

The Adversities of Doing Business in China:  
Why Western Companies Fail

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THE ADVERSITIES OF DOING BUSINESS IN CHINA:

WHY WESTERN COMPANIES FAIL

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**ABSTRACT**

It is commonly known that People's Republic of China was created and ruled by several years on closed and indoor economy policies, making it extremely hard to establish a business in China. Therefore, this document aims to understand the motives behind the failure of western companies in China, focusing on the mistakes made and how can they be avoided.

The literature review begins with a contextualization of the economic and culture evolution of the Chinese society. Additionally, by defining the concept of failure it was possible to improve the understanding of the withdraw of three foreign companies from the Chinese market and to analyse how funding can help avoiding failure. In order to collect data, in-depth interviews were conducted which included the participation of leading businesspeople.

The combination of the Literature Review with the data collected has made possible to prove that entrepreneurs face numerous adversities and obstacles whenever dealing with Chinese companies or individuals, when compared to the western ways of doing business. Adversities such as lack of trustworthy relationships, cultural differences, unrealistic investment time and reduced time present in the country, disloyalty regarding the Chinese "catch-up effect" or even lack of support from the Chinese government, have led some businesses to flee the country. Additionally, the most surprising discovery creates a paradox between old theories and nowadays theories. According to several participants and researchers, the power of *guanxi* in China, may be losing its effectiveness.

**Keywords:** Business Adversities; Cross-Cultural Management; Chinese Market, International Marketing

**JEL:** F23, M16

## SUMÁRIO

É sabido que a República Popular da China foi criada, e é governada há vários anos, numa ótica de políticas económicas fechadas, tornando extremamente difícil a realização de negócios na China. Neste sentido, o presente documento visa entender os motivos responsáveis pelo fracasso das empresas ocidentais na China, focando-se nos erros cometidos pelos mesmos e como estes podem ser evitados.

A revisão da literatura começa com uma contextualização da evolução económica e cultural da sociedade chinesa. Além disso, ao definir o conceito de fracasso, foi possível entender as razões que levaram à saída de três empresas estrangeiras do mercado chinês e analisar como o financiamento pode ajudar a evitar o insucesso neste mercado. De modo a recolher dados, foram realizadas entrevistas em profundidade que incluíram a participação de grandes empresários.

A combinação da revisão da literatura com os dados recolhidos possibilitou concluir que os empreendedores enfrentaram inúmeras adversidades e obstáculos ao lidar com empresas e indivíduos chineses, comparativamente com a abordagem ocidental para negociar. A falta de relacionamentos de confiança, as diferenças culturais, o tempo de investimento irrealista e o reduzido tempo de presença física no país, a deslealdade quanto ao *catch-up effect* chinês ou até mesmo a falta de apoio do governo chinês são exemplos de adversidades que levaram algumas empresas a abandonar a sua atividade económica neste país. Além disso, a descoberta mais surpreendente cria um paradoxo entre as teorias antigas e as atuais: segundo vários participantes e investigadores, o poder do *guanxi* na China pode estar a perder seu significado.

**Keywords:** Business Adversities; Cross-Cultural Management; Chinese Market, International Marketing

**JEL:** F23, M16

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**TABLE OF CONTENTS**

<b>ABSTRACT .....</b>	<b>I</b>
<b>SUMÁRIO.....</b>	<b>II</b>
<b>ACKNOWLEDGEMENTS.....</b>	<b>III</b>
<b>TABLE OF CONTENTS.....</b>	<b>IV</b>
<b>TABLE OF FIGURES .....</b>	<b>VI</b>
<b>TABLE OF TABLES.....</b>	<b>VII</b>
<b>GLOSSARY .....</b>	<b>VIII</b>
<b>CHAPTER 1: INTRODUCTION.....</b>	<b>1</b>
<b>1.1 OVERVIEW.....</b>	<b>1</b>
<b>1.2 RESEARCH PROBLEMATIC .....</b>	<b>3</b>
<b>1.3 RESEARCH METHODS .....</b>	<b>3</b>
<b>1.4 DISSERTATION OUTLINE.....</b>	<b>4</b>
<b>CHAPTER 2: LITERATURE REVIEW.....</b>	<b>5</b>
<b>2.1 INTERNATIONAL MARKETING IN CHINA .....</b>	<b>5</b>
<b>2.1.1 Pre-Economic Reforms.....</b>	<b>6</b>
<b>2.1.2 Post-Economic Reforms .....</b>	<b>7</b>
<b>2.1.3 Present and Future of Chinese Economic (Belt and Road Initiative)..</b>	<b>7</b>
<b>2.2 CHINESE CULTURE.....</b>	<b>8</b>
<b>2.2.1 Confucianism &amp; Taoism .....</b>	<b>9</b>
<b>2.2.2 Buddhism.....</b>	<b>9</b>
<b>2.2.3 The Power of Guanxi.....</b>	<b>10</b>
<b>2.3 FAILURE ATTRIBUTION.....</b>	<b>12</b>
<b>2.4 CASES OF FAILED WESTERN COMPANIES IN CHINA.....</b>	<b>13</b>
<b>2.4.1 Mattel.....</b>	<b>13</b>
<b>2.4.2 Ebay .....</b>	<b>14</b>
<b>2.4.3 Uber .....</b>	<b>15</b>

<b>2.5 FUNDING</b> .....	<b>16</b>
<b>2.5.1 Location</b> .....	<b>17</b>
<b>2.5.2 Types of Enterprises</b> .....	<b>19</b>
<b>2.5.3 Funding Granted</b> .....	<b>19</b>
<b>2.5.4 Time</b> .....	<b>20</b>
<b>CHAPTER 3: METHODOLOGY</b> .....	<b>23</b>
<b>3.1 DATA COLLECTION</b> .....	<b>23</b>
<b>3.2 METHODOLOGIC PROCEDURE</b> .....	<b>23</b>
<b>3.3 DATA ANALYSIS</b> .....	<b>26</b>
<b>CHAPTER 4: RESULTS ANALYSIS</b> .....	<b>27</b>
<b>4.1 CHINESE CULTURE</b> .....	<b>27</b>
<b>4.2 MOTIVES FOR FAILURE</b> .....	<b>30</b>
<b>4.3 FUNDING</b> .....	<b>33</b>
<b>4.4 RESULTS COMPILATION</b> .....	<b>34</b>
<b>4.4.1 Statistical Analysis</b> .....	<b>48</b>
<b>CHAPTER 5: CONCLUSIONS AND LIMITATIONS</b> .....	<b>51</b>
<b>5.1 MAIN FINDINGS &amp; CONCLUSIONS</b> .....	<b>51</b>
<b>5.2 MANAGERIAL IMPLICATIONS</b> .....	<b>53</b>
<b>5.3 ACADEMIC IMPLICATIONS</b> .....	<b>54</b>
<b>5.4 LIMITATIONS</b> .....	<b>54</b>
<b>5.4.1 Research topic</b> .....	<b>54</b>
<b>5.4.2 Time and Money Constraints</b> .....	<b>55</b>
<b>5.4.3 Interviews</b> .....	<b>55</b>
<b>5.4.4 Personal Adversities</b> .....	<b>56</b>
<b>5.5 FURTHER RESEARCH</b> .....	<b>56</b>
<b>REFERENCE LIST</b> .....	<b>VI</b>
<b>APPENDICES</b> .....	<b>XII</b>

**TABLE OF FIGURES**

Figure 1: Methodologic Framework .....	24
Figure 2: Most Repeated Word During Interviews .....	48
Figure 3: Companies' Nationality Regarding Interviews .....	50



**TABLE OF TABLES**

Table 1: Policies of Chengdu Hi-Tech Zone – Innovation Startups .....	21
Table 2: Policies of Chengdu Hi-Tech Zone – International enterprises .....	22
Table 3: Cultural Descriptive .....	29
Table 4: Economic Descriptive .....	32
Table 5: Government Relationship .....	33
Table 6: Matching Comparisons – Business Adversities I .....	41
Table 7: Matching Comparisons - Business Adversities II.....	42
Table 8: Matching Comparisons - Business Adversities III.....	43
Table 9: Matching Comparisons - Business Adversities IV .....	44
Table 10: Matching Comparisons - Business Adversities V.....	45
Table 11: Matching Comparisons - Business Adversities VI .....	46
Table 12: Matching Comparisons - Business Adversities VII.....	47

## GLOSSARY

<b>WTO</b>	World Trade Organization
<b>GDP</b>	Gross Domestic Product
<b>US</b>	United States
<b>SOE</b>	State Own Enterprises
<b>CDHT</b>	Chengdu High-Tech
<b>FDI</b>	Foreign Direct Investment
<b>OTC</b>	Over-The-Counter
<b>WIF</b>	Western Internet Firms
<b>SME</b>	Small and Medium Enterprises
<b>IMF</b>	International Monetary Fund
<b>C2C</b>	Consumer to Consumer
<b>R&amp;D</b>	Research & Development
<b>MoST</b>	Ministry of Science and Technology
<b>NNSFC</b>	National Natural Science Foundation of China
<b>CAS</b>	Chinese Academy of Sciences
<b>CSC</b>	China Scholarship Council
<b>MoE</b>	Ministry of Education
<b>CAQDAS</b>	Computer-Assisted Qualitative Data Analysis Software
<b>B2G</b>	Business to Government

## CHAPTER 1: INTRODUCTION

### 1.1 Overview

China is one of the countries with the oldest culture in the world. For that reason, how businesses and how relationships are made, are completely different from the typical western way. In order to provide some context, it is important to take into consideration some historical events, which are relevant to explain how and why behaviors are different when doing business.

The history of the culture remarks to the date of 2700 BC, however, the steps to international trade only started during the Han dynasty (206 BC – 220 BC). Until this dynasty, China only had local trades. Nevertheless, during that time, the country revolutionized the international trade by setting up the silk road. These years were called “the golden ages” of China because it brought economic prosperity, territorial expansion and opened the commerce to foreign countries. Later on that period, Chinese people started to be called han/hui people and this ethnic group currently represents more than 90% of the Chinese population, according to the 2010 Chinese census<sup>1</sup>. This is particularly interesting since China has over 50 ethnic groups.

The big commercial development happened with the founding of People Republic of China. Thus, from 1 of October of 1949 until the present day, China goes from the “*factory of the world*” to one of the most important economical world potencies. However, this was only possible due to several economic reforms inside the country. Moreover, with the country entering the World Trade Organization (WTO) in 2001 and opening their market to international trade, western companies were responsible for a boom in the economy as well as educating Chinese enterprises on business. Additionally, according to the World Bank<sup>2</sup> data, it was “the fastest sustained expansion by a major economy in history.” China GDP increased from 149.541 billion US dollars, in 1978 to 1.339 trillion US dollars in 2001 and to 13.608 trillion US dollars in the present days.

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<sup>1</sup>National Bureau of Statistics of China: Statistical Communiqués (NBSC, 2009)

<sup>2</sup> World Bank Group (World Bank Group, 2018)

## The Adversities of Doing Business in China: Why Western Companies Fail

Nowadays, the Chinese economy is taking a turn and some of these aspects may be different than what they were years ago. With the economy slowing down, the Chinese government has implemented policies to ensure continuous growth rates. Some of these policies included economic policies that focus on exportation rather than on consumer demand, the support of State Own Enterprises (SOE's), a fragile banking system as well as an excessive amount of pollution and a brittle law system(Wayne M. Morrison, 2018). These changes may be related with the failures of western businesses in China as they represent new advertises.

However, the main purpose of this dissertation, is to investigate which aspects may affect western businesses and explain how they lead to absolute failure.

Due to the complex definition of a business failure, it is important to understand the several meanings associated with this concept. The existing literature suggests that the source of these failures may be from internal or external factors. This research will focus on the external factors that have led businesses to fail. Furthermore, companies such as, Ebay, Homedepot, Uber or Mattel, are some of the examples of companies that were forced to exit the Chinese market due to different methods in doing business. By understanding the behavior of these companies, it becomes easier to highlight the main issues and obstacles faced.

China can be characterized as the “*new land of opportunities*” and because of that a lot of western companies are lured to penetrate this market. According to the official Chinese government website, there are over 35 660 foreign companies that operate part of their business in the country. Taking this into account, the focus of this thesis may seem irrelevant, however, even though 35 thousand companies were able to make their way to success, there were still many companies who have left and continue to leave the market.

Bearing in mind all the recent events that happened in the past 2 years with China, such as the trade wars with U.S, or the fact that the economy of the country is slowing down, this document is may be relevant for both the scientific community and for the business world. Therefore, this dissertation will analyze the advantages

## The Adversities of Doing Business in China: Why Western Companies Fail

and disadvantages of the impact of the Chinese culture on a business as well as providing possible solutions to mistakes previously committed in order to prevent it from happening again and hopefully, assisting western businesses to develop successful and profitable deals in China.

### **1.2 Research Problematic**

The main objective of this thesis is to understand what are some of the reasons that may be responsible for the failure of western companies when attempting to establish business in China. Additionally, it also intends to find any possible solutions on how to deal with these problems. Therefore, the problem statement can be summarized as:

*What are the reasons that lead western companies to fail when doing business in China and what can avoid these failures?*

**RQ1:** How much does the Chinese culture influence a business? Which concerns should a businessman have when dealing with Chinese companies?

