



## ABSTRACT

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## Abstract

This thesis examines *Guanxi and international joint venture formation in China from an SME perspective*. This study is a single-case study that focuses on Finetex EnE's joint venture formation process into the Chinese market.

Finetex EnE is a South Korean company that operates in the nanotechnology field. The company specializes in producing nano-scale fibers and structures through their patented electrospinning process. Finetex EnE is headquartered in Seoul, Korea. The company's Canadian entity is currently in the process of forming a joint venture with a Chinese partner company in China. This study examines Guanxi from the foreign company's perspective.

The theoretical background of the study includes literature about SMEs and joint venture formation in China, as well as the role of Guanxi in China. The synthesis of international joint venture formation and Guanxi in China is presented in the end of the theory section. The methodology of this study is based on a qualitative case study, and the empirical data was collected through case company interviews and expert interviews.

According to the main findings of this study, the role of Guanxi is very significant for SMEs that are forming an international joint venture in China. The SME must select an ideal partner company with connections to the Guanxi insiders. Foreigners can never access the core of the Guanxi inner circle, so it is vital for the partner company to have the optimal connections in China. It is also beneficial if the Chinese partner company has contacts to government officials, business-to-government Guanxi, since the legal system of China is weak. Once the SME has managed to cover all of the stages, the SME will have the pre-requisites to form an ideal joint venture in China.

An important finding from the study is the changing nature of the Chinese business culture in entrepreneurship driven companies. Influences from the American business culture can be seen in the way that entrepreneurship driven companies do business in China. The empirical research reveals that the Chinese want to proceed very fast, which is very different from the Confucian type of old-style negotiation that used to exist in China. Further research could examine this phenomenon in more detail and also research the Chinese company's viewpoint of Guanxi and business-to-government relations.

Key words	China, joint venture, joint venture partner selection, Guanxi, single-case study
Further information	







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#### Tiivistelmä

Tämä tutkimus käsittelee yhteisyrityksen perustamisvaihetta Kiinassa. Tutkimuksen aiheena on Guanxi-verkostot ja kansainvälisten yhteisyritysten perustaminen Kiinaan PK-yrityksen näkökulmasta. Tutkimus on tapaustutkimus, joka seuraa Finetex Ene -yrityksen Kiinan markkinoille perustaman yhteisyrityksen perustamisvaihetta.

Finetex EnE on korealainen nanoteknologia-alan yritys, jonka pääkonttori sijaitsee Soulessa. Yrityksen Kanadan tytäryhtiö on parhaillaan perustamassa yhteisyritystä kiinalaisen yrityksen kanssa. Tämä tutkimus käsittelee Guanxi-verkoston merkitystä ulkomaalaisen yrityksen näkökulmasta.

Tutkimuksessa käytetty teoria pohjautuu kirjallisuuteen yhteisyritysten perustamisesta Kiinan markkinoille PK-yrityksen näkökulmasta. Lisäksi teoria pohjautuu kirjallisuuteen Guanxi-verkoston vaikutuksesta Kiinan yrityskulttuuriin. Kirjallisuuden synteesi esitellään teoriaosuuden lopussa. Tutkimuksen metodologia pohjautuu kvalitatiiviseen tapaustutkimukseen. Tutkimuksen empiirinen osuus perustuu case-yrityksen haastatteluihin sekä asiantuntijahaastatteluihin.

Tämä tutkimus osoittaa, että Guanxi-verkostoilla on merkittävä vaikutus yhteisyritysten perustamiseen Kiinassa. PK-yrityksen on valittava ihanteellinen yhteistyökumppani, jolla on vahva Guanxi-verkosto. Ulkomaalaiset yritykset eivät pääse Guanxi-verkoston ytimeen, joten kiinalaisella yhteistyökumppanilla on oltava oikeat kontaktit sisäpiiriin. Lisäksi on hyödyllistä, että kiinalaisella yrityksellä on vahvat yhteydet viranomaisiin, sillä Kiinan oikeusjärjestelmä on heikko. Kun yllä olevat asiat ovat kunnossa, PK-yrityksellä on vahva lähtökohta yhteisyrityksen perustamiseen.

Tärkeä havainto tästä tutkimuksesta on Kiinan muuttuva yrityskulttuuri yrittäjyysvetoisissa yrityksissä. Kiinaan on tullut vahvoja vaikutteita Yhdysvaltojen yrityskulttuurista. Tutkimustulosten mukaan kiinalaiset haluavat nykyään edetä vauhdilla yritysmaailmassa. Tämä poikkeaa perinteisestä tavasta, joka on peräisin Kiinan konfutselaisesta historiasta. Lisätutkimuksella voitaisiin selvittää tätä muutosta. Lisäksi on syytä tutkia Guanxi-verkostoja ja suhteita viranomaisiin kiinalaisen yrityksen näkökulmasta.

Asiasanat	Kiina, yhteisyritys, yhteistyökumppanin valinta, Guanxi-verkosto, tapaustutkimus
Muita tietoja	







Turun yliopisto  
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**GUANXI AND INTERNATIONAL JOINT  
VENTURE FORMATION IN CHINA**  
**A small and medium-sized enterprise perspective**

Master's Thesis  
in International Business

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# 1 INTRODUCTION

## 1.1 China's role in the world economy

The Republic of China is among the world's strongest competitors when ranked in terms of the inflow of foreign direct investment (later referred to as FDI) (United Nations 2016). China officially opened its doors to FDI in 1979 with the promulgation of a joint venture law (Luo 2000, 159). Since 1979, FDI inflows into China have grown strikingly (Li & Park 2016, 178).

Companies around the globe are keen on investing into the Chinese market. China is viewed as a great, multi-layered, economic opportunity for the world. To get a better understanding of the relevance of the Chinese market at the moment, it is beneficial to state that China reached all of the Millennium Development Goals (MDGs) by 2015 and made a major contribution to the achievement of the MDGs globally (World Bank Group 2016). Figure 1 illustrates the trend of FDI into China. FDI is defined as investment from one country into another, normally by companies rather than governments, that involves establishing operations or acquiring tangible assets, including stakes in other businesses (Financial Times 2017). In China, FDI refers to the accumulated foreign investment in domestic companies or entities in the non-financial sector in a given year. (Wee 2006, 1; Trading Economies 2017.)

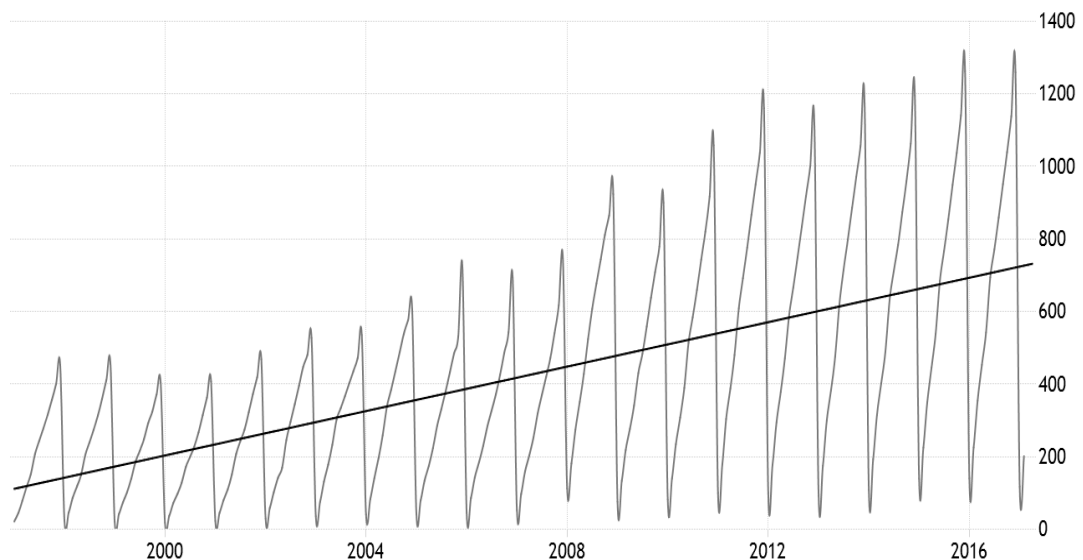


Figure 1 FDI into China (Trading Economies 2017)

As seen from Figure 1, the trend of FDI inflows into China is linearly positive. This means that from the late 90s to the end of 2016, the growth of FDI inflows into China has

been increasing. In 2016, FDI in China maintained steady growth with strong investment in the service industry. FDI rose by 4.1 percent year on year to reach 813 billion yuan (118 billion USD) in 2016. China has a population of 1.3 billion and recently it became the world's second largest economy. The potential of China's market is enormous, which has resulted in fierce competition for market share in China (Mukathe 2002, 9). China is playing an increasingly important and influential role in the global economy. Significant policy adjustments are required in order for China's growth to be sustainable. In order to attract more FDI, Chinese authorities are considering revising guidance for entry to the market, by cutting the number of restrictive measures from 93 to 62. (World Bank Group 2016; China Daily 2017.)

The opportunities in China are significant; however, it is crucial for small and medium-sized enterprises (later referred to as SMEs) that are seeking business opportunities in China to understand the complexity of entering the market (Polajzer 2011, 1261). The Chinese business environment is characterized by a weak legal system and strong influences of traditions, such as Guanxi (Braendle et al. 2005, 389). Guanxi refers to the concept of drawing on connections in order to secure diverse favors in personal or business relations (Luo 2001, 455).

This study will examine *Guanxi and joint ventures in China from an SME perspective*. This topic is relevant to study, as a significant amount of SMEs are investing into the Chinese market through joint ventures. This study is a single-case study that focuses on Finetex EnE's joint venture formation process into the Chinese market. Since this study focuses on the SME perspective, it is relevant to define an SME and have a closer look at the internationalization of SMEs. The main factors determining whether an enterprise is an SME are staff headcount and either turnover or balance sheet total (European Commission 2017). In addition to the European Commission's definition, there are several different ways of defining an SME. SMEs with limited resources and a lack of knowledge of the local market tend to select the joint venture form of entry mode as their market entry strategy, especially when entering the Chinese market (Kirby & Kaiser 2003, 240).

Joint ventures with Chinese companies provide one of the most effective ways for SMEs to establish a foothold in the booming Chinese economy (Lee 2008, 46). The joint venture is primarily a device for SMEs to gain access to resources embedded in other organizations. This form of entry mode is particularly favored in nations where national governments are attempting to restrict foreign ownership and where local expertise and connections are seen to be important in facilitating market entry. An example of such a nation is China. As a result, joint ventures have become a popular vehicle for foreign market entry into China. When compared with wholly foreign-owned enterprises, joint ventures are the dominant FDI strategy for SMEs. (Kirby & Kaiser 2003, 240.)

## 1.2 Purpose of the study

The main research question of the study is to examine *the role of Guanxi in international joint venture formation in China from an SME perspective*. In order to achieve the objective, three specific sub-questions are framed. These sub-questions are the following:

- 1) What is the role of Guanxi when selecting a joint venture partner in China in the joint venture formation process?
- 2) What is the role of Guanxi in business-to-government relations in China in the joint venture formation process?
- 3) What is the role of Guanxi concerning the legal system of China in the joint venture formation process?

This study is a single-case study about a South Korean company, Finetex EnE, that operates in the nanotechnology field. The company specializes in producing nano-scale fibers and structures through their patented electrospinning process. Finetex EnE is headquartered in Seoul, Korea, with production facilities in Asia and North America. The company's Canadian entity, FT EnE Canada Inc. (later referred to as FT EnE), is currently in the process of forming a joint venture with a Chinese partner company (Company C) in China. This study examines Guanxi from the foreign company's perspective, thus the study will not examine the Chinese partner company's viewpoints of Guanxi.

The researcher has lived around 10 years in Asia and aims to build a career in Asia in the future. The study can be beneficial for non-Chinese companies that are planning to form a joint venture in China, assuming that the companies are SMEs in the same industry. In addition, the study can be beneficial for consultants that are creating solutions for non-Chinese SMEs that are investing into China.

## **2 SMES AND JOINT VENTURE FORMATION IN CHINA**

### **2.1 Joint venture as the entry mode for SMEs into China**

Joint venture formation is defined as, “a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task.” Joint venture formations involve the selection of the joint venture partner and the signing of contracts by both parties. Often the lawyers of each company negotiate regarding the contracts and then come to consensus regarding the final versions of the contracts. (Investopedia 2017.)

SMEs are a small scale and flexible form of operation, which bears the characteristics of the ability to adapt rapidly to a changing market environment. SMEs are also able to adapt quickly to the adjustment of potential economic structures in China. When it comes to selecting the mode of foreign entry, SMEs must balance limited financial and managerial resources (hence joint ventures) with the need to protect proprietary technologies and advantages (hence wholly foreign-owned enterprises). There are two major characteristics of the internationalization of SMEs. First, their FDI is small in value, but large in terms of the number of parents. Secondly, their FDI is concentrated in developed countries. It is important to emphasize that SMEs from around the world are most likely to select the formation of a joint venture as the mode of entry to Asian countries, such as China, due to the indigenization of knowledge. Affiliates of SMEs are more likely to enter joint ventures than their larger counterparts. (Fujita 1998, 5—8, 110; Cheng & Tang 2015, 59.)

SMEs have played an important role in the dramatic increases in outflows of FDI since the mid-1980s, partly driven by the need to be present abroad in a rapidly regionalizing or globalizing world economy. In terms of the legislation, the positive role that SMEs can play should be reflected in national economic policies of both host and home countries. Particularly in Asia, some progress has been made, which can contribute to attracting SMEs. This includes the relaxation of regulations on minimum investment by foreign firms, easier entry procedures, and tax incentives for investment by SMEs. Especially in Asia, in order for SMEs to survive the fierce market competition, they must constantly develop new technology and enhance their R&D, to maximize their unique competitiveness. In the Asian countries, SMEs have continuously been attracting domestic and foreign scientific and technological personnel, to maintain and enhance the strength of their technological innovations. It is important to point out some of the benefits of SMEs to the world economy. SMEs play three roles: as job creators, innovators and exporters. SMEs tend to be more labor-intensive than large firms and contribute to employment growth by new firm creation and net internal growth. (Fujita 1998, 17, 41; Cheng & Tang 2015, 60.)

SMEs are an essential part of the national economy of China and they occupy a very important position. The role that SMEs play in the economic process is substantial in every country. There are certain areas where SMEs have core qualities that enable them to make significant contributions to host developing countries. One of these is that SMEs establish proportionally more joint ventures, thereby embedding themselves firmly, via ownership, in the host country's economic, managerial and social structure. A second key quality for SMEs is that there is some evidence that labor-intensive techniques are more likely to be transferred to developing countries by SMEs rather than by large multinational corporations (MNCs). (Fujita 1998, 133; Cheng & Tang 2015, 59.)

A major advantage of a joint venture is the knowledge that a firm can gain from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems, and business systems. A joint venture with a Chinese partner allows a higher degree of marketing control and a localized approach to efficaciously reach targeted audiences that shortens the time needed to obtain and disseminate local market information. A joint venture enables the possibility of sharing the development costs and risks of opening a foreign market with a local partner. There is also the additional benefit of tax incentives and the opportunity of entering the Chinese market without the need to set up a new corporation in China. In addition, joint ventures bring along greater ease in obtaining capital, as well as government support from China. (Lee 2008, 47; Hill 2009, 499.)

Regardless of the regional target for FDI, the success of an international joint venture is significantly impacted by the selection of the local partners. Especially in China, the role of selecting an optimal partner is very significant. Competent local partners with the required know-how for the specific industry give a competitive advantage for the firm by connecting the firm to the appropriate network. In addition, the correct partner selection allows the SME to reach its strategic goals in the target market. The success of a joint venture is influenced by the ability to achieve synergy between the two entities through proper integration. Building strong relationships with business partners facilitates the important process of integration and it may aid in mitigating strategic and operational risks. (Lau & Bruton 2008, 36; Lee 2008, 48.)

Although there are numerous benefits for a firm when pursuing a joint venture, there are major difficulties linked to the development of a joint venture. The first challenge is finding the optimal partner for the joint venture. The choice of local partner is likely to influence the degree of adaptability of foreign investment to local environment and business practices (Luo 2000, 175). Selecting the partner for the joint venture in China is a time-consuming process, which requires true patience and experience. It is a very important decision, and thus it should not be rushed. Finding the optimal partner company in China is extremely difficult. It is very challenging to access publicly available records

of the Chinese business, since they are often either unavailable or unreliable. This complicates the process of finding the optimal partner for the joint venture. (Norton & Chao 2001, 52; Lee 2008, 48.)

The second challenge is that the SME that enters a joint venture risks giving control of its technology to its partner. The firm may limit the likelihood of this threat occurring in two ways. Firstly, it may sign an agreement to hold majority ownership in the joint venture, which allows the firm to exercise greater control over its technology. A second alternative for the SME is to “wall-off” the technology that is central to the core competence of the firm, while sharing other technology with the partner company. (Hill 2009, 499—500.)

The third challenge to exercising a joint venture is that the shared ownership arrangement can lead to conflicts and battles for control between the investing firms; especially when their goals and objectives change or if their viewpoint on the strategy changes. These conflicts tend to be greater when the joint venture is between firms of different nationalities, and they often end in the dissolution of the venture. This occurs due to the foreign firm’s increase in the knowledge about the local market conditions, which decreases its dependence on the expertise of the local partner and ultimately leads to conflicts over control of the joint venture’s strategy and goals. If correct communication techniques are not used in joint ventures, it is likely that issues will arise concerning cultural differences and profit sharing. (Lee 2008, 47; Hill 2009, 499—500.)

