymized

German F&B company) do not judge internationalization as an important factor for the overall decision to set up a business in Chengdu or Chongqing.

Looking at all foreign companies included in this study shows a very balanced result. Half of the companies consider a city's degree of internationalization as important for their overall market entry decision; the other half does not consider it as important. Considering the two different company samples shows slightly different results. Three out of three foreign companies having entered second-tier China, after they had initially entered a first-tier city argued that internationalization was important for their overall market entry decision. One example is Glacio: *"If a city does not reach a certain degree of internationalization, it's simply not interesting for us. People need to have a love or some interest at least in Western products. If not, we don't have any chance to sell and it's also possible it sinks with a certain degree of internationalization"* (D'Hondt, 19.04.2017). Only one in five companies (IEC Abroad) that entered second-tier China directly, describes the city's degree of internationalization as an important but not decisive factor for the overall decision to set up in a second-tier city: *"[...] So, [...] when we have chosen Chengdu, [...] the level of internationalization does not come first, as the major contributor to our decision. But [internationalization is] definitely related to what have helped us to make the decision"* (Huang, 11.04.2017). In contrast, four out of five companies (Coding First, DocChat, Gebrüder Wurst, anonymized German F&B company), which entered second-tier cities directly consider a city's degree of internationalization as insignificant for their overall market entry decision. For Coding First's market entry decision in Chengdu, Serge Hovnanian emphasizes: *"Well, for me, the city whether is internationalized or not, it doesn't really relate very much to the business. Maybe it relates to my personal lifestyle. I would really like to live in a city that is really internationalized, but for my business story, it's not the main factor whether the city is internationalized or not"* (Hovnanian, 10.05.2017). Thus, analysing the relevance of a city's degree of internationalization for both company market entry strategies in China shows that for foreign companies having entered second-tier after first-tier cities, a city's degree of internationalization is more important for their overall market entry decision than for foreign companies that directly set up in second-tier markets.

Besides being asked how important Chengdu and Chongqing's degree of internationalization was for their overall decision to set up in second-tier China, the respondents were also asked whether their overall market entry strategy is based on a city's degree of internationalization. Comparing the overall relevance shows that companies follow a certain pattern. Foreign companies arguing that a city's degree of internationalization is important but not decisive for their overall market entry decision, also base their market entry on a city's higher degree of internationalization, whereas companies stressing that internationalization is irrelevant base their market entry decision on a lower degree of internationalization. Henrik

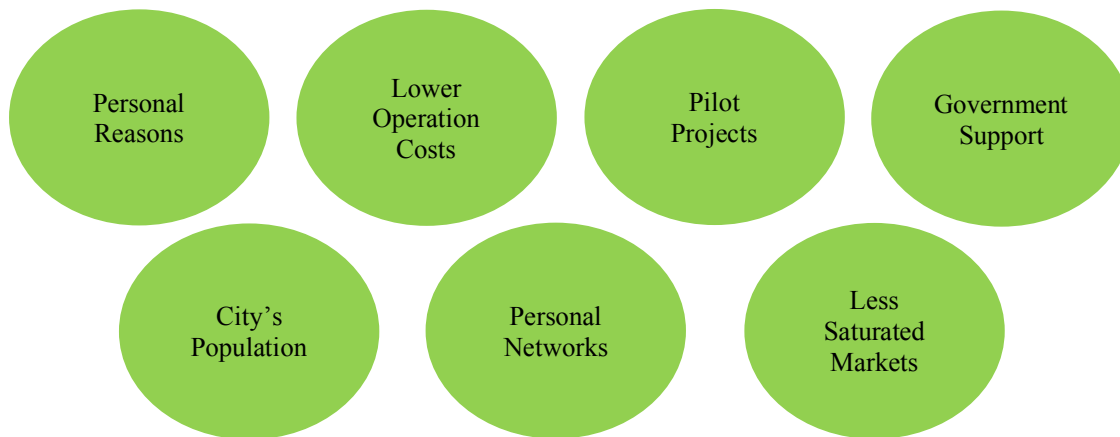
D'Hondt for example underlines: *“If a city does not reach a certain degree of internationalization, it’s simply not interesting for us”* (D’Hondt, 19.04.2017). Therefore, Glacio would not have entered Chengdu if the city had not possessed a high degree of internationalization. Before entering Chengdu, ECFO compared the degree of internationalization of cities in Southwestern China and decided on Chengdu because they found it the most international city in the region. *“So, our entry in Southwest China was mostly [an] entry in Southwest China as a market itself, [...] we chose the most international [city] and the one [...] [with] the best perspectives”* (Winter, 11.05.2017). Due to Renaud Air’s product alignment, Renaud Air also emphasizes the importance of a high degree of internationalization in a city: *“It was an economic decision, we’re a premium brand, with a very high price tag on our products and we just wouldn’t have been able [to] do business in many cities at that time and now we are considering coming [...], as the average income increases”* (Renaud, 18.05.2017). In the company sample of those companies having directly entered second-tier cities, three out of five companies (DocChat, Gebrüder Wurst, anonymized German F&B company) went for a market entry strategy based on a lower degree of internationalization; one company on a higher degree of internationalization (IEC Abroad), and one company (Coding First) points out that their market entry was neither based on a lower, nor on a higher degree of internationalization. Martin Hinkens, for instance argues that they chose a less international city to set up Gebrüder Wurst in Chongqing on purpose: *“[...] because Chongqing is not that international, Chongqing does not have that many international products, so there’s also long-term potential”*⁹ (Hinkens, 17.04.2017). DocChat also supports Gebrüder Wurst’s argument that when cities show a lower degree of internationalization, the cities have more opportunities for foreign businesses and services: *“It [Chongqing] would be lower on the index [of internationalization], but with potential to rise and we can be part of that rise [...]”* (Forrester, 15.05.2017). In contrast to all the other respondents, Coding First’s market entry in Chengdu was neither based on a lower, nor on a higher degree of internationalization: *“I just considered the opportunity [and] that there [Chengdu] is demand for my services that I am providing”* (Hovnanian, 10.05.2017).

5.4 Other Factors that Influence the Decision to Enter Second-Tier China

This study identifies seven additional factors, which influence foreign companies’ market entry decisions to set up in second-tier China, namely: personal reasons, lower operation costs, pilot projects, government support, a city’s population, personal network and less saturated markets (see Figure 8).

⁹ Translated from German to English

Figure 8. Factors that Influence Foreign Companies' Market Entry Decisions in Second-Tier Cities in China



Source: Own Figure Based on this Study's Findings

First, for two companies (DocChat, Gebrüder Wurst) personal reasons played a major role in their decision to set up in Chongqing. Martin Hinkens emphasizes the role of personal relationships for foreign entrepreneurs. His decision to establish Gebrüder Wurst was also driven by his wife living in Chongqing: *“Of course, one reason was that it would be profitable to set up a business there, but the other reason was my wife. My wife is Chinese”*¹⁰ (Hinkens, 17.04.2017). Another reason is highlighted by DocChat's Evan Forrester and Daniel Csontos who were already based in Chongqing when they decided to start DocChat together. The second factor found are lower business operation costs in terms of rents and wages in comparison to traditional first-tier cities. Serge Hovnanian emphasizes: *“[...] it's cheaper to do business in Chengdu compared to other big cities and the market is not saturated. [...] the wages and the GDP per capita [are] low. So, all these factors were [...] providing me a good start”* (Hovnanian, 10.05.2017). Furthermore, the rents for commercial areas are also an important aspect for foreign companies, which they take into consideration when they decide in which city to set up their business. This also holds true for a German F&B company:

*“If I would have had, let's say rich parents and money wouldn't have been a problem at the beginning, I maybe would have, after I had opened the first store in Chengdu, opened the second one in Shanghai. But unfortunately, the rents are so high in Shanghai that it makes from an economical perspective more sense to be here”*¹¹ (CEO of a German F&B company in Southwestern China, 19.04.2017).