**RQ2:** What has led many big western companies to abandon the Chinese market after a period of time? Which mistakes were committed and how to avoid them?

**RQ3:** What are the main adversities entrepreneurs face when entering the Chinese market?

### **1.3 Research Methods**

In order to answer the proposed research questions, both secondary and primary data was collected. In the initial stage, secondary data will be the main source of information to find out more about potential reasons that may lead to business failing in China. This step was extremely relevant as it helped prepare the script for the interviews conducted in the primary data.

The main goal of the primary data was to gather information from people who have, at a certain point in time, been involved with doing business in China. The selected method to gather this information were in-depth interviews. Therefore, the chosen

## The Adversities of Doing Business in China: Why Western Companies Fail

criteria to find the accurate subjects was to include those who currently have businesses in China, have already had businesses in China or are involved with partners whose activity is China-based. Additionally, the criteria also included Chinese businesses who have relationships with foreigners, so that both sides of the story are explained.

### **1.4 Dissertation Outline**

This dissertation has a total of five chapters that will progressively explain the train of thought of this problem statement. It will begin with an introductory chapter where an overview of the background is presented as well as a detailed explanation of the problem statement. This chapter is followed by the Literature Review where the main findings of previous research are summarized and linked to the topic in question. This research will focus on topics such as international marketing in China, the Chinese economic environment, cultural aspects and reasons for potential failure with examples of past cases. Methodology is presented in chapter three and it covers the techniques used to collect data. Chapter four presents the results from the interviews conducted. Finally, chapter five encompasses the main findings and limitations as well as answering the research questions and providing indications for further research.

## **CHAPTER 2: LITERATURE REVIEW**

The Literature Review will initiate by giving an economic and cultural overview of China. Then, it will explain, through several researchers the concept of failure with some examples of past failed western companies in China. Finally, Funding is also relevant for the theme of the Literature of the document.

### **2.1 International Marketing in China**

According to researchers, over the past decades, emerging markets such as China have lured western businesses to change their pole of investment.(Anglès, 2019; Deng, 2009; Lemoine, 2013). The reason why the country is ranked as one of the highest with Foreign Direct Investment (FDI) can be linked to the manufacturing industry. In fact, since China opened to the international markets, foreign companies have been transferring their production process to other subsidiaries in China, which represents a considerable proportion for integrating the Chinese industry at a global level (Lemoine, 2013). Small and Medium Enterprises (SME) are the ones who tend to follow the process of internationalization (Kraus, Mitter, Eggers, & Stieg, 2017) while having either a significant competitive advantage on the service/product or some other innovation, making them overcome existing administrative, legal and other barriers at an international market level (Otvarkhina & Myl'nikova, 2016). In order to achieve internationalization, international marketing is the key.

Studies clarify that International marketing corresponds to the set of business activities which lead the company's products or services to being consumed in more than one country successfully (Ghauri & Cateora, 2009). In other words, international marketing can be defined as *a set of research activities, designing, production, promotion, distribution and stock post-distribution (international market), aimed at providing consumers (international) of goods to meet their requirements better than do its competitors (international) at the most convenient prices (international market), activities developed in terms of profitability for entrepreneurs and carefully to future generations of the planet* (Gherasim & Gherasim, 2017). If not performed properly, it can result in great losses for companies or even withdrawing from the country in which it invested.

## The Adversities of Doing Business in China: Why Western Companies Fail

Research by Marquis and Yang (2014) from Harvard Business School, shows that 48% of foreign companies fail and end up withdrawing from the Chinese market after 2 years in it. *Where one company fails for not introducing a product for the local market, another may be criticized for passing off “inferior” products to Chinese consumers. It’s almost impossible to generate applicable lessons from any one company’s failure. To do so leads many so-called experts into the trap of vaguely citing “guanxi” or “cultural differences.”*, which in several cases may not be the only reasons for failure. In fact, is considerable to think that this idea is naïve, because “guanxi”<sup>3</sup> is not only a specific set of rules. In addition, the understanding of the rules are completely different when refereeing to Chinese culture and the one that is broadcast on western social network.(Hammond & Glenn, 2004)

### 2.1.1 Pre-Economic Reforms

As mentioned before, People republic of China was founded in 1949, ending the millenary imperial ages and stepping into the path of modern economy. However, according to the data of the World Bank, during the first decades, the economic growth was not so relevant. In this period, under the communist ideology thinking, Chinese governments recognized the importance of heavy industry; the people’s government had ambitious plans to boost up their industry because, in the mid-twentieth century, the industrialization was linked to the economic development of a country (Bin Wong, 2010).

Due to the fact that People’s Republic of China was founded on a period of revolution and conflict, the country was mostly in an agricultural state in which most of Chinese population lived in poor conditions. During the 1950’s individual household farms were collectivized into large communes (Wayne M. Morrison, 2018). For these reasons, Chinese governments made an effort, between 1980 and 2010, to move their labour force from agriculture to industry (Lemoine, 2013), becoming the “factory of the world” (Ip, 2009).

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<sup>3</sup> The concept of *guanxi*, will be explained in chapter 2.2.3. The power of *Guanxi*



### **2.1.2 Post-Economic Reforms**

In the beginning of the 80's, after the cultural revolution, the country initiated a set of economic reforms that made China boost their economy and accelerate the process of industrialization. In addition, in order to attract foreign investment, the government establish four economic zones, making possible to increase exports imports (Wayne M. Morrison, 2018).

By this time China was not yet a member of the World Trade Organization (WTO) and for this reason, some of the Chinese products were often discriminated in other countries, due to the quality and the price. Moreover, China was changing the flow of their economy (centrally planned to market economy) which made their exporting companies subjected to anti-dumping policies, making it unfair for Chinese exporters when comparing to foreigners (Baihua, 2005).

For this reason, additional economic political and cultural reforms were made in the following years, which led to the great development of the country in just few decades. According to the data of the World Trade Organization (WTO), China joined the organization in 2001. Consequently, WTO represented an opportunity to increase China's external investment, attract new players and develop the domestic market (Dural, 2007). From that period, it had the greatest GDP increase in the history.

### **2.1.3 Present and Future of Chinese Economic (Belt and Road Initiative)**

As mentioned before, Chinese economy was the fastest sustained expansion by a major economy in history. China GDP increased from 149.541 billion US dollars, in 1978 to 12.238 trillion US dollars in the present days. China drastically changed their foreign policies since the President Xi Jinping took place as the head of the Chinese party in 2012 (Xue, 2019). By the next year President Xi introduced an innovative and megalomaniac plan that would change the way of international trade. It would cover two thirds of the globe and was estimated to allocate more than US 1\$ trillion to the project (Tweed, 2018; Zhao, 2019).

## The Adversities of Doing Business in China: Why Western Companies Fail

In a time where trade wars between U.S and China are taking place, with each country is starting to put more economic barriers and over taxation on the products they commercialize, research suggest that bilateral trade issues are possible to emerge (Li, He, & Lin, 2018; Wayne M Morrison, 2018). In this case, a new ally for China might be a good option for the new development of the country. In this case, Europe could be the better choice. When combining all European states, according to the data from The World Bank, the European GDP surpasses the Chinese, representing the second stronger superpower in the world with 18,768 trillion dollars in 2018.

Regarding the future of the Chinese economy, many predictors say that China will surpass the US economy in the next few years. However, in the past couple of years, the economy of the country has been slowing down (Wayne M Morrison, 2018; Wayne M. Morrison, 2018; Pwc, 2018; Zhao, 2019), representing a fact that should be mentioned, *as China's economy has matured, its real GDP growth has slowed significantly, from 14.2% in 2007 to 6.9% in 2017, and that growth is projected by the International Monetary Fund (IMF) to fall to 5.8% by 2022.* According to the researcher Morrison, Chinese government consider the slowdown of the economic growth as the “new normal” of the country focusing on the private consumption, services and innovation. This could really represent a major threat to the “Belt and Road Initiative”.

### **2.2 Chinese Culture**

China has the oldest culture in the world. Therefore, the pillars of the society were built based on some moral concepts. Then, how can a millenary culture make the most experienced businessman fail in Chinese borders? *An in-depth understanding of Chinese culture is key to success in the Chinese market in particular and in the relationships with China in general (Chen, 2001; Child, 1990; Fang, 1999; Tung, Worm, & Fang, 2008; Fernandez & Underwood, 2006) (Fang, 2017).* Ideologies such as the Confucianism, the Taoism, Legalism or Buddhism. The objective of these ideals was to ignite the evolution of the society in a more rightful and pacific

way. Understanding the values of the Chinese culture is the difference between building trust or not within Chinese counter parts (Chan, Denton, & Tsang, 2003).

### **2.2.1 Confucianism & Taoism**

Confucianism and Taoism can be considered two ideologies that are very similar (Cheng, 2011), however, Confucianism defines the relationships between humans and how to manage them, whereas Taoism deals with the ability to live a life in harmony with nature (Fang, 2017).

Confucianism represents the teachings a of theoretical and ethics system that were thought by Confucius. According to Researchers, Confucianism is constituted of three elements: *ren*, *yi*, and *li*. Each element has a meaning as *ren* can be described as the ability of compassion or benevolence for other people, *yi* relates with the moral and rightness, and *Li* represents the norms, protocols and other etiquettes (Ip, 2009; Zhu, 2013). In the business world, these aspects are considered very valuable. In fact, the Confucian teachings are so well inserted in the Chinese society that it can be called ‘traditionally modern’ or ‘modernly traditional’ society (Fang, 2017). On the Taoist side, in a business world, having a healthy (harmony) relationship within the company could represent the key to thrive, the company is not only vision, mission or values (Kenny, 2014; Zu, 2019).

### **2.2.2 Buddhism**

Regarding Buddhism, it teaches interdependence, in other words, it means that everything is connected and one person’s well-being is dependent on the other’s and the environment around them (Brown & Zsolnai, 2018). However, in order to achieve the Buddhist teachings is important to get to know yourself first, as this is considered to be the key for developing a new skill or capability (Gould, 1995).

Applied to the business world, it is becoming more popular for companies, both Chinese or not, to apply the Buddhist teachings within the company. In fact, companies are considered “Buddhist enterprises” if they follow the principles of compassion, non-violence, generosity, suffering minimization, and want-reduction (Brown & Zsolnai, 2018).

## The Adversities of Doing Business in China: Why Western Companies Fail

It is due to these (and not only) three ideological teachings, Confucianism, Taoism and Buddhism, that the Chinese culture and individuals are considered to be very practical, paradoxical, and embracive (Fang, 2017)

### 2.2.3 The Power of *Guanxi*

Since the early stages of civilization of the Chinese culture, there were introduced and studied some philosophical perceptions that can be labelled as the structures that hold the millenary culture. Ideologies such as the Confucianism, the Taoism or the Buddhism had the objective of igniting the evolution of the society in a more rightful and peaceful way. As mentioned in the previous section, all these aspects drawn the Chinese culture as it is today.

When describing a millenary culture, it is relevant to study the different behaviors and interactions. Regarding relationships, one of the traditional subjects is the basic element of how people relate to each other is the *guanxi*. Since research studies the behavior of businesspeople and their companies, the concept of *guanxi* will be often mention during on the document. As a matter of fact, *guanxi* can be described as social network representing the amount of personal relationships that holds reciprocal responsibilities or norms in order to maintain the relationships (Chan et al., 2003). Additionally, these norms include *xinyong* (trustworthiness), *mianzi* (face) (most commonly mentioned among researchers), *renqing* (norms of interpersonal behavior) which are concepts very well known in a Chinese society and allows to establish a long term relationship (Qi, 2013). In other words, these acquired relationships also provide security, trust and a prescribed role (Hammond & Glenn, 2004).

Applied to companies, *guanxi* represents one of the most important pillars to do business in China. *Guanxi* is what it what opens doors to the company so that it could potentially have a better path in the Chinese market. It helps boost the efficiency of the business relations, enabling companies to have specialized benefits when compared to the competitors and also allows the reduction and fast approval of legal affairs and business bureaucracies (Chan et al., 2003). Therefore it can

## The Adversities of Doing Business in China: Why Western Companies Fail

represent a competitive advantage (Tsang, 1998). Moreover, *guanxi is not confined to business to business relations but also essential, in business to government, politics, and even education (Luo, Huang & Wang 2012, Jacobs 1979; Gold, Guthrie, and Wank 2002)(Qi, 2013).*

Its impact has been studied widely in all areas, however it should be noted that its' impact is most important in business, particularly when looking at organizational performance (Luo, Huang, & Wang, 2011). As an example, in China, an intermediary in business relationships is vital for the success and speed of the negotiation. In order to insert the foreign company in the local market, this person/company must be trusted and have *guanxi* within the Chinese side (Dunphy, Heilmann, Smith, Nixon, & Zhu, 2018). Finally, if foreigners want to build a strong relationship in the Chinese market is important to understand the concept of *guanxi* and understand how does the Chinese mind works (Buttery & Wong, 1999).