When forming a joint venture in China, an SME invests a lot of resources into the process of forming the joint venture and successfully operating it. There is a high level of risk associated with forming a joint venture in the Chinese market. Companies that are seeking to pursue a joint venture in the Chinese market, should learn from the mistakes of past joint venture failures. The main failures associated with forming a joint venture in the Chinese market are often due to choosing the wrong partner, a lack of safeguarding intellectual property (later referred to as IP), a lack of managing talent, a lack of aligning priorities, and a resistance to respond to change. Many companies agree that choosing the wrong partner has been the primary reason for the failure of a joint venture in China. Companies should pair with local companies that explicitly share their strategic goals. The lack of safeguarding IP is very risky for an SME. Many SMEs that have formed a joint venture in China have noticed the issue of sharing technology with the partner company, which brings up concerns regarding IP. (Garcia-Castro 2009, 10; McKinsey & Company 2010.)

There are specific actions that SMEs should take in order to minimize the risk of failure in a joint venture. This also means minimizing the possible conflicts with the Chinese partner company. Formal governance is a key element to help avoid conflicts with the joint venture partner company. In order to minimize the risk of failure in a joint venture,

there are key aspects to take into account in the formal governance. First of all, this includes specifying in the contract what every party brings to the joint venture and ensuring that they act according to their promises. Second, specifying in the contract issues related to ownership and use of the assets. Third, specifying the timing of every partner contribution to the joint venture as well as their benefits. This is important in order to prevent a feeling of unfairness by one of the partners as one partner may benefit from the joint venture much earlier than the other. Fourth, specifying mechanisms of leaving the joint venture. This means establishing a protocol to transfer assets from the joint venture to the other partner at fair prices. Fifth, specifying adaptation mechanisms in the presence of external shocks. Sixth, in the case of China, it has been proven critical to ensure that the contracts protect the joint venture foreign partner from arbitrary decisions from local governments in Chinese provinces. Seventh, creating a relation of dependence between the foreign firm and the Chinese firm. It is necessary to create a relationship of dependence that lasts beyond the early stages of capital investment. (Garcia-Castro 2009, 10—11.)

In addition to the formal governance, trust building between the parties is a powerful way to avoid the risk of conflict in the joint venture. There are multiple stages that are associated with the trust building process. The first stage is gaining knowledge of the other partner prior to the joint venture. The second stage includes negotiations. In this stage the partners get to know each other. The negotiations can be narrow or wide. In the narrow negotiations partners only discuss the business details of the deal whereas, in the wide negotiations partners expand the business relations to include other personal data, such as family details. The third stage is interactions. In this stage it is important to think not only in economic terms but also in terms of fairness. A perception that one partner was contributing less than expected, could end the relationship before the partners wanted. Good communication and formal specifications eliminate the risk of miscommunication in the joint venture. The fourth stage concerns external events. China is still a dynamic and risky place to do business. Government authorities, especially the local ones, can act and decide arbitrarily, so it is of utmost importance to anticipate how a potential business partner may react under the presence of those potential events. (Garcia-Castro 2009, 11—12.)

## **2.2 The legislation and management structure of joint ventures in China**

In China, the approval process for a joint venture generally follows three steps (Chow 2015, 391). Figure 2 illustrates these three steps.

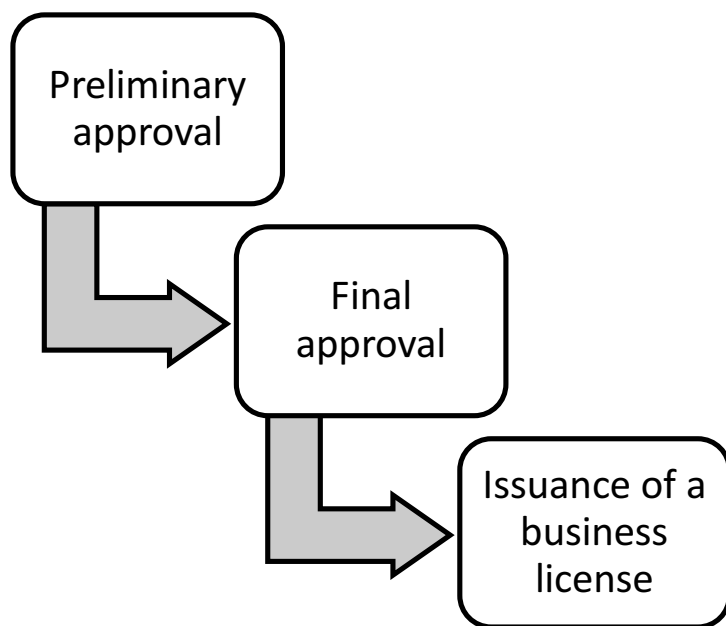


Figure 2 The approval process for a joint venture in China (Chow 2015)

As seen from Figure 2, the first step is the preliminary approval. This preliminary approval is conducted by the supervising department of the Chinese partner and by the appropriate level approval authorities. After this is the final approval by the approval authorities. Then finally, is the issuance of a business license by administrative authorities. Regarding the third phase, it is essential to obtain a business license by administrative authorities, because no enterprise in China can lawfully operate without one. The date of the business license becomes the date of the formal establishment of the joint venture. Unless there have been some irregularities in the approval process, obtaining the business license is a routine manner that usually takes several days or a week. Obtaining governmental approval and support is a critical factor in ensuring the success of a joint venture in China. A joint venture cannot be set up without government approval and cannot effectively run as a profitable business without official support. (Wang et al. 2003, 117; Chow 2015, 398.)

It is intriguing to point out that the Chinese government tries to encourage the formation of joint ventures with local companies in a variety of ways. In China, major sectors are reserved for local firms or joint ventures. This kind of encouragement by the government of China has been a powerful way to increase the amount of joint ventures in China over the past decades. Joint ventures are sometimes the only way to register in China if a certain business activity is still controlled by the government. There are actually many industries that are restricted, and hence the joint venture entry mode is the only option for foreign companies to access these specific industries in China. The Chinese authorities encourage foreign investors to use the joint venture form of entry, in order to obtain exposure to advanced technology and new management skills. In return, foreign investors



can enjoy low labor costs, low production costs and a potentially large Chinese market share. (Gomes-Casseres 1989, 18; Path to China, 2017.)

A joint venture consists of a board of directors, general manager and several deputy general managers. The board of directors has the highest authority in the joint venture and they decide all major issues. According to the Chinese law, the board of directors must consist of at least three directors, although most joint ventures have five to seven directors. The parties appoint directors to the board in proportion to their capital contribution, which also represents each party's share of the equity ownership of the joint venture. Under prior law, the Chinese partner was entitled to appoint the chairman of the board, but now either party can appoint the chairman, who also serves as the joint venture's legal representative. The board is required by law to convene at least once a year at a meeting presided over by the chairman. In addition to the board of directors, the joint venture has to establish a management office, consisting of a general manager and several deputy general managers, that conducts the day-to-day business of the joint venture. (Chow 2015, 399—400.)

Many foreign investors have discovered that conflicts with the local partner have hampered the success of the new company. Some foreign investors have found that they did not share the same goals, the same expectations, or the same management philosophies with their local partners. The first issue that numerous firms have faced is that the local partners have expected to earn profits and dividends immediately to satisfy their supervising departments; whereas foreign investors have generally led a longer time horizon for profitability and sought to reinvest dividends in the long-term development of the company. The second issue concerns price versus quality. While the foreign investor would seek to produce a higher quality product at a higher price, many local partners would prefer to produce a lower quality product at a lower price. The third issue was competition between the joint venture and the local partner. The local partner would use advanced technology from the joint venture to upgrade its own product to compete with the joint venture. Differences in expectations and management philosophies have led some foreign investors to seek arrangements under which they can exercise the bulk of management control over the joint venture. In addition to these issues, it is essential to determine the amount of control that each partner has in the joint venture. Control plays a central role in international joint ventures in China. Control is important for both implementing strategic objectives and achieving good performance. Foreign partners should evaluate their intended level of control in terms of their strategic intentions. Firms with advanced skills and resources can exercise more control over major functional areas, in order to improve their market power. The next section examines Guanxi in China, which is a central topic of this study, because the success of a joint venture depends to a great degree on the foreign company's capacity to adapt to the Chinese business culture. (Calantone & Zhao 2001, 19; Wang et al. 2003, 117; Chow 2015, 400—401.)

### **3 GUANXI IN CHINA**

#### **3.1 The definition and history of Guanxi**

China is a nation with a peculiarly relationship-oriented business structure. The term Guanxi (English translation: interpersonal relationship) is of immense importance in the Chinese business world, as it is one of the major dynamics of Chinese society (Luo 2000, 1). The concept of Guanxi has deep roots in Chinese history. Guanxi originates from Confucianism and dates back 2,000 years. Therefore, the practices of Guanxi are firmly rooted in Confucianism. (Braendle et al. 2005, 402.)

In China there is a long history that Guanxi, an indigenous Chinese construct of social relation or relationship, is considered a critical element for individuals' and institutions' success (Dou & Li 2012, 849). In order to truly understand the significance of Guanxi in today's business context in China, it is relevant to have an understanding of the history of Guanxi. Although Guanxi has been embedded in Chinese society for thousands of years, systematic research with scientific methods did not prevail until the middle of the twentieth century. In order to understand Confucianism, it is worthwhile to know the four ideals of Confucianism. The first ideal represents loyalty and reciprocity. The second ideal states that selfishness is a sin. The third ideal is an Eastern golden rule that says do not treat your parents as you would not wish your children to treat you. The fourth and final ideal represents proper conduct and orderly relationships. The fundamental Confucian assumption of human kind is that individuals exist in relation to others. The Analects of Confucius, which is regarded as the bible of Confucianism, endorses the definition of Guanxi based on people's social roles. Such Guanxi represents a series of hierarchical relationships within government, family, and community. The government's hierarchical relationship refers to emperor versus official, the family's hierarchy refers to father versus son, and the community's hierarchical relationship refers to elderly versus youth or even teacher versus student. (Chen & Chen 2004, 307; Crombie 2011, 9; Gong et al. 2013, 363.)

Following the establishment of the People's Republic of China in 1949, the social structure in China remained rather static for around 30 years. The Chinese Communist Party adopted the Marxist-Leninist principles and implemented a highly centralized economic system. Thus the economy of China was under the plan of the central government. This system offered jobs and benefits to those who worked for the state-owned organizations. Thus, the society followed a rigid hierarchical structure characterized by a highly centralized government, which meant that the market was practically non-existent. Operations of all industries were planned ahead of time by the central government. The allocation of human capacity was prescribed and the movement of personnel was controlled.

The central government controlled more than 90 percent of trade by monopolizing the imports and exports of over 3,000 kinds of commodities. The system ignored unique differences between individuals and managed them according to their roles in the organization. During this 30-year period, although Confucianism was harshly criticized, the Confucian instruction of regulating oneself to achieve higher ethical standard matched well with the depersonalization of one's role. This continued to guide people's behavior in maintenance of the role-based Guanxi. (Risso & Carrera 2012, 82; Gong et al. 2013, 364—365.)

China's reform and the opening policy that initiated in 1978 was inspired by a group of villagers in the Anhui Province, who decided to risk their lives to implement the household responsibility system. These villagers decided that they would be responsible for parceling out land to households. This does not sound extreme now, however at the time it was a fundamental change from the collective ownership and the top-down planning from the central government. Such innovative change would have never been implemented without the presence of the strong Guanxi network in the village. The leaders of the village relied on their Guanxi with other villagers and agreed that in case they were sentenced to death due to the reform, other villagers would take care of their offspring until they were adults. The well-known happy ending of this story was the start of China's reform and opening policy. China has gone through a series of economic reforms when its market opened to the outside world. These reforms have changed the rigid pyramid-shaped formal organizational structures at multiple levels of the society. People's social roles have been altered in unexpected ways. When radical changes occur, however, people's social roles became more complicated. Subordinates today may become business managers tomorrow. (Gong et al. 2013, 365.)

Through the reform and opening policy, China entered a period of dynamic economic and social change. The Chinese economy has changed from the Communist Revolution to the present period of openness and global integration. Today, businesses around the world are keen to invest into the Chinese market. China has also realized the importance of FDI to the nation. In January 2017, China's cabinet issued measures to further open the world's second-largest economy to FDI, which includes easing limits on investment in banks and other financial institutions (Reuters 2017). The government of China has focused on foreign trade as a major vehicle for economic growth. Ever since the economic reform and opening policy came into effect, China has recognized the need for learning from the outside world and has encouraged the formation of joint ventures in the nation. Even though Guanxi itself is not a sufficient factor that boosts performance, the importance of Guanxi among joint venture partners is recognized as a catalyst to the success of businesses. (Risso & Carrera 2012, 81—82; Gong et al. 2013, 366—367.)

There are similar cultural concepts to Guanxi in different parts of the world. In order to fully understand the meaning and depth of Guanxi, the next section compares Guanxi to two cultural concepts; South Korean Inhwa and Russian Blat.

### **3.2 Chinese Guanxi compared to cultural networking around the world**

In this section, two cultural concepts from around the world will be compared to Guanxi. This comparison is worthwhile, in order to understand the scope and depth of Guanxi as a cultural concept. Since the case company is South Korean, it is relevant to compare the Chinese business culture that revolves around Guanxi with the South Korean business culture that includes Inhwa. Even though it may seem as though the East Asian cultures share similar cultural concepts; there are actually significant differences. A cultural concept that has similar characteristics when compared to Guanxi is Russian Blat (Hutchings & Michailova 2004, 88—89). It is relevant to look closer at Inhwa and Blat and compare the similarities and differences of the cultural concepts to Guanxi.

Although East Asian cultures share a common emphasis on personal relationships as the foundation of business practices, the forms and values of these relationships differ significantly between Chinese and South Koreans. The Chinese think in terms of Guanxi, the special arrangements of favor-sharing that an individual has with other individuals; personal loyalties within such arrangements are more important than loyalty to an organization. South Koreans emphasize Inhwa, which relates to harmony between unequals and derives from the Confucian ideal of loyalty to parents, elders, and authority figures. Drawing from Confucian beliefs, the term Inhwa signifies the South Korean approach to harmony. As a collectivist society, consensus is an important element in promoting and maintaining harmony in South Korea. To avoid disturbing Inhwa, South Koreans will often reply with a positive answer and show reluctance to give direct refusals. In South Korean business culture, this manifests itself in an innate sense of loyalty, employee obedience, courteous and formal behavior. (Alston 1989, 26—29; Choong 2012, 185; Korea for Expats 2017.)

The term Inhwa in the business world, means that subordinates are loyal to their superiors and that superiors are concerned with the well-being of the subordinates. Because of Inhwa in the business world, the management style is categorized as “clan management,” a situation facilitated by the fact that many South Korean senior managers in a specific firm are related by family ties. In South Korea, personal relationships are essential for doing business, and they are usually established before the beginning of the business process. In order to be successful, it is vital to establish good personal relationships based on mutual trust and benefit. When establishing the personal relationships, it is very

helpful to be introduced by a mutual friend or acquaintance at the appropriate level. This is consistent with the Chinese business culture, in which Guanxi emphasizes the role of personal relationships and their significance in the business context. Although South Korea is regarded as one of the most internationalized countries in Asia, many South Koreans still keep their traditional culture at heart when doing business. This means that they follow the traditions, customs and practices that have been developed from their culture when doing business. (Alston 1989, 29; Choong 2012, 188—190.)

The Chinese legal system differs from the South Korean legal system, since the South Korean legal system is modeled on European systems with Anglo-American and Japanese influences. The South Korean legal system treats nationals and foreigners equally, whereas the Chinese legal system does not guarantee an impartial trial to a foreign national. A high degree of corruption has also been reported in China. The key point to make here is that Guanxi connections can affect the interpretation of the law in China, when that person has the right connections to government officials. In South Korea, *Inhwa* is a cultural concept. This means that *Inhwa* does not have the power to adjust the law. The legal system in South Korea is stable, and thus there are no gaps where personal relations have an impact on the outcome of the law. Guanxi can even overrule the law in China, however *Inhwa* is an element of culture in South Korea. The South Korean legal system overrules *Inhwa*. (Santander China 2017; Santander South Korea 2017.)

This study focuses on Guanxi, however one very similar cultural concept to Guanxi is *Blat* in Russia (Hutchings & Michailova 2004, 88—89). The most obvious but striking similarity between the Chinese and Russian cases is the very existence of idioms, Guanxi and *Blat*, to define the use of personal networks for getting things done. According to Michailova and Worm (2003, 509), both Guanxi and *Blat* have existed and been practiced for centuries and still remain highly relevant today. The primacy of personal relationships acquires a particularly important economic function when goods and services are scarce or difficult to obtain. This is exactly the case in Chinese Guanxi and as mentioned by Ledeneva (2008, 120), the same is true with Russian *Blat*. Making friends in the environment of shortages becomes a necessary survival strategy, which in turn makes the mutual obligation in personal relationships so strong that one feels obliged to engage and to use one's own Guanxi connections in order to help friends. Drew and Kriz (2014, 210) suggest that, the nature and practice of Guanxi is still very malleable and that, despite the presence of more formal politico-legal institutions, Chinese businesspeople would use Guanxi as a source of competitive advantage, particularly in times of scarce resources. (Ledeneva 2008, 120.)

