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Traditional ways of strategic thinking – the only truth?

Abstract

The classical approach to strategy defines strategy as a process of planned calculation and analysis to design long-term advantages. The Structure-Conduct-Performance (SCP) model argues that firms perform and develop strategies based on market structures. These approaches have been seen as the “norm” but are today criticised as outdated since they do not fully suit new emerging markets. The aim of the study is to investigate whether these approaches need modifications for emerging markets and if unique factors need to be emphasized when developing sale strategies for the Chinese market. The empirical findings are based on two Scandinavian firms with long experience in China. A qualitative exploratory research design is conducted through the study. As a conclusion a guideline of vital factors for the Chinese market is provided: market knowledge, political and social system, relationships and branding. The knowledge of these factors can help other companies to master the complex environment of the Chinese market.

Key words: Strategy, SCP-model, Emerging markets, Chinese market, Guanxi, Institutional voids
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Introduction

This chapter will introduce the reader to the topic of the study arguing why it’s important and interesting. The introduction ends with a presentation of the research question, objectives and limitations.

The way we look upon the world is influenced by traditional paradigms and knowledge, evolved over the years. The British economist Maddison (2001) has analyzed the world economy the past 2000 years. He stresses the fact that most of the traditional economy theories are based on knowledge developed from the western world the past decades but what does it really tell us? In business schools there is a stylized fact that firms reach profit maximization trough rational planning. This perspective though, is based on studies of markets with stable data and growth rates. Firms are today spreading all over the world with production facilitates in countries that years ago would be unthinkable. Many of these countries have gone trough an extraordinary economic development and the rates of growth have been high. These markets are attractive with low labour costs and cheap raw material but what does it take to operate in such markets? Due to fast economic development, blurred political and social systems and cultural differences firm’s struggles to cope (Khanna & Palepu, 2010).

The question is whether managers using a classical approach to strategy such as Chandler (1962), Ansoff (1965) and Porter (1980) can succeed in these markets. Many firms are struggling with establishment, with entry modes and even if they succeed huge competition and challenges can be expected. This together with the globalization of the world complicates the strategic thinking. This might indicate that there is a need of a modification of classical approaches to strategy or a strategic re-think (Ghemawhat, 2007).
The classical approach does not only emphasize rational planning but also the Structure-Conduct-Performance (SCP) model arguing that firms perform and create strategies based on market structures. Other researchers such as Khanna & Palepu (2010) argue that these approaches not are fully suitable for emerging markets and Ghemawat (2007) stresses a strategic re-think. Hence global strategies such as ‘one-fit all strategies’ are not the optimal choice for today’s multinational companies. Nevertheless, it is not a question whether to abandon classical approaches or not, rather how to modify them for further successes in new markets. Strategies must be seen as tools, which also makes this a question of what theoretical picture of environments that fit to the theory of action (Argyris, 1977).

Emerging markets has been on the agenda these past years with China and India in front. China is overall an ongoing hot topic mentioned daily in both media and business life and therefore an interesting market to study. China is today the second largest economy after the US and has gone through an economic development faster than any other country (Fang, 1999). With its large domestic market and cheap labour costs China attracts investors and is today the “world’s biggest factory” (Chen, 2001). The Chinese market is filled with extremely high competition both from western and domestic companies and the environment is somewhat uncertain. Hence many western firms face challenges developing an accurate business strategy for the Chinese market.

The purpose of this study is to examine in what extent the classical approach to strategy are suitable for emerging markets with focus on China. Also, if unique factors need to be emphasized for developing successful sale strategies.

**Research question and objective**
The general focus research question of this study is to examine to what extent classical approaches to strategy are suitable for emerging markets such as China. The research objectives are to investigate if the classical approaches need modifications or if unique Chinese market factors should be emphasized. The aim of the study is to add value to present strategic theories by investigating the operations of two Scandinavian firms in China, providing a guideline of vital factors for the Chinese market.
Literature review

To provide a deep understanding of the core of the study this chapter will present theories of strategy such as the classical approach (including the SCP model), emerging market strategy and Chinese market strategy. The chapter ends with two propositions that will be investigated during the empirical chapter.