As it can be observed there are several researchers that approach the subject of *guanxi* and explain why it is so important in China. However, regarding recent studies, opinions started to be divided. The power or *guanxi* may be starting to shrink. Numerous of disadvantages can be appointed to this concept. By assisting a specific group of people, it discriminates people that are outside of the *guanxi* network. Additionally, as already referred, to some companies, in order to enter in the Chinese market, is almost mandatory to be integrated in this kind of network. Some researchers also describes *guanxi* as a corruption system that treats partners in a special way (Zhang & Gill, 2019).

As the Chinese economy increases their process of internationalization, more and more Chinese companies want to adopt the western way of doing business. In this way, is comprehensible that the power of *guanxi* may begin to be less important when having business deals with foreigners.

In order to understand if the cultural differences affect the business environment between foreign and Chinese companies or individuals, the present research and

interviews were set to recognize whether these facts are still significant in the present days.

### **2.3 Failure Attribution**

Nowadays, the topic of failure, is still a sensitive matter due to the fact that there are not many scholars researching on the theme. Nevertheless, the failure of a firm can be painful and costly. This might trigger a snowball of discouragement, decline, poor management or other misfortunes (Mcgrath, 1999). Furthermore, most studies fail to differentiate between failure of entrepreneurs and failure of their companies. Whereas, this study will focus on the on the firms and not on individual failures.

Many researchers tried to find the exact explanation for business failure, for example, *failure is defined as deviation from the entrepreneur's desired expectations, or failure may be seen as a discrete event of discontinuance or bankruptcy or even, as a process leading to any undesired business outcome with varying degree of definitiveness* (Salminen, 2012).

Although, to be fair, it is nearly impossible to characterize a business failure in just in a short and simple definition. Therefore, in a more complete way, a firm may cease to exist whenever it enters in a legal way of liquidation either compulsory or voluntary. This can be done through several processes, such as, acquisitions, mergers or retirement (Walsh & Cunningham, 2016). In addition, according to the literature of the author, failure of a business is defined whenever other companies cease to involve with the problematic venture due to the lack of economic viability stipulated by the entrepreneur (Ucbasaran, Shepherd, Lockett, & Lyon, 2013).

Regarding the literature of Cardon, Stevens and Potter 2011, there are individual (internal) and environment (external) factors that may contribute to venture failure. In addition, there are to be considered two main categorical causes of entrepreneurial failures, misfortunes and mistakes, which are characterize and are inserted in the internal factors. Misfortunes are defined to be the ones which are out of the entrepreneur's control but are important to the company, such as, a poor economy

## The Adversities of Doing Business in China: Why Western Companies Fail

or a natural disaster. On the mistakes section, it includes the individual error of the businessmen, such as lack of effort, lack of competitive strategies or poor business models that lead to the failure of the company (Cardon, Stevens, & Potter, 2011).

Focusing on the external factors, governments represent a key factor for the success of a company, by creating a suitable legal, political and economic environment for them (Carter & Wilton, 2006). Furthermore, regionalism is also a major implication whenever researchers look for reasons to blame why do ventures fail, especially whenever the culture aspect is presented (Cardon et al., 2011). In the following academic document, the main focus will incite on the external attributions, since they approach the cultural/language obstacles, especially *guanxi* and the Chinese economic environment.

When analyzing failure, researchers conclude that learning from previous mistakes and failures, could enhance the future success of entrepreneurs actions and avoid unnecessary loss, (Eskreis-Winkler & Fishbach, 2019; Singh, Corner, & Pavlovich, 2007) especially in China where were registered a considerable number of big multinational companies that were forced to cease their presence inside the Chinese economy.

### **2.4 Cases of Failed Western Companies in China**

Previous research on establishing businesses shows that the western ways of developing relationships are completely different from the eastern ways since the latter reflects on their own culture and history (Buttery & Wong, 1999).

#### **2.4.1 Mattel**

Moving to the first example of a failed western company, this fact can be appointed to be one of the reasons for Mattel stop doing business in China. As it is the most successful company in selling toys to kids, Mattel looked to the Chinese markets as a big opportunity to grow and to get profit from it. However, the brand committed a crucial mistake on not studying the Chinese culture.

## The Adversities of Doing Business in China: Why Western Companies Fail

The incident started in the year of 2009, when the brand opened a six-story building on one of the best locations of Shanghai (Gupta & Wang, 2011). They invested more than 30 Million dollars on the building (Carlson, 2013), which had the concept of being a temple for the most famous doll in the world, Barbie. The brand even created a new doll, Ling, an Asian barbie specifically created to match the local culture and lure the consumers to buy it (Gupta & Wang, 2011; Marquis & Yang, 2014). However, things did not go according to the brand plans, the store was too big, too expensive, and too confusing (Carlson, 2013; Gupta & Wang, 2011).

Mattel did misread the market, the company focused on the extras and not on the main product, misleading the consumer. In addition, the company find out the hard way that Chinese families want their kids to be well educated and not spoiled with 100\$ dolls (Marquis & Yang, 2014; Smith, 2013). Finally, when the company realized what was happening in the Chinese soil, was already too late to react thus, after 2 years of bad results, in 2011, Mattel was forced to close the megastore.

### 2.4.2 Ebay

In another example, some companies underestimate the power of *guanxi*. Ebay entered the Chinese market in 2002, being the brand pioneer and establishing the monopoly of the business sector. The brand bought another local firm which had major percentage of the Chinese C2C market. The group had over 2 million users and 85% of the Chinese market. However, eBay imposed their own ways of doing business and did not build up the proven business model of the brand they did bought (Li, 2018).

Business was doing well until the company underestimated one of the local competitors. This new company, founded in 2003, manage to escape the claws of the monopoly in that sector. Both companies followed a similar business model (Li, Li, & Lin, 2008), however, when taobao stole and won a lot of market share from eBay, details started to be important.

Ebay committed the mistake of misunderstanding *guanxi* (Carlson, 2013). This means that the company only relied on feedbacks and ratings from previous buyers



## The Adversities of Doing Business in China: Why Western Companies Fail

(Li, 2018). Also, it only had a chat app linked to the website (skype) not indicating directly whenever a buyer was online, which delayed the process of contacting each other's party (Ou & Davison, 2009). On the contrary, Taobao had a free of charge system that could locate the buyer and instantly communicate, a C2C platform that the users had a strong preference (Ou & Davison, 2009) and which the company actively encourage users to use the chat and send instant messages (Li, 2018).

The company also introduced a new way of payment which it did not require any kind of credit card like Ebay required. Since most of Chinese people don't have credit card, because they don't want it or don't need it, choosing to pay first with cash on delivery (Marquis & Yang, 2014) was essential. Additionally, a different and easy platform, the Alipay, seemed the easiest choice of preference between eBay and Taobao. All these maneuvers of introducing new ideas and innovating the eBay business model, made eBay lose around 75% of the market share in a period of almost 5 years (Li, 2018). For those reasons, after several years in China. the only advisable solution was to withdraw from the local market and sell the shares to the competitors.

### **2.4.3 Uber**

The third relevant example to mention regarding the Chinese economic market, is Uber. Ever since becoming a success, the company has opened their business to other markets and China was not an exception.

Uber's initiated its history in China, in Shanghai back in 2013. When entering the Chinese economy, the main local competitor financed by Tencent, Didi was already building up their path through the market. However, until 2015 Uber grew extremely fast and became the largest player in the market (Li, 2018).

On July of the same year, Uber was present in 11 Chinese cities and wanted to expand their market to 50 other cities which had at least, more than 5 million people (Yip & Li, 2016). However, regardless of the competitive advantage that Uber had, such as better technology (Ghemawat, 2016) or better know-how of the market, Didi was just more determined. They had more capital, which came from Tencent (Yip

## The Adversities of Doing Business in China: Why Western Companies Fail

& Li, 2016), a huge Chinese company, that incentivizes Didi to follow a premise: *it was to win or die* (Li, 2018).

Additionally, when the price war began and both companies started to bombard each other with marketing and subsidizing drivers in order to achieve lower fares (Larson, 2016), Chinese consumers started to prefer the services of the Chinese brand because they felt more connected and comfortable by supporting domestic players (Yip & Li, 2016). Eventually in 2016, Uber stepped out of the market, sold all the components to Didi and acquired nearly 20% of the Chinese company (Ghemawat, 2016; Li, 2018). Most WIFs made mistakes in China, but in Uber's case, it was not simply a matter of what it did wrong, but what Didi did better, which can be justified with the higher economic power the Chinese company had and was prepared.

These companies are not the only examples of big enterprises which failed in the Chinese market. Brands like Home Depot (Smith, 2013), Best Buy, Tesco or Google found out the hard way what the lack of understanding of the local culture and economy of the country may cause.

### **2.5 Funding**

When entrepreneurs think of starting a business, funding is a concern in the everyone's minds, so that the penetration of the market might occur in the best and most profitable way possible. The literature suggests that the advances and effects of government R&D programs may differ depending on the markets, the funding bureaucracy and the way the subsidies are attributed (Guo, Guo, & Jiang, 2016). Furthermore, even when having a non-profit organization, funding of the government can improve the institution's legitimacy, reputation and competitive capacities (Shen, Yu, Li, & Huang, 2019).

It was proven that companies that have well connected politic network tend to benefit when entering in regulated industries (Boubakri, Cosset, & Saffar, 2008). In China, the higher the proximity of the company to the political power, the higher the probability to get funding from the government (Hou, Lian, Li, & Wang, 2019).

## The Adversities of Doing Business in China: Why Western Companies Fail

In addition, there are several government agencies that provide funding to new business and existing ones making possible the creation of new research projects, products and services. The most significant agencies are the Ministry of Science and Technology (MoST), the National Natural Science Foundation of China (NNSFC), the Chinese Academy of Sciences (CAS), and the China Scholarship Council (CSC) affiliated to the Ministry of Education (MoE).

*Since 2012, the number of firms receiving the government subsidies has accounted for over 40% of all the listed firms in China (Tao, Sun, Zhu, & Yang, 2017).* The existence of these programs enhances the effort that the Chinese government is having, since it opens to up to international markets, to captivate the foreign direct investment (FDI) and help new companies settle in the country. As an example, it can be confirmed that according to the 2018 annual report of the National Natural Science Foundation of China (Ministry of Science and Technology, 2019) the entire amount of public funding, has registered an increase from 80 million yuan in 1986 to 30.703 billion yuan in 2018, divided in a total direct funding of 25.991 billion yuan and indirect funding of 4.712 billion yuan. This represents an increase of more 300 times between these 2 periods of time.

### **2.5.1 Location**

As mention before, many foreign firms originally established R&D centers in China to develop localized products that are attractive to a very large and growing consumer market in China (Gassmann & Han, 2004).

The majority of big cities in China, have the desire of lure FDI to the local areas, in that way the local government establish specific areas that which foreign (and not only) companies can initiate a safe growth, with more benefits and government incentives. One of these city zones is called “Hi-tech-zone”, normally located in the outskirts of the city center which creates a big advantage in terms of land prices when renting buildings or offices (Wang, Yang, Zhao, & Wang, 2019). The first hi-tech zone was established in 1988 at the country’s capital, Beijing, by state Council and supported by the national government. However, these zones only started to

## The Adversities of Doing Business in China: Why Western Companies Fail

open to foreign companies when China entered in the World Trade Organization. Nowadays, there are over 169 hi-tech zones spread across 31 provinces and multiple cities in China. As an example, in Chengdu, which is considered one of the new growth potencies in China with a GDP growth rate higher than Beijing or Shanghai, the Hi-tech zone was set to attract the FDI and also try to make foreign companies settle up in the city. According to the website, Chengdu High-Tech (CDHT) zone, was approved as the first batch of national high-tech zones in China in 1991. In 2006, it was identified by the Ministry of Science and Technology as the pilot park for creating a “world-class high-tech park” in the country. In 2015, it was approved by the State Council to become the first national independent innovation demonstration zone in the western region, making Sichuan one of the most influent cities in terms of innovation in China.

The CDHT is built around the overall layout of “One District, Four Parks”. According to the website, in 2017, there were 156,000 market players in these zones. Among them, there are more than 115,000 enterprises, 115 listed companies on new Over-The-Counter (OTC) market, and 1058 high-tech enterprises. Among them, big international tech companies have their R&D centres located in the park, companies such as Grofund, Huawei, BOE, Lenovo, Texas Instruments or Foxconn. This zone is open for mostly all companies that want to establish a new point of sales or research in China, however, these zones give priority and more benefits to innovation related companies, especially to new business and big companies. As an example, in 2017, the “new economy” achieved an output value of 330 billion yuan. It has cultivated more than 30 “unicorns” and “potential unicorns” (referred as startups) enterprises such as trendy media, tech, medical cloud technology, digital joints and celestial interaction. According to the website, among the 100 key enterprises in Chengdu's “new economy”, there are 69 enterprises located in Chengdu High-tech Zone.