Although *Blat* and Guanxi are phenomena anchored on the individual level, they become an important asset at the organizational level as personal relations are dedicated to and used by the organization. There is a widespread belief among Russians and Chinese that to succeed in business in their countries, personal networking and social connections

with the appropriate authorities or individuals are often more important than the price and quality of the product or service or the technological expertise offered. Russians and Chinese invest serious effort and considerable time into building personal relationships. These investments only pay off if the relationship can be sustained over a longer period. In conditions where there are shortages and a state system of privileges, the practices of Blat serve the needs of personal consumption and reorganize the official distribution of material welfare through an informal exchange of "favours of access" to state resources. Though Blat practices are often disguised by the rhetoric of friendship or acquaintance, and are expressed in terms of "helping out," they are exercised at the expense of public resources and continue a tradition of give and take practices in Russia. The next section examines business-to-government Guanxi, which is a very important element of Chinese Guanxi. In addition, the section looks closer at the role of contracts due to the weak legal system of China. (Michailova & Worm 2003, 511—512; Ledeneva 2008, 120.)

### **3.3 Business-to-government Guanxi and contracts in China**

Business-to-government Guanxi is extremely significant in the Chinese business world. Even though the government of China has enacted thousands of laws and regulations, none are completely enforced due to the role of personal interpretations, which are often used in lieu of legal interpretations. This means that the Chinese business can benefit from their connections to government officials, when there are gaps in the legal system. In China, the legal system is based on the Confucian philosophy of the social order by moral education. After the 1911 revolution, the Republic of China mainly adopted a legal code of Western type inspired by the German law. The establishment of the People's Republic of China in 1949 brought a Soviet system influenced by socialism. A tradition of constructive law does not exist in China and the first civil code has been dated from the beginning of the year 1980. As compared to the Western laws, it is written in a rather incomplete fashion, which leaves an important place for arbitrary judgements. The Chinese business environment is hence characterized by a weak legal system and strong influences of traditions, such as Guanxi. (Luo 2000, 312; Braendle et al. 2005, 389; Santander China 2017.)

In order to smoothly operate business in China, enterprises must deal with many government entities, which have influence over the related industry. Developing, cultivating, and expanding one's Guanxi has become a common preoccupation, as well as a form of social investment. Even though the government of China has enacted thousands of laws and regulations, none of them are completely enforced due to the role of personal interpretations, which are often used in lieu of legal interpretations. Strong personal connections and interlocking relationship networks have extremely powerful influences in

China. In some situations, relationships can actually take precedence over legitimate decisions based on laws or regulations (Braendle et al. 2005, 402). A web of strong personal relationships will help ensure smoother development of business in China. In Chinese society, Guanxi is a vital and special resource for businessmen because it can provide them access to a diverse range of resources. Although institutional environments have greatly improved, Guanxi is still an indispensable component of Chinese society's base configuration and the main body of business relationships. Most foreign businesspeople feel uncomfortable when working so closely with the government officials at an operational level. This is because most foreigners do not understand the important role of business-to-government Guanxi at every level of business in China. (Luo 2000, 312; Mukathe 2002, 67; Wang et al. 2003, 156; Dou & Li 2012, 910; Kuo 2014, 28.)

In order to understand the roots of business-to-government Guanxi, it is worthwhile to have a look at the history of China regarding their legal system. The economic reform took place in 1979 and before that there were no lawyers in China. China had not graduated a single lawyer since the 1950s, and many of these lawyers that were still around were either too old or indoctrinated with the ideas of class struggle to serve as conduits of a market economy. In the history of China, the law had merely a subsidiary function as a support of the Confucian ethics in that it contributed cruel punishments for violation of ethical principles and rewarded behavior in conformity with ethical order principles. Since the law had predominantly been connected with unpleasant things, including punishment or bureaucracy, the Chinese were not interested in it and viewed law with fear. Hence, a jurisprudence, similar to civil or common law traditions, did not emerge. China's legal system is still struggling with details of implementation. This means that the real problem lies in the interpretation and enforcement of the law. This leaves room for Guanxi connections to have an impact on how the Chinese law is interpreted. Confronting a weak legal system with a strong informal system of social interactions raises the question of whether a functioning corporate governance system comparable to countries with civil or common law is implementable. In addition, it is worthwhile to question whether China will be able to minimize economically detrimental corruption due to Guanxi and the legal system of China. (Braendle et al. 2005, 395—396; Lynch 2011, 537.)

From an organization's perspective, the desired result of Guanxi practice is to be beneficial for the organization (Gao et al. 2013, 367). A practical consequence of Guanxi is that personal connections and loyalties are often more important than organizational affiliations or legal standards (Luo 1997, 46). The majority of rules and regulations are still ambiguous and their enforcement is subject to the personal interpretations of government officials. Thus, the weak legal system of China leaves room for interpretations, which are strongly affected by the individual's or company's Guanxi connections. It may be said that when Guanxi is present, scarce resources are divided by connections rather than bureaucratic rules. According to Drew and Kriz (2014, 210), despite the presence of more

formal politico-legal institutions, Guanxi is a source of competitive advantage. In essence, Guanxi facilitates business dealings while formal bureaucratic rules often inhibit them. Chinese firms can circumvent bureaucratic handlings through personal networks, and this is what makes Guanxi so vital for the performance and survival of Chinese firms. Guanxi is a critical factor for firm performance in China by affecting the flow of resources and interactions of a firm with task environments. Business-to-government Guanxi can harm the weak Chinese corporate governance system and hamper its further economic development and growth. The role of Guanxi can be jeopardized by its dark sides. In the Western world, people tend to equate Guanxi with unethical behavior, corruption and bribery, gift-giving and fraud that stem from China's marketing economy. In this respect, Guanxi is viewed as a source of unethical behavior relating to nepotism and cronyism that result in under-the-table dealings or privileged treatment. (Luo 2000, 84, 105; Luo 2001, 465; Braendle et al. 2005, 389; Wan & Ng 2012, 36.)

The Chinese corporate governance system has three characteristics: it includes strong insider power, highly concentrated ownership of the state, and a weak legal system for shareholder protection (Braendle et al. 2005, 402). A relatively complete contract provides a sound basis for inter-partner cooperation, conflict resolution, and strategic resolution. The presence of concise contract specifications creates explicit rules for operations, which are necessary for enhancing superior efficiency of production and management processes. Many foreign investors are questioning whether commercial contracts play merely a minor role in the business transactions present in China. Contracts should be of enormous significance in high-risk projects, especially when firms participate in risk-taking activities that involve large resource commitment. Contracts should provide a binding framework that pre-specify each party's rights and responsibilities, govern subsequent collaboration, and control individual party's moral hazards. It is a mainstream assumption in the literature of Chinese business and management that obligations arise to a great extent from personal relationships; hence making commercial contracts only secondary in transactions. Guanxi becomes an asset on the organizational level as personal relationships are dedicated to and used by the organization. The next section examines Guanxi and cross-cultural business relationships. (Luo 2001, 457; Luo 2002, 129, 133, 144—145.)

### **3.4 Guanxi and cross-cultural business relationships**

Many Chinese people have developed extremely sophisticated skills that facilitate the development of interpersonal relationships. It is clear that the Chinese market cannot be tackled effectively today without paying due attention to the construction and maintenance of good Guanxi. Achieving harmony between the norms of foreign organizational



relationships and the norms of intercultural interaction in China is a challenging task for the business practitioners operating in the Chinese market. Guanxi is often seen as a barrier by foreign managers due to the exclusivity of Guanxi networks. It is almost impossible for a foreigner to become an insider in the Chinese Guanxi network. A question that foreigners often face in China is whether they should actively seek towards entering the Chinese Guanxi circle. Wang et al. (2003, 151) suggest that although it is very hard to gain access to the Guanxi circle as a foreigner, it is not impossible. The foreigner should never pretend to be a Chinese insider or act like a Chinese person. Instead, the foreigner should attempt to study the Chinese language, which will allow them to learn more about the Chinese culture. (Luo 2000, 246; Wang et al. 2003, 151; Gao et al. 2012, 461—463.)

It should be noted that China is continuously showing effort to develop in order to appear as an attractive target for FDI. According to Arvela (2011, 1—2), China is improving its business environment for foreign firms by strengthening its intellectual property (later referred to as IP) protection and enhancing its legal infrastructure. Personal relationships are still one of the most important factors in China influencing business conduct. Relationships and Guanxi actually take precedence over legitimate decisions based on laws or regulations. (Braendle et al. 2005, 402.)

It can even be said that Guanxi is a gateway in Chinese-Western business relationships (Gao et al. 2012, 461). Figure 3 illustrates this in more detail.

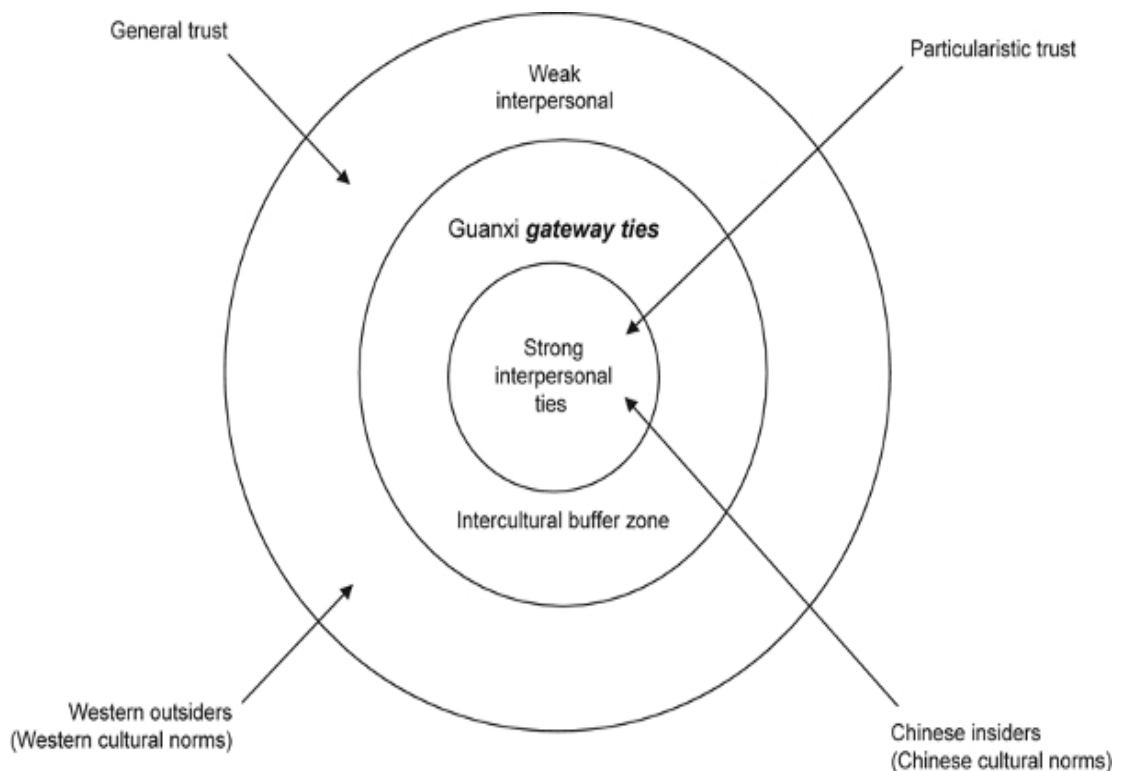


Figure 3 Guanxi as a gateway in Chinese-Western business relationships (Gao, et al. 2012)

Figure 3 illustrates the central role of Guanxi as a gateway in business relationships in China between the Chinese and the foreigners. In the heart of the multi-layered figure, lies the existence of strong interpersonal ties, in which region the Chinese insiders are present with particularistic trust. This core section is extremely exclusive, which means that it is reserved only for the true Chinese insiders. Foreigners will most likely never find themselves in this core section. The second layer from the heart represents the intercultural buffer zone, which acts as a Guanxi gateway tie. In this section, some foreigners with a strong Guanxi network are present. It is very hard for foreigners to manage their Guanxi in China, however some foreigners have over ten or fifteen years of experience in the Guanxi-centered business culture. These foreigners can make their way to this intercultural buffer zone. The third and outermost layer of the figure represents weak interpersonal ties, in which region the foreign outsiders are present with general trust. This is the section where most foreigners find themselves. The majority of non-Chinese businesspeople do not dedicate enough time to the cultivation and enhancement of their Guanxi network. This results in these foreigners ending up in the outermost layer. (Gao et al. 2012, 461—464.)

Some foreign business actors believe that they are market insiders once they build a presence in China; however, the foreign business actor must have a direct connection to a Guanxi insider, in order to effectively do business with the Chinese (Gao et al. 2012, 463). This means that it requires a lot of time and presence to actually form a valuable Guanxi network. Luo (2000, 2) adds that the Chinese have turned Guanxi into a carefully calculated science. According to Lee (2008, 48), Guanxi is a critical element of partner selection in joint ventures in China. Guanxi reflects highly complex social phenomena that are embedded in every aspect of personal and organizational interactions in China. The Guanxi network binds a countless number of Chinese firms into a social and business web. (Luo 2001, 474.)

Guanxi's role in the Chinese business world has been dramatically affected by international business trends because of China's rapidly increasing FDI (Wan & Ng 2012, 36). Guanxi remains a critical factor when making choices about whom to do business with in China. Suggestions that Guanxi will simply yield to more formal Western institutions as China modernizes should be tempered with a more comprehensive understanding of the antecedents of Guanxi. There is considerable debate concerning how fast China is moving toward a Westernized emphasis on the rule of law. Some experts in the field believe that global business forces will speed the transition as China's need for capital creates a demand for certainty. This suggests that China is undergoing changes influenced by Western legal procedures and concepts, and Guanxi's role is hence diminishing. Other experts in the field argue that Guanxi will gain even more importance in international transactions because it provides a more effective means of conveying trust than formal legal contracts.

The next section takes a closer look at the changing nature of Guanxi. (Dunfee & Warren 2001, 193; Wan & Ng 2012, 36; Drew & Kriz 2014, 210.)

### **3.5 The changing nature of Guanxi**

There are several reasons to question whether or not Guanxi is still strategically important. Guanxi has been largely exhausted because it is now widely understood outside of China. This means that it is not as exclusive as it once used to be, when it was only understood by the Chinese. Even though foreigners still have difficulties in accessing the inner circle of Guanxi, foreigners have nevertheless understood how Guanxi operates. As China increases its outward investment, consequently engaging with and frequently adopting aspects of Western business practice, one might argue that this may reduce the influence of Guanxi. This includes the impact of Chinese students studying in the US and then returning to China to form businesses with an American mind-set towards doing business. The American way of doing business is extremely fast-paced compared to the traditional Chinese way of doing business with the norms of Guanxi. Human resource management in China is being influenced by Western practices in several ways and one source of influence comes from both MNCs and international joint ventures. Moreover, China's move towards market liberalization and legal reforms are other factors that may also have an impact on the role of Guanxi, particularly in relation to Chinese management practice. (Wilson & Brennan 2010, 653.)

According to Wilson and Brennan (2010, 660), the role of Guanxi is still significant to SMEs that are forming joint ventures in China, however it is less critical to MNCs that are forming joint ventures in China. Establishing a well-functioning business-to-business Guanxi network can definitely be advantageous and helpful for an SME. Finetex EnE is an SME company, and hence it is still critical for the company to address the role of Guanxi. Even though Guanxi remains important for SMEs when doing business in China, a number of factors indicate that this importance may begin to decline. These factors include China's market liberalization, outward investment, and "Guanxi learning" on the part of foreign companies and online intermediaries. "Guanxi learning" refers to foreign businesspeople learning about the significance of Guanxi and the manners in which to grow ones Guanxi network in China. "Guanxi learning" suggests that Chinese people are losing the secrecy of Guanxi, as foreigners are beginning to realize the way to play the game when Guanxi is present. Ultimately, it is not Guanxi but rather the Western marketing concepts such as branding, high quality products and good marketing strategy that can make businesses successful in the Chinese market. This trend is accelerated when

information technology, especially the Internet, is used to develop a more open and transparent market system. (Braendle et al. 2005, 399; Wilson & Brennan 2010, 652, Wan & Ng 2012, 36.)

The difficulty in understanding the Chinese culture, combined with the complexity of handling governmental and legal issues, make market entry a complex undertaking even for wealthy and professional multinational companies. It is important for foreigners to understand and practice Guanxi if these non-Chinese companies or organizations want to enter the market and be successful in the Chinese market (Wan & Ng 2012, 36). Despite more than 30 years of economic reform in China, Guanxi remains a powerful force for doing business there. In this environment, business-to-government Guanxi does indeed have the power to even weaken the corporate governance system further and therefore harm China in its economic competition with other countries and hinder its economic growth potential. To simply describe Guanxi as “important” is perhaps a somewhat “dated” view of the concept. Chinese businesses face two major changes that are likely to diminish the emphasis on Guanxi. These are online intermediaries and Chinese outward investment. The next section summarizes the key components of the literature into the synthesis of international joint ventures and Guanxi in China. (Braendle et al. 2005, 402; Wilson & Brennan 2010, 654—662; Drew & Kriz 2014, 210.)