A third factor that influences the decision of foreign companies is the function of some second-tier cities as pilot projects. For the anonymized German F&B company, Chengdu serve as a pilot project to test if its products can be successful. The company's CEO underlines: *“In*

¹⁰ Translated from German to English

¹¹ Translated from German to English

Chengdu [...] are more shopping malls than in Shanghai and Beijing. If you are successful with your product here, then it's a really big step and it shows that you can also be successful in other cities"¹² (CEO of a German F&B company in Southwestern China, 19.04.2017). The fourth factor that foreign companies do consider is the general government support in terms of investment incentives. Coding First offers the following explanation: *"Well, the fact that the Chinese government [...] supports WFOEs to start up their business here, they [issue] some incentives and they encourage foreign education, especially what we are doing here"* (Hovnanian, 10.05.2017). A fifth factor that plays an important role for the market entry decision-making process is the city's population and its resulting customer basis. Since China's second-tier cities are constantly developing on a high level, the Chinese middle class and potential customers of foreign products and services have also increased. The Coding First founder comments on Chengdu: *"It is a very big city, [high] population, lots of opportunities, rich people"* (Hovnanian, 10.05.2017). Sixth, a personal network in second-tier cities is particularly important to three companies (DocChat, Glacio, Renaud Air). Glacio, for example, stresses that without having Maxxelli as a partner in Southwestern China, they would likely not have entered the market: *"I don't think we would have entered, at least at this stage without having Maxxelli as a partner"* (D'Hondt, 19.04.2017). DocChat also emphasizes the value of a local network for their final decision to set up in Chongqing: *"We have the network here, we know the city"* (Csontos, 15.05.2017). The founder of Renaud Air also highlights that Renaud did not conduct market research on Chengdu. The decision to enter Chengdu was mainly based on talking to other businesses, which had successfully entered the market: *"We didn't really [conduct] a market research, so it's really using my personal network of entrepreneurs and CEOs and speaking to a variety of people about where to go and in which tier-two cities certain companies are having success"* (Renaud, 18.05.2017). Seventh, foreign companies enter the second-tier markets of Chengdu and Chongqing, because these, in comparison to Shanghai or Beijing, are less saturated and offer foreign companies more opportunities. In this context, a German F&B company's CEO points out the prevalence of the company's product: *"I researched [...] how my product is prevalent in these cities. I selected the [F&B] market, so I checked in which cities which players are located. In Chengdu and Chongqing were the least number of players at that time"*¹³ (CEO of a German F&B company in Southwestern China, 19.04.2017).

¹² Translated from German to English

¹³ Translated from German to English

5.5 Foreign Companies' Market Entry Modes in Second-Tier China

This section focuses on the findings regarding foreign companies' market entry modes in second-tier cities. The market entry modes of both target groups, meaning those from first- to second-tier and those that enter directly into second-tier China are discussed in this section.

5.5.1 Market Entry Modes of Foreign Companies that Directly Enter Second-Tier China

In this study, foreign companies that entered second-tier China directly choose the following market entry modes: WFOE (company set-up and set-up as individuals), EJV and direct exporting. Thus, foreign companies follow in this study two types of market entry mode strategies for second-tier China: export entry and investment entry.

The company sample includes three foreign companies (Coding First, DocChat, IEC Abroad) that set up in second-tier China as a WFOE. IEC Abroad offers three main reasons why they chose a WFOE over a RO: 1) they are legally allowed to make a profit, 2) a RO offers a more liberal business scope, and 3) they are able to hire staff directly. Kaka Huang emphasizes: *"Because we do want to [...] generate profit from China. That is the main reason"* (Huang, 11.04.2017). In addition, Kaka Huang highlights a company's lack of relationships during the initial set-up in a foreign market. This is one reason why IEC Abroad did not consider setting up a JV in Chengdu: *"Well, we thought about joint ventures [...], but [...] [as] a joint venture you need to have a trustworthy business partner in China to cooperate with. But even till now, we do not have any contact in China that we think is reliable enough for us to cooperate with"* (Huang, 11.04.2017). Since IEC Abroad's office in Chengdu is not the company's first, IEC Abroad set up their WFOE in a company set-up. Moreover, Serge Hovnanian points out another advantage of setting up a WFOE, which is to keep full control over his company and the company's IP. On the contrary Serge Hovnanian knows, having a JV partner can also be an advantage, because a Chinese partner brings a network of relations to the partnership. In contrast to IEC Abroad, the founder of Coding First set up the WFOE as individual. The same counts for DocChat's Daniel Csontos and Evan Forrester who also decided to establish their WFOE as individuals. DocChat's founders argue that setting up as individuals using their own personal bank accounts is the easiest way for them as entrepreneurs.

Another entry mode type included in the company sample is an EJV (Gebrüder Wurst). Martin Hinkens argues that the most important factor for him to decide on a JV was his Chinese business partner: *"He is Chinese and has the knowledge about restaurants and operations and also knows [...] how to understand Chinese. [...] I'm able to speak Chinese, but in the end, I'm still a foreigner [...]. Maybe it [operating business] is easier in Shanghai, because there are so*

many foreigners and foreign businesses”¹⁴(Hinkens, 17.04.2017). Martin Hinkens emphasizes that another important factor for him deciding on an EJV instead of a WFOE is political risk: *“That is because there [Chongqing] are just a few foreigners. I would face more political risk and experience more discrimination in Chongqing [in comparison to] Shanghai, [which] has many WFOEs [...]”*¹⁵ (Hinkens, 17.04.2017).

In contrast to the other respondents, the interviewed anonymised German F&B company decided on a brand registration in Germany and China. The company’s CEO chose to export the German company’s products to China directly, but only to the company’s Chinese entity, which is fully owned by the CEO’s Chinese wife, and founded separately. Thus, the interviewed F&B company runs four shops in China, whereas the F&B company in Germany is responsible for the supply. Consequentially, the company is not selling their products through an intermediary in China. The CEO argues that this market entry type was the easiest option in Chengdu and Chongqing. Moreover, the company planned from the start to partner-up with Chinese investors. Therefore, a company set-up as a WFOE would not only have been more complicated, it would also be more difficult for future Chinese business partners to buy equity.

In order to get a deeper understanding of how the market entry for foreign companies entering second-tier cities may be linked to city’s degree of internationalization, the researcher asked companies about their future business strategy. IEC Abroad considers partnering-up with Chinese companies and to build a JV in the future. Gebrüder Wurst and the anonymised German F&B company are thinking of expanding their businesses through franchising: *“Franchising is easier, because we do not have to operate the stores on our own. [...] and you have a totally different cash situation [...] [because of the franchisee part and the supplier part”*¹⁶ (Hinkens, 17.04.2017). Gebrüder Wurst is planning to establish its next restaurants in Chengdu that receives a higher score in the CICI 2017 in comparison to Chongqing. The strategy of moving from a less internationalized city to a more internationalized city is also observable in the anonymised German F&B company’s case. After the company has set up four stores in Chengdu and Chongqing, the company focuses on expanding its business through franchising and is currently looking for suitable franchising partners and aims at entering major cities in China, such as Guangzhou and Shenzhen. Gebrüder Wurst and the anonymized German F&B company’s market entry strategy in second-tier China was based on a lower degree of internationalization, whereas for the future company direction both companies target cities that show a higher degree of internationalization.

¹⁴ Translated from German to English

¹⁵ Translated from German to English

¹⁶ Translated from German to English

5.5.2 Market Entry Modes of Foreign Companies that Initially Enter First-Tier Cities

In this study, foreign companies that initially established their business in first-tier cities, entered second-tier China markets through direct franchising (area development agreement), indirect franchising (master franchisee), direct exporting (distributor), and as RO. Thus, foreign companies choose export entry modes, contractual entry modes and investment entry modes as their market entry mode strategies for second-tier China.