Regarding the special funds, Chengdu also have a special Hi-tech park for recent graduates, this park was established under the great support of the Administrative Committee of Chengdu Hi-Tech zone and is directly operated and managed by

## The Adversities of Doing Business in China: Why Western Companies Fail

Chengdu Hi-tech zone innovation and startup service center. The park consists in helping several fields of business the settlement of the individuals and their new projects.

### **2.5.2 Types of Enterprises**

In more than 156 thousand market players in this Hi-tech zone most of the companies established are labelled and considered start-ups or unicorns. The reason for this to happen is linked with the investment risks that external investors face and also because of the subsidies that the Chinese government provide. *As entrepreneurial firms are start-ups vulnerable to the liability of newness but with little information disclosed to the public, external investors often find themselves at a disadvantage in assessing the prospects and risks of the firms relative to the entrepreneurs (Stuart et al., 1999, Zhang and Wiersema, 2009)* (Boubakri et al., 2008). Additionally these types of companies are the ones who benefit the most from synergetic effect of combining resources (Yang, Bossink, & Peverelli, 2017).

Besides most of the companies being considered start-ups, “big sharks” also dive in these waters. Companies like Intel or Dell are also very important for the innovation development of the region as they have the necessary funds to explore and invest in expensive projects that can attract more investors and researchers on the matter.

### **2.5.3 Funding Granted**

Mostly all companies are allowed to apply for these hi-tech zones, however, not all enterprises receive the same benefits. Regardless of the amount of funds granted, according to the Chinese website and the table 1-1 and table 1-2, the majority of the companies that are located in these zones, benefit especially from the low taxes. Additionally, Chinese official policy makers, also allows benefits in other ways and sectors in order for the companies to achieve the maximum success and performance at a new market, such as, R&D, tax, talent, and social-economic environmental cultivation (Yang et al., 2017).

Nonetheless, Government R&D programs support private R&D activities through two major instruments, namely, tax incentives and direct subsidies. According to

## The Adversities of Doing Business in China: Why Western Companies Fail

government officials in Chengdu, these benefits are divided in categories, which range by how important to the theme of the park the companies are. In example, a transportation company, can receive less benefits than an AI company, even if both are in the same area with the same conditions. Another category is set on how big the companies are and how much impact can they make on the local economy. For example, companies such as Dell or Intel, which have R&D centers in Chengdu, are attributed more benefits to stay in the city. Finally, one more category can be described as the starting engine of a start-up. In this case, the local government implemented special funds for new business and also recent graduates from universities that want to settle a new business in these technological zones.

For this research, the different amount of funds that are granted to a venture, are relevant in the way that not all companies are equal. In order to be fair, different companies must be ranked in different categories of relevance for the city's/country's preference.

### **2.5.4 Time**

According to previous literature (Guo et al., 2016), the effects of government funds are very significative for companies between the 1<sup>st</sup> and 3<sup>rd</sup> year of its uses, especially for small firms. The government of China is not an exception and as it can be observed, most of the subsidies attributed range between 1-3 with other benefits to make the company stay at the park. In addition, in some cases of CDHT the length of the funds and subsidies can be extended 2 years more, making it possible to canalize extra assets to the development of new projects.

## The Adversities of Doing Business in China: Why Western Companies Fail

**Table 1: Policies of Chengdu Hi-Tech Zone – Innovation Startups**

Type of enterprise		Funding granted	Time	Area of the office	Rent subsidy
<b>Newly innovation startups:</b>					
Supporting high-level talents	Supporting college graduates	RMB500,000	3-year office rent	Area within 200m <sup>2</sup>	40RMB/m <sup>2</sup> Per month
<b>Innovation and startup carriers operated by government</b>		Decoration subsidy: RMB3 million. Operation subsidy: RMB1 million per year.	3-year rent-free exemption	Area within 3,000m <sup>2</sup>	RMB1,000/m <sup>2</sup> ,
<b>Non-government-run carriers</b>		RMB300,000 +RMB50,000		Area above 500m <sup>2</sup> +100m <sup>2</sup>	
<b>Innovation startups introduced under the:</b>	JingRong CDHT Talent Program	RMB10,000			
	Chengdu Talent Program	RMB50,000			
	Thousand Talents Program of Sichuan Province	RMB100,000			
	Thousand Talents Program of the Organization Department of CPC Central Committee	RMB200,000			
<b>Company that holds more than 50 intellectual property rights (IPR)</b>		RMB50,000 +RMB50,000 for every 30 IPR.			
<b>startup enterprises that has gone public/got listed on:</b>	Main board	RMB300,000			
	ChiNext/GEM	RMB200,000			
	NEEQ	RMB50,000			
	4 <sup>th</sup> board market financing or trading	RMB10,000			
<b>Virtual incubators (for 30 companies)</b>		RMB100,000 +RMB10,000 for every 10 companies			
<b>Wholly foreign-owned or Sino-foreign joint (shareholding above 30%) innovation startups</b>		RMB100,000–1,000,000	3year office rent	Within 300m <sup>2</sup>	RMB50/m <sup>2</sup> per month

Source: Adapted from Policies of Chengdu Hi-Tech

**Table 2: Policies of Chengdu Hi-Tech Zone – International enterprises**

<b>Type of enterprise</b>	<b>Funding granted</b>
<b>Innovation startups annual export USD1 Million &gt;30% annual sales</b>	RMB100,000 + RMB50,000 for every USD100,000 export
<b>introduction of internationally advanced technologies by innovation Startups</b>	RMB10,000 for every single international PCT invention patent.
<b>International innovation and Startup carriers (30% shareholding) 50% annual export</b>	An extra subsidy of 30% on top of the other subsidies
<b>International Public Service Platforms</b>	2% of the service fees with a cap up to RMB2 million for international public service platforms
<b>International online innovation Startups</b>	RMB5,000 subsidy per startup project, with a total subsidy up to RMB50,000 per activity for each provider.
<b>Financial institutions</b>	RMB10,000 for serving every single innovation and startup enterprise, with an upper limit of RMB500,000 per institution per year.

Source: Adapted from Policies of Chengdu Hi-Tech

Both tables provide a summarized analysis of the document of the Policies of Chengdu Hi-Tech Zone for Further Promoting Innovation and Start-up Development. These policies were verbalized to further promote innovation and start-up development at Chengdu Hi-Tech Zone (CDHT), increasing the city’s objective of turning the CDHT an international innovation HUB for Start-ups. However, when comparing to other international HUBs for start-ups such as Silicon Valley, New York or London, Chengdu is still taking “baby steps”.



### **CHAPTER 3: METHODOLOGY**

In order to explore foreign businesses failures in China, it is vital to have a structured methodology to understand how data was collected, presented and analysed. The valuable information acquired in the research project is set to be linked with the literature review, explaining the reasons of presenting and mentioning a wide fan of investigators, researchers and international surveys.

#### **3.1 Data Collection**

The chosen method to conduct this research can be divided in several steps. Since the objective of the project is to have the most accurate data possible, the project initially relies on information acquired in academic papers, journals of investigation or annual business reports. As examples, Journal of Business Ethics, Journal of Marketing, Journal of Management, British Journal of Sociology, AmCham China and PwC on the titles: 2018 China Business Report; 2018 China Business Climate Survey Report. The importance of acquiring and reviewing this data allows to establish a theoretical framework and methodological technique, contextualizing theory that has not been as developed.

The second phase of the research focused on conducting interviews to several former/ongoing businessmen that did or are currently doing business in China. This criterion included both if their businesses failed or not. The latter had the main objective of providing a different overview on the obstacles faced by businesses when dealing with Chinese government, companies or individuals. The in-depth interview method was the chosen one mainly because of its ability to provide the most the most personalized way to get accurate data and different points of view. In the end, it was possible to draw a pattern from this research that led to specific conclusions.

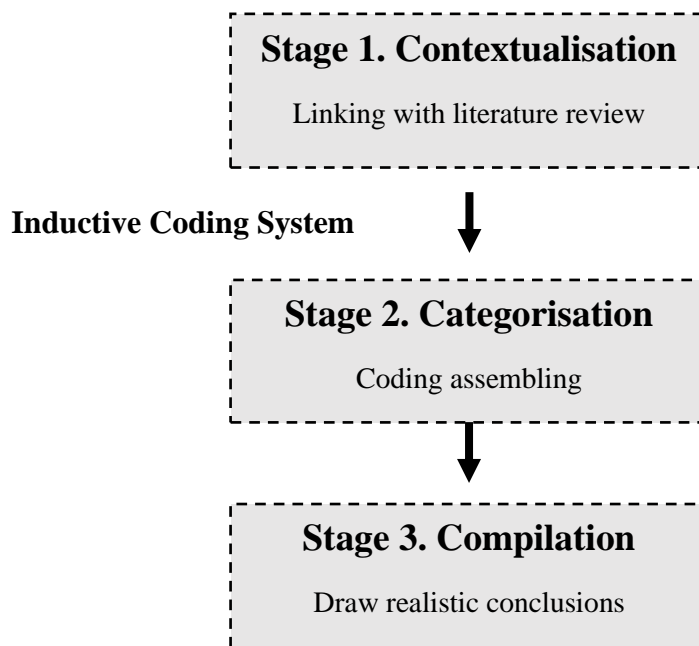
#### **3.2 Methodologic Procedure**

The conclusions were drawn from comparisons in the interviews made between western and Chinese behaviours and companies. Moreover, results were analysed based on the type of answers recovered with the help of an informatic software, a

## The Adversities of Doing Business in China: Why Western Companies Fail

computer aided qualitative data analysis software: Atlas.ti. This way, it was possible to separate the important information gathered in the interviews and also use the electronic program to provide more statistical data. The basic criteria focused on the reason(s) of failure inside Chinese borders, how a company could avoid committing the same mistakes as previous ones and whether the Chinese culture has any influence on business failures.

The whole process of analysis the interviews was based on a similar model provided by Mariette Bengtsson (2016), where it explains the different steps on how the method was performed during the analysis. Moreover, the construction of the diagram below and the methodology of the research which explain the process, was also provided by the guidelines of the book of Marketing Research by the author of Naresh K. Malhotra.(Bengtsson, 2016; Malhotra, Nunan, & Birks, 2017)



*Figure 1: Methodologic Framework*

Initially, the rough information gathered was putted into context by linking what researchers had previously investigated to the research questions.

## The Adversities of Doing Business in China: Why Western Companies Fail

The second step is the Inductive Coding Method. In this stage, information about the research topic is not as developed and this leads to the assembly of its own codebook. This allowed to group and categorise quotes of individuals that accepted to answer the interview questions.

Since, the literature review was divided in several sub themes, the same structure was applied to the results. These sections, as mentioned before, verify or contradict the theories presented in the literature review by quoting relevant excerpts from the interviews. Finally, the formulated categories were then set to review and recap all the important topics for research and sort them by interview creating a compilation of key factors, displayed in the tables below as the different descriptions.

The presented interviews were performed through two ways. The face-to-face (1) method was the most regular technique used to perform the interviews. This represents, when referring to interviews, the most valuable method to gather information. The reason remains on the fact that the interviewer can read the behaviours, feelings and expressions of interviewee. Moreover, when conducting a face-to-face interview, the interviewer is free to, based on the semi-structured script, follow different routes of discussion, having more liberty to turn back to a specific topic and enquire the interviewee for clarification on a specific aspect. On the contrary, one of the disadvantages of the face-to-face method is the fact that it is time consuming and the subject can easily get out of the supposed tracks, leading the interviewee to share irrelevant information for the research topic. The phone call/video conference (2) method was also a usual procedure used to perform some of the interviews. Even though similar to the Face-to-Face method, it does not allow to read the interviewee's behaviours, feelings and expressions.

The target for the interviews were CEO's, project managers or entrepreneurs that were or are currently doing business in China individually or through a position in a company. The interviews also targeted those who have had experience in China, which helped understand the different time frames of the individuals in the country, such as adaptation or settling phases. In addition, it was also targeted individuals

## The Adversities of Doing Business in China: Why Western Companies Fail

from the local government in order to provide an overview of the opinions provided. A total of twenty-one (21) individual interviews were conducted. In order to ensure reliable data, the interviews took into consideration the different industries and jobs of the interviewees. These areas included Marketing, Information Technology, Management, Hospitality, Tourism, Engineering, Telecommunications, Consulting, Healthcare, Design and Government. The interview length ranged from 20 to 40 minutes long and a total of ten (10) nationalities were interviewed.

### **3.3 Data Analysis**

The analysis conducted was structured in four distinct parts. The main goal in conducting the analysis like this is to easily associate the literature review findings to the results obtained and therefore, answer the research questions proposed in the introduction. The first three parts were built with the most influential and significant quotes of the interviewees, which helped establishing codes that were used to assign different categories. Regarding the final part, the objective of building such segment was, by using the categories created, establishing some subcategories and list the adversities that the entrepreneurs faced. Hence, the creation of a graph with the most repeated words was significant to show how important a subject can be to maintain a successful business in China. As mentioned before, to build this segment it was used a specific software (CAQDAS), Atlas.ti. In addition, an additional graph was created in order to measure the nationalities and the sum of the total number of the companies, mentioned by the interviewers.