### **3.6 Synthesis of international joint venture formation and Guanxi in China**

In this theoretical synthesis chapter all the main blocks of the second and third chapter are put together, in order to form a framework of the theoretical issues discussed in this research. Figure 4 below illustrates the overall synthesis of the theory.

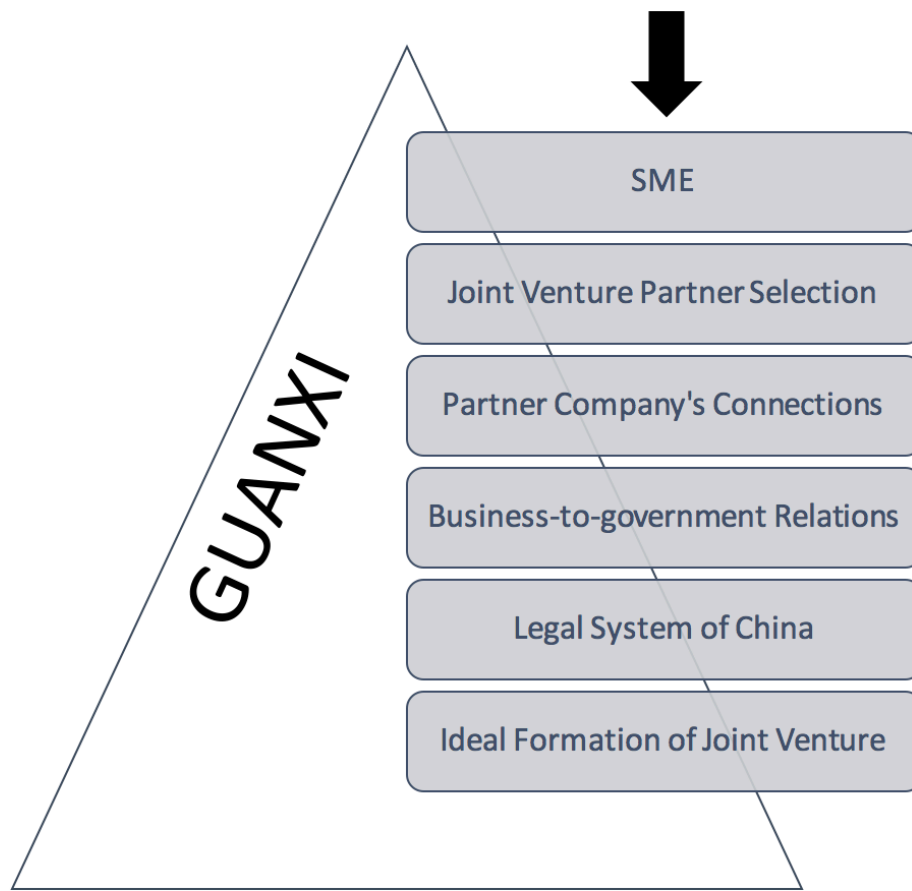


Figure 4 Synthesis of theory

Figure 4 illustrates the overall synthesis of the theory section, which forms this study's theoretical framework. Guanxi refers to the concept of drawing on connections in order to secure diverse favors in personal or business relations (Luo 2001, 455). In Figure 4, Guanxi is illustrated with the triangle that is present in every stage of the process. The process begins from the top and continues downwards. The first stage represents the international SME that is aiming to form a well-functioning joint venture with a Chinese partner company, to enter the Chinese market successfully.

The second stage represents the joint venture partner selection, which plays an extremely significant role in the ideal formation of the joint venture and its later success. Guanxi is a critical element of partner selection in China. The Guanxi network binds a countless number of Chinese firms into a social and business web (Luo 2001, 474). In order to become an insider in the Chinese Guanxi network, it is vital to be connected to the Chinese insiders (Gao et al. 2012, 461). This is why SMEs that aim to enter the Chinese market successfully, often form joint ventures with Chinese companies. Selecting the optimal partner for the joint venture in China is very critical and hence it is a time-

consuming process, which requires true patience and experience. If the ideal partner company is successfully selected, the international SME will be able to benefit from the Chinese partner company's connections. The ideal partner company has the appropriate Guanxi network and hence the SME can take advantage of the partner company's connections. This is represented in the third stage, partner company's connections. (Lee 2008, 48.)

China is characterized by a weak legal system and strong influences of traditions such as Guanxi (Braendle et al. 2005, 389). By selecting the optimal partner company, the SME may gain connections to the government officials. This is represented in the fourth stage, business-to-government relations. It is crucial to understand the role that Guanxi has as a path to favorable interpretations of the legal system. In China, the majority of rules and regulations are still ambiguous and their enforcement is subject to the personal interpretations of government officials (Luo 2001, 465). This is represented by the fifth stage of the process, the legal system of China. Once the SME has selected the optimal partner, it gains access to the partner company's connections, which ideally also includes government officials; and hence this can be a benefit to the SME, as the legal system of China is weak and there are room for interpretations. When all of these stages have been taken into consideration and have been successfully implemented, the SME has the prerequisites to form an ideal joint venture in the Chinese market. This is represented in the final stage, ideal formation of joint venture. The theory of this study and its synthesis have been covered and the next section will provide the research methodology of the study.

## 4 RESEARCH METHODOLOGY

This chapter presents the research methodology used to conduct this study. The methodology of this study is based on a qualitative single-case study. This study focuses on the formation process of a joint venture in China that is being formed by FT EnE. The first part of the section discusses why using a company as a case study is the optimal choice for this study. The second part describes the process of selecting the case company. The third part describes the data collection method, including how the interview questions were designed, how the interviews were arranged and how the data was transcribed. The fourth part reviews the data analysis approach. Finally, in the fifth part the trustworthiness of the study is evaluated by the following four criteria: credibility, transferability, dependability and confirmability.

### 4.1 Research approach

The main research question of the study was to examine *what is the role of Guanxi in international joint venture formation in China from an SME perspective*. In order to achieve the objective, three specific sub-questions were framed. These sub-questions are the following:

- 1) What is the role of Guanxi when selecting a joint venture partner in China in the joint venture formation process?
- 2) What is the role of Guanxi in business-to-government relations in China in the joint venture formation process?
- 3) What is the role of Guanxi concerning the legal system of China in the joint venture formation process?

The aim of the empirical part is to understand the topic in the real-life situation and then to attempt to either justify the existing theory or to build new theory on top of it. The researcher chose the qualitative research method, because it was seen as the most appropriate method for this study. Qualitative research often focuses on processes (Ghauri & Grønhaug 2010, 86). The researcher thought that qualitative research would be the optimal method to gain information regarding the topic of the study. It is a complex business issue that requires deep-diving into several different themes and finding answers to different questions concerning the topic. The focus of this study is on the formation process of the joint venture, hence the qualitative research method is ideal (Ghauri & Grønhaug 2010, 86). The researcher conducted a single-case study. Case studies go beyond the posing of covariational propositions, to providing explanations for causal relationships. In addition to strengthening the emphasis on causal explanation, there is also potential for

researchers operating within positivist traditions to be sensitized to context when theorizing from case studies. The reason for conducting a single-case study, was that the researcher was interested in deep-diving into the formation process of the joint venture in China. On many occasions, one case is sufficient, depending on the research problem and objectives (Ghauri 2004, 109). Researching greater numbers of cases, with the same resources, means more breadth but less depth. This means that having multiple cases will not necessarily make the study more comprehensive. This actually suggests that having a single-case allows the researcher to dive deeper into the analysis. (Ackroyd & Fleetwood 2003, 214; Welch et al. 2010, 17.)

## 4.2 Case company selection

The selection of the case company began in September 2016. The two main criteria for the company selection were:

- 1) The company had to be an SME; and
- 2) The company had to be in the process of forming a joint venture in the Chinese market.

The selected case company is a South Korean SME that focuses in the nanotechnology industry, Finetex EnE. The company's Canadian entity, FT EnE Canada Inc., is currently in the process of forming a joint venture with a Chinese partner company in China. The focus of the study is on the company, Finetex EnE. The company was founded in 2004 after a decade of research. The company specializes in producing nano-scale fibers and structures through their patented electrospinning process. Finetex EnE is headquartered in Seoul, Korea, with production facilities in Asia and North America.

The researcher chose to conduct a single-case study that looks closely at FT EnE's formation process of the joint venture. It is an ideal situation for the researcher, since the case company is right at the time of the research forming a joint venture in the Chinese market. The researcher decided to conduct several in-depth interviews, which provide an outstanding way to gather new findings. The interviews were with representatives of FT EnE (case company interviews) and also with experts of the Chinese market outside of the case company (expert interviews). The interviews were with four different people. Two of the interviewees are representatives of FT EnE and two of them are not involved with FT EnE. Hence, two of the interviews are case company interviews that involve specific analysis of the case company's situation. The other two are with experts of the field, outside of the case company. These expert interviews bring a diverse perspective into the study. The researcher believes that having a mix of both case company interviews and expert interviews around the same topic gives strong empirical research to the study.



### 4.3 Data collection

The advantage of using qualitative research for this study is that it takes all of the different viewpoints and practices from the interviewees into account. No possible answers are given in advance by the interviewer, which allows the interviewees to give their own opinions and perspectives of the phenomena. The aim of collecting data via interviews was to study people's experiences as seen from their own point of view, or the social construction of knowledge concerning the chosen topic. This research approach may even bring up some unexpected findings. One reason for the popularity of case study research is its ability to present complex and hard-to-grasp business issues in an accessible, vivid, personal, and down-to-earth format. In business research, in-depth interviews are often used as the primary source of empirical data (Eriksson & Kovalainen 2008, 81, 116, 125).

Primary data was collected through interviews, because it was seen as the strongest source of information regarding the topic of the study. Even though this is a case study, the researcher wanted to interview experts outside of the company as well, in order to get a broader perspective into the study. The researcher believes that having different viewpoints makes the study rich in data and beneficial for both the case company and other companies that are forming joint ventures with Chinese companies. Preparing for data collection can be complex and difficult. If not done well, the entire case study investigation can be jeopardized and all of the earlier work will be useless. The researcher thought that it was necessary to collect information about the interviewees beforehand, in order to make the interviews as smooth as possible. In addition, the researcher decided to ask a few questions about the interviewees' backgrounds in the early phase of the interviews. (Yin 2003, 57.)

The interview process began by selecting and contacting the interviewees, which was slightly difficult because the interviewees travel a lot for business. Before contacting the interviewees, it was important to study the material connected to the interviewees. This was done, in order to make the interview as efficient as possible. Since the study focused on FT EnE, it made sense to contact the company's management and discuss the topic and decide on potential people to interview from the company. This thesis was conducted through five interviews. All of the interviews were conducted in English, because all of the interviewees are fluent in English. The names of the interviewees, their titles, and whether they are involved with FT EnE can be seen from Table 1. In addition, the duration, the date and the form of the interviews can be seen from Table 1.

Table 1 Interviewee information

Name	Title & Organization	Duration of Interview	Date of Interview	Form of Interview
Case company interviews				
Mr. Park	CEO, FT EnE	Two e-mails	February 7-8, 2017	E-mail
Mr. Luukkonen (two interviews)	Sales & Marketing Director, FT EnE	1. 27 minutes 2. 15 minutes	1. October 24, 2016, 10am 2. February 14, 2017, 10am	1. Face-to-face 2. Phone call
Expert interviews				
Mr. Puhakka	China market Consultant, not involved with FT EnE	30 minutes	February 15, 2017, 10am	Phone call
Ms. Lukkarinen	China market expert, not involved with FT EnE	30 minutes	February 24, 2017, 4pm	Phone call

As seen from Table 1, the people that were interviewed from the case company are CEO Park of FT EnE, and Mr. Luukkonen, Sales & Marketing Director of FT EnE. In addition, two experts of the field were interviewed. Mr. Puhakka is a consultant with a very broad experience from the Chinese market. Ms. Lukkarinen is an expert in the Chinese market. She is currently leading the China market expansion for a Finnish software company.

CEO Park is South Korean and lives in Canada. He is a Doctor of Chemical Engineering. In 2005, he founded Finetex EnE. As the CEO of the company, he has a major role in the risk-taking and investment aspects of the business. The researcher thought that it would be interesting to interview him, especially concerning the risk involved in investing into the Chinese market through a joint venture.

The Sales & Marketing Director of Finetex EnE, Mr. Luukkonen, is Finnish and currently travels a lot to China and North America. Mr. Luukkonen's background is in the paper chemicals industry, as he has worked for a Finnish paper chemicals company. In the late 90s and early 2000, the Finnish chemical company founded a joint venture in Korea, where Mr. Luukkonen eventually ventured on all kinds of research programs. One of these research programs was electrospinning. Eventually, this joint venture was dismantled, due to the fact that the company was sold to Ciba Specialty Chemicals. The

specific electrospinning project was bought by the joint venture partner, a South Korean man named Mr. Park. At that time, Mr. Park also established the company, Finetex EnE, and Mr. Luukkonen joined them in 2005. Finetex EnE has now been around for around 11 years. Mr. Luukkonen is strongly present in the formation process of FT EnE's joint venture in China. He has first-hand knowledge about the formation process and the details regarding the situation of the joint venture with the Chinese partner company. Since Mr. Luukkonen is strongly involved in the formation of the joint venture, the researcher thought that it would be ideal to interview Mr. Luukkonen twice during the study, with circa four months between the two interviews.

Mr. Puhakka is not involved with Finetex EnE. The researcher felt that it would be truly interesting to interview him and hear his experiences of Guanxi and joint venture formation in China. This adds value to the study, as the findings from the case company interviews can be compared to the expert interviews. Mr. Puhakka is Finnish and has been active in China since about 2004, working in various roles, as a consultant and an investor. During the 12 years that he has been active in China, he has worked with early stage companies that are Chinese, foreign companies that are both start-ups and larger ones that are seeking presence in China, larger Chinese companies that are looking to bridge over to Europe or US, and with a number of government agencies; such as business councils and Chambers of Commerce.

Ms. Lukkarinen is not involved with Finetex EnE either. Her background is in International Business, with a focus on the Chinese market. She works for a Finnish software company, which does work-place development and real-estate management software. She's been leading the China market expansion and localization of their software to the Chinese market. Ms. Lukkarinen did her Master's Thesis regarding Finnish-Chinese joint ventures in the software industry. Due to her expertise in the Chinese market and her knowledge of the Chinese language and culture (Guanxi), the researcher wanted to interview her as part of the study. These expert interviews bring a variety of perspectives into the study. They also allow the researcher to analyze the topic from different viewpoints, in order to conduct a rich and meaningful study.

In the first interview with the Sales & Marketing Director, Mr. Luukkonen, there were altogether three main themes and 12 main questions that corresponded with the theoretical themes that are relevant to this study (see Appendix 1). In the second interview that was with CEO Park, there were three main themes and 7 main questions (see Appendix 2). In the third interview with Mr. Luukkonen, there were altogether three main themes and 8 main questions (see Appendix 3). In the fourth interview with consultant Puhakka, there were three main themes and 12 main questions (see Appendix 4). In the fifth interview with Ms. Lukkarinen, there were two main themes and 7 main questions (see Appendix 5).

The main questions were rather open; however, they were followed by more precise questions. This allowed the interview to flow like a conversation; however, it still ensured that the critical sub-questions were covered. In addition, the interviewer made sure to add appropriate clarifying questions during the interviews. When the interviewee felt that a specific question was already answered in another question, she removed particular questions and instead made clarifying questions and comments throughout the interview. The order of the questions was also adjusted during the course of the interview, in order to ensure that the conversational flow of the interview continued.

The interview questions were designed by the researcher and the supervisors of the study added comments to these questions. Some questions were added and modified on the basis of the supervisors' comments. The following table shows the operationalizing table.

Table 2 The operationalizing table

The research question	The sub-questions	The main themes of the interviews
What is the role of Guanxi in international joint venture formation in China from an SME perspective?	What is the role of Guanxi when selecting a joint venture partner in China in the joint venture formation process?	Guanxi & business culture of China.
	What is the role of Guanxi in business-to-government relations in China in the joint venture formation process?	Official contracts between the parties & risk associated with joint ventures.
	What is the role of Guanxi concerning the legal system of China in the joint venture formation process?	Legislation of China regarding international joint venture formations.

As seen from Table 2, there are three sub-questions and each of these sub-questions have particular themes that the interview questions concern. The first theme relates to Guanxi & the business culture of China. The second theme relates to official contracts between the parties & the risk associated with joint ventures. The third theme relates to the legislation of China regarding international joint venture formations.

Theme interview (also known as semi-structured interview) was chosen as the data collection method, because it gives flexibility to the researcher. This means that during the interview, it is possible to add clarifying questions, change the order of questions, and

also repeat appropriate questions (Jyrinki 1977, 12). In all of the interviews, the questions had been planned out by the researcher beforehand. These planned questions gave a clear structure and frame for the interview, however the researcher added appropriate questions throughout the interviews and also removed questions that had already been answered earlier. Theme interviews are good for keeping the atmosphere more conversational. This type of interview format means that the interviewer sets up a general structure by deciding in advance the ground to be covered and the main questions to be asked. The detailed structure is determined freely during the interview, and the person being interviewed has a fair degree of freedom in what to talk about, how much to say, and how to express it. Semi-structured interviewing is a very flexible technique for small-scale research. (Drever 1995, 20—23.)