Foreign companies that initially entered first-tier China explain that it is still easier to enter a first-tier city in comparison to a second-tier city. Glacio decided on two main market entry mode types in second-tier China: indirect franchising (appoint master franchisee) and direct franchising (sign area development agreement). Both market entry mode types are based on having a local partner in the new market. Henrik D'Hondt explains: "*[...] for second-tier cities, as they are not as international or developed as first-tier cities, [...] it is very important to have a local partner with local knowledge [...], and that is why we found a very strong partner in Maxxelli*" (D'Hondt, 19.04.2017). Besides this, Glacio also emphasizes that they are a manufacturing company. Hence, direct and indirect franchising seemed to be a logical step for Glacio's business strategy in Southwestern China. Consequentially, Glacio appointed Maxxelli as their master franchisee for Southwestern China, meaning Maxxelli is legally allowed to have other sub-franchisees beneath them. For the head start, Glacio aims to enter only Chengdu and Chongqing. In addition, Maxxelli was also appointed Glacio's distributor for Southwestern China. This means that both companies signed an ADA that grants Maxxelli exclusive rights to sell Glacio's products in Southwestern China. Renaud Air supports Glacio's argument that having a local partner who is familiar with second-tier market conditions was an important factor for their market entry mode type decision. Thus, they also chose Maxxelli as an exclusive distributions partner for Southwest China. As a consequence, Maxxelli acts as an intermediary and sells Renaud Air's products in the sales territory Southwestern China. Renaud Air's CEO highlights: "*China is a very large market [...] and [...] the local relationships are quite complicated and they also take time to build. [...] So, we are just finding [with Maxxelli] the local expertise to remove [this] burden and also drastically reduce time to market. Sharing the revenue and profit is not a big thing in my case*" (Renaud, 18.05.2017). In contrast to Renaud Air and Glacio, ECFO designed its former office in Chengdu as a back office, like a RO, which only handled formalities, while everything else was handled by ECFO's headquarter in Shanghai. Since ECFO had not previously entered any second-tier city, they needed to test Chengdu's market, and explore whether the city had enough clients to offer to them a stable business. Companies that entered first-tier cities initially and then moved to second-tier cities, also conceptualize strategies to expand their businesses in the future. For instance, Renaud Air's future strategy is based on a stepwise market entry to China's second-tier cities.

5.6 Foreign Companies' Market Entry Mode Strategies in Connection with a City's Degree of Internationalization

The respondents were also asked whether they would choose a different market entry mode type to enter the second-tier markets if a second-tier city was more or less international. Seven of the eight foreign companies (Coding First, DocChat, ECFO, Glacio, IEC Abroad, anonymized German F&B company, Renaud Air) stress that they would not change their market entry mode strategy if Chengdu and Chongqing had shown a different degree of internationalization (see Figure 9).

Figure 9. Summary of Foreign Companies' Market Entry Mode and the Relationship between Market Entry Mode and a City's Degree of Internationalization

First- to Second-Tier Market Entry Modes	Direct Second-Tier Market Entry Modes
<p>ECFO:</p> <ul style="list-style-type: none"> • Back office (RO) <p>Glacio:</p> <ul style="list-style-type: none"> • Direct Franchising (Area Development Agreement) • Indirect Franchising (Master Franchisee) <p>Renaud Air:</p> <ul style="list-style-type: none"> • Direct Exporting (Distributor) 	<p>Coding First:</p> <ul style="list-style-type: none"> • WFOE (Individual Set-up) <p>DocChat:</p> <ul style="list-style-type: none"> • WFOE (Individual Set-up) <p>Gebrüder Wurst:</p> <ul style="list-style-type: none"> • Equity Joint Venture <p>IEC Abroad:</p> <ul style="list-style-type: none"> • WFOE (Company Set-up) <p>German F&B company:</p> <ul style="list-style-type: none"> • Direct Exporting (No Intermediary)
<p>Would a Higher/Lower Degree of Internationalization in a City have had an Impact on your Market Entry Mode?</p>	
<p>ECFO: No</p> <p>Glacio: No</p> <p>Renaud Air: No</p>	<p>Coding First: No</p> <p>DocChat: No</p> <p>Gebrüder Wurst: Possibly</p> <p>IEC Abroad: No</p> <p>German F&B company: No</p>

Source: Own Figure Based on this Study's Findings

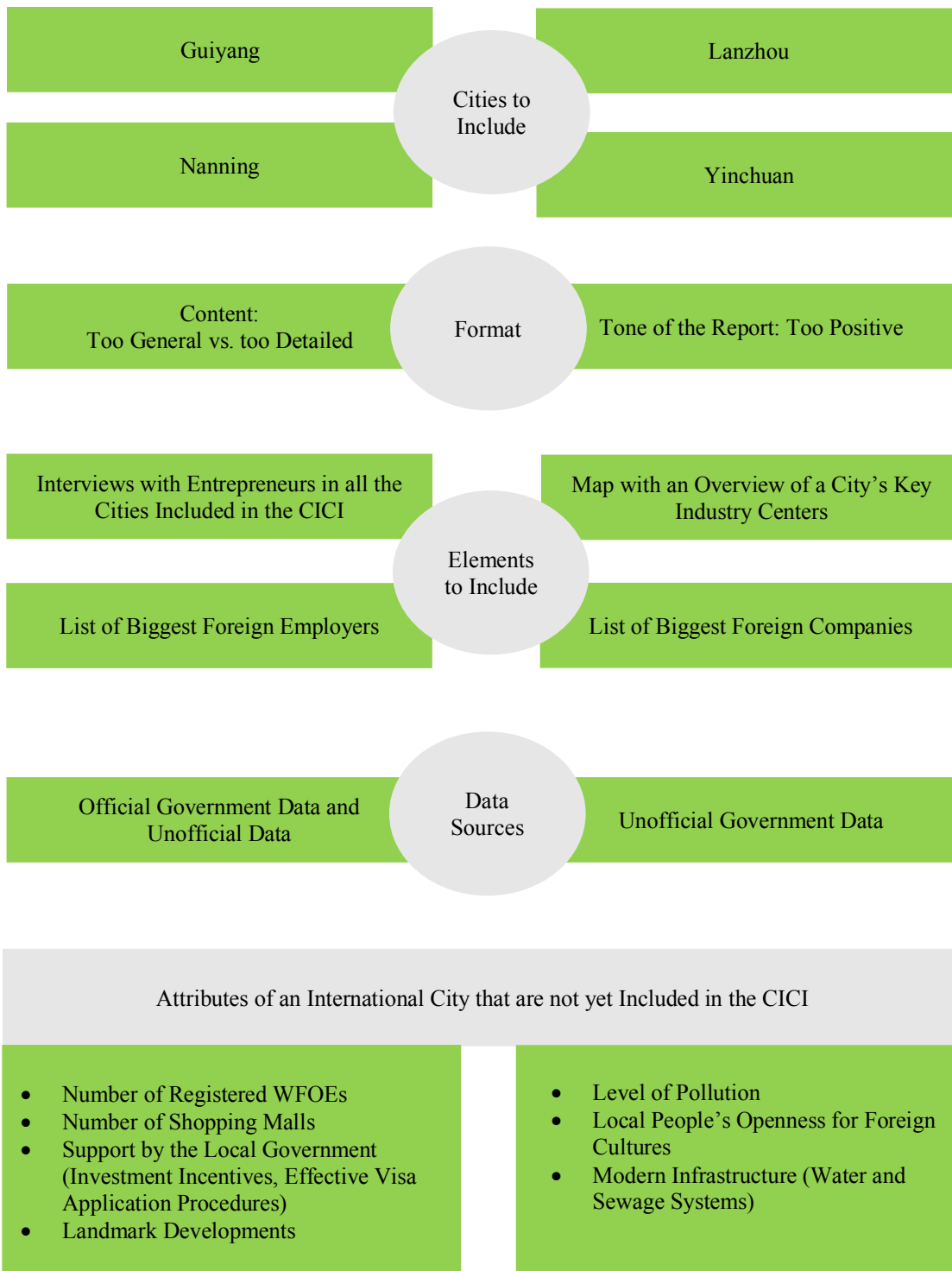
The companies mainly make clear that they would keep their strategy, because other market entry modes would constrain their business. Coding First's founder for instance points out that a city's degree of internationalization affects his personal lifestyle rather than his market entry mode strategy: *"Well, for me, the city [...] whether internationalized or not, [...] does not really relate very much to the business. Maybe it relates to my personal lifestyle, I would really like to live in a city that is really internationalized, but for my business story, it's not the main factor whether the city is internationalized or not"* (Hovnanian, 10.05.2017). In addition, IEC Abroad explains that since they do not have a suitable partner to establish an EJV for their head start in China, a RO would be the only other option for them. However, regarding their business strategy in China, a RO would also not have been an alternative: *"Well, that would not have changed if Chengdu [were] more internationalized or not. Because our core focus for China is to make direct profits. [...] a RO [...] would block us from raising direct revenue, [thus] [...] no matter [if] a city is internationalized or not, that would not [change] our decision for the model of the enterprise"* (Huang, 11.04.2017). Iannique Renaud offers another argument against a market entry mode change. Iannique Renaud does not aim to build a company for the rest of his life. For him, it is more about selling the company at one point, and he is convinced that a WFOE is best suited to serve this purpose: *"I would stick to the strategy, because personally, I'm not trying to build something for the rest of my life. I'm looking to build a company that I can sell in the future"* (Renaud, 18.05.2017). Only one company (Gebrüder Wurst), an EJV, states that it maybe would have changed its market entry mode type if the second-tier city in question (Chongqing) were more international. Martin Hinkens emphasizes: *"If Chongqing were a city like Shanghai, I would likewise go for a WFOE and not look for a Chinese partner"*¹⁷ (Hinkens, 17.04.2017). Martin Hinkens views political risks as a notable aspect of his decision to set up an EJV. In many international cities, such as Shanghai, WFOEs face less political threats, because in these cities numerous WFOEs are present. In contrast, in cities like Chongqing, Martin Hinkens would fear facing political risks with a WFOE, because in Chongqing there are only a small number of registered WFOEs and it is better to have a Chinese JV partner.