## CHAPTER 4: RESULTS ANALYSIS

Conducting interviews is one of the most flexible and widely research methods used for gathering qualitative information about people's experience, opinions, feelings and points of view. For this analysis, discussion topics are formulated according to the existing literature.

### 4.1 Chinese Culture

The existing literature has previously shown that the differences entrepreneurs face when dealing with Chinese companies or individuals, are sometimes the most difficult adversity to overcome. This often leads to inevitable cultural clashes.

In this study, as it can be observed in Table 3, the Relationships and Communication, Environment Adaptation and Decision-making Process represent the most important factors for the interviewees. Several decades after China opened their borders to international markets, foreign individuals still struggle to understand and often underestimate how the Chinese market is affected by its traditions and behaviours.

According to Walsh, Grace S.; Cunningham, James A. (2016), a large portion of the mistakes occurs due to cultural aspects. In addition, regarding the business relationships, it was often mentioned that time is also an important feature to create a sustainable business relationship *“It is very important for foreign companies to have this mind of settling for at least 5 years, because it takes time for Chinese people to trust you for being business partners and so on, also to meet the right people and the right channel here.* (interviewee n°3).

Additionally, western companies are typically used to maintaining relationships on the professional side, focusing on making the deal, discussing the economics goals and signing the contract. However, when dealing with Chinese companies, as one of this research interviewee's quotes, *“Most (Chinese) people don't want to talk business directly, they talk about their life's first and then about business”* (interviewee n°6). This practice is performed in order to create trust ties around the relationship. It is based on the concept of *“if I get to know your personal aspects, I will get to understand your business character”*. In addition, regarding this topic,

## The Adversities of Doing Business in China: Why Western Companies Fail

when making a business decision, hesitation can be a great obstacle for foreign companies. Due to the lack of knowledge of Chinese specific cultural aspects, it is common to make mistakes. For example, while on interviews or signing contracts it is common to offer cigarettes to the other party and smoke while discussing the deal, meaning that both parts are satisfied.

Moreover, several behaviours must be taken in to account when having a business meal in China, such as, the way to cross/use the chopsticks or the way to cheers, *“In china if you want to do business and get more clients you have to drink baidjou which is Chinese alcohol and most western companies don’t get it especial in business status”* (interviewee n°17). Since the Chinese culture is still very hierarchical and traditional (*“The hierarchical structures still exist in different levels because in china there are state owned companies, private companies small and big, but this hierarchical structure exist more in state owned companies and big companies.”* (interviewee n°6), doing business wrongly can be considered offensive which can influence the outcome of the business or the relationship.

## The Adversities of Doing Business in China: Why Western Companies Fail

***Table 3: Cultural Descriptive***

<b>Description</b>	<b>Examples</b>
<b>Relationships and Communication</b>	<p>“I got a contract, and I said “this part is to change, that part is to change.” And, after 1 hour of negotiations, when I get the new contract, not only those parts changed but, when I start reading the contract, other parts also changed. I told them it was not ok and they say “oh yes I’m sorry, we will change it”. When they come again, they say “okay just sign here” and when I checked again, I noticed they changed other things. You start question, “are making this deal or not?”</p> <p>“people from western Europe like, Spain, Italy, French. They have a lot of holidays and festivals. That’s a difficulty we deal with because they are not so available to communicate.”</p>
<b>Environment Adaptation</b>	<p>“came here to make some kind of research, so that everyone was depending of my knowledge because our market is completely different, for example most of them were more experienced than me for sure, and when they arrived, they did know anything. Their knowledge wasn’t enough to come here”</p> <p>“the most Europeans are not aware of the full meaning of guanxi.”</p>
<b>Decision Making Process</b>	<p>“Chinese people don’t like to take any decision in their business life, even it was very simple. But since i know, that their job can depend on this, I can understand this a little bit. But very often it was strange, to wait hours, because of no decision.”</p> <p>“And now we say you are allowed to compete with a hand full of competitors, maybe this is where the <i>guanxi</i> comes in to play but, I do not feel that this is the only one. It also depends on the decision-making process how complex and competitive it will be.”</p>

Source: Own Elaboration

#### 4.2 Motives for Failure

The economy of the country is an important factor to consider when doing business in a different ground due to several aspects. Firstly, China is a vast country and, as explained in the literature review, it is the country whose economic development occurred faster than any other economy in the world, going from one of the poorest countries to the second strongest world economy in four decades.

Nowadays, China is considered to be a living gold mine for entrepreneurs “*China market is huge, huge demand, huge potential*” (interviewee n°4), “*China’s economy nowadays is really dynamic and diverse.*” (interviewee n°6) or “*Chinese economy is growing; I think is the most powerful economy in the world or one of the most powerful, so everyone wants to do business in china basically to make more money.*” (interviewee n°17) and there are numerous reasons for that. Some of these reasons reside in a weaker currency in comparison to the dollar, pound or euro, the non-existence of many competitors in several locations, the “Belt and Road” initiative (which is considered the biggest and most megalomaniac economic program ever) and the cheap.

As referred by several interviewees, cheap labour, since the international boom in 2000’s, made big companies such as Intel or Nike assemble their manufacturing factories in the country. “*For foreign companies’ years before, there were many manufacturing companies like DELL or INTEL and these kinds of companies, they come mainly to register their manufacturing base in china, because back there it was cheaper the labour costs*” (interviewee n°3). However, cheap labour is becoming more highly educated leading more tech companies to come to China to establish their business.

In addition, according to the data collected, when entering the market is crucial to have a Chinese partner that deals with the local markets and has knowledge on how the market works. The lack of an efficient and trustworthy Chinese intermediary was appointed in the majority of the interviews as a crucial factor for failing inside Chinese borders. The table below, also shows clear signs of the difficulty foreign



## The Adversities of Doing Business in China: Why Western Companies Fail

companies must deal with, regarding the methods of payment and the on-schedule payment by Chinese companies.

In the researcher's view, the economic differences can be linked to the cultural differences of the Foreign-Chinese relationship. Taking in to account that most aspects are completely different from western habits and it can display clear signs of mistakes made by each party that affect the business "*For Chinese culture, we put ourselves in a way of protecting our resources, so in the business world, people tend to bound with each other very closely either friendships or social network,*" (interviewee n°3). Mattel's failure for example, is a perfect example of how the lack of understanding of the economic and cultural differences can affect a business. For Chinese families, it was not reasonable to pay a higher price for a doll, unlike western families.

Recovering the Uber example, according to the Literature Review, the scientific community would categorise Uber in China as another western company that failed in the territory and did not know how to adapt to circumstances. Nonetheless, some businesspeople during the interviews, appointed and classified Uber in China as not completely failure (interviewee n°6, 14 & 20). Back in 2016, when Uber settled a deal with Didi, the western company did not exactly exit the market, as it still owns, more precisely, 17,7% of the stakes of Didi. It continues to profit and influence the Chinese market and Didi now has an official app in English that can be downloaded either on Apple or Play Store.

## The Adversities of Doing Business in China: Why Western Companies Fail

*Table 4: Economic Descriptive*

Description	Examples:
<b>Proper Payment</b>	“we have some difficulties right now to receive all of the money that we have actually build for, so I could imagine if it turns out that the Chinese market is very difficult in terms of receiving the money you are supposed to earn”
<b>Cheap labour</b>	“Sometimes it was also hard to get the payments from the clients as some did not want to pay” “there were companies coming in setting up factories and do their manufacturing area”
<b>Economic opportunity</b>	“this is huge, this is the biggest market in the world” “China is developing so fast, and attracting more and more money, funds and excellent people. China’s economy nowadays is really dynamic and diverse.”
<b>Business intermediary</b>	“you really should find a good agency that deal the “between things” for you, that will help you avoid so much troubles and meet all the goals and objectives.” “if a tech company wants to sell their product to China, they either find Chinese company who have, like sales channels, or has costumers in China and collaborate with this tech company and they don’t really have to fully adapt to this market.” Siemens has also a big local Chinese regional unit / company. That means, not all the communication and relationship was between foreigner and Chinese. Very often it was between Chinese and Chinese.
<b>Time</b>	“if you are trying to open an establishment in China you need to be associated with a Chinese person otherwise you will not be going to be allowed to open. It has to be an intermediary.” “I think patience and dedication, you cannot come to China and think “ok I’m trying for 2 years and then move away”.

Source: Own Elaboration

### 4.3 Funding

*Table 5: Government Relationship*

<b>Description</b>	<b>Examples:</b>
<b>Government</b>	<p>“More probable to fail or not get the deal done with the Chinese government because, B2G is a very cheeky business because government can change everything anytime”</p> <p>“The biggest problem for the company was about the funding because it’s a private company so, it didn’t have any support from the polish government at all”</p>
<b>Laws</b>	<p>“When we ask them (company from Israel) about their experiences, they didn’t know the policies and you know that China is different with the government and the rules and these polices can by linked to rules and funding that the company didn’t know about.”</p> <p>“Regarding dealing with foreigners, the most adversities maybe the local competitors and local laws.”</p> <p>“most of the companies are from western countries have concrete laws, but in china we are developing but maybe our law is still different, slightly different.”</p>
<b>Business</b>	<p>“(15 years ago) we had a public governmental client and that was a good cooperation, the project had no major issues and went quite smooth and, in the end, it was successful and still is today.”</p>

Source: Own Elaboration

## The Adversities of Doing Business in China: Why Western Companies Fail

The data collected from the interviews shows that the government is still an important topic, as it was mentioned by several interviewees. This contributes to the theory that suggests that when a foreign company attempts to penetrate the Chinese market, help from the local government is key for the growth of the enterprise.

*Additionally, according to the literature, with government subsidies, entrepreneurial firms will be considered capable of navigating the uncertain waters of political institutions in China since these subsidies can help entrepreneurial firms gain financial resources, political legitimacy, and shortcuts to exclusive government endorsement and favourable treatment, all of which are crucial for their survival (Chen, Heng, Tan, & Lin, 2018).*

Furthermore, the lack of governmental information also characterises one of the difficulties that new commers face when dealing with Chinese economy. As most of the interviewees' mention, without the government support and contacts, is hard to thrive in China. Those contacts have the necessary information and know what is allowed and not allowed in the city/country, furthermore they help companies avoid unnecessary mistakes. On the researcher point of view, it was surprisingly difficult to find specific information regarding funding to new companies, however, thanks to the courtesy of one of the interviewees, the document with the policies of the CDHT was obtained.

### **4.4 Results Compilation**

The tables above describe a comparison analysis between the 21 interviews conducted. In order to understand the main adversities faced by businesspeople, several categories were created.

When analysing category by category, a pattern can be found across different interviews. For example, as expressed in the category of *Politic/administrative*, the majority of the individuals undeniably concurs on enhancing the fact that when a foreign company wants to enter the Chinese market, government funding is crucial for survival, adaptation and growth. In addition, as some of the interviews mentioned, is hard to get funding in several areas due to two main factors. In China,

## The Adversities of Doing Business in China: Why Western Companies Fail

companies often face the problem of increased bureaucracy (1). The latter is an example of the failed case of Ebay, where it would take several weeks for a simple word to be changed in their Chinese website, leading Chinese competitors to gain a competitive advantage due to local preference. Competition (2) is also a factor that makes hard to get government subsidies, *“it was really hard because so many companies wanted this support from the government, especially for software applications”* in addition, *“regarding Chinese government, they didn’t have the perfect knowledge to what the application is. It was like “why do we need you if we can make it by ourselves?””* (interviewee n°2). Companies often find themselves battling for government funds.

It was also mentioned that due to the high regulations and the fact that the political regime is not a democracy, companies find themselves in trouble with the excess amount of bureaucracy required to enter the market. *“The political system that doesn’t allow them to get info in continental”* (interviewee n°14) or, *“When we ask them about their experiences, they didn’t know the policies. You know that china is different with the government and the rules and these polices can be linked to rules and funding that the company didn’t know about.”* (interviewee n°5) are some examples from the entrepreneurs’ point of view. To the researcher’s view, the political/administrative category will always represent a major adversity since it has implications on other categories such as economic implications, *“in China the economy is driven with a political baton”* (interviewee n°14), technological implications, *“you have tools such as Facebook, Google, Instagram, you have so many opportunities which we know, which we live with and we use them. So, when you come here you ask yourself “how to start? Everything is blocked!””* (interviewee n°2), culture or relationships implications *“Fortunately we had an intermediate in china that helped us to penetrate the market and assemble all the details with the state”* (interviewee n°20).

Regarding the *Socio-Culture* category, it is also evident that a common pattern strikes up for the people interviewed. Cultural adversities are always a matter of understanding the other party, adaptation and a lot of patience. As described in the

## The Adversities of Doing Business in China: Why Western Companies Fail

literature review, the differences between western culture and Chinese culture are colossal, resulting in often clashes when doing business.