Interviews can be defined as conversations with pre-determined purposes. Interviews, however, differ from conversations in many ways. Through an interview, the researcher attempts to collect information, hence it is an action that is planned and pre-determined. The researcher had a clear vision in mind regarding the topics of the interviews. These topics were consistent with Table 2, the operationalizing table. According to Eskola and Suoranta (1998, 86), an interview is a dialogue in which both the interviewer and the interviewee have an effect on each other. The interviewer can make sure that there are no disturbances during the course of the interview (Jyrinki 1977, 11). The interviewer did not notice any disturbances during the interviews, which was ideal for the success of the interviews. Even the interviews that were done via a phone call were very smooth and there were no issues with technology. (Hirsijärvi & Hurme 1995, 30.)

The researcher decided to first interview the Sales & Marketing Director of the company, Mr. Luukkonen, for the case study. This choice was due to the fact that he was in Finland at the time, which allowed the researcher to interview him in the same location, instead of interviewing him with digital forms of communication. It was good to meet face-to-face to discuss the study and then to interview him. It made the atmosphere very conversational, which was beneficial for the authenticity of the answers in the interview. In addition, since the researcher planned to interview Mr. Luukkonen twice, it made sense to have the first interview with Mr. Luukkonen at the early stage of the study. Mr. Luukkonen is strongly involved in the joint venture formation process, and thus he has a significant amount of knowledge regarding this specific process.

In the second interview with Mr. Luukkonen, it was extremely interesting to hear how the formation process had proceeded during the four months. It was also very intriguing to get further insights into the current situation. For both parties, the interview procedure was very straightforward. Even though this interview was conducted via a phone call, the researcher was able to realize the interviewee's tone of voice and also the technology functioned very well. The researcher recorded the interview with two devices, just to

make sure that the recording was of good quality. Both of the recordings turned out well, so the researcher only kept one of the recordings for transcription purposes.

The interview with the CEO of Finetex EnE, Mr. Park, was done via e-mail as seen from Table 1. He lives in Canada and due to the time zones, it was rather impossible to set up an interview through a phone call. He has interesting insights regarding the risks involved in investing into the Chinese market, which made it very worthwhile to interview him for the study. As the CEO of the company, he is the one to face the decisions regarding where to invest and how to conquer a specific market.

The researcher wanted to interview a consultant that was not involved in FT EnE's joint venture formation process, in order to get a more varied perspective into the study. By interviewing experts outside of the case company as well, the researcher could compare the findings from the case company interviews with the expert interviews. The researcher believes that a combination of both case company representatives and experts outside of the business provides the ideal combination for tackling the research problem of this study.

Mr. Puhakka has strong experience from the Chinese market, so it was extremely interesting to hear his views on forming a joint venture in the Chinese market. He had a lot of interesting experiences to share about doing business in the Chinese market. It was very beneficial for the researcher to interview a consultant with such a broad experience from the Chinese market. Mr. Puhakka advised to also contact Ms. Lukkarinen, who has experience from the Chinese business culture.

Ms. Lukkarinen has studied in China and speaks fluent Chinese. She currently works for a Finnish software company and is leading the China market expansion and localization of their software to the Chinese market. She is not involved with FT EnE; however, she has strong expertise of Guanxi. Ms. Lukkarinen also did her Master's Thesis about the Chinese market. It was very beneficial to hear her insights regarding Chinese Guanxi and the role of foreigners in the Guanxi circle. Due to her knowledge of the market, culture and the Chinese language, she was able to give interesting insights into the study.

The atmosphere of the interviews was conversational and professional, which made the flow of the interviews very optimal. All of the interviews went fluently without any technical difficulties. The idea of the interview is to gain information by asking questions from the interviewee. Interviews are more conversational nowadays compared to the traditional ideology of an interview, in which the interviewer simply asks questions from the interviewee. The researcher's experience from the interviews matched the theory presented by Eskola and Suoranta (1998), since the interviews were much like conversations. The interviews were recorded and the researcher informed the interviewees about this before starting the interviews. The recordings were done to ensure that the researcher could listen to the interviews over and over again to make sure that the transcriptions were

done right. Another reason to record the interviews, was so that the researcher could clarify specific details from the recordings and the transcriptions. The researcher did not take detailed notes during the interviews, since it would have disrupted the conversational flow of the interviews. (Eskola & Suoranta 1998, 86.)

#### **4.4 Data analysis**

The purpose of data analysis is to summarize the collected data into a useful package of information. In the data analysis section, it is critical to keep all of the actual information in value and to provide some new information about the aspects that are studied. Once the interviews were recorded, the files were uploaded to the researcher's computer. This allowed the researcher to transcribe the interviews. The transcriptions were done by the researcher before the data analysis. In order to guarantee the accuracy of the transcriptions, the tape record was listened to several times. Each transcription was done right after the interview, since the ideas and conversation were fresh in the researcher's mind. The researcher thought that it was efficient to do the transcriptions immediately after the interview, since it awakened new thoughts and ideas to consider in the study. All of the interviews were transcribed. Since the interview with CEO Park was via e-mail, the interview was already in written format. (Eskola & Suoranta 1998, 138.)

Coding is a very common technique for data analysis. The coding technique categorizes the data into concepts and themes (Ghauri 2004, 118). According to Eriksson and Kovalainen (2008, 128), in case study research, preplanned systematic coding is most often used when the research is grounded in existing theory and attempts to improve the theory, or to test it. The researcher decided to use coding as the technique for data analysis for all of the interviews. She used different colors to determine different theoretical themes. The researcher marked everything concerning the first theme of the operationalizing table, Guanxi and the business culture of China, in purple. Everything regarding the legislation of China regarding joint venture formations in blue. Finally, everything that concerned official contracts between the parties and the risk associated with joint ventures was coded in red. This allowed the researcher to realize patterns in the interviews and to see which parts of the interviews were related to each of the themes.

In this specific research, the codes were based on the theoretical themes, which were also included in the questions of the interview. At this stage the researcher analyzed the differences and the similarities between the theory and the interview data. This awakened ideas and patterns between the theory and the interview material. In addition, the researcher noticed aspects that came up during the interviews that were not strongly mentioned in the theory. This may be due to the fact that the literature has not fully covered these aspects, since they are very recent changes that relate to the Chinese business culture

and entrepreneurship driven businesses in China. The researcher was able to find some literature concerning these aspects, however the theory that was found did not thoroughly cover the changing environment of the Chinese business culture. The researcher realized that the insights from the interviews were extremely interesting, as these insights are so new that theoretical sources do not cover these phenomena in detail. These differences between the theory and the empirical research allow the researcher to get an opportunity to update and extend the theory. Similarities between the theory and the empirical research are evidence to verify the existing theory.

#### **4.5 Trustworthiness of the research**

According to Eriksson and Kovalainen (2008, 294), in their seminal work, Lincoln and Guba (1985) substituted reliability and validity with the parallel concept of trustworthiness containing four aspects as ways to assess qualitative research. These four aspects are credibility, transferability, dependability, and confirmability. In the following sections, the study's credibility, transferability, dependability and confirmability are discussed.

When assessing the study's credibility, the researcher followed the assisting questions that have been determined by Eriksson and Kovalainen (2008, 294). These questions are, whether the researcher has familiarity with the topic and whether the data are sufficient to merit the claims; whether the researcher has made strong logical links between observations and the categories; and whether any researcher can come relatively close to these interpretations or agree with these claims, on the basis of this materials.

In this study, the researcher made sure to study appropriate material prior to conducting the empirical study. The topics were well-researched before the interviews and further research was done to enhance the information throughout the course of the study. The researcher gained information about the case company from their website and from material that she had received from the case company prior to the case company interviews. In addition, she researched the process of electrospinning, in order to be more aware of the company's value proposal and their competitive advantage in the nanotechnology industry.

The links between the observations and the categories were strong, since the researcher justified them and also gave reasoning for all of the links that had been made. In addition, other researchers can come relatively close to the interpretations made in this study, because all of the material is presented clearly and the empirical data is available in full-depth. According to Lincoln and Guba (1985), it is not possible to understand any phenomenon without understanding the context in which it is embedded in. The researcher studied the theory concerning SME's joint venture formation in China. In addition, the researcher looked closely at the cultural concept of Guanxi.



Credibility was added by the fact that the researcher has lived around 10 years in Asia. This study focused on China, so the knowledge of the culture and fluency of the language increased credibility. Credibility in the study is also present, because the interviewees speak very openly during the interviews. This implies that they are telling the truth. The interview via e-mail with CEO Park was consistent with the information provided by Mr. Luukkonen in the interviews. All of the interviews consisted of very open communication. The choice of language as being English in all of the interviews is optimal for the interviewees and the interviewer. This can be observed from the flow of the interviews. The written responses from CEO Park were also very fluent and well-written, which shows that the English language was a strong selection for the interviews. The interviews were recorded, which adds credibility, as the researcher was able to listen to the interviews over and over again. The researcher has also enhanced credibility in the study, since the operationalizing table was introduced in the study and the interviews followed that structure.

A weakness regarding the study's credibility, is that the study was conducted in Finland and it was not conducted in the origin of the joint venture. If the researcher would have been present in China during the formation process of the joint venture, it would have allowed the researcher to analyze the setting of the joint venture and also examine the role of the Chinese partner. Being able to get an understanding of the phenomena from the Chinese partner's perspective would have also added credibility to the study.

Transferability is a second aspect of trustworthiness. This is concerned with the responsibility to show the degree of similarity between the research, and other research, in order to establish some form of connection between the research and previous results (Eriksson & Kovalainen, 2008, 294). The researcher has introduced the case company in detail, to ensure that transferability is increased in the study. The information about the case company is presented clearly throughout the study, which also enhances transferability. Transferability is ensured when the results can be transferred to other empirical and theoretical contexts (Lincoln & Guba 1985, 297). The theoretical framework is the basis of transferability in this study. On the basis of the theoretical framework, the interview themes were created. These are consistent with Table 2, the operationalizing table.

Dependability is the third aspect of trustworthiness. This is concerned with the responsibility of offering relevant information to the reader. This also includes that the process of research has been logical, traceable and documented. All of these activities establish the trustworthiness of the research. In this study, the research problem was clearly outlined and defined, and the research design embraced the research problem. The approach was selected to be a case study, as this was appropriate for the research problem. The case company was carefully selected with clear criteria, in order to increase dependability. The company had to meet the criteria, in order to be selected as the case company for this study. In all of the interviews, the interviewees openly discussed the different themes of

the study. The interviewees openly communicated with the researcher, and thus there was a sense of trust present during the interviews. The findings were concluded from the empirical evidence in a clear structure to enhance the dependability. The case study database was developed from the recorded data and from the e-mail. (Eriksson & Kovalainen, 2008, 294.)

Confirmability is the final aspect of trustworthiness. According to Eriksson and Kovalainen (2008, 294), this refers to the idea that the data and interpretations of an inquiry are not just imagination. Hence, it is about linking findings and interpretations to the data in ways that can be easily understood by others. The researcher focused on addressing this key link between the findings and interpretations to the data, in order to ensure that it can be easily understood by others as well. The researcher focused on elaborating the details regarding the case company and the process of forming a joint venture in China. Some of the details were already obvious to the researcher, however she wanted to address these clearly in the study, in order to maximize the confirmability of the study. Confirmability refers to the fact that the same kind of findings could be corroborated by other researchers (Lincoln & Guba 1985, 319). The logic between inferences and the data was checked in this study. The researcher believes that other researchers would be able to corroborate similar findings from the research, because all of the findings were concluded from the empirical data, which was presented in a clear manner. There is no hidden or secret information, so all of the empirical data is presented clearly in the study. This allows other researchers to corroborate similar findings from the research. Another factor that adds confirmability is that the researcher focused on one case company and really analyzed that particular company in depth. In addition to the case company interviews, the researcher gained information about the company from their website and from material regarding their technology. She also studied the process of electrospinning, in order to be more aware of the technological strengths of the company. The researcher also researched the nanotechnology industry, to understand more about the players in the market and the scope of the industry.

In summary, the researcher has attempted to enhance the trustworthiness of this study in numerous ways. The four criteria put forward by Lincoln and Guba (1985) for evaluation of qualitative studies have all been discussed by the researcher. The researcher has openly discussed both the strengths and the weaknesses of this study and has attempted to strengthen the study in terms of its credibility, transferability, dependability and confirmability). The next section examines the findings and discussion of this study.

A weakness of this study is that it was conducted in Finland, instead of Asia. Since the researcher speaks Mandarin Chinese, it would have been extremely interesting to interview a local Chinese representative at the location of the joint venture. This would give a broader understanding of the atmosphere and situation of the joint venture formation to the researcher. Conducting the research from the other side of the world made it slightly

more challenging, as the researcher had to rely on the insights provided by the interviewees, instead of personally gaining insights from the location of the joint venture.

## 5 FINDING OF THE STUDY

### 5.1 Introduction of the case company

The case company of this study is Finetex EnE. This company is recognized as the best in class nanofiber company worldwide. With a focus on people and the environment, Finetex EnE strives to create the best environmentally friendly energy equipment. The company also aims to incorporate nanofiber applications to the everyday lives of people. This is deeply rooted in Finetex EnE's strong belief in survival and continuous improvement to maintain the leading position in the ever-changing environment and market. Through the company's cutting edge proprietary technology, the company aims to propel in order to earn a strong international role, including respect and recognition. (Nanofiber Technology 2016, 3; FT EnE 2017.)

During this study, FT EnE is forming a joint venture with a Chinese company (referred to as Company C). The negotiations concerning the joint venture with Company C began in July 2016. Company C's turnover in 2016 was 700 million USD. FT EnE had been in China for the past four years prior to forming this joint venture, so they already had an understanding of the players in the market. Company C also has two other joint ventures: one with an Italian company and another with a South Korean company. The joint venture with the Italian company had already been running well for around seven years. Since Finetex EnE is a South Korean company, it made sense for them to contact the other South Korean company and ask them about their experiences regarding the joint venture with Company C. The South Korean company told FT EnE that it had been smooth for five years, which gave FT EnE the confidence to select this particular Chinese company as their joint venture partner.

At the time of the study, the memorandum of understanding (later referred to as MoU) has been made and it is being translated into Chinese. The MoU is a document that expresses mutual accord on an issue between two or more parties (Business Dictionary 2017).

*“We have agreed the main points about the joint venture formation, so we have basically done the MoU and now it is under translation to the Chinese language.”*

(Mr. Luukkonen, Sales & Marketing Director, face-to-face interview, 24.10.2016)

In principle the concept of the joint venture has been agreed on. FT EnE and Company C will have a joint venture, which sells filtration materials in China and most of the usage

is captive usage, so the filtration media goes to the filters and these filters are all produced in-house. This joint venture is not directly involved in the filter-manufacturing; however, it supplies these products solely to another company that is making the filters. In the joint venture, there will also be a third partner who will provide the basic raw materials. This basically covers the whole value chain from the basic raw materials up to the final product. To briefly explain this, it is filter production and filter housing, mostly to the automotive industry, heavy duty vehicles and also for the heating and ventilation systems; such as air purifiers. Company C is the second largest manufacturer of this type of automotive filter housing, providing all of the elements to the cars in China.

According to CEO Park, the advantage for FT EnE to form a joint venture in China is the combination of strong growth potential and untapped investment opportunities. FT EnE is confident that the joint venture entry mode is the ideal strategy for them to secure their share of the market in China. FT EnE knows that they will not get 50% of the Chinese filtration media market, but they are targeting for 10% of the filtration media market. This target is possible, since they have total control of the value chain and they are partnering with a strong Chinese company.

*“We think that we should be ok for the next ten years with this arrangement and with this structure. If you want to import something into China, it is always about 30% duty, so when we produce all of this in China, we can avoid that.”*

(Mr. Luukkonen, Sales & Marketing Director, Phone call, 14.02.2017)

FT EnE believes that producing in China is the optimal strategy for them, because they can avoid the import taxes and duties. FT EnE will mostly operate in the Chinese market, but they will also use the plant to produce products, like face masks, which are a completely separate business.

The joint venture formation process is proceeding well according to the case company interviews. FT EnE's expectation in this joint venture is that they will at least secure their share of the Chinese market. There is a high degree of clarity of the concept to both parties, meaning that FT EnE and Company C have clearly communicated about the international joint venture's business concept. There is very little room for any misunderstandings. Since the joint venture is at the formation stage, there have not been any disagreements yet. Possible disagreements concerning the space and allocation of responsibilities may occur when the joint venture company is building the factory.

## 5.2 The role of Guanxi in joint venture partner selection in China

According to the empirical data interviews, the network of the joint venture partner company played a critical role in the choice of partner company for FT EnE. Even before selecting the Chinese partner company, FT EnE knew that Company C was very active in China and they had been growing very fast, so basically they already had a good name and reputation in China. FT EnE thus felt that Company C was a strong choice for them and decided to form a joint venture with them. Company C has a strong Guanxi network, which FT EnE can benefit from in the Chinese market.