5.7 Respondents Recommendations on How to Improve the CICI Methodology

The suggestions on how to improve the CICI consist of two main parts: the city sample and general recommendations on how the overall report can be improved and brought to a higher level. General recommendations compromise three main topics: the report's general format, data sources, and the integration of new report elements (see Figure 10).

¹⁷ From German translated to English

Figure 10. Summary Findings CICI



Source: Own Figure Based on this Study's Findings

5.7.1 CICI City Sample

As this year's CICI included 27 cities, and contains a slightly different city sample to the 2016 report, respondents were asked if they think the CICI's city sample is comprehensive enough or if other cities should be included in Maxxelli's report next year.

Respondents either evaluate the CICI's city sample as sufficient (Coding First, ECFO, Gebrüder Wurst, anonymized German F&B company, Renaud Air) or advise Maxxelli to add other cities (DocChat, IEC Abroad, Glacio). The respondents claim the following four cities as relevant for Maxxelli's CICI: Guiyang, Lanzhou, Nanning and Yinchuan. Guiyang, the provincial capital of Guizhou, is suggested by three respondents (Daniel Csontos, Evan Forrester, Kaka Huang). According to the respondents, Guiyang is profiting from Chengdu's fast economic development and is on its way to becoming a service centre for start-up companies as well as a hub for innovation: “[...] *Actually it [Guiyang] is becoming the service centre for the big start-up companies, like BAT, Baidu, Alibaba and Tencent. They start their service centre in Guiyang now, [...] they have [...] preferential policies, so they [the local government] transform an old city [...] to [...] a technology city*” (Csontos, 15.05.2017). Lanzhou, the capital of Gansu province, is another city which, according to two respondents (Daniel Csontos, Henrik D'Hondt) is also worth considering integrating into the CICI city sample. The respondents emphasize Lanzhou's important economic role in Northwest China and argue that Lanzhou is becoming a new hub for development and migration. Daniel Csontos for example suggests Lanzhou “[...] *because it is a really important centre. Because from the West or from the Northwest or Southwest, people traditionally always went to Chengdu. Chengdu is like the big hub for people, for [...] people immigrating to that part [of China]. And now it's also Lanzhou, it's coming up this route, so, not everybody goes to Chengdu [...]*” (Csontos, 15.05.2017). Henrik D'Hondt further expects:

“Nanning is [...] the capital of Guangxi province. It is not that far from Guangzhou, so probably [this has] some influence. It [Nanning] is close to the boarder with Vietnam, it is close to Hainan, it is quite close to the sea, so one expects that they do not do that bad economically. Because it's already proven that cities close to the coast [...] usually have better economic results than cities more land inwards for example” (D'Hondt, 19.04.2017).

Moreover, Yinchuan, Ningxia's provincial capital, should, be included in the next year's report according to one respondent (Henrik D'Hondt), because it is “*one of the most important cities of Northwest China, so maybe it is also interesting to look at their degree of internationalization*” (D'Hondt, 19.04.2017).

5.7.2 Overall Recommendations

As this year's CICI report structure was comprehensively revised, respondents were asked to give recommendations on how to further improve the report. All respondents shared different ideas of how Maxxelli could make the report more valuable for foreign companies in second-tier cities. Three main topics were identified: the report's general format, data sources, and the integration of new report elements.

Feedback to the report's format can be divided into two main parts: content and tone of the report. In terms of the CICI's contents, the respondents are indecisive whether the CICI should give general information about second-tier cities' degree of internationalization, or address a specific audience. Three respondents (Daniel Csontos, Evan Forester, Kaka Huang,) advise Maxxelli to make sure that the report is not too general and require more industry specific information: *"When you read those reports [by big consulting companies] they are always very general that I don't even read those. I kind of know this [the report's content] without thinking"* (Csontos, 15.05.2017). In contrast, another respondent (Henrik D'Hondt) insists that the CICI should remain general: *"In general, the report [CICI] is very good and you cannot make it too detailed either, because then no one will [...] read it. [...]. I think it is good if you can keep it general and to keep it interesting for everyone who has an interest in internationalization in second-tier China"* (D'Hondt, 19.04.2017). Another aspect of the report's format is the way the CICI is written. One respondent (Daniel Csontos) criticizes Maxxelli's reports, because they often strike a too positive tone and are not critical enough. As a result, sometimes it is difficult for investors to identify the city, which best suits their investment strategies: *"I read a couple of cities before, they [...] all have a very positive tone, right? [...] this city is really good in this [category], when you read them, they are all the same, right? Why would somebody choose Ningbo and not choose, let us say Harbin, they are all [...] quite [...] the same"* (Csontos, 15.05.2017). Thus, the respondents prefer a report that looks at a city's internationalization from different angles.