Two different points of view were identified: the foreign and the Chinese point of view. On the foreign side, it was described as very difficult to do business with Chinese in the first time, due to trust issues and the language barrier. On the other hand, Chinese individuals can describe foreigners as “arrogant” or “with lack of creativity” *“a lot of the western companies that come to the Chinese market sometimes they can have their arrogance execute (...) if you are coming to china, no matter how great you are, whenever you come to a new market, be and stay humble. Give yourself some time to learn and listen and observe before you make big decision”* (interviewee n°17) which makes them link back to the trust issues. Additionally, a businessmen pointed out a specific term that also characterised the chinese culture: *““Zhongyong” which means that you stay neutral and it is very typical Chinese. Our traditional teachings will require us to be more neutral and less extreme”* (interviewee n°12). This can also represent an adversity for foreign companies and individuals because *“Sometimes some foreigners don’t understand what the Chinese are trying to say because it’s really void and that could be bad, they just get lost”* (interviewee n°12).

*“This is huge, this is the biggest market in the world”* (interviewee n°2), *“the Chinese market is so big”* (interviewee n°1), *“markets are getting open”* (interviewee n°8), *“foreign companies they are more like market driven. Because of the market potential that China has”* (interviewee n°3), *“China market is huge, huge demand, huge potential”* (interviewee n°4) or *“China is developing so fast, and attracting more and more money, funds and excellent people. China’s economy nowadays is really dynamic and diverse.”* (interviewee n°5). These were some of the quotes mentioned by entrepreneurs when asked to give reasons on why companies should look to invest in China. In this section, *Economic and Financial* the analysis was set to confirm what was explained in the literature review. Even though the size of the market is one of the main motivations to invest in China, this can also represent an adversity for businesses. The rush to invest in this “gold mine” may blind

## The Adversities of Doing Business in China: Why Western Companies Fail

entrepreneurs and lead to unnecessary economic and financial mistakes. In addition, in a time that are several on-going global events, such as trade wars or the Chinese economic slowdown, all the concerns must be taken in to account to ensure the success of a business.

One of the most surprising results of the interviews confirm the theory of Puffer (2010). The latter states that in the past decades the importance of having a strong *guanxi*, which until now was mandatory to have a good working business, has started to decrease. Despite a small amount of businessmen mentioning that *guanxi* is still as important as it was in early stages when doing business in China “*Guanxi is much more important in china than other countries*” (interviewee n°6) or “*I think guanxi its importance has never changed*” (interviewee n°10 & 12), the majority of the interviewers gave more importance to the fact of finding a suitable business partner to work with, either governmental or other Chinese businesses. Additionally, one can state that establishing a business in China without proper contacts is near impossible.

Providing the right *Contract* with the adequate terms of agreement between two parties is, not always, an easy task to perform. Combining this factor with the cultural differences, this can become a nightmare. As mentioned in several tables, some foreigners have difficulties trusting Chinese due to the fact that “*every time they have the chance, they will try to cheat you*” (interviewee n°2 & 18), which is even confirmed by Chinese natives “*not all of us are very trustworthy.*” (interviewee n°3). This is an extremely relevant obstacle for new business relationships that leads to prejudices, cultural judging and lack of interest to do business.

Surprisingly *Marketing* was also one of the points that was mentioned in the interviews. Interviewees consider that there is no quality marketing in the country since most is done locally and not nationally, “*in China there is a lot of rubbish traffic, and if you want something good you should have a good background with other companies that monopolise the market, such as Alibaba, Tencent and Baidu. Most sources in China are controlled and come from one of these companies*”

## The Adversities of Doing Business in China: Why Western Companies Fail

(interviewee n°5). Additionally, this can also represent a big adversity for new marketing companies who wish to invest in the country, since it is increasingly more difficult to compete with these market leaders, as one interviewer pointed out: *“the problem is when you are here, your competitors ads are everywhere and they don’t know you if you are nobody, you cannot even get a small part of the market”* (interviewee n°15).

China is not a country where business strategies can be thought of in short term. If the goal of the individual/company is to simply make a couple of deals and move to other markets, there is a high chance of failure. As the majority of the entrepreneur’s mentioned, the very minimum one should look at is at least 3-5 years in China *“It is very important for foreign companies to have this mind of settling for at least 5 years, because it takes time for Chinese people to trust you for being business partners and so on, also to meet the right people and the right channel here.”* (interviewee n°3). Even if the person or company has the knowledge, they lack the field *experience*. According to one interview (interviewee n°2), this can represent up to 75% probability for the success of the business.

Regarding the *quality of the products or services*, there is a common ground for most entrepreneurs, researchers and even consumers. It is often said that every product or service which has the label of “made in China” is either, not durable or doesn’t has the expected quality. This is explained by the fact that Chinese typically prefer manufacturing a product at the lowest possible cost, rather than investing in its quality and durability.

Additionally, as one general manager explained, it is also due to the lack of evaluation procedures *“there is a process of not using evaluation procedures, this is cultural due to the fact that they don’t want to “lose face” or “mianzi”. In china they have a quality debt because they don’t evaluate the process. The cost of quality in china is maintain the standard that is defined”* (interviewee n°18). However, in the past decade, this starting to become an urban and business myth. As it can be observed, not many people have mentioned the *quality of the products or services*



## The Adversities of Doing Business in China: Why Western Companies Fail

during the interviews and the reason for that is because the market evolved and the economy thrived, China lowered the stigma of being “the factory of the world” as previously mentioned in the literature review. The exponential growth gave space to a more organised manufacturing and service system, maintaining the low prices but highly focused on the quality.

As for the *Competitors*, it is often said that “*Everyone wants to do business in china in that way the competition is fierce, there are a huge line of people waiting for entering the market.*” (interviewee n°18), “*It is too much competition and too high barrier*” (interviewee n°12), or “*you might get attacked by national competition that makes a cartel and push you against the wall and you are forced to leave the market.*” (interviewee n°14). From the entrepreneur’s point of view, this can mean several aspects. Firstly, if companies are trying to enter in a market that already offers similar products/services, is extremely difficult to overcome the competitors at the entrance level. Secondly, if the company entering the market has a competitive advantage, it will have a window of adaptation of 3-5 years, meaning that after this time, (thirdly) local companies and governments will try to overcome and surpass the company by copying the model and presenting a similar one at a cheaper price. Moreover, entrepreneurs mentioned that from the year 2000 there has been a great increase of the number of foreign companies entering the Chinese market. “*During this time the Chinese market was starting to open up to the international markets*” (interviewee n°21) “*From 2000 to 2010 during this period it is the “low cost” that attracted those foreign companies to come to china and settle up their companies here*” (interviewee n°3).

Another adversity that could be mentioned, regarding the *Technologic /Innovation* is the informatic firewall that China possesses, known as the “blocking system”. Western social media such as, Facebook, Instagram, or Twitter are not allowed inside the country. For many western marketing companies that typically rely on these platforms to do business, adapting to local the market is a great challenge and risk to take, as it is necessary to re-educate the employees to use the tools available in the country.

## The Adversities of Doing Business in China: Why Western Companies Fail

Even though *Visas*, was only mentioned by one of the interviewee's, it still represents a highly important topic. Softening of the bureaucracy helps companies enter the market more easily and attract more investors to take the risk on penetrating the Chinese market. Recently the government of China established a global agreement with a great amount of countries that allows to double the number of allowed hours inside Chinese borders without needing to apply for a Visa. According to the Chinese government, from 1 of January of 2019 the 72 hours allowed in the country, increased to 144 hours without the requirement of any visa. For entrepreneurs, this measure will help increase the incentive of staying longer in China when performing a deal or when looking for suitable Chinese partners, boosting new projects. However, even if this is considered a great step for the country, getting other types of Visas, can be challenging due to the time and bureaucracy taken, as mentioned in the interview, "*right now I have 6 companies, 1 of them is taking native speakers from different countries coming to China, and is so hard to get a visa for them*" (interviewee n°2).

## The Adversities of Doing Business in China: Why Western Companies Fail

**Table 6: Matching Comparisons – Business Adversities I**

Interviews	1	2	3
Adversities	Germany	Germany	China
Company's Nationality	Germany	Germany	China
Job Position	Project Manager	Project Manager	Head of Local International Affairs
Sector	Engineering	Information Technology	Government
<b>Technologic /Innovation</b>		Blocking System (Social network)	Special treatment for innovative local companies
<b>Politic/ administrative</b>	Entering in Chinese markets is easier if we have support of government	If there isn't support from government is hard	Support of local government The importance to deal with government
<b>Economic and Financial</b>		The Chinese market is so big Risky even for big company	Market potential (might blind entrepreneurs)
<b>Socio- Culture</b>	Different way of doing business	Difficulty in communication: language is a barrier Cultural differences	Cultural differences
<b>Contracts</b>	Difficult to keeping contract	When making a deal, it can always change	Sometimes brand got tricked by their Chinese partners. Not all of Chinese are very trustworthy
<b>Quality of Products and Services</b>	Differences in quality of products: in China the quality is lower	Especially when Chinese people are not looking for quality but for the price	
<b>Marketing</b>		There is no marketing	
<b>Contacts /Guanxi</b>		Must have (with government is better)	Important to find a suitable Chinese partner
<b>Visas</b>		It is hard to get a visa Foreigners can buy apartments only if you have 10 years living in China	
<b>Experience</b>		Only after 5 years, started to understand the market	successful companies stay/ed 9/10/11/12 years. Short term enemy of long term

Source: Own Elaboration

## The Adversities of Doing Business in China: Why Western Companies Fail

**Table 7: Matching Comparisons - Business Adversities II**

<b>Interviews</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>Adversities</b>			
<b>Company's Nationality</b>	<b>China</b>	<b>China</b>	<b>United States</b>
<b>Job Position</b>	<b>Business Developer</b>	<b>Account Manager</b>	<b>Sales &amp; Marketing</b>
<b>Sector</b>	<b>Telecommunications</b>	<b>Marketing</b>	<b>Hospitality</b>
<b>Technologic /Innovation</b>	Western people not always creative	Blocking System (Social Network)	
<b>Politic/ administrative</b>	Local laws and policies.	Not knowing the rules of the government	
<b>Economic and Financial</b>	High cost and high price, of western products	Economy dynamic and diverse	High taxes for luxury foreign companies
<b>Socio- Culture</b>	Personality, arrogant behaviour by foreigners	Foreigners from Europe are not hard working. No sense of commitment	Adaptation to the market
<b>Quality of Products and Services</b>	Key factor is price, quality and good service		High quality high prices
<b>Marketing</b>	Chinese company seldom use advertisement for international business	No quality markets. Monopolized by 3 major players	
<b>Contacts /Guanxi</b>	If someone has relation with foreigners, he Can expand business much easier.	Find a good agency that deal the “between things” or who knows how the market works.	Strong relationship with Chinese partner
<b>Competitors</b>	Strong competitors from Asian countries	Big players control the market. Less foreign	Too many Chinese competitors
<b>Experience</b>	Run these markets for a long time you Can build a successfully brand	Lack of experience and ignorance of the polices leads to failure	30 years of experience VS no experience

Source: Own Elaboration

The Adversities of Doing Business in China: Why Western Companies Fail

**Table 8: Matching Comparisons - Business Adversities III**

<b>Interviews Adversities</b>	<b>7</b>	<b>8</b>	<b>9</b>
<b>Company's Nationality</b>	<b>Mexican</b>	<b>Russian</b>	<b>Germany</b>
<b>Job Position</b>	<b>Manager</b>	<b>Manager</b>	<b>Test Engineer - Train Control</b>
<b>Sector</b>	<b>Tourism</b>	<b>Tourism</b>	<b>Telecommunications</b>
<b>Technologic /Innovation</b>			Copy intellectual property
<b>Politic/ administrative</b>	Rules and regulations	There are two people to deal with bureaucracy	
<b>Economic and Financial</b>	No funds Proper payment	No funding	No funding at all Chinese market is saturated
<b>Socio- Culture</b>	Language barrier	Please Chinese and foreigners	Different behaviours Stressful Decision making
<b>Quality of Products and Services</b>			Produce more with less quality
<b>Marketing</b>		Difficulty on changing consumer's mind	No marketing
<b>Contacts /Guanxi</b>	Chinese intermediary dealt with all bureaucracy	Can't open an establishment without a Chinese intermediary	Without guanxi, it can really delay your projects
<b>Competitors</b>	We were the firsts, but now many players	A lot of players	Next years, lots of new Chinese companies doing the same
<b>Experience</b>	Need more than 3 years in China	Need more than 3 years in China	

Source: Own Elaboration

The Adversities of Doing Business in China: Why Western Companies Fail

**Table 9: Matching Comparisons - Business Adversities IV**

<b>Interviews Adversities</b>	<b>10</b>	<b>11</b>	<b>12</b>
<b>Company's Nationality</b>	<b>Portuguese</b>	<b>French &amp; United States</b>	<b>United States &amp; China</b>
<b>Job Position</b>	<b>CEO</b>	<b>Freelancer/ Programmer</b>	<b>Co-Founder &amp; Head of Investor relations</b>
<b>Sector</b>	<b>Consulting</b>	<b>Graphic Design</b>	<b>Healthcare</b>
<b>Technologic /Innovation</b>		Chinese don't give data Copy intellectual property	Suspicious about external technology
<b>Politic/ administrative</b>	Finding local partnerships	Too many rules in the technologic area	High regulations on public health
<b>Economic and Financial</b>	Discrimination for Foreign vs Chinese taxation		
<b>Socio- Culture</b>	Lack of understanding the values and history of China	Language barrier	Not understanding the market
<b>Quality of Products and Services</b>	Quality is increasing and so are the prices		
<b>Marketing</b>	Almost zero marketing for Portuguese companies. 3-5 years of marketing needed before launching the product/services.	Really weak outside cities such as Shanghai or Beijing	Require a lot of previous preparation
<b>Contacts /Guanxi</b>	Is still important as 5000 years ago	Becoming less important	Big stereotype
<b>Competitors</b>	Fierce when lack of relationships & product/service quality	Need to bring something new to the market	Learn how to adapt
<b>Experience</b>	Instead of working with locals, companies send inexperienced people to China.	1-year experience is nothing	Ex-boss with more than 20 years' experience in sector