When forming a joint venture in the Chinese market, it is critical to get to know the partner company beforehand. Getting familiar with the partner company was done by FT EnE visiting the partner company five times during a year and a half. In addition, FT EnE's Chinese consultant visited them almost every second month. This is tied to the importance of communication with the partner company. One of the points mentioned by Mr. Luukkonen is the importance of clear and direct communication with the Chinese joint venture partner. This is directly in line with Lee (2008, 47), as he emphasizes the likelihood of issues arising related to cultural differences and profit sharing, if correct communication techniques are not used in joint ventures.

FT EnE strongly thinks that Company C has been a strong selection so far. CEO Park emphasizes that it is due to the uniqueness of China's culture and business practices. Mr. Luukkonen explains that the reason for this is because in this partnership they can cover the whole value chain — starting from the base materials up to the final product. They thus have strong control of the entire process.

*“It is beneficial to have a local cooperative partner to protect our interests, investments and to ensure a successful positioning of our company in the competitive market.”*

(Mr. Park, CEO, e-mail, 08.02.2017)

This means that the role of Guanxi in the partner company selection is to find the ideal cooperative partner to protect FT EnE's interests and investments. It is thus extremely vital for an SME to find the ideal partner company when forming a joint venture in China. The literature concerning the partner company selection in the joint venture formation process is similar to the findings from the case company interviews.

According to the expert interviews, it is very difficult to select the partner company for a joint venture in China. Doing due diligence and finding out who the partner company really is requires a lot of work and is rather challenging. Doing the contracts with the joint venture parties is also very demanding.

*“Most likely you will get so far that you identify the partner that you like, but then one of the hurdles is the contracts. There are Chinese best practices and there are Western best practices – and they don’t always mean the same thing. I know it’s at least mentally very difficult to put your name on a contract where you don’t understand a single word of what’s being said. And that is the contract that is going to be respected if there is a disagreement.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This means that in addition to finding the ideal partner for a joint venture in China, it is also challenging to do the contracts in a way that both parties are on the same page. Getting the understanding that both parties are working towards the same goal through the same mechanisms is difficult. It is also challenging to get everything essential written down on paper in an environment where two contracts are needed: one in Chinese and one in English. Even when all of the negotiations are complete and everything is down in writing, the ideology of business agreements in China is very different from what Westerners are used to.

*“In the Western countries, it’s typically word-for-word, so the business agreement states that this is what we will do. In China, it’s more of a firm indication that we will do business together.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This means that the form of the business might still be alive and change. Consultant Puhakka feels that it is understandable to a certain degree. This is because the environment in China is extremely dynamic, meaning that everything constantly changes. It is very hard to write things down, because that means that there is no freedom for changes due to the external environment. If the company adjusts according to the changes in the environment, then it raises issues from the control perspective. If the foreign company’s management is sitting in Helsinki, London or New York, then they do not want things to change once the contract has already been made.

From a practical point of view of running the business, it is beneficial for the management of the foreign company to be in China. If the management of the foreign company is on-site in Beijing, Shanghai or Hangzhou, then they are able to make changes according to the environment and industry. The business would otherwise die or it would at least suffer, without these required changes. It is thus very hard to find a good balance, where the company can react to the demands of the market and still respect the contract.

### 5.3 The importance of the Chinese partner company's connections

It is extremely difficult for foreigners to develop a strong Guanxi network in China. Some foreign business actors believe that they are market insiders once they build a presence in China; however, the foreign business actor must have a direct connection to a Guanxi insider, in order to effectively do business with the Chinese. (Gao et al. 2012, 463.)

Company C's connections have been very beneficial for FT EnE. Company C has, for example, arranged the backwards integration to the raw materials.

*“Securing and maintaining the right connections in China is necessary to ensure that our issues and concerns are addressed properly without delaying any business opportunities.”*

(Mr. Park, CEO, e-mail, 08.02.2017)

FT EnE has experience of the Chinese way of doing business, which is evident from the quote above. FT EnE also has a consultant with Chinese origin assisting in the joint venture formation process. She is now living in USA, however she was born and educated in China. The consultant speaks fluent Chinese and knows the market very well, including the different players. The consultant will continue working with FT EnE until the joint venture is operating. It has been very beneficial for FT EnE to have a Chinese consultant in the joint venture formation process, partly due to her strong Guanxi network. She went to the technical university in Beijing, so she has a lot of important contacts in the joint venture from studying together with them in university.

The findings from the case company interviews are consistent with the findings from the expert interviews. Consultant Puhakka stresses how difficult it is for a foreigner to build a truly strong and genuine Guanxi network. Guanxi is a tricky thing to achieve and the time it takes to develop a genuine Guanxi network is often underestimated by foreigners. Guanxi is about relationships and trust, and those are not formed instantly.

*“I would say, give yourself five to ten years and do good things and then you'll have some Guanxi.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This implies that forming a genuine Guanxi network is a long-term process. In order to develop a valuable Guanxi network, it is essential to find the initial good Chinese connections. When a foreigner has some initial good connections, then the foreigner can benefit from these people's Guanxi and meet new people through them. After that the foreigner can start building the networks and relations further. In China, a foreigner needs



the right introductions to get close to the inner circle. Time will then tell whether the foreigner will actually be accepted by the Chinese insiders.

*“As a foreigner, you will never truly be inside the Guanxi circle, just because you are an outsider.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This quote implies that it is almost impossible for a foreigner to gain access to the core of the Guanxi circle. This is consistent with the illustration of the Guanxi layers (Gao et al. 2012, 461), which shows that Westerners are often present in the third and outermost layer of Guanxi. Mr. Puhakka says that a Westerner can develop reasonable Guanxi to a certain level, however most Westerners are not good at developing Guanxi. Westerners do not really understand Guanxi and how vital it is even today.

According to the expert interview with consultant Puhakka, Westerners tend to also have a lack of patience in developing their Guanxi in the long term. In the West, the typical way of doing business is that someone approaches another person and starts talking about doing business. These people might become friends at some point over the course of time. Then at some point these people even start trusting each other as close friends. That is the typical Western model of developing relationships in the business environment. In China, however, it is the opposite. In China, businesspeople must first get to know each other, become friends, and then they can actually do business together. This process includes endless dinners and hours of drinking tea. Most Westerners might feel that it is a waste of time, but it is essential in China for the people that are doing business together to really know each other outside of the business context as well.

According to the expert interview with Ms. Lukkarinen, a lot of the first meetings and connections to other companies are based on the people that someone knows and it is always easier to create the first step to meet a person through a network.

*“Knowing the right people and having them in your network opens doors.”*

(Ms. Lukkarinen, Expert of the Chinese market, Phone call, 24.02.2017)

When establishing business anywhere, knowing the right people makes it much easier; but especially in China, there is a lot of value when a person knows the right people and gets introduced by somebody to the Chinese insiders. In order for a foreigner to build a Guanxi network, the foreigner should be physically present in the Chinese market. China is not an easy market to establish business in.

*“If you just try to establish a relationship through LinkedIn, e-mail or phone, the companies are not going to meet you. I think that Guanxi is*

*always established by meeting face-to-face and actually having dinner together. I think that a lot of the time, they want to know you in person; to have a trusting Guanxi relationship.”*

(Ms. Lukkarinen, Expert of the Chinese market, Phone call, 24.02.2017)

Being actively present in the Chinese market is a pre-requisite for a foreigner when building a Guanxi network. It really depends on the case whether it is difficult for a foreigner to build a Guanxi network. It becomes very difficult for the foreigner to build a genuine relationship, if the foreigner does not know the Chinese language, and if this person has not been in China and hence does not know about the Chinese culture.

Building a Guanxi network requires a bit of knowledge about the market, the people and the culture of China, because China is still so different in the way that people do business. Ms. Lukkarinen speaks fluent Mandarin Chinese so she has been able to communicate in the native language in China.

*“What I have noticed is that when I have been meeting other stakeholders, and I have been able to speak Chinese to them, then they have changed their behavior. They really value when you can actually speak Chinese to them.”*

(Ms. Lukkarinen, Expert of the Chinese market, Phone call, 24.02.2017)

This means that the Chinese appreciate it when foreigners know about their culture and can act like the locals in the presence of Chinese people. Often when the business meeting has started, the Chinese businesspeople have tried to speak English to her. Once Ms. Lukkarinen changes the language to Chinese and introduces herself in Chinese, she has noticed how relieved and happy the Chinese businesspeople are about the fact that she can communicate with them in Chinese.

*“I think that in some way I can also deepen the relationship with them when speaking Chinese to them.”*

(Ms. Lukkarinen, Expert of the Chinese market, Phone call, 24.02.2017)

It is not only about the language, but it is also about knowing the Chinese cultural norms and the Chinese business people’s behavior. In addition, it is not only about speaking the same language, but it is about the entire way of communicating. When a person has spent time in China, that person is aware of how the Chinese actually communicate and what the Chinese people truly mean in different situations.

## 5.4 The role of Guanxi in business-to-government relations

It is essential to look closer at the role of Guanxi in business-to-government relations and examine whether FT EnE has been able to benefit from business-to-government Guanxi. The case company interviews clearly demonstrate that business-to-government Guanxi is critical for FT EnE in China. FT EnE has selected a joint venture partner company that has the ideal existing contacts to the government of China.

*“The joint venture partner that we have selected has very good contacts in the current government of China. The owner of the joint venture partner company is actually a communist party member. He’s a local representative in China and he knows the current Prime Minister and President very well.”*

(Mr. Luukkonen, Sales & Marketing Director, face-to-face interview, 24.10.2016)

This point made by Mr. Luukkonen directly links to business-to-government relations. According to Kuo (2014, 28), in order to smoothly operate business in China, enterprises must deal with many government entities, which have influence over the related industry. The majority of rules and regulations are still ambiguous and their enforcement is subject to the personal interpretations of government officials (Luo 2001, 465).

CEO Park emphasizes the importance of business-to-government Guanxi. He strongly believes that connections with the government are important when doing business in China.

*“The legal system in China is still relatively weak and maintaining a harmonious social and business connection is the key to success in doing business in China.”*

(Mr. Park, CEO, e-mail, 08.02.2017)

CEO Park thus believes that it is appropriate and safe to seek proper aid from local professionals to ensure that success will be achieved in the joint venture. FT EnE has existing contacts to the government of China through Company C.

According to Mr. Luukkonen, the role of business-to-government relations is critical in China, at least in this industry. These relations have been beneficial in numerous cases for the joint venture. At the time of the study, the joint venture companies were arranging all of the permits for the factory with the local government and at the same time they were negotiating with the area development government organization regarding the type of subsidies that they will provide FT EnE. The government is offering the joint venture a

very good package. Since the owner of the partner company has a good influence on the local government level, FT EnE is able to benefit from business-to-government Guanxi.

The owner of the partner company is a Communist party member and a local representative in Beijing for that area, which means that he has very strong influence in the region. The owner of the joint venture partner company also knows the current government of China. This is an enormous benefit in China, especially during the time that the current Prime Minister is in power.

During the time of the interview, it looks like the joint venture will get the building free of rent (for 5 years), and the joint venture will get some tax relief on the company itself. In addition, the joint venture will get some help with arranging the accommodation for the employees. The package is very good for FT EnE and the reason that FT EnE is getting such a good package is greatly due to the business-to-government relations and Guanxi connections of Company C. FT EnE is thus benefiting from the contacts that Company C has to Chinese insiders and government officials.

FT EnE has also taken into consideration the political environment of China and its challenges when planning to form the joint venture in China.

*“I strongly believe that understanding the political environment or challenges in a particular setting or a country is very important, especially when doing business in China.”*

(Mr. Park, CEO, e-mail, 08.02.2017)

This means that it has been vital for FT EnE to understand the political environments and the relations between the different countries. Recently the relations between China and South Korea have been quickly descending, especially over the deployment of the Terminal High Altitude Area Defense (referred to as THAAD) system. South Korea is using the THAAD system for defense from nuclear missiles. South Korea announced in July 2016 that it would deploy the system in the country's south in order to protect it from a potential attack (CNN 2016).

The reason why China is against the THAAD system is that China tends to view any increase in U.S. military presence in Asia as an attempt to contain it and reduce the effectiveness of its weapons. Even though the THAAD deployment in South Korea would be more geopolitical than military, China was understandably concerned about having a U.S. made, U.S. run missile system in its backyard. At the moment, the relationship between China and South Korea is hesitant, due to this THAAD system.

CEO Park clearly states that the current relations between China and South Korea are part of the reason as to why Finetex EnE decided to form the joint venture through the Canadian entity, FT EnE Canada Inc. This demonstrates that the case company has taken

the relations between China and South Korea into strong consideration when planning to form the joint venture in China. (CNN 2016.)

The findings from the case company interviews are consistent with the findings from the expert interviews. Consultant Puhakka believes that a company cannot do business in China without having some sort of government relations or ties.

*“Let’s say that you have a perfect legal system, you have perfect enforcement of contracts and so forth, and everything is very transparent, that does not mean that the Chinese will want to do business with you, and unless you have the relations, they can just say that oh, you have everything in place but I don’t want to do business with you because I just don’t know you.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This means that community thinking in China is very essential. Even on a global scale, a lot of big economies are looking after themselves first. A lot of that has been witnessed in China as well.

*“It means that if you have good Guanxi, then you are most likely to do the first contracts with the Chinese. If there is something left over, then it is for the others — for those that are not part of the inner circle.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

In this quote, the importance of being connected to the inner Guanxi circle is emphasized. Basically this means that the Guanxi network is vital in terms of which companies get the lucrative contracts and get to do business in China.

According to Ms. Lukkarinen, the importance of connections with the government differs slightly depending on the industry. There are some industries that the government supports and then other industries that the government restricts from foreign entry.

*“If your Guanxi network includes people that have connections to the government, then that can open doors to other companies.”*

(Ms. Lukkarinen, Expert of the Chinese market, Phone call, 24.02.2017)

This means that the government officials also have connections to many companies and influential people, which can be beneficial. It is an opportunity to have connections to the government of China and in some industries it is an absolute must.

## 5.5 The role of Guanxi concerning the legal system of China

It is critical to address the role of the Chinese legal system when forming a joint venture in China. It is essential to obtain a business license by administrative authorities, because no enterprise in China can lawfully operate without one. Unless there have been some irregularities in the approval process, obtaining the business license is a routine manner that usually takes several days or a week. (Chow 2015, 398.)

FT EnE is not worried about the business license. Mr. Luukkonen has strong experiences from previous joint ventures and does not see the business license as an issue.

*“In China, it’s actually quite easy. We just have to make sure that certain concerns are addressed, for example how much documentation we have to give to the local authorities of the technologies, but we can control that”.*

(Mr. Luukkonen, Sales & Marketing Director, face-to-face interview, 24.10.2016)

This means that FT EnE is not concerned about the legal side of the joint venture. FT EnE has not yet come across any obstacles regarding the legislation with forming a joint venture in China.

*“At this point we haven’t really taken a look at all these details, since we have only the MOU in place.”*

(Mr. Luukkonen, Sales & Marketing Director, face-to-face interview, 24.10.2016)

FT EnE is using a South Korean based legal consulting company that has an office in China to guide them in the legislation of the joint venture. This legal consulting company is well-established in China, so FT EnE is not expecting any major issues. This relates directly to Guanxi as well, as the law firm is well-established in China, meaning that they have strong connections and experience in China. Having the essential connections in China makes the business process significantly smoother.

The next step for FT EnE will be for their lawyers and Company C’s lawyers to form the official contracts. Mr. Luukkonen is not concerned about this, because he has already been forming this type of joint venture almost 15 years ago in China. FT EnE is rather confident that the formation of the official contracts will not cause issues. They have not come across any obstacles regarding the legislation of forming a joint venture in China; however, in order for FT EnE to get all of the subsidies, there was a side track on how to finance the company. The financing has to come from abroad. This means that it also concerns the joint venture partner. Since Company C also has operations in Taiwan, the

investment from their side is not coming directly from China, but also from their sister company in Taiwan.

FT EnE believes that one of the three major opportunities for successful joint ventures in China is strengthening the legal framework in China. The other two are differentiating the company's technology and localization, which includes maintaining Guanxi and good relationships in China. It is important here to point out that FT EnE emphasizes the role of the legal system in China.

CEO Park believes that the main risk in forming the joint venture in China is the security risks to FT EnE's technology. Since China is known for Intellectual Property theft (referred to as IP theft), being a tech company means that there is a large concern over the risk involved in transferring their technology to China and thereby risking their control power. IP theft is a serious concern that FT EnE has when forming the joint venture in the Chinese market.

*“The biggest concern is the security risks to our technology. FT EnE's main concern, as being a technology company, is the risk involved in transferring our technology into China, thereby risking our control power.”*

(Mr. Park, CEO, e-mail, 08.02.2017)

FT EnE is concerned about transferring their technology to the Chinese market, because China is known as the world's largest source of IP theft. This is consistent with Hill (2009, 499), as he states that an SME that enters a joint venture risks giving control of its technology to its partner.

According to Mr. Luukkonen's experiences from entering the Chinese market, there was always a risk that the Chinese may actually copy the foreign company's IP and just file it to the local payment system in China. This is a risk that Mr. Luukkonen has experience of, since it happened in the chemical business that he was previously part of.