Another debated topic is Maxxelli's data collection sources for the CICI. Two respondents (Evan Forrester, Matthew Winter) see a general problem in the use of official data published by the Chinese government. Both respondents advise Maxxelli to integrate official government data and unofficial data in the report and highlight possible differences. *"Official data might not be that super useful, because the government, especially in second-tier cities, [...] will always underestimate the people living there, because of arrangements with others. [...] you can include in the index, both, the government numbers and the real numbers"* (Winter, 11.05.2017). Furthermore, respondents advise integrating new report elements into the CICI. Two suggestions are: interviews and a map. Two respondents (Daniel Csontos, Evan Forrester) propose conducting interviews with entrepreneurs and SMEs about their hurdles in doing

business in the city and to receive insights and tips on setting up a business in second-tier China. They emphasize that first-hand experience is very useful to entrepreneurs who are just starting their business and would make Maxxelli's report more unique: "[...] it is maybe a good idea to include one entrepreneur or one company for each city and [...] lots of practical questions. So, when somebody goes there [second-tier cities], what will be very helpful for new companies" (Csontos, 15.05.2017). The respondents suggest conducting a Maxxelli internal survey and ask all eight Maxxelli offices about doing business in second-tier China and the hurdles they come across in their daily work. In addition, respondents recommend adding a map showing a city's characteristics. One respondent (Martin Hinkens) suggest integrating a map demonstrating a city's key locations for industries and main city centres to avoid companies "*opening their office in Chongqing in the middle of nowhere and regret it in the end. It is because they [the companies] see Chongqing as one huge block*"¹⁸ (Hinkens, 17.04.2017).

Respondents also recommend adding more information to the CICI report. One respondent (Matthew Winter) highlights the use of qualitative data. The respondent argues that qualitative data can help the CICI to reach a higher level and to be more recognizable: "*More qualitative numbers might give you a different [and] a little bit of a broader audience*" (Winter, 11.05.2017). Interviewees suggest integrating the following information into the CICI: a list of big foreign companies in a city sorted by size (Martin Hinkens), a list of the biggest employers for foreigners in a city (Martin Hinkens), an overview of foreign brands (anonymized German F&B company's CEO), the number of registered WFOEs in a city (Matthew Winter), the number of shopping malls in a city (anonymized German F&B company's CEO), insights on local policies (Daniel Csontos, Evan Forrester, Serge Hovnanian) or the level of pollution in a city (Serge Hovnanian). Respondents argue (Evan Forrester, Daniel Csontos), for example, that local policies are important for foreign companies, because they show whether local governments welcome foreign companies to set up business in their second-tier city or not. The respondents advise furthermore two other indicators: a city's level of pollution and a city's greenery index¹⁹. According to the respondents, both indicators are particularly important from the perspective of expats and employees, but also for the company itself, which has to compensate their expats in dollars for the pollution that they have to face in China in their daily lives.

¹⁸ Translated from German to English

¹⁹ Urban green spaces compromise parks, gardens, and river or sea fronts (Gupta et al. 2012: 325)

6 Discussion

This section provides a discussion on this study's findings. Since this study is based on an inductive approach, the findings are used for generating hypotheses. In the context of this study's research questions, the introduced theoretical concepts are connected with the unit of analysis and hypothesis derived in this section.

6.1 Relationship between a City's Degree of Internationalization and Foreign Companies' Market Entry Decisions and Market Entry Mode Strategies in Second-Tier China

As the relationship between the degree of second-tier cities' internationalization and foreign companies' market entry decisions has not attracted the interest of researchers in previous studies, this study aims to fill this research gap and contribute to research and theory by applying an embedded multiple-case study.

The main research question of this study is:

Why and how does a second-tier city's degree of internationalization influence foreign companies' market entry decisions and market entry mode strategies in second-tier China?

Related to foreign companies' market entry decisions into second-tier China, this study finds four of Maxxelli's seven categories measuring a city's degree of internationalization as most important for foreign companies' market entry decisions in second-tier China, namely: Global Economic Strength, International Commerce, Education as well Government and Political Engagement. Companies that initially entered first-tier China tend to place a higher emphasis on their market entry decisions in the categories Global Economic Strength and International Commerce, whereas companies that entered second-tier directly show more diverse results. A clear pattern cannot be found in their strategy. Among Maxxelli's indicators measuring a city's degree of internationalization, the following indicators are mentioned as the most important for their decision to enter second-tier cities: Global Economic Strength (a city's Regional GDP, GDP per Capita, Foreign Development Projects), Education (English-Speaking Population, overall Education Level), International Commerce (the Number of Large Multinational Food/Drink Chains, Number of Restaurants Selling Foreign Cuisine, overall Number of Foreign Retailers), Infrastructural Connectivity (not a particular indicator, a city's overall connectivity), Government and Political Engagement (not a particular indicator, overall support by the local governments for foreign companies), and International Community (Number of International Schools in a city). In addition, one company considers none of Maxxelli's categories to be of importance for their decision to set up in second-tier China.

Furthermore, both target groups show differences in the overall relevance of a city's degree of internationalization for their market entry decision. The companies included in the sample that went from first- to second-tier cities, all highlight the role and importance of a city's degree of internationalization, whereas only one of the five companies that directly entered second-tier cities considers internationalization an important factor of establishing business operations in second-tier cities. In addition, this study finds that companies considering a city's degree of internationalization to be of little importance for their overall market entry decisions, generally enter cities with lower degrees of internationalization. In contrast, foreign companies determining the degree of internationalization to be relevant for their overall decision to set up in a second-tier city, tend to enter cities with higher degrees of internationalization

The findings suggest that for companies, which initially entered first-tier cities, a city's degree of internationalization is an important factor for market entry. All three companies in the first- to second-tier category offer high-end products with a certain price tag. Glacio is a premium ice cream brand, while ECFO provides high-level financial consulting. Finally, Renaud Air sells high-quality air purifiers, water filters and other high-end products. All in all, the companies included in the sample target customers with a certain income, that is, the Chinese middle-upper class. All of these three companies argue that the categories Global Economic Strength and International Commerce were most important for their market entry decisions into second-tier China. For these three companies, a city with a low Global Economic Strength indicates that a city might not be ready for their high-end products. Furthermore, a city's low score in International Commerce entails a low number of foreign brands, and thus a scarcity of potential for those customers.

This study further analyses the market entry mode of foreign companies in second-tier markets with regard to a city's degree of internationalization. Seven of the eight foreign companies interviewed indicate that they would not have chosen a different market entry mode type in second-tier China had a city shown a higher or lower degree of internationalization. Only one company, the only EJV in the company sample, argues that in a more internationalized city it would have set up a WFOE instead of an EJV. The EJV states that there are more registered WFOEs in more international cities and WFOEs face less political risk, a situation which is not given in a less international city.

Previous research has not addressed the role of Chinese second-tier cities' degree of internationalization on foreign companies' market entry mode strategies. Hence, this study aims to contribute to the theory. This study's company sample is consciously chosen, but due to limited time and resources, the findings of this study are limited to a sample of eight foreign companies, which entered the second-tier markets in Chengdu and Chongqing. The company sample is not only limited in number; the company sample selection is also influenced by

Maxxelli's network. The researcher conducted interviews with companies, which are either current or former clients of Maxxelli's or used the interviewees' network of SMEs and entrepreneurs to acquire further interview partners. As a consequence, in the selection of respondents, selection bias may have occurred. In addition, the company sample is limited to a set of industry backgrounds. Moreover, this study is further restricted to SMEs that set up in Chengdu and Chongqing and did not include various other second-tier cities throughout China. In terms of market entry mode types that companies decided on, this study includes no companies that entered a second-tier markets through licensing, indirect exporting or CJVs. Although Glacio initially set up as an EJV in Shanghai, their market entry in Chengdu and Chongqing is based on a direct and indirect franchising strategy while having no offices registered in these cities. Hence, the company sample only includes one company that set up an EJV in second-tier cities. All in all, this study's findings apply in the case of eight foreign companies in Chengdu and Chongqing, which show certain company characteristics in terms of market entry mode type, industry, and market entry location.

6.2 Recommendations for the CICI 2018

This study also aims to give recommendations on how the CICI's methodology can be further improved. Therefore, this study is guided by the following sub-research question:

How can Maxxelli's CICI report be improved further?

Concerning the CICI, the findings of this study concentrate on three main themes: indicators, city sample, and overall recommendations. Indicators that might be useful adding to Maxxelli's international city methodology were identified in two ways: First, the respondents were asked to describe what characterizes an international city in their understanding; and second, the respondents were asked for direct feedback on the CICI and how Maxxelli could further improve the report in the future. This study identifies the following seven indicators that are not yet included in Maxxelli's methodology: Number of Registered WFOEs in a city, Support by the Local Government in terms of Policies, Landmark Developments, Number of Shopping Malls in a City, Local People's Openness for Foreign Cultures, Level of Pollution in a City, and Modern Infrastructure (degree to which modern water and sewage systems are in use).

First, respondents argue that Maxxelli should include the Number of Registered WFOEs in a City. In the category Global Economic Strength, Maxxelli already includes the Number of Foreign Companies. In the CICI, the Number of Foreign Companies includes all kinds of ownership forms registered by foreign companies, including the WFOE. The Number of WFOEs is thus already integrated in the CICI to some extent. However, a detailed overview of

the number of WFOEs, JVs and other company types may provide companies with information on which strategies other companies are adopting. Unfortunately, it is difficult to find reliable sources concerning the exact number of foreign companies' market entry modes in a city. Second, respondents consider the Government Support for Foreign Companies in terms of business set-up, investment incentives, and an effective visa application process to be important characteristics of an international city. All respondents who consider Government and Political Engagement as important for their market entry decisions clearly emphasize the importance of support by the local government and a kind of welcoming atmosphere. Reliable data on the amount of investment incentives that are issued for foreign companies may be difficult to obtain, but Maxxelli could check whether a city issues investment incentives for foreign companies in general and analyse the types of investment incentives. Respondents for example point out that local policies are important for foreign companies, because they show whether local governments welcome foreign companies to set up a business in a second-tier city or not. Sub-indicators that could be assigned to the indicator Support by the Local Government for Foreign Companies are: investment incentives, effective visa application procedures and policies concerning foreign companies. Third, respondents emphasized the importance of Landmark Developments. Usually every city has one unique selling point, such as a building with which the city is associated. But, the operationalization of this indicator might be an issue. One possible approach would be to operationalize it on a binary basis by coding a city as either having landmark developments or not. Another suggested indicator is the Number of Shopping Malls in a city. Until now, the CICI considers foreign development projects in the category Global Economic Strength, but not the overall Number of Shopping Malls in a City. Further respondents name Local People's Openness for Foreign Cultures as a characteristic of an international city. A question that arises is how to measure and operationalize the openness of local people for different cultures. As another important aspect of any international city, interviewees name the level of pollution and the greenery index as aspects of an international city. They consider these factors particularly important for expats and employees living in a city permanently. As a final indicator, a respondent recommends including Modern Infrastructure such as modern water and modern sewage systems to Maxxelli's methodology. Maxxelli already includes infrastructure in its CICI in terms of transportation, but does not yet consider other infrastructure like water or sewage systems. To summarize, this research identifies several attributes of international cities that are not included yet in Maxxelli's methodology.

Referring to the introduced world city and global city concepts (see section 2.1), a comparison shows similarities with but also differences from Maxxelli's international city methodology. For instance, Hall includes in his world city concept attributes such as great ports, international airports, infrastructure developments, and great universities, theatres and foreign companies. All of these indicators are also included (but differently named) in the CICI. The

same applies for Friedmann and Wolff who also include infrastructural connectivity and education in their definition of a world city. However, Friedmann further characterizes a world city by having international institutions present in a city, an indicator that is not considered in Maxxelli's methodology. Sassen focuses on APS firms, which are integrated in the CICI, but additionally also defines a global city based on the production of innovations. Clark's global city definition contains cross-border trade and a diverse city population, both factors included in the CICI, but he further considers an entrepreneurial population as an attribute of a global city. After comparing the world city and global city concepts, one indicator, that might be useful addition to Maxxelli's CICI, are international institutions. International institutions relate to international organizations (Duffield 2007: 3). These can be defined as intergovernmental organizations. Examples for intergovernmental organizations are United Nations (UN) or others such as the World Health Organization (WHO) and the WTO (Barkin 2006: 5, 31). International organizations contribute likewise to an international atmosphere in a city. Therefore, Maxxelli could consider to develop an indicator named Number of International Organizations, consisting of a set of international organisations and integrate it in the category Government and Political Engagement. One problem could arise from the integration of new indicators in the CICI methodology: a potential data bias. This year, Maxxelli comprehensively revised its CICI, reorganised categories and included a set of different indicators in its methodology. As a consequence, city scores are quite difficult to compare with last year's results. Some cities score very well in comparison to others in the new integrated indicators, while others score quite low. Hence, some cities were able to increase or decrease their degree of internationalization, not because the city gained higher scores according to last year's indicators, but rather because a different set of indicators is included in the CICI 2017. Thus, a general question Maxxelli should consider is whether it is worth integrating new indicators or not. The new integration of new indicators would make comparing CICI 2018 results with CICI 2017 results very difficult.

The respondents name four cities as relevant for Maxxelli's city sample and suggest Maxxelli include them in next year's CICI report. These cities are: Guiyang, Lanzhou, Nanning and Yinchuan. So far, Maxxelli based its city selection on the two premises population and regional GDP. Maxxelli only includes cities in its 2017 report, which show a regional GDP of at least USD 50 billion and a population of three million or above. The cities named by the respondents met neither of these criteria in 2017. However, all four cities are provincial capitals and emerging economic hubs in their respective regions. The cities may not yet reach the CICI's premises on regional GDP or population yet, but may reach them in the future. Since emerging cities are becoming more and more interesting for foreign companies for investment purposes, the analysis of the degree of internationalization for Guiyang, Lanzhou, Nanning and Yinchuan may create value for Maxxelli's clients and the general audience of the CICI. However, Maxxelli's score calculations are based on a score normalization approach, thus adding new

cities to the CICI may contribute to a bias in the total scores. But, Maxxelli does not necessarily have to change the city sample selection premises, and can further integrate these cities, based on the assumption that they will be important hubs in their respective regions and important locations for foreign investors who see investment opportunities in the future. In addition, Maxxelli could integrate these four cities with a remark that they do not meet Maxxelli's premises in terms of GDP and population, but are included nonetheless because they are viewed as potential business hubs in the future. By including these cities, Maxxelli can further provide its clients with insights into emerging second-tier cities, which is one of Maxxelli's core competencies and aligns with Maxxelli's mission.

This study further identified three main topics for the overall improvement of the CICI: the report's general format, data sources, and integration of new report elements. First, concerning the reports general format, respondents either argue that the CICI should give more general information or try to be more detailed and address a more specific audience. It is notable that it is difficult for reports to meet all the requirements from different kinds of readers. Some for example expect to receive specific information regarding their industry and some aim to gain a general overview of Chinese cities' degree of internationalization. Since Maxxelli does not target any particular industry with its consulting services, the CICI, too, aims to provide a broad audience with information on China's second-tier cities. Thus, including more industry specific information in the CICI would likely make the report relevant to pre-determined industries only. However, Maxxelli should pay attention to the suggestions and ensure that the CICI report is not too general in order to continue attracting a broad and professional audience from different industry backgrounds. Though in general, this study advises Maxxelli to stick to its strategy of serving a more diverse audience and not targeting specific industries with its CICI report. Second, another debated topic is Maxxelli's sources for data collection in the CICI. Respondents see a general problem in the use of official data published by the Chinese government. According to the respondents, Maxxelli should integrate both official government data and unofficial data in the report and highlight potential discrepancies. Maxxelli currently relies on data published in the China Statistical Yearbook in only four of the 44 indicators in its CICI methodology: GDP per Capita, Total Import and Export, FDI, and Number of International Tourists Entering each Year. But the CICI also uses the population census of the China Statistical Yearbook for its overall report. Maxxelli further uses data on the number of Fortune 500 companies or the number of foreign companies obtained by the cities' local bureaus of statistics. Except for the mentioned indicators, Maxxelli uses data published by independent sources. For instance, the data on the Number of International Luxury Fashion Retailers is based on data published by the luxury fashion retailers themselves. Maxxelli could compare official government data and unofficial data in other reports. However, the use of different data for a few indicators would indicate the need for two different city rankings and city scores, since official data and unofficial data may differ. Concerning the use of data, this

study stresses that Maxxelli already relies on data published by the Chinese government for only a few indicators. However, including unofficial and official data is not possible due to the CICI's calculations. Hence, this study recommends Maxxelli continue to rely on the data sources used so far in the next year's report. Third, respondents propose integrating new report elements into the CICI. Four suggestions are: interviews, maps, a list of the biggest companies in a city and a list of the biggest foreign employers in a city. Respondents recommend conducting interviews with local entrepreneurs and SMEs to provide insights and tips on how to set up a business in second-tier China. Since Maxxelli has eight offices across China and a comprehensive network of relationships, Maxxelli could get in contact with entrepreneurs and SMEs in the cities included in the CICI. Including interviews with first-hand insights into doing business would create value for foreign companies considering setting up in a particular city in China, make the CICI more unique and broaden the audience of the CICI. Therefore, Maxxelli should consider conducting interviews for the CICI 2018 report. Respondents further advise Maxxelli to add a map showing a city's key locations and main city centres. In general, such a map creates value for investors and may help them decide in which part of the city to set up. However, giving recommendations on industry centres and industry zones is not the purpose of the CICI report. Maxxelli has other projects, such as investment proposals, where including such maps would be more valuable. Therefore, adding such city maps would not give the audience more information on a city's degree of internationalization. However, this study recommends integrating a ranking of the biggest foreign companies and employers in a city to make the report more appealing for the audience.

The researcher interviewed company representatives about the CICI and asked them to give recommendations on how the CICI can be improved. Although this study is limited to nine company representatives and is consequentially limited by number, this study is able to give a set of recommendation on how Maxxelli can improve its CICI 2018 report. Nevertheless, the company sample consists of certain industry backgrounds. Therefore, a potential bias in the recommendations, meaning in favour of particular industries may occur.

7 Conclusion

This section concludes this study and provides recommendations and implications for theory, research and practice.

7.1 Concluding Remarks

This study aims to understand the relationship between a Chinese second-tier city's degree of internationalization and foreign companies' market entry decisions and market entry mode strategies. Because the relationship between the degree of second-tier cities' internationalization and foreign companies' market entry decisions has not been researched,

this study aims to contribute to research and derive hypotheses by using a qualitative research approach. In an embedded multiple-case study, two target groups were interviewed regarding their decision to enter second-tier China and their market entry modes, namely: foreign companies having directly set-up in second-tier China and companies that had initially entered first-tier China before moving to second-tier cities. The company sample consists of eight foreign companies with various industry backgrounds and market entry mode types. Chengdu and Chongqing not only show a similar level of internationalization according to Maxxelli's CICI 2017, they also share a long history and the same cultural conditions. Consequentially, both cities are selected as the unit of analysis for this case study. Hence, the sample selection of this study is based on the Most Similar Systems Design. In addition, this study also aims to receive feedback on Maxxelli's CICI report and provide recommendations on how Maxxelli's 2018 CICI report can further be improved from a methodological perspective.

This study concludes that a second-tier city's degree of internationalization is particularly important to foreign companies having first set up in Chinese first-tier cities. Companies having established themselves in second-tier cities directly do not pay much direct attention to a city's degree of internationalization and base their market entry decisions more on business opportunities they identify in a city. In addition, this study's findings show that in most cases a city's degree of internationalization does not influence the type of market entry mode type companies choose to enter second-tier China. Only in one case, an EJV, a company points out that in a more international city it would decide on a different market entry mode strategy. This study recommends Maxxelli to add two indicators to its CICI methodology: Support by the Local government for Foreign Companies and Number of International Organizations in a city. The following three sub-indicators could be assigned to the indicator Support by the Local Government for Foreign Companies: investment incentives, effective visa application procedures, and policies concerning foreign companies. The indicator International Organisations could consist of a set of major international organisations. Based on the received feedback, this study further advises Maxxelli to integrate Guiyang, Lanzhou, Nanning and Yinchuan into next year's CICI city sample and conduct interviews with local entrepreneurs and SMEs to offer insights and recommendations on setting up a business in cities included in the CICI. By including these cities, Maxxelli can provide further insights for its clients on emerging second-tier cities, which is one of Maxxelli's core competencies and is in line with Maxxelli's mission. In addition, lists informing the audience of the biggest foreign companies and biggest foreign employers in a city would make the report more insightful and appealing for a wider audience.

7.2 Recommendations for Theory, Research, and Practice

Due to a limited amount of time and resources, this study is limited to the cities of Chengdu and Chongqing. However, the findings of this study can contribute to developing hypotheses on the understanding of the relationship between a city's degree of internationalization and foreign companies' market entry decisions. Therefore, further research should include different second-tier cities to obtain a deeper understanding of the role a city's degree of internationalization has on foreign companies' market entry decisions and market entry modes in these markets. It would be of interest to further investigate second-tier cities that show a lower degree of internationalization compared to Chengdu and Chongqing. Jinan, Zhengzhou, Changchun, and Fuzhou are, according to Maxxelli, China's least internationalized second-tier cities. Hence, future research may also consider to conduct interviews in these cities. Moreover, Chengdu and Chongqing show a similar setting in terms of cultural and economic conditions. As a consequence, other second-tier cities that are different to Chengdu and Chongqing may also show interesting findings and may contribute to a better understanding of foreign companies' market entry decisions and entry mode strategies in China's second-tier cities. In addition, interviews with companies that utilized market entry mode types different from the ones included in this study, such as licensing, may shed further light on the study's research objective. Although this study gives a set of recommendations on how to improve next year's CICI, Maxxelli should conduct further interviews with companies from various industry backgrounds to receive additional feedback concerning the CICI. Conducting a higher number of interviews may identify more attributes of an international city, expressed in indicators for Maxxelli's international city definition and hereby contribute to city concept research. Since Maxxelli focuses on providing consulting for foreign companies, acquiring feedback on the CICI would also give Maxxelli the opportunity to provide better consulting to its clients.

8 Bibliography

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9 Appendices

Appendix 1. Overview of Categories, Indicators, and Sub-Indicators Included in the CICI with Assigned Weightings

Categories/Indicators	Assigned Weighting
Global Economic Strength	20
GDP per Capita	5
Foreign Direct Investment	20
Total Import and Export	20
Number of Fortune 500 Companies	10
Number of Major APS Firms	25
Number of Foreign Companies	10
Number of Completed Foreign Development Projects	10
International Community	17,5
Number of International Schools	15
Number of International University Students	20
Expatriate Population	20
Expatriate Population Percentage	30
Number of Foreign Clinics	15
International Commerce	15
Number of International Luxury Fashion Retailers	15
Number of International Luxury non-Fashion Retailers	15
Number of International Fast-Fashion Retailers	15
Number of other International Retailers	15
Presence of Large Multi-National Food/Drink Chains	15
Number of Restaurants Selling Foreign Cuisine	10
Number of Foreign Operated Hotels	7,5
Number of Foreign Serviced Apartments	7,5
Education	15
Level of Education	25
English-Speaking Population	25
Number of Top Universities	35
Number of International Intern Recruitment Agencies	15
Culture and Tourism	12,5
Number of Tourist Attractions	17,5
Is there a 72-Hours Free-Visa Option?	15
Number of Top and Major Theatres	10
Number of Major Museums	10
Online Content	12,5

Top Tourist Attraction Review Count	20
Sports Online Content	7,5
Number of Large Sports Stadia	7,5
Infrastructural Connectivity	10
Number of Direct International Flights to Asian Destinations	15
Number of Direct International Flights to Non-Asian Destinations	15
Annual Passenger Capacity of Airports	10
International Rail Links	10
High Speed Rail Links	10
Number of International Tourists Entering each Year	20
Having an International Seaport	15
Development of Metro System	5
Government and Political Engagement	10
Number of Foreign Consulates in City	35
Number of Sister Cities	20
Foreign Chambers of Commerce	30
Number of Exhibitions (Top 200 by Area)	15

(Own Figure Based on Maxxelli CICI 2017 Internal Data)

Appendix 2. Interview Question Manual

1. What is an International City for you?
2. Maxxelli measures a second-tier city's degree of internationalization based on seven categories:
 - **Global Economic Strength**
GDP per Capita, Foreign Direct Investment, Number of Fortune 500 Companies, Number of Foreign Companies, Total import and Export, Number of Major Advanced Producer Service Firms (banks, accountancy, law, management consultancy), Number of Foreign Companies, Number of Completed Foreign Development Projects
 - **International Community**
Number of International Schools, Expatriate Population, Expatriate Population Percentage, Number of International Students, Number of Foreign Clinics
 - **International Commerce**
Number of International Luxury Fashion Retailers, Number of International Luxury non-Fashion Retailers, Number of International Fast-Fashion Retailers, Number of International Retailers, Number of Large Multinational Food/Drink Chains, Number of Restaurants Selling Foreign Cuisine, Number of Foreign Operated Hotels, Number of Foreign Serviced Apartments
 - **Education**
Level of Education, Number of Top Universities, English-Speaking Population, Number of Intern Recruitment Agencies

➤ **Culture and Tourism**

Number of Tourist Attractions, 72-Hours Free-Visa Option, Number of Top and Major Theatres, Number of Major Museums, Online Content, Top Tourist Attraction Review Count, Sports Online Content, Number of Large Sports Stadia

➤ **Infrastructural Connectivity**

Number of Direct International Flights to Asian Destinations, Number of Direct Flights to non-Asian Destinations, International Rail Links, High Speed Rail Links, Annual Passenger Capacity of Airports, Number of International Tourists Entering each Year, Having an International Seaport, Development of Metro System

➤ **Government and Political Engagement**

Number of Foreign Consulates, Number of Sister Cities, Number of Foreign Chambers of Commerce, Number of Trade Exhibitions (Top 200 by Area)

- Which categories/indicators most influenced your decision to enter China's second-tier cities?
- Why did these categories influence your decision to enter a second-tier market?

3. How important is a second-tier city's degree of internationalization for your decision to set up a business in that city?
4. Is your strategy of market entry strategy to a second-tier city based on a higher or lower degree of internationalization?
5. Why did you decide to set up business in a second-tier city that shows a higher / a lower degree of internationalization?
6. Why did you choose your company's market entry mode to enter second-tier China?
7. How did a second-tier city's degree of internationalization influence your market entry mode strategy?
8. Would you have had considered a different market entry mode strategy if the second-tier city would have had a higher/lower degree of internationalization?
9. Maxxelli's China International City Index (CICI) 2017 includes the following 27 cities:
 - North: Changchun, Dalian, Harbin, Jinan, Qingdao, Shenyang, Shijiazhuang, Tianjin, Urumqi, Zhengzhou
 - South: Fuzhou, Guangzhou, Kunming, Shenzhen, Xiamen
 - Greater Shanghai: Changzhou, Hangzhou, Nanjing, Ningbo, Suzhou, Wuxi
 - Central/ Southwest: Changsha, Chengdu, Chongqing, Hefei, Wuhan, Xi'an
 - Are there any other cities Maxxelli should integrate in its next CICI 2018 report?
 - If yes, which cities and why?
10. This year's CICI report includes a city's introduction, an analysis of a city's strengths and weaknesses in terms of internationalization and recommendations on how improve a city's degree of internationalization.
 - Do you have any other further recommendations for the CICI report?

Appendix 3. Company Profiles²⁰

Coding First | Interviewee: Serge Hovnanian

Coding First's mission is to equip young students between 5-18 years of age with solid technical and social skills in the fields of programming, robotics and technology. Coding First offers classes for several ages groups: little coders, young coders and teen coders. Coding First was founded by Serge Hovnanian in March 2017 and currently has one school in Chengdu. Coding First aims to set up more schools in the coming years.

More information can be found at: <http://www.Coding First.cn>

DocChat | Interviewees: Daniel Csontos and Evan Forrester

DocChat is a medical app integrated in WeChat, which aims to connect doctors located in Western countries and customers located in China. By using DocChat, customers can directly interact with a foreign doctor and acquire for example a second expert opinion on their clinical condition. DocChat was developed by the entrepreneurs Daniel Csontos and Evan Forresters who are based in Chongqing.

More information can be found at: www.docchat.com.cn

ECFO | Interviewee: Matthew Winter

ECFO is an operations-oriented finance advisory firm that set up in Shanghai in 2001. ECFO's services cover targeted research (due diligence, internal audit, targeted assessments), managing growth (integrated business modelling, costing advisory), accounting and financial controls (full service accounting, financial controls review/design), and transaction support (interim CFO, execution support for transaction, post-merger integration planning). ECFO has offices in Shanghai and Beijing and operated a back-up office in Chengdu until April 2017.

More information can be found at: <https://ecfo.asia>

Gebrüder Wurst | Interviewee: Martin Hinkens

Gebrüder Wurst was founded by a young German entrepreneur and his Chinese partner in Chongqing in 2014. Gebrüder Wurst aims to introduce the German sausage culture to Chinese customers and sell traditional German sausages and German products in their restaurants. Currently, Gebrüder Wurst has three restaurants in Chongqing, but aims at opening its first restaurant in Chengdu.

²⁰ The company profiles are written based on interviews, information the researcher obtained while working for Maxxelli, and the company's web presence

Glacio | Interviewee: Henrik D'Hondt

Glacio is a Belgian premium ice cream that expanded to China in 2016 and set up a joint venture with a Belgian company specialized in China consulting. Glacio is currently entering Southwest China, with Maxxelli as their master franchisee and distribution partner for Southwest China.

More information can be found at: <http://www.glacio.com/en/>

International Education Consultancy (IEC) Abroad | Interviewee: Kaka Huang

IEC Abroad is an education consultancy, which was founded in Manchester in 2006. Since 2006, IEC Abroad has placed over 10,000 students from all around the world in English-speaking universities. Furthermore, IEC Abroad has offices in Thailand, India and Saudi Arabia. IEC Abroad is currently setting up its first office in China and is in the process of setting up its China headquarter in Chengdu. Maxxelli supports IEC Abroad in its business set-up and provides consultancy.

More information can be found at: <http://www.iecabroad.com>

Renaud Air | Interviewee: Iannique Renaud

Renaud Air is a Canadian company that was founded by Iannique Renaud in Shanghai. Renaud Air has offices and distribution centres in Shanghai, Beijing and Hong Kong. Its business scope includes air purifiers, high efficiency particulate air filters, water filters and BBQ grills. Renaud Air chose Maxxelli as their distribution partner for Southwest China.

More information can be found at: <http://www.renaudair.cn>

Erklärung

Ich erkläre, dass das Thema dieser Arbeit nicht identisch ist mit dem Thema einer von mir bereits für ein anderes Examen eingereichten Arbeit. Ich erkläre weiterhin, dass ich die Arbeit nicht bereits an einer anderen Hochschule zur Erlangung eines akademischen Grades eingereicht habe.

Ich versichere, dass ich die Arbeit selbständig verfasst und keine anderen als die angegebenen Grundlagen benutzt habe. Die Stellen der Arbeit, die anderen Werken dem Wortlaut oder dem Sinn nach entnommen sind, habe ich unter Angabe der Quelle der Entlehnung kenntlich gemacht. Dies gilt sinngemäß auch für gelieferte Zeichnungen, Skizzen und bildliche Darstellungen und dergleichen.

Würzburg, den 15.08.2017 _____
(Anna-Katharina Schaper)