Theories of strategy

The classical approach
Strategy is an art and vital for firms to cope with competition. There are many approaches on how to decide a firm’s strategy and the oldest and still most influential is the ‘Classical approach’ developed during the 1960s. Even though this approach is somewhat aged its an important ground stone of strategic thinking. Its founder’s business historian Alfred Chandler (1962), theorist Igor Ansoff (1965) and the businessman Alfred Sloan (1963) argued that firm’s supreme goal are profit maximization reached trough rational planning. Even though profit maximization is the key part they see strategy as a process of planned calculation and analysis designed to make long-term advantages. Therefore a good planning is required to master internal and external environment (Whittington, 2002). Some of the key features were the attachment to rational analysis, to separate conception from execution and also the dedication to profit maximization.

“the determination of the basics, long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for those goals”

- Chandler (1962:13) definition of strategy

Alfred Sloan (1963) emphasized that the solution to strategic problems is to position the business in those markets where maximum profit can be earned. The positioning of the firm used to be as Porter (1996) refers to it the heart of strategy, but nowadays since the market changes much more it has become too static. The classical approach defines strategies as formal with focus on internal planning with analytic processes, the summarized implications of the classical approach are to analyse, plan and command. There are influences in the classical approach emerged from military activities and similarities with “a general” and “a manager”, since both include the planning of
resources in order to meet objectives (Bracker, 1980). According to Whittington (2002)
the classical approach prescribes a rational detached and sequential approach known, as
the universal norm. Hence this context is based from already developed historical and
regulatory concepts. The approach also requires stable actors and interactions between
them with definitive institutions.

The SCP model
The rational planning and the planning of activities is though only a part of the classical
approach. In the meantime other followers of the classical approach such as Bain (1956)
and Mason (1949) developed a model called the Structure- Conduct-Performance
approach (hereafter SCP). The model has ever since been popular in strategic
management and has been used by gurus such as M. Porter. The main purpose of the
approach is to describe a framework that contextualises the essence in industrial
markets and explain factors that define competitive landscapes. The model shows
straight relationships between the level of market concentration and the level of
competition between firms. The implications are to simplify the decision making for
managers when developing competitive strategies (Simons, R.H & Thomson, B.M, 1998).

The SCP models have over the years being used to investigate dynamics of markets,
industries, competitive market structures and strategic change. The thoughts of the
approach are that structures in the market affect the conduct of the firm and thereby
affect the final performance.

- **Market structure**: Market structure stands for the characteristics of the market
  such as profitability, growth, size of firms, entries of other firms, total demand,
  numbers of buyers and sellers. The focus on these structures affects the firm’s
  level of competition within the market.

- **Market conduct**: The market conduct describes the objectives of the firm and
  how the firm is conducted by the market structures. This part explains how the
  firm generate its performance trough as an example: marketing and advertising
  strategies, pricing behaviours, mergers and contracts.

- **Performance**: The performance is a result of how firms conduct market
  structures. Market structures therefore determine the competition within the
  market.
The SCP-model

The aim of this approach is to contextualise the dynamics of the competitive landscape providing an overall picture including vital information on how to perform (Porter 1980). Based on these findings managers could more easily create strategies suitable for that particular industry or market. Panagiotou (2005) wants to broaden the SCP approach by adding managerial cognitions as the most major factors. Planning and judgments of the managers affect the competitive behaviour of the firm and must therefore be taken seriously. Management practise is subjective and the way managers interpret with their competitive environment is based on their cognitive frames. When managers develop strategies they base their findings on prevalent basic condition of the market or the industry (Panagiotou, 2005).