In this current case, the IP landscape in China has been filled already by so many companies. The electrospinning technology that FT EnE is using is familiar to other companies as well. Since FT EnE is bringing their employees from the Philippines and because the joint venture formation is supported by the local government, there is quite a small risk that their technology will go out from the back door. FT EnE is putting their basic technology into the plant in China. This means, that even if this technology would leak out from the plant, it is not a significant risk for the company. There is already some Chinese local competition that can basically do the same thing with their technology.

*“We are not really putting our latest technology into the joint venture.”*

(Mr. Luukkonen, Sales & Marketing Director, Phone call, 14.02.2017)

FT EnE is hence securing their latest technology, by not using it in the Chinese joint venture. This is consistent with Hill (2009, 499), as he states that an SME can “wall-off” the technology that is central to the core competence of the firm, while sharing other technology with the partner company. This is exactly what FT EnE is doing in the Chinese market. It is partly due to the fact that FT EnE feels that the Chinese legal system is still weak.

*“Even though the Chinese have made some improvements in the IPR system, they are still very superficial. The legal system in China is still not as strong as we would hope it to be.”*

(Mr. Luukkonen, Sales & Marketing Director, Phone call, 14.02.2017)

This implies that China has tried to improve the country’s IPR system, however FT EnE still feels that it is rather weak. China has a clear intention that they would like to copy all of the new foreign technology. In Mr. Luukkonen’s opinion it has not changed in practice too much, even after the improvements in the IPR system. Basically, because the Chinese have already copied this area of technology, the Chinese will control most of the market by the local production. However, due to the structure of the joint venture, FT EnE will get their share of the market. This means that the company does not have anything to lose, so they are in a good situation with the positive sides of this joint venture.

FT EnE does not think that there are any differences in expectations and management philosophies with the Chinese partner company at this early stage of the formation process of the joint venture. Company C has been very straightforward about what they want, so they do not have to go through too much hassle about negotiating. Together, the companies have been able to agree upon the pricing and the transfer pricing, so everything has been very easy in this case.

According to Mr. Luukkonen, in China nowadays the businesspeople are very straightforward. The Chinese just tell you what they want, and then you either agree or disagree with it. It is much easier than in a lot of other countries nowadays. FT EnE has required a few precise points from Company C in the joint venture, in order to ensure that the joint venture will be beneficial for FT EnE. FT EnE has a minimum for the annual orders, which the company has to receive. If this minimum is not met, then Company C has to compensate. This means that if there are any losses in the joint venture, they will at least break-even. This has been agreed and the formulation is in the final stages; so basically, how FT EnE and Company C will calculate it.

As mentioned in the theory section of this study, control is a big influencer for the choice of partner in the Chinese market. Foreign partners should assess their intended



level of control in terms of their strategic intentions. Firms with advanced skills and resources can exercise more control over major functional areas to improve their market power. (Calantone & Zhao 2001, 19.)

FT EnE evaluated the level of control that they have over the partner company. Control level was a criterion that affected the choice of the partner company for the joint venture in China. FT EnE already had one candidate in prospect for the joint venture but it was not suitable for them, since they could not find any way to control them. The potential partner company's request was that they would be selling the joint venture materials everywhere in the world. Hence, they were not integrated forward enough to the end products. That was an obstacle for FT EnE, as it would have been impossible for the case company to control the partner company in any way. This directly links to Calantone and Zhao (2001, 19), as they state that control plays a central role in joint ventures in China, as it is important for both implementing strategic objectives and achieving good performance.

According to the expert interview with consultant Puhakka, there are not really any major legal problems in forming a joint venture in China, except that there is a challenge due to the constant changes in the law. Everything is extremely dynamic and constantly moves forward.

*“If you are doing things slowly and you're trying to manage things from outside of China, then even when you're doing simple things, the rules might change every other month. These simple things really depend on what the company is aiming to do, but they might include opening up bank accounts, setting up a company, doing the legal paperwork or getting the right government approvals.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

Typically, these changes are for a good reason, because China is trying to make the system better. It is very difficult to set up a company in China, and thus it is very difficult to set up a joint venture in China. The Chinese constantly try to improve the system to make it easier to set up businesses in China. The consequence is that if the company is following the rules, regulations and guidelines from 6 months or even 4 months ago, then the company is probably doing things wrong and then eventually they will have to re-do everything. Getting up-to-date information and doing things right is not easy. Setting up a joint venture in China requires a lot of paperwork, more than what is required in several other countries and environments. This implies that setting up a joint venture in China is a complex process.

Ms. Lukkarinen believes that one of the main risks of entering the Chinese market is the risk of IP theft. She elaborates that a company needs to be very careful about the

procedure that the company does, since there is always the risk that a Chinese company copies it, especially with regards to trademarks. There are some companies who actually scout for foreign companies and just apply for the trademarks under their names. These companies get the trademark and if someday the foreign company enters the Chinese market, then the Chinese company can say that this trademark is already taken. It is important to have these trademarks and copyrights, but still it does not truly prevent IP theft.

Mr. Puhakka states that the legal system of China is improving and the protection of IPR has improved dramatically. He adds that enforcing contracts has also been improving significantly in China. Mr. Puhakka believes that IP theft is a major concern everywhere, not only in China. However, in China it is viewed differently. In China, it is a validation that the company that is being copied is doing things right, and this company is also doing something of value.

*“In some cases, it can even be viewed as a compliment. It means that you are doing something that is so good that people are willing to copy it”.*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This implies that it is not viewed as something negative, as it is in the West. On the other hand, Western companies and governments have been lobbying China for decades about respecting and paying attention to IP rights. According to Mr. Puhakka, the Chinese are paying more attention to IP, and naturally the legislation for IP in China is very good. He justifies that there are still issues with the enforcement of it, but it is improving.

According to Mr. Puhakka, the main risk of forming a joint venture in China is the scenario where a company invests money into China, gives the IP to them, builds a business there and then loses everything. Then the Chinese partner just overtakes everything since the partner company learns their IP, learns how to run the business, and then just decides to run away with the whole thing. One major mistake that foreigners do when entering China is that the foreigners think that the joint venture is just a matter of sending money and signing contracts. Foreign companies should be active on-site and send their own people to manage the process.

*“So in some ways you underinvest; you do not invest enough into the process and that turns back on you.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

In this scenario, the foreign company trusts the partner company too much and expects them to do the majority of the work. This means that the foreign partner company does not actually bring any value to the joint venture, since they do not send any people or contribute in any way. Once the Chinese partner company realizes this, they begin to

question whether they even need the foreign company in the business, since the foreign partner company is actually just taking part of the profit without doing any of the work. At this point, the Chinese partner company begins to evaluate the option of doing the business on their own and thus keeping all of the profits. Mr. Puhakka believes that the main risk is that the foreign company underinvests, which is kind of a paradox. This actually turns into the biggest risk and the foreign company ends up losing everything. Hence, the foreign company has to invest enough resources into the joint venture, in order to become successful. This means that in order to succeed, the foreign company must get the best people on board from in-house and from outside the company as well.

The initial investment to get into the Chinese market is large. Since the market is so enormous, it plays off for the foreign company to invest enough already in the beginning, in order to get the maximum benefit out of the joint venture. Mr. Puhakka believes that even with all of the challenges linked to the Chinese market, a foreign company should not simply give up and say that it is too difficult. There are enormous possibilities in the Chinese market and in the beginning it may seem very demanding, however once the foreign company gets well-acquainted with the Chinese way of doing business, it gets easier. The enormous size of the country also results in differences between the areas.

*“Even if you do one thing and find a way of how things work in Beijing, it might be different in Shanghai and it might be different in Shenzhen or it might be different in Wuxi.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This means that there are regional differences in the way that a business should be conducted. If a company is planning to set up a business or a joint venture, there might be structures that the company needs to set up, in order to handle the differences in the areas. This must be done, in order to cover more than just one city or region. This implies, that it gets more complex, when the company wants to cover more areas.

Many things in the Chinese environment are different, which means that a foreigner can never assume that because something is done in a particular way abroad, that it would also work that way in China. There is simply no reason to assume that it would be similar. It might be completely different and the Chinese have their own reasoning for it. The foreign party has to work hard and find a way of living with the Chinese norms. Some of the rules in China may even seem ridiculous to foreigners, but then when the foreigner has a longer discussion with a Chinese person and the Chinese person explains why it is done that way, then it probably will start making sense to the foreigner.

## 5.6 The role of business contracts due to the legal system in China

As mentioned in the theory section of this study, foreign investors are questioning whether commercial contracts play merely a minor role in the business transactions present in China. Contracts should be of enormous significance in high-risk projects, especially when firms participate in high risk-taking activities that involve large resource commitment. (Luo 2002, 129, 144.)

According to consultant Puhakka, the ideology of business agreements in China is very different than what the Westerners are used to. In the Western countries, it is typically word-for-word, so the business agreement states what the companies will do. In China, however, the business agreement is more of a firm indication that the companies will do business together. This means that the form of the business might still be alive and change in the dynamic environment.

Mr. Puhakka believes that the only way to really control the actions of the joint venture partner company is by being physically present at the location. He explains that someone with authority and power to make decisions on the spot should be present at the location. This controller or manager has to be someone that is respected by the Chinese partner. That is the only way to control the actions of the joint venture partner company, since it is really not possible to manage it from far away or by being off-site.

The role of contracts in China is different than the role of contracts in foreign business contexts. It is simple to get a translation of the contract from English-Chinese or Chinese-English, however the problem is whether there are any changes in the context and how to get both parties' understanding to the same level.

*“Basically, what you end up doing is paying a lot of money to very high-cost lawyers to get it done and trust them that it is at least roughly the same. It is very difficult to get the contracts to match word for word, and not only to say the same thing but also to actually mean the same thing.”*  
(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This implies that it is actually extremely difficult to form contracts when the companies are from different countries and thus are used to different legal systems. In the case of an international joint venture in China, the contracts are being based on different legal systems, so some items might be viewed differently. Typically, foreign companies do not have legal departments outside of China that actually understand the Chinese contracts. The role of contracts in China is hence rather complex and this is due to the unique legal system of China.

*“Doing contracts is so difficult and then you have lawyers on both sides so the businesspeople kind of get lost, they do not even really know what is it that the lawyers through up.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This means that things might be lost in the contracts and misunderstood because the businesspeople are not that deeply involved in doing all of the details of the contract. Both companies have their lawyers trying to protect their interests and if things go wrong and the arguments start, then the lawyers start digging up clauses in the contracts that the businesspeople might not have even been aware of being included in the contract in the first place. If things go well, then there are no issues. This is because there is no reason to look back at the contracts, and thus everyone is satisfied. However, if there are difficulties and people start looking for ways to play one and another, then it gets really tricky and difficult.

## **5.7 Joint venture as the entry mode into the Chinese market**

Consultant Puhakka strongly feels that if a company does not have to form a joint venture, then it is better not to select the joint venture mode of entry. By this he means that there are many cases where you have to do a joint venture in China, in order to be able to do business in China. There are some areas of business where wholly foreign-owned companies are not allowed to conduct business in China. These industries are protected areas, where joint ventures are the only option for entering the Chinese market. If a company decides to form a joint venture, then they have to understand that they are giving away control and that they are also giving away decision-power.

*“Even if you are a majority, there is always preference towards the Chinese partner. So in reality, they do have control.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

The Chinese partner company hence has quite a lot of power in the joint venture, and this relates back to the importance of selecting an ideal joint venture partner company when forming an international joint venture in China.

According to the expert interviews, there are also advantages in forming a joint venture in China. If a company is looking for opportunities to scale a business in China, then partnering with a Chinese company is a good idea. Mr. Puhakka has not really met any Western entrepreneur or any foreign business that has known how to scale a business in China in the same way as the Chinese know how to scale a business. This means that if

the foreign company is aiming to grow in all of the regions of China, then a joint venture is the ideal choice of entry mode.

## **5.8 The changing pace of the Chinese business culture**

It is important for international SMEs that are forming joint ventures in China to understand the changing nature of the Chinese business culture in entrepreneurship driven companies. According to FT EnE's Sales & Marketing Director, Mr. Luukkonen, Chinese entrepreneurs have passed the Confucian type of old-style negotiation. Chinese entrepreneurs have gone more towards the US style negotiation, which is very straightforward.

One of the reasons for the changing nature of the business environment in China is that China is strongly being influenced by the American business culture, as some of China's youth are getting educated in USA. According to Project Atlas (2015), China is the nation sending the largest amount of students to American colleges: there are over 300,000 Chinese students studying in American colleges. A large portion of these students return to China to become businesspeople and entrepreneurs. When they return to China, they bring the American business culture with them to China.

*“If you want to do something in China, the Chinese want to move really fast, so basically you have to decide very quickly what you want to do and give them very precise answers. They don't want to wait. They have so many other options, but as soon as you have a good option for them, they are willing to go really fast.”*

(Mr. Luukkonen, Sales & Marketing Director, face-to-face interview, 24.10.2016)

Influences from the American business culture can be seen in the way that entrepreneurship driven companies do business in China nowadays, since the Chinese want to proceed very fast. The traditional norms are changing towards a more fast-paced way of doing business.

According to Mr. Luukkonen, this new style of doing business in China is very different from the Confucian type of old-style negotiation that used to exist in China, where businesspeople would get familiar with the other partner by meeting many times, including drinking in the evening and having dinners. This type of business style still exists in the traditional companies in China, however entrepreneurship driven companies have adapted the US-style of doing business with a desire to move on quickly.

This is consistent with Crombie (2011, 11), as he mentions that a Chinese author, who lived a long time in the US was surprised when returning to China. When the author

returned to China, he expected government involvement to be present in every aspect of business. The author was even warned that the key element to any kind of progress was Guanxi. The author was alarmed when returning to China. He realized that what companies in many industries actually needed was a good product, marketing, brand strategies and distribution. The author also noticed that competition was just as fierce as anywhere else in the world, if not even more so. In addition, government involvement was nowhere to be seen. (Crombie 2011, 11.)

CEO Park agrees that an increasing number of students from China are studying overseas and coming back home with a broadened perspective and knowledge regarding business, however he believes that it has not created a significant impact yet.

*“China is a government that endorses the principles of socialism and communism. This mentality lives on despite changed circumstances and also the number of students studying overseas is only a fraction of that population in China. It will take long time to have a significant impact.”*

(Mr. Park, CEO, e-mail, 08.02.2017)

It is intriguing to notice that CEO Park strongly believes that the mentality in China still endorses the principles of socialism and communism; hence it will take a long time for the attitude and the business culture in China to change.

Consultant Puhakka believes that the business culture in China depends on what industry the company is in. The industry of the company also affects the level of Guanxi and whether the role of Guanxi is diminishing or not.

*“If you do something that is somewhat irrelevant, straightforward, then Guanxi does not play a large role. Small-scale start-up business, software business, app business then Guanxi does not play into at all, unless you are in an area where government relations matter.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This implies that the style of doing business in China depends on the industry. For example, application companies might not need the same degree of government relations, unless the industry requires some sort of government intervention.

*“In any area of business where there is potential to do something meaningful or greater business, you do need the relations.”*

(Mr. Puhakka, China market consultant, Phone call, 15.02.2017)

This means that whenever there is a possibility for government intervention, the company will benefit from connections to Guanxi insiders and government officials. There are two levels to it: first, a company can do some level of business without having Guanxi, however, the company can never achieve a decent-sized business without having Guanxi. This means that, a business can survive without relations, but it can never really be successful without the relations in China.



## 6 CONCLUSIONS

### 6.1 Theoretical contributions

In Figure 5, Guanxi is present in every stage of the process. Guanxi is illustrated with the triangle that is present in every stage of the process. Based on the case study interviews and the expert interviews, the role of Guanxi is extremely significant when doing business in China. In China, Guanxi affects every business transaction and thus the joint venture formation process revolves strongly around Guanxi. In Figure 5, there is one additional stage when compared to the original synthesis that was presented in the end of the theory section of the study. This additional stage, stage six, represents the changing nature of the Chinese business culture.