Source: Own Elaboration

The Adversities of Doing Business in China: Why Western Companies Fail

**Table 10: Matching Comparisons - Business AdversitiesV**

<b>Interviews</b>	<b>13</b>	<b>14</b>	<b>15</b>
<b>Adversities</b>	<b>Cambodia &amp; China</b>	<b>Portuguese</b>	<b>Spain &amp; China</b>
<b>Company's Nationality</b>	<b>Cambodia &amp; China</b>	<b>Portuguese</b>	<b>Spain &amp; China</b>
<b>Job Position</b>	<b>Project Developer</b>	<b>Secretary General</b>	<b>Director of Trade and Investment</b>
<b>Sector</b>	<b>Construction &amp; Tourism</b>	<b>Industry &amp; Commerce</b>	<b>Government</b>
<b>Technologic /Innovation</b>	Blocking System (social Network) Stealing intellectual property	Blocking System (social Network)	
<b>Politic/ administrative</b>	Chinese tight rules and regulations	Close System	
<b>Economic and Financial</b>	Price: Foreign Vs Chinese	Controlled market	Lack of focus and investment (westerns)
<b>Socio- Culture</b>	Price: Foreign Vs Chinese	Body Language	Chinese have Limited patience
<b>Quality of Products and Services</b>	Copy of the products		
<b>Marketing</b>		Westerner Vs Chinese	Overwhelmed with ads
<b>Contacts /Guanxi</b>	Has big impact, becoming less important	Has big impact, becoming less important	Guanxi Vs Quality of products
<b>Competitors</b>	More local competitors		A lot of Competition
<b>Experience</b>		Not knowing the market	Not knowing the market

Source: Own Elaboration

The Adversities of Doing Business in China: Why Western Companies Fail

**Table 11: Matching Comparisons - Business Adversities VI**

<b>Interviews</b>	<b>16</b>	<b>17</b>	<b>18</b>
<b>Adversities</b>			
<b>Company's Nationality</b>	<b>Portuguese</b>	<b>Netherlands &amp; China</b>	<b>Portuguese</b>
<b>Job Position</b>	<b>Export Market Manager</b>	<b>Director of Trade and Investment</b>	<b>General Manager in China</b>
<b>Sector</b>	<b>Food and Beverages</b>	<b>Government</b>	<b>Food and Beverages</b>
<b>Technologic /Innovation</b>	Blocking System (social Network)		Blocking System (social Network) Stealing of intellectual property
<b>Politic/ administrative</b>	Excess of protectionism	Timing & policies	Excess of protectionism
<b>Economic and Financial</b>	Corruption	A lot of SOE	Labour costs
<b>Socio- Culture</b>	Lack of adaptability (westerns)	Lack of adaptability (westerns)	Lack of adaptability (westerns)
<b>Quality of Products and Services</b>	Copy of the products		Lack of evaluation process Copy of the products
<b>Marketing</b>	Shaming of our product	Western arrogance	Not having a competitive advantage
<b>Contacts /Guanxi</b>	Guanxi opens doors / Finding a local partner	Finding a local partner / has big impact	
<b>Competitors</b>	Local competitors sabotaging	A lot of Local competitors	2025-2030 will have too many
<b>Experience</b>	Not being prepared for Chinese disloyalty	Not knowing the market	

Source: Own Elaboration



The Adversities of Doing Business in China: Why Western Companies Fail

**Table 12: Matching Comparisons - Business Adversities VII**

<b>Interviews</b>	<b>19</b>	<b>20</b>	<b>21</b>
<b>Adversities</b>			
<b>Company's Nationality</b>	<b>United States</b>	<b>Portuguese</b>	<b>Portuguese</b>
<b>Job Position</b>	<b>Business Development Manager</b>	<b>CEO</b>	<b>General Project Manager</b>
<b>Sector</b>	<b>Venture Capital</b>	<b>Farming</b>	<b>Technology</b>
<b>Technologic /Innovation</b>	Blocking System (social Network)		Different eletrical interface Stealing of intellectual and brand property
<b>Politic/ administrative</b>	Chinese tight rules and regulations	Bureaucracy too complex. Relationship between EU & China	Chinese tight rules and regulations
<b>Economic and Financial</b>	Chinese don't need more money	No funding	Labour costs
<b>Socio- Culture</b>	Foreign Vs Chinese		Language barrier
<b>Quality of Products and Services</b>		Risk of Contamination	Copy of the products
<b>Marketing</b>			
<b>Contacts /Guanxi</b>	Very important. Must have Chinese intermediate	Finding a Chinese intermediate /has big impact	
<b>Competitors</b>	Growing	Growing	Highly competitive
<b>Experience</b>	New and unexperienced teams	Not knowing the market	Not knowing the market Not finding a suitable partner

Source: Own Elaboration

#### 4.4.1 Statistical Analysis

With the help of the software Atlas.ti, it was possible to count the frequency of the most repeated words mentioned by the interviewees. The method of word selection was regarding the relevant context they were inserted on. Therefore, words like: “the”, “you”, “so”, “for”, and similar words said by the interviewer (questions), were not taken in to account in the graphic formula. Moreover, the aim of this graph is to analyse the biggest concerns of the entrepreneurs when doing businesses in the Chinese environment, making it possible to understand in a different analyse the entrepreneur’s mind.

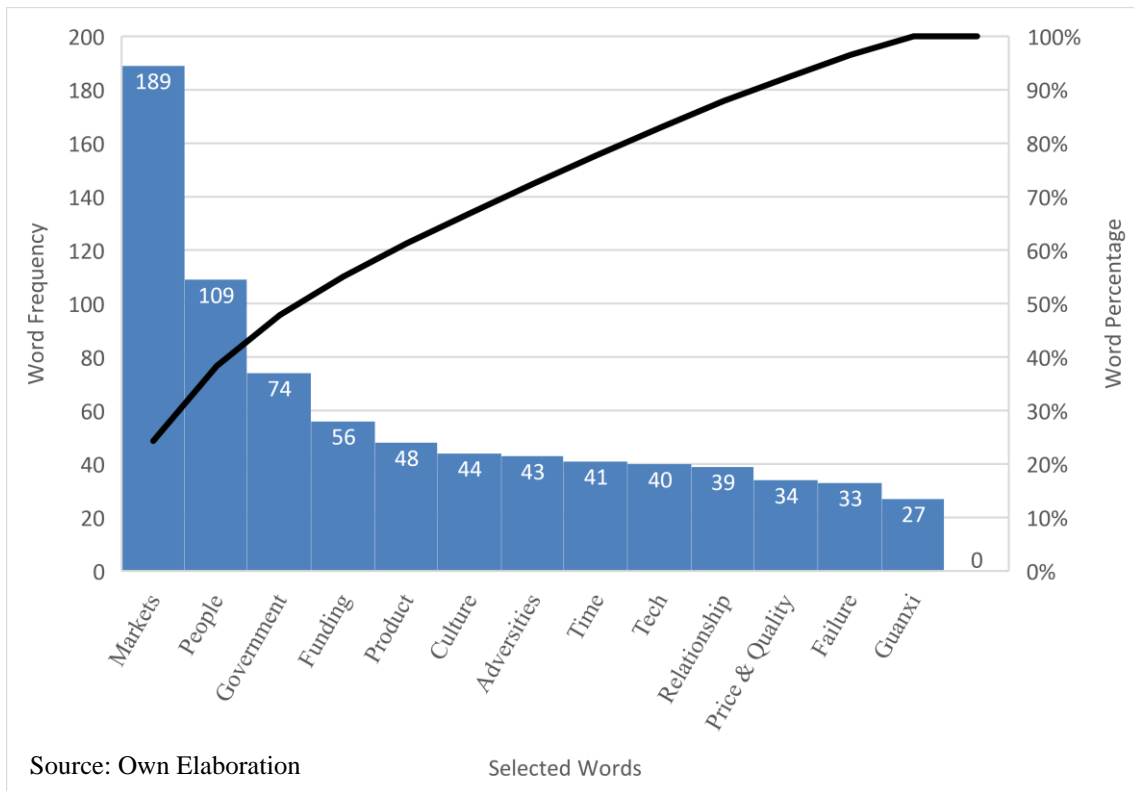


Figure 2: Most Repeated Word During Interviews

When analysing the graph, the word *government* was the one most repeated in the interviews with a total of 74 times used. The word was directly linked to funding, internal subsidies and Chinese intermediaries (people). This represents approximately 30,76% of the all selected words for the analysis, exhibiting a pattern

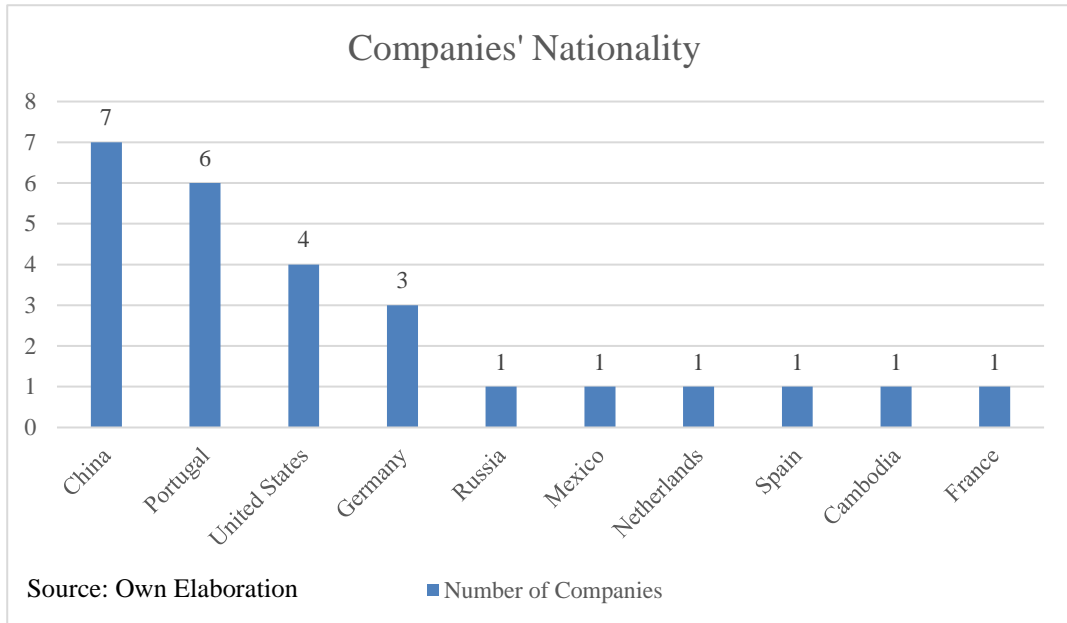
between the individuals. With this statistical approach it's important to retain that all the interviews were made individually and from several industries across the market. It can be concluded that companies cannot act individually in the Chinese market and require the help of local or national government or a suitable partner. In fact, the word "relationship" was also found relevant for this analysis due to the fact that was linked to the necessity of find a suitable Chinese intermediary. It can also be verified that this word is also linked to *guanxi* however is being substituted with the word "relationship" this is because, according to one interviewee, "*Human beings do everything with relationships. Nowadays the word guanxi is considered stereotype*" (interviewee n°12).

Additionally, the graph also shows an astonishingly low mention on the word *guanxi*, being mentioned only 3,48%. This can be explained as it is becoming more often the non-necessary use of establishing this type of relationship when doing business. In the previous Literature Review, it can be reminded that the Chinese market is becoming more international either economically or culturally, leading Chinese individuals to adopt western traditions and cultures. For example, as one of the interviewer's quotes: "*In Christmas our company also celebrate in order of respect for other foreign companies.*" (interviewee n°5). In addition, this behaviour helps surpass the cultural clash between countries.

The most mentioned word is "markets", which makes sense since it was linked to most of the words selected for this statistical framework. This is especially true for two words: adversities and Chinese. Businesspeople had mentioned most of time these three words together. This can be interpreted as a recognition of the Chinese market as a risk and difficult to deal with.

## The Adversities of Doing Business in China: Why Western Companies Fail

Finally, it can be also observed that, the technological industry was the most mentioned, across all industries interviewed. It can be concluded that the mindset of the western countries is starting to change. The so called “made in China” economy in terms of products and manufacturing is giving space for the new services and the innovation era in the country.



*Figure 3: Companies' Nationality Regarding Interviews*

An additional analysis was conducted to gather information regarding the companies' nationalities. A total of 26 companies was accounted for, which surpasses the number of interviews. This is explained by the fact that several individuals interviewed provided multiple testimonies regarding different companies they had been involved with. This analysis was relevant since one of the objectives of this dissertation was to avoid focusing on one nationality and instead compared both sides of the coin. This was achieved by interviewing individuals whose companies were both based in China or not. Since this research was mainly conducted in mainland China and Portugal, it is comprehensive that the high amount of Chinese and Portuguese companies that were mentioned during the research.

## **CHAPTER 5: CONCLUSIONS AND LIMITATIONS**

The following chapter will summarize the main conclusions of this dissertation and link them with previous research. Additionally, it will identify managerial and academic implications as well as limitations and suggestions for further research.

### **5.1 Main Findings & Conclusions**

The research project began with three main questions that established the purpose and objectives of the thesis. These created a structure that helped organize the problematic into the aspects that were believed to be the main causes of failure when entering the Chinese market.

***RQ1:** How much does the Chinese culture influence a business? Which concerns should a businessman have when dealing with Chinese companies?*

With all the gathered data from the interviews and when comparing with the literature review, it was possible to conclude that the way to do business in China or with Chinese individuals is completely different from the western ways (Buttery & Wong, 1999).

Without any Chinese partner, agency, employee or government who knows the local market, it is nearly impossible to achieve the expected growth or even succeeded in the market (1). The Chinese market is very complex and vast, which foreign companies are not used to and tend underestimate. Furthermore, there is also lack of information regarding the country and its government policies which could potentially help the company in certain occasions, through funding or tax discounts.

Additionally, establishing a good Foreign-Chinese relationship is important and it might even be considered a key factor when doing business in China (2). However, the concept of *guanxi*, according to the majority of the interviews, is not considered as relevant as it was in the past decade. As the culture becomes more open to international traditions, the concept of *guanxi* is considered to be more like a cultural symbol rather than a business influence.

## The Adversities of Doing Business in China: Why Western Companies Fail

Moreover, China is not a country where an organization can stay for a short period of time. In case for the latter, it is more likely to fail or that plans do not go as expected (3). Therefore, it can be concluded that without experience in the market, the likelihood of failure or unsatisfactory growth rates increases.

On a different analysis, when crossing information between this research and the Hofstede model and by selecting the four main nationalities present in this research (China, Germany, Portugal, United States), there are several features that can be concluded.

As said before, nowadays China is still a very hierarchical society. The country has the highest gap, between the selected countries, on the power distance dimension which leads people to believe that inequalities amongst people are acceptable. Moreover, China is considered the least individualist society where people act in the interests of the group and not necessarily their own. On the uncertainty avoidance dimension, Chinese people are considered the most receptive to approach a new challenge, Chinese are adaptable and entrepreneurial. As several entrepreneurs mentioned during the interviews, Chinese people are very pragmatic, which means that, truth depends very much on situation, context and time (Hofstede, 2019).

***RQ2: What has led many big western companies to abandon the Chinese market after a period of time? Which mistakes were committed and how to avoid them?***

When studying cases of failure, is important to take into consideration that each case is different from the other and in order to be fair, generalizing might not be the best approach to the problematic. However, on the three presented cases on the Literature Review and some other cases presented during the interviews, a pattern can be drawn, and some conclusions did emerge. Misreading the market, cultural misunderstanding or lack of adaptability to a new environment can be considered some of the mistakes mentioned on the document.

***RQ3: What are the main adversities entrepreneurs face when entering the Chinese market?***

When matching the results from the interviews with the previously existent literature, it can be concluded that the language barrier, lack of a Chinese partner, lack of proper funding, inability to adapt on a different market, business inexperience from entrepreneurs or lack of information to the country's policies, represent the main difficulties that businesspeople face whenever trying to initiate some economic activity within Chinese borders.

Furthermore, the Chinese catch-up effect is also a big problem for the new foreign companies that wish to penetrate the market (4). The desire of Chinese companies to grow and succeed fast, often leads these businesses to opt for less ethical methods. When a foreign company introduces a new product/service to the country, by the second year of business there are already dozens of other companies with the same product/service, but with lower manufacturing costs. According to some interviewees (n°2 & n°13) and to recent news, stealing intellectual property rights are becoming a real concern in international markets with big Chinese companies showing the same concern. Huawei is one of the big examples at this moment.

These main reasons represent a pattern that was created throughout several interviews to businesspeople across industries. Although it does not represent the whole picture of a market, it is important to bear in mind that there is some consistence on the adversities described that these foreign and Chinese individuals face when doing business.

### **5.2 Managerial Implications**

The scientific research observed several reasons why western companies fail to thrive in the Chinese markets, resulting in abandonment after a certain period of time. Moreover, research pointed out some arguments that provide the guidelines for companies initiate correctly, their activity in the Chinese market.

Therefore, this research has contributed with conclusions that that may be crucial and serve as a facilitator if a company desires to penetrate the Chinese economy, more precisely in the city of Chengdu.

The table of the Policies of the Chengdu High Tech Zone is particularly relevant and requires careful attention since it provides information regarding funding and settlement areas which bring benefits for start-ups and new western companies aimed at a successful entry.

Throughout the 21 individual interviews made to several people working at multinational or start up level company with a wide range of job titles, it was possible to trace some patterns about the “*do’s and don’ts*” while working with Chinese individuals or Chinese companies. Additionally, it was also explained in several failed cases what went wrong in the business relationship. This would help understand the pattern of initiation on a different market.

### **5.3 Academic Implications**

The Academic Implications aims to develop previous research and literature focusing on a topic that has yet to be well developed. The literature review highlights the Chinese Economic and Cultural Overview followed by a clarification of the concept of Failure and some examples of past failed foreign companies in China. Finally, the theme of Funding is also presented.

### **5.4 Limitations**

As in most research documents, limitations and obstacles are naturally faced and sometimes difficult to overcome. This research project was no exception. Therefore, it was essential to identify the problems and potential adversities the project faced in the early stages as this is key to avoid unnecessary mistakes that could influence the results. Hence, below are the limitations this research encountered.

#### **5.4.1 Research topic**

Initially the research problematic began with interest from the research on what led big western companies to fail in China. Besides being a very interesting question to start a research project, when looking for other authors and previous researchers that investigated similar topics, it was clear the gap in the literature. This could possibly be explained by the size of the Chinese market and the apparent irrelevance of why some companies abandon this market. Nevertheless, in recent years, more



information about failures of big companies that could not adapt to the Chinese markets, has become public and broadcasted in the news.

### **5.4.2 Time and Money Constraints**

Conducting a research with this theme and with enormous amounts of unpublished information, for an exchange master program with less than 7 months to prepare interviews, investigate published data, analyse and conclude all the information gathered, it represents a very hard task and a fact that some important information might have been not gathered and posted due to the lack of time to formulate a well develop master thesis. Additionally, due to the nature of this document as a master dissertation, money constraints are also important to mention.

### **5.4.3 Interviews**

#### **Pre-Analysis**

When investigating a topic as sensitive as business failures, conducting interviews to CEO's, project managers or entrepreneurs, represented one of the biggest adversities faced in the project. Additionally, the fact that People Republic of China is ruled by a non-democratic system, the process of gathering information was also challenging and hard to formulate. Topics such as Religion, Politics or Culture can be interpreted as sensitive when interviewing businesspeople, which might result on the person interviewed not feel comfortable in sharing the own experience on business. Moreover, more than half of the businesspeople that were invited to be part of this research, either refused the proposal or ignored it, making it a much more tough task to gather all the important information.

#### **Post-Analysis**

When analysing interviews, one of the most commonly used method in a qualitative investigation, is the information analysis. In that way, it is required to establish some categories and sub-categories in order to structure the research, making more presentable and understandable for the reader. Consequently, this represented one of the biggest adversities faced when conducting the analysis. The task of coming

up with significant categories and sub-categories and presenting them in the project, was hard and time consuming, which resulted in lengthier process.

### **5.4.4 Personal Adversities**

In terms of personal obstacles, this research was conducted for a master's in marketing level and the researcher was not experienced in creating scientific and academic papers. For example, building the literature review or conducting and analysing professional interviews with individuals with important job roles, represented a challenge for an unexperienced researcher. In addition, the fact of being the first and only Portuguese that took the challenge of embracing an international double degree program in a country completely different from Portugal, in terms of culture, language and behaviours, and living there for more than 10 months, also represented one of the biggest personal challenges of adaptation for the researcher.

### **5.5 Further Research**

Based on the limitation presented above, further research is recommended to increase the validity of this dissertation. Although interviews were a useful and adequate method of conducting this research, they do not allow to have a global understanding of the Chinese market reality. Therefore, further research should combine this method with quantitative research by collecting data through surveys and questionnaires. This research method allows a better generalization if the correct sample is collected. The qualitative research presented in this dissertation can be a starting point to structure the survey.

The second recommendation for further research focuses on conducting research on the topic. As China continues to grow at a very fast rate, with the GDP in some cities surpassing the 7% per year, more international companies will be interested in joining the market. Therefore, it is crucial to provide more information and guidance to new investors and entrepreneurs.

As a final note, the researcher suggests the businesspeople or entrepreneurs to be more open to sharing some of their own experience to the scientific community. It

## The Adversities of Doing Business in China: Why Western Companies Fail

is important to continue giving insights to the business world and providing relevant information for the development of this topic.

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## **APPENDICES**

### Appendix 1: Interview Script

**Q1:** For your company, when it occurs the idea of penetrating the Chinese markets? Why, it seems the best moment for the company to invest in this country? /Why do you think companies look for the Chinese markets?

**Q2:** How was the process of entering the Chinese markets? Did the company got any incentives/funding?

**Q3:** What were the adversities that the brand faced when entering the Chinese market?

**Q4:** How did the brand adapted to the environment? How about the foreign employees?

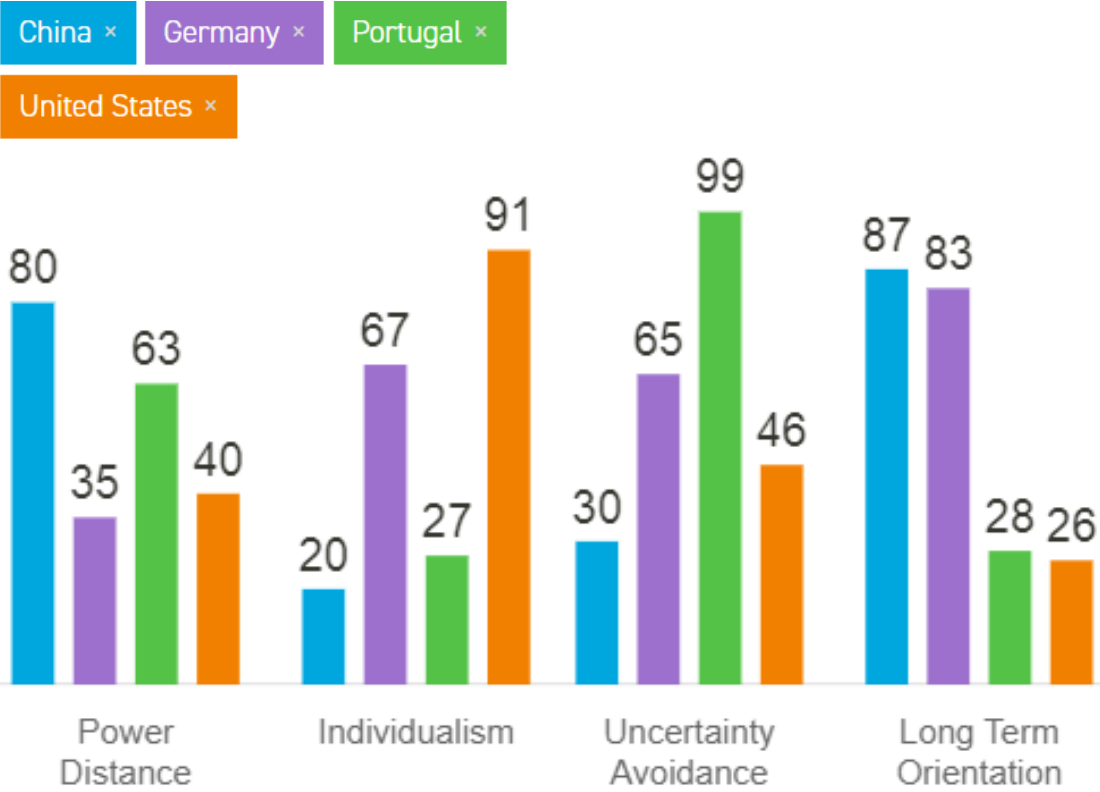
**Q5:** What kind of mistakes were made?

**Q6:** Hypothetically speaking, If the company failed now, what are the reasons you could think for that to happen?

**Q7:** Is it easier to deal with Chinese companies/government now than it was a decade ago?

**Q8:** Regarding the Chinese culture, what kind of impacts, can it have when doing business with foreign companies?

Appendix 2: Hofstede Model



Source: Hofstede Insights website