Criticism
Whittington (2002) argues that there is not much agreement about strategy and that “we simply do not know what strategy is or how to develop a good one”. The question whether strategy matters or not is also stressed and concluded by the fact that all approaches matters but in different ways. Despite what approach to follow every manager in their strategy making process must start with a strategic choice that include what picture of the environment that fit to the theory of action (Argyris, 1977). By this, every manager has to choose what kind of tool (the strategy) to use to overcome the reality and environment.

"Those who do not actively confront their underlying assumptions are condemned to be 'prisoners of their own theories" (Argyris 1977:119).
Mintzberg (1987) argue that the classical approach to strategy treat the concept as plan, explicit, consciously developed by decisions made in advanced. He argues that strategy rather is a “pattern in a stream of decisions” and that rational strategy making is not optional due to cognitive limits in the rational acting of managers (Mintzberg, 1978, 1994). Business organizations and markets could also be seen as messy phenomena’s, which complicates a detailed planning of strategy. The patterns of strategy in classical approaches also emerge from rather theoretical findings than empirical. This criticism against the classical approach emerges from the fact that it’s impossible for humans to take rational decisions since results of environment, scanning and analyses tend to be incomplete (Cyert & March 1963).

Philips (1976) and Clarke (1985) criticize the SCP approach arguing that it is too narrow that structure affects the performance. They argue that it also could be the other way around, that dissatisfaction in the performance can lead to changed conduct and thereafter affect the market structure. The criticism means that all of the element are interrelated and influence and impact each other. There are also questions whether the behaviours of the firms itself creates the structures in the market. But, in favour of the model the approach contextualize the competitive landscape in a way that it both can explain and predict the performance of the firm, based on market structures. However, this model is interactive with changes in the market structure i.e. if the market changes, the structure changes and vice versa. It is also beneficial that this model also consider cognitive aspects suggested by Panagiotou (2005).

**Emerging market strategy**

In contrast to the classical approach the systematic approach tells that there are social embeddings in the look upon strategy (Granovetter, 1985, Whitley, 1991). The approach is not against planning of a strategy but emphasizes particular sociological contexts. This means that the managers (the decision-makers) not only see individuals as purely economic transaction rather as people interacted in social systems of the society. Other approaches such as the evolutionary argues that it is the environment (market) that makes the choices, not the managers; the managers must ensure that they fit the conditions of the market to develop successful strategies (Hannan & Freeman, 1988 & Williamson, 1991).
The classic approach (including SCP model) is as already known used as a universal norms but other researchers argues for their inapplicableness elsewhere (Khanna et al, 2005 & Ghemawhat, 2007). Khanna & Palepu (2010) argue that traditional models of strategy are based on ideas from mature western markets with slow growth rates and stable data. The models are developed from a certain “view” of the world that to some extent no longer exist. The world is today more integrated and globalized than ever and both economic and political landscape in countries looks different (Ghemawhat, 2007).

There is an ongoing world focus on emerging markets and terms like globalization and liberalization has been significant topics the past twenty years (Ghemawhat, 2007). The term “emerging markets” describes itself but to understand the concept one need to know how the markets emerge and to what extent they are genuine. China for instance is an emerging market in virtue of its fast economic development and growth rates. These markets are highly important since they provide households with cheap products, multinational companies with cheap labour, outsourcing and production possibilities. Consequently the markets are also the cause of new competitors growing in a fast speed. Emerging markets like China, Brazil and India showed growth rates while the rest of the world was struggling from the financial crisis.

“Rich industrial countries dominate the world rather less than they used to.” – (Ghemawat, 2007)

Since the world today is more globalized and integrated than ever Ghemawat (2007) consider a redefinition of the word strategy. The “one fit-all” strategy that for many years has ruled is wrongheaded and must be modified. It’s also getting more complicated to identify internationalization strategies and many firms are struggling to build strategies that fit new markets. Ghemawhat (2007) emphasize a strategic re-think to create new strategic possibilities. Reasons of this are partly due to institutional voids such as gaps in political or institutional systems. These voids could be more distinguished in emerging markets and small in western market where the classical approach to strategy for instance remains from (Khanna et al, 2005).

“Successful companies develop strategies for doing business in emerging markets that are different from those they use at home and often find novel ways of implementing them, too.” (Khanna et al 2005)
Textbooks such as Thompson et al (2010, p.182) argue that managers must come up with a unique strategy making to handle challenges in emerging markets. Due to the fact that the markets are in their infancy there is much speculations regarding growth and functions, which may not fit the usual strategic thinking. There is as well less available historical information regarding the market, which could aggravate the operations. Since there is a lack of established rules managers can consider freedom to experiment with different strategic approaches. Competing in a rapidly fast growing market with growth rates of over 20% the company can achieve double-digit revenue and profit growth. This must though include lower prices, increasing quality, differentiation strategies, wider distributions, and expansion geographically or expanding the product line making it appeal for a wide range of buyers.

Consequently, Khanna stresses the need of growing knowledge in how to create successful strategies in these markets. It’s not a question of eliminating classical models but to modify and for western countries (where the models proceeds) to reconsider and learn from others as well (Khanna 2009). Both Khanna and Ghemawat stress that western countries and management schools need to learn from other countries because these markets contrast the present models of economic development (Khanna 2009).

Khanna et al (2005) argue that if western companies do not engage strategies across their value chain with developing countries they are unlike to stay competitive. There are many barriers when entering and doing business with emerging markets for instance institutional differences from western and emerging market such as lack of intermediates, regulatory systems and investment analyzes. Therefore, firms can’t implement the same strategies in all developing countries but they can do synergies by treating diverse markets as part of a system (Khanna et al, 2005)

To develop a strategy for an emerging market Khanna et al. (2005) argue that the firm must identify the institutional context of the country. Usually when firms enter new markets a market portfolio is made analyzing the countries GDP, income, growth rates etc. This gives an overall picture on the profit of the market but Khanna et al. (2005) stresses that this picture is not enough. When developing strategies firms need to outline how the product, labour and capital market work or do not work in that certain country. Khanna et al. (2005) list five context frameworks that enable strategies suitable
for emerging markets such as: political and social system, the market’s openness, the product-, labour- and capital markets

**Chinese market strategy**
China has since 2000 gone through a marvellous economic development with growing percentages between 9-13 percent (Tse, 2010). Since Deng Xiaoping¹ advocated the open-door policy in 1978 the supreme goal for China has been to be the greatest economy in the world. China has the past decades opened up the country for foreign direct investment (FDI) and today the country is the largest “factory” in the world. They are not yet the biggest economy (US is still number one) but could be seen as the largest export market in the world. China has, compared to countries in the western world managed to keep growing even though the financial crisis in 2008 and are still keeping its wealth. Bouee (2011) is arguing that the goal of the development partly has been to be bigger than the US, advocating US business models. Today the market is nearly as big as the US and the Chinese confidence is increasing and things are about to be changed.

The Chinese market is still a popular place for establishment and of the Fortune 500 companies there are about 480 of them present in China (Tse 2010). Nevertheless, the Chinese market is known for its complexity and uncertainty. Chen (2001) is in his guideline for managers arguing that there is no definite strategy on how to plan but that awareness of major factors of the market simplifies the operations. Weicheng (2008) also emphasize the fact that different guidelines are needed in China due to the unique business context, thoroughly different from the western world. Doing business in China is not easy and many companies believe that they have figured it out how to operate but the scale and the grade of change within the Chinese economy can make even the most successful strategy inadequate. Managers must develop new China strategies and integrate the operations in China with the business elsewhere, this mean that they must develop a one-world strategy with China at core (Tse, 2010).

There are examples where classical approaches to strategy need to be modified or adjusted in China due to market challenges (Jayaraman, 2009). The challenges the Chinese market is offering are many such as institutional and cultural and the competition is intense. The competition within the market has the past years increased

¹ Leader of the Chinese Communist Party between 1978-1997
rapidly in time to the economic development. Therefore, firms engaged within the market meets challenges beyond forces like rivalry and customer bargaining power (Jayaraman, 2009). Jayaraman (2009) means that the managing of relationships and network is vital for firms in China to stay competitive. The handling of the legal issues is also important since the legal environment and governance differ from most of the western countries.

**Relationships and network**
Firms with good relations and a strong network are highly competitive against other firms in China (Jayaraman, 2009). Chinese people value their relationships in different ways than in western countries because of the concept “guanxi”. Guanxi is a central idea in the Chinese culture and society and is a huge social or business network. A guanxi is a network where the Chinese people include both private and business contacts and therefore creating a strong network that in various cases even stand over the law (Fang, 1999). The main idea of a guanxi is the relationship between two persons, where one person give the other favours and vice versa (Chen, 2001). Relationships and the interaction is one of the most essential factors in Chinese business culture, which differs from western cultures. As an opposite, business cultures in many western economies focuses on transactions and instant results. The knowledge of guanxi and to be part of a Chinese guanxi network brings the firm endless possibilities, opportunities and new connections (Fang, 1999).

Jayaraman, Chen and Fang all argue that it is vital for western firms to have the right connections to success in China and in other cases, even to enter the market. Thus, understanding the complex guanxi thinking is a challenge for western companies why it’s fundamental to employ the right local person with the right guanxi. Fang (1999) argue that guanxi is *everywhere* and there are many cases where firms without guanxi “simply cannot get anything done”. The contacts and the relationships are very personal why no guanxi is similar to another.

**Institutional voids**
The political environment in China is different from political systems in western countries. China has a long history of communism and was for many years a closed nation with little access to the rest of the world. The Communist Party has crafted an one-party rule since 1945 and during the 1980's the party decided to open-up China for
economic development towards market economy (Nolan 2004). Nevertheless, the Party still have monopoly of the political power, which means that they have the entire power over legalisations and economic institutions. Jayaraman (2009) argue that it is not only the political environment that differ but also the legal system. Laws in western countries are strictly followed but in China more loose and easier to interpret. An example of this could be the Guanxi that in many cases stands over the law. This means that if the firm has the right connection they can interpret the complicated bureaucracy (Chen, 2001).

Propositions

Proposition. 1: “The classical- and SCP approach to strategy need modifications to be suitable for emerging markets”

Proposition. 2: “When developing sale strategies for the Chinese market, the firm needs to understand the unique factors in the market”
Methodology

Research Design, Empirical study description, data methods

This chapter will present my methodological choices for the study including presentations of research design, empirical study description and data methods.

The propositions in the end of the literature review stresses how suitable classical approaches to strategy are for emerging markets. The results of the first proposition can contribute to the results of the second one regarding modifications of strategies for emerging markets such as China. Based on the research question the propositions will be analyzed within the empirical findings section.

Research strategy and design
This study presumes that it’s important to understand the way humans interpret with their social world to understand problems and situation in business organizations. The study contains the understanding of how companies develop strategies and therefore requires knowledge regarding employee’s behaviours and thoughts (Easterby-Smith et al., 2002 & Saunders et al., 2007:118). The behaviour of the employees can be seen as consequences of perceived work experience and to understand that the choice of research design is qualitative rather than quantitative.

The reason for this choice is the fact that knowledge can be gained by treating employees as humans with own thoughts and experiences rather than research objects answering pre-defined questionnaires. The research question requires understanding of complex business organisations and a qualitative design enables a variety of collecting data that create different views of the phenomena. The researcher can also be part of the process and that creates a more close understanding of the research context than within a quantitative design (Saunders et al., 2007:118).

The approach of this study is therefore an exploratory theory building approach since it involves the development of a theory based on my empirical findings (Easterby-Smith et al., 2002). The research question has an exploratory design since I want to find out “how things work” and get a better understanding of the problem. The limitation of the chosen
design is that the empirical data is based on human's interpretations and behaviours. This could be changed over-time and could affect the reliability and validity of the study. To strengthen the study I chose to investigate two big multinational companies with operations and long experience in China.

Case study
The research strategy of this study has been a multiple case study where empirical investigations of phenomena have been conducted using several sources of evidence (Robson, 2002:178). Case study as strategy is of particular interest when the researcher aiming for rich understanding of research context and performed processes (Morris & Wood, 1991, Saunders et al, 2007:139). This strategy also enables to answer questions like “why” “what” and “how” why it’s often used in explanatory or exploratory studies.

To investigate whether classical approaches to strategy are suitable for emerging markets rich understanding of companies and the concept strategy is needed. The motivation of this choice is that my research question demands exploratory research. Therefore to answer the question I crafted multiple case studies. There has also been a different data collection method such as observations, interviews and documentary data why triangulation has been used. This particular strategy also allows my own contributions such as observations, thoughts and solutions (Yin, 2003).

Empirical study description

Sample
Sampling techniques reduce the collected data by focusing on only a sub-group or a part of an organization (Saunders et al 2007:205). The sample of this study is two Scandinavian multinational companies operating in China. A smaller amount of companies enables a possibility of getting a more detailed picture over the organizations and to anticipate more difficult cases (Henry, 1990). Case studies of the companies have been conducted and they both started their operation in Scandinavia, incrementally established abroad through a classical internationalisation process (Johanson & Valhne, 2006).
Company A
Company A is a world-leading provider of telecommunication equipment all over the world. Company A has 1000 networks and over 175 countries are using their network equipment and 40% of all mobile calls are made through the systems. The company offers end-to-end solutions for all major mobile communication standards that make them globally unique. Company A has a long history of doing business in China but opened their first sales office in Beijing, 1985. They are today present all over China and had in 2010 814 million mobile subscribers, 420 million Internet users and 770 billion SMS sent through their networks in China. Company A is today facing problems with standardization of the systems in China and extremely high competition especially from new Chinese companies providing similar services.

Company B
Company B is a global leader in providing high performance adhesion and surfacing solutions within the wood industry. They serve customers with a range of resins, adhesives, hardeners, and technical services and also offer assortments of applications. At current, Company B is established in 22 countries in Europe, South America and Asia Pacific with headquarters in Helsinki, Finland. There are around 40 production plants world wide and with approximately 2100 employees. In 1996 they established their first local strategic office in China and after getting more market knowledge and the hiring of local people they established their first sales office, 1997 in Shanghai. After that, they incrementally established their own production facility in Shanghai. In the beginning Company B was struggling with the operations due to the lack of local knowledge, but are at present showing positive results. The competition in China is though high and they are constantly facing challenges from suppliers offering similar services (but low-end).
Data collection

To be able to answer the research question I chose different data collection techniques such as interviews, observations and documentary analysis. Observations for instance creates a deeper understanding on “what’s going on” in social context and interviews enable to gather data that strengthen the validity and reliability of the study (Gill & Johnson 2002:144) (Saunders et al 2007:310). This method was for my study very powerful since I was an employee of one of the companies and where able to observe other employees in their daily work. This together with in-depth interviews and analysis of secondary data document was very useful for this type of research question. In addition, the method also emphasizes triangulation of non-written materials to make the study more reliable (Saunders et al 2007: 248).

Primary data
Since this is an exploratory study in-depth interviews has been crafted to give the respondents opportunity to describe beliefs, events and behaviour in relation to the chosen subject (Saunders 2007:312). To stay within the framework the interviewer can direct question to the respondent (Easterby-Smith et al., 2002). There was several of in-depth interviews conducted trough the study with persons at high levels within the company, two of them where Chinese person and one was Swedish. They where chosen for the interviews since they have great knowledge regarding the Chinese market and long experiences of doing business in China.
<table>
<thead>
<tr>
<th>Interviews</th>
<th>Company A</th>
<th>Company B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Place</td>
<td>Local office in Kista, Sweden</td>
<td>Local office in Shanghai, China</td>
</tr>
<tr>
<td>Interview persons</td>
<td>Manager of General Affairs</td>
<td>Vice President of Asia Pacific and Marketing Manager</td>
</tr>
<tr>
<td>Observations</td>
<td>Company A has a long history in China and which could be traced back to 1906. I have visit their office in Beijing in another occasion and noticed that the Swedish business culture was strong within the company. This interview was though conducted in Sweden and the Manager I met has partly been living in China the last decade. I got the feeling that it is important to be present and to participate in the Chinese to succeed.</td>
<td>Company B has been in China over 10 years and has both production and sales office all over China. After two months as an intern at Company B I got the feeling that this was much of a cross-cultural company since the employees tended to think Chinese and act western. All of the employees was Chinese but the business culture was more western than Chinese. During this time I also got the feeling that you need to be present and active within the market to succeed.</td>
</tr>
</tbody>
</table>

**Cultural differences**

Since part of the interviewed persons are from China there might be misinterpretations of responses due to cultural differences (Marshall & Rossman, 1999). Therefore the interviews was recorded and thereafter transcribed. After the interviews there was an ongoing dialogue with the interviewed people to see whether something was unclear. Before performing the interviews it was important to be aware of ethics and cultural aspects that might differ from western countries (Sanders et al. 2007, p.178-184). In this case questions regarding political and social systems was taken into consideration since this might be sensitive to answer due to the present structures in the country.

**Secondary data**

The theoretical framework of this study is based on secondary documentary data, which base on already written works. This includes books, article, papers and to be able to investigate the concept of strategy both traditional and new up-dated versions was used. The criticism towards using secondary data is that the author of the work might be biased (Saunders et al, 2007: 248). Therefore parts of the theoretical framework consist of well-known established works such as Chandler, Ansoff and Porter. To provide
answers to the research question and create a new picture over present strategic thinking other researches such as Khanna and Ghemawhat was added.

The secondary data has been classified and categorized into different concepts as following (Bryman 1989):

<table>
<thead>
<tr>
<th>Secondary data</th>
<th>Classical and SCP Approach</th>
<th>Emerging market strategy</th>
<th>Chinese market strategy</th>
</tr>
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</table>

**The reliability and validity of the study**

Reducing the possible ways of getting wrong answers this study has emphasize the concepts of reliability and validity. Reliability measure to what extent your data collection yield with consistent findings or if the same results will appear in other occasions (Easterby-Smith et al., 2002:53). Threats to my research could be participant errors where employees within the interviews telling, "what they are supposed to tell". To avoid this, name and companies are anonymous. Since the Chinese market is under constant change there might be differences in the results of this study if it was done at another point of time. I therefore opened up the empirical part with a discussion of how the operations has changed from the companies day one in China to the present situation, to see if there are any patterns. Validity refers to whether if the findings really are what they appear to be and if the data collection method measure what it where intended to measure (Robson, 2002). This study includes both historical and well-known articles and alternative explanations to ensure that the data collection method really measures what it intended to. To increase the “trust” of the study different alternative to the classical approach such as critics and “new-thinkers” has been added during the literature review. During the analysis these argumentations and reasoning's of these concepts are conducted.
Operationalisation

P.1 & P.2

Proposition 1: “The classical- and SCP approach to strategy need modifications to be suitable for emerging markets”

Proposition 2: “When developing sale strategies for the Chinese market, the firm needs to understand the unique factors in the market”
Results

This chapter will provide the results of the empirical findings and study the propositions developed in the