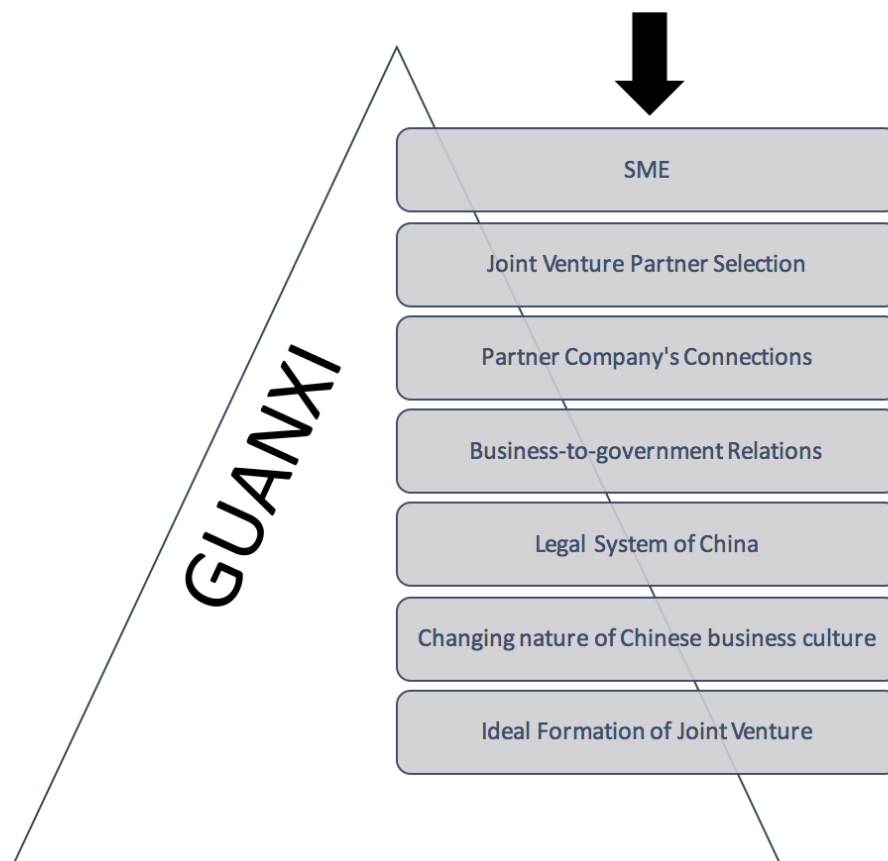


Figure 5 Updated synthesis

The changing nature of the Chinese business culture, which is represented in the sixth stage of Figure 5, is a very interesting and new phenomenon in China. The changing nature of the Chinese business culture from the traditional Confucianism old-style negotiation towards the American fast-paced way of doing business is an important finding from the empirical research of this study. Influences from the American business culture can be seen in the way that entrepreneurship driven companies do business in China nowadays. The Chinese want to proceed fast, which is very different from the Confucian type of old-style negotiation that used to exist in China, where businesspeople would get familiar with the other partner by meeting many times, including drinking in the evening and having dinners. This type of business style still exists in the traditional companies in China, however entrepreneurship driven companies have transitioned to the US-style of doing business with a desire to move on quickly.

The following Figure 6 has been designed by the researcher on the basis of the findings gathered from the empirical research regarding the role of Guanxi in joint ventures in China. Figure 6 below illustrates the role of Guanxi as a link between culture and legislation. This is why it is so hard for foreign companies to blend into the Chinese way of doing business.

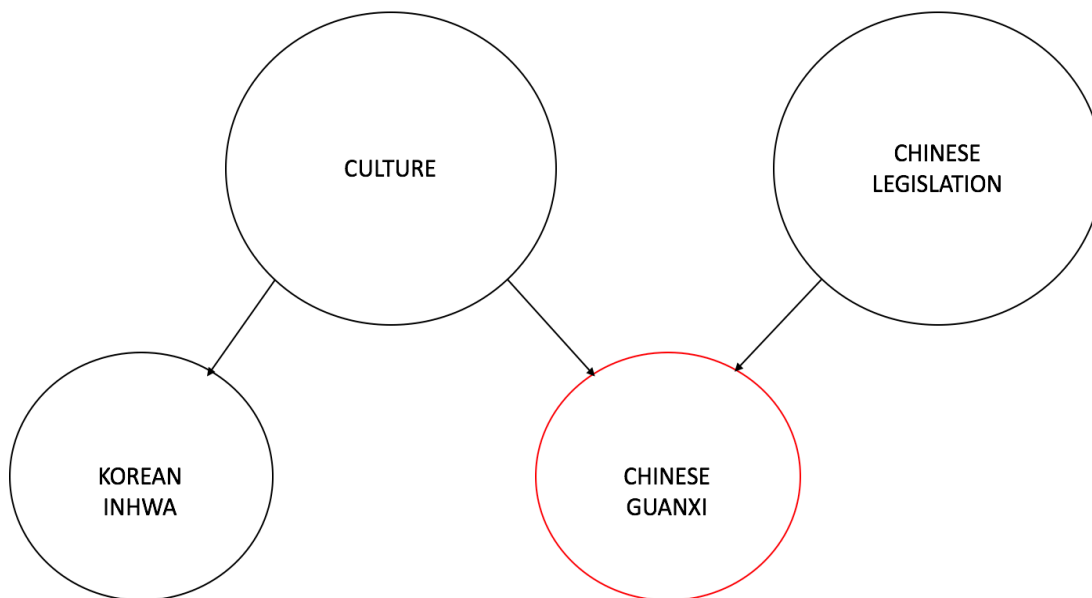


Figure 6 The role of Guanxi as the insider link between culture and legislation

Figure 6 hence illustrates exactly this point where Guanxi acts as a link between legislation and culture. Even though Guanxi is a cultural element, it can and most likely will even affect the legislation process of a joint venture in China. In South Korea, the legal system is different than in China. Due to the differences in the legal system, the South Korean legal system does not have gaps where personal connections play a role in the

same manner as in China. *Even though these countries are geographically close to each other, the cultural concepts of Inhwa and Guanxi have varying scopes. This is shown in Figure 6, where South Korean Inhwa is merely a part of the culture. Guanxi relates to both the Chinese business culture, as well as the legislation.*

Joint ventures with Chinese companies provide one of the most effective ways for international companies to establish a foothold in the booming Chinese economy (Lee 2008, 46). The advantage for FT EnE to form a joint venture in China is the combination of strong growth potential and untapped investment opportunities. It is essential to determine the amount of control in the joint venture in China. Control is important for both implementing strategic objectives and achieving good performance (Calantone & Zhao 2001, 19). *The only way to really control the actions of the joint venture partner company is by being physically present at the location. Someone with authority and power to make decisions on the spot should be present at the location. This controller or manager has to be someone that is respected by the Chinese partner. That is the only way to control the actions of the joint venture partner company, since the joint venture partner company really cannot be managed from far away or by being off-site.*

## **6.2 Managerial implications**

This study indicates several factors for the managers of SMEs and consultants regarding *the role of Guanxi in international joint venture formation in China from an SME perspective*. It is essential for foreign companies that are forming joint ventures in China, to realize the importance of being present in China. One key mistake that foreigners make when entering China is that they think that the joint venture is just a matter of sending money and signing contracts. *Instead, the foreign company should be active and go on-site and send their own people to manage the process.* It is common for foreign companies to underinvest; meaning that they do not invest enough into the process and that turns back on the company. This means that the foreign company trusts the partner company too much, and expects them to do the majority of the work. Once the Chinese partner company realizes that the foreign partner company does not actually bring any value, does not send any people, and does not contribute in any way — then the Chinese partner company realizes that the only thing that the foreign partner is doing is taking part of the profit. This is when the Chinese partner company questions why they even need the partner company, person or party, and instead they could just do it on their own and keep all of the profits.

The role of contracts in China is different than the role of contracts in foreign business contexts. It is simple to get a translation of the contract from English-Chinese or Chinese-English, however the problem is whether there are any changes in the context and how to

get both parties' understanding to the same level. It is actually extremely difficult to form contracts when the companies are from different countries and thus are used to different legal systems. *In the case of an international joint venture in China, the contracts are being based on different legal systems, so some items might be viewed differently.* Typically, foreign companies do not have legal departments outside of China that actually understand the Chinese contracts. *The role of contracts in China is hence rather complex and this is due to the unique legal system of China.* Specific details in the contracts can easily be misunderstood because the businesspeople are not that deeply involved in doing all of the details of the contract. Both companies have their lawyers trying to protect their interests and if things go wrong and the arguments start, then the lawyers start digging up clauses in the contracts that the businesspeople might not have even been aware of in the first place.

*When forming a joint venture in the Chinese market, it is highly important for an SME to consider using a legislative consulting company to assist in the joint venture formation process.* FT EnE is using a South Korean based company that has an office in China to guide them in the legislative aspects of the joint venture. Since the legislative consulting company is well-established in China, FT EnE is not expecting any major issues to occur during the formation phase of the joint venture. Having the essential connections in China makes the business process significantly smoother. FT EnE is confident that the joint venture formation process will not be complex, as the legislative consulting company has a lot of experience in the Chinese market. However, this is not the case with all SMEs that are forming a joint venture in the Chinese market, so having a legislative consulting company in the joint venture formation process is extremely valuable.

Consultants that are involved in the Chinese market, must realize the significance of Guanxi. In this case, FT EnE is using a Chinese consultant who has educated herself in the US. She also speaks fluent Chinese and knows the market very well, including the different players. The case company representatives emphasize how valuable she is in the joint venture formation process. A consultant in China must have the right connections to the specific industry and government officials, in order to be successful.

### **6.3 Limitations and further research**

This study has a few limitations. Firstly, the study was conducted in Finland and not in the native origin of the joint venture, China. If the study would have been conducted in China, the researcher would have been able to get a stronger understanding of the atmosphere and the behavior of the Chinese party that is involved in the joint venture. The current scope of study only examines the joint venture formation process from the foreign company's perspective. This study is a single-case study, and this research method also

includes some limitations. Using multiple case studies would have given the study broader data and new insights into the topic.

The current study is a starting point to examining *the role of Guanxi in international joint venture formation in China from an SME perspective*. Further research could go deeper into the perspective of the Chinese partner company. Further research could also include more about the legal perspective, which could include interviews with lawyers that have experience of forming joint ventures in China. However, getting in-depth interviews from lawyers might be hard, due to the confidentiality requirement. Further research could also examine the negative consequences of Guanxi more closely; such as bribery in China. In addition, it would be interesting to examine the changing nature of entrepreneurship driven companies in China. This is a phenomenon that came up during the empirical research, so it would be very interesting to examine this closer and in more detail. Since there is not much literature regarding this phenomenon, it would be something worthwhile to study.

## 7 SUMMARY

The main objective of this study was to examine *the role of Guanxi in international joint venture formation in China from an SME perspective*. The research question was divided into three sub-questions. These sub-questions are the following:

- 1) What is the role of Guanxi when selecting a joint venture partner in China in the joint venture formation process?
- 2) What is the role of Guanxi in business-to-government relations in China in the joint venture formation process?
- 3) What is the role of Guanxi concerning the legal system of China in the joint venture formation process?

This study is a case study for a South Korean company, Finetex EnE, that operates in the nanotechnology field. The company specializes in producing nano-scale fibers and structures through their patented electrospinning process. Finetex EnE is headquartered in Seoul, Korea, with production facilities in Asia and North America. The company's Canadian entity, FT EnE Canada Inc., is currently in the process of forming a joint venture with a Chinese partner company in China. This study can be beneficial for companies that are planning to form a joint venture in China, assuming that the companies are SMEs in the same industry. In addition, consultants that are creating solutions for SMEs that are investing into China will benefit from the study.

In the conceptual framework, the theory regarding the study is discussed. The first part of the theory section examines SMEs and joint venture formation in China. This part looks closer at joint venture as the entry mode for SMEs into China and the legislation and management structure of joint ventures in China. The second part of the theory examines Guanxi in China. This part includes the definition and history of Guanxi. In this part, Chinese Guanxi is compared to cultural networking around the world. In addition, this part examines business-to-government Guanxi and contracts in China. Guanxi and cross-cultural business relationships, as well as the changing nature of Guanxi are also discussed in this part. Finally, the synthesis of international joint venture formation and Guanxi in China is presented in the end of the theory section.

The methodology of this study is based on a qualitative case study, and the empirical data was collected through case company interviews and through expert interviews. The researcher decided to conduct two types of interviews in this study, because the researcher believes that having a variety of interviews brings more value to the study, as the researcher can compare the findings of the case company interviews with the expert interviews. The case company interviews were with CEO Park (Finetex EnE) and Mr. Luukkonen (Sales & Marketing Director of Finetex EnE). The expert interviews were with Mr. Puhakka (consultant with a very broad experience from the Chinese market) and Ms. Lukkarinen (China market expert). The case company selection, interview themes and

analysis of the case reflect that the whole research design is grounded in the theoretical framework.

Guanxi is present in every business transaction in China. The role of Guanxi is very significant for SMEs that are forming an international joint venture in China. The SME must select an ideal partner company with connections to the Guanxi insiders. Foreigners can never access the core of the Guanxi inner circle, so it is vital for the partner company to have the optimal connections in China. It is also beneficial if the Chinese partner company has contacts to government officials. This is referred to as business-to-government Guanxi in China and it is a significant advantage in the Chinese market. Since the legal system of China is weak, it is beneficial to have connections to the government officials. Once the SME has managed all of the stages mentioned, the SME will have the pre-requisites to form an ideal joint venture in China.

The changing nature of the Chinese business culture from the traditional Confucianism old-style negotiation towards the American fast-pace way of doing business is an important finding from the empirical research of this study. Influences from the American business culture can be seen in the way that entrepreneurship driven companies do business in China nowadays. The Chinese want to proceed very fast, which is very different from the Confucian type of old-style negotiation that used to exist in China

The study has a few limitations. The study was conducted in Finland and not in the native origin of the joint venture, China. The current scope of study only examines the joint venture formation process from the foreign company's perspective. Further research could involve the Chinese company's viewpoint of Guanxi and business-to-government relations. The current study is a starting point to examining *the role of Guanxi in international joint venture formation in China from an SME perspective*.

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## **APPENDIX 1 INTERVIEW I: QUESTIONS FOR MR. LUUKKONEN**

*Background info: Please tell a little bit about yourself and your position at Finetex Technology.*

### ***Theme 1: Guanxi***

1. How far is the joint venture at this point?
2. How difficult was the selection of the partner for the joint venture?
3. How familiar were you with the partner company beforehand?
4. How much preparation did it take to become familiar with the partner company?

### ***Theme 2: Laws***

5. Have you come across any obstacles regarding the legislation thus far with forming a joint venture in China?

If yes → How have these obstacles interfered with the process?

6. What laws did you have to mainly consider when forming the joint venture in China?
7. Did you have a consultant or lawyer taking care of the legislative issues?
8. How easy was it to receive the business license for the joint venture?

### ***Theme 3: Official Contracts***

9. Have you noticed any disagreements with the goals, expectations and management philosophies at this stage between the parties (for example price VS quality)?
10. How did you deal with making sure that the official contracts are clear to both parties?
11. Did you notice any cultural differences in forming the contracts?

If yes → What type of cultural differences did you notice?

12. How clear were the international business policies to both parties when forming the joint venture?

## **APPENDIX 2 INTERVIEW II: QUESTIONS FOR CEO PARK**

*Background info: Please tell a little bit about yourself and your position at Finetex Technology.*

### ***Theme 1: Guanxi***

1. Are connections with the government important when doing business in China?
2. As more and more Chinese students study in the US and bring home the American way of doing business, would you say that the way of doing business in China is changing?
3. Has it been beneficial to have a Chinese consultant in the process of forming the joint venture? Will she continue consulting in the joint venture when the joint venture is operating?

### ***Theme 2: Joint Ventures in China***

4. What are the advantages in your opinion of forming a joint venture in the Chinese market?
5. Has the Chinese partner company been a strong selection so far?

### ***Theme 3: Risk***

6. How would you evaluate the level of risk in going into the Chinese market through a joint venture?
7. What would you say are the most important steps in order to ensure that the joint venture will be successful?

## **APPENDIX 3 INTERVIEW III: QUESTIONS FOR MR. LUUKKONEN**

### ***Theme 1: Guanxi***

1. What is the current situation of the joint venture?
2. Have you been satisfied with the partner company selection so far? Have the partner company's connections been beneficial?
3. Is the Chinese consultant still helping in the process? Will she continue consulting once the joint venture is operating?
4. Do you feel that the role of business-to-government Guanxi connections are important in China?

### ***Theme 2: Legal System of China***

5. Have you come across any obstacles regarding the legislation with forming a joint venture in China?
6. Would you say that the legal system of China is weak? Has it strengthened over the past years in your opinion?

### ***Theme 3: Risks***

7. Do you see IP theft as a significant risk for Finetex EnE?
8. What is the expected life cycle of the JV? How do you see the situation in 5 years?

## **APPENDIX 4 INTERVIEW IV: QUESTIONS FOR MR. PU-HAKKA**

*Background info: Please tell a little bit about yourself and your experiences in the Chinese market.*

### ***Theme 1: Guanxi***

1. How critical is the role of Guanxi connections in the Chinese market?
2. How difficult is it for a Westerner to develop Guanxi ties in China?
3. Do you think that the importance of Guanxi is diminishing in China?

### ***Theme 2: Joint Ventures in China & Legislation***

4. What are the advantages in your opinion of forming a joint venture in the Chinese market?
5. How difficult is the selection of the partner company for a joint venture in China?
6. How can the company control the actions of the joint venture partner company in China?
7. What are the risks of forming a joint venture in China? What would you say are the main reasons for failure in a joint venture?
8. From your experience, have you encountered obstacles regarding the legislation of forming a joint venture in China? How have you managed to overcome them?
9. Is IP theft a major concern in China?

### ***Theme 3: Official Contracts***

10. How have you ensured that the official contracts are clear to both parties?
11. From your experience, do Chinese companies take the official contracts as seriously as the Western partners?
12. In your opinion, is the role of official contracts in China a threat to doing business there?



## **APPENDIX 5 INTERVIEW V: QUESTIONS FOR MS. LUKKARINEN**

*Background info: Please tell a little bit about yourself and your experiences in the Chinese market.*

### ***Theme 1: Guanxi***

1. How vital is it to form a Guanxi network when doing business in China?
2. Does it require being present in the Chinese market?
3. Is it difficult for a Westerner to develop Guanxi ties in China?
4. Are connections with the government important when doing business in China?

### ***Theme 3: Risk***

5. What would you say is the main risk of entering the Chinese market?
6. What would you say are the most important steps in order for a company to ensure that their IP is not copied in China?
7. How likely and harmful would you say that IP theft is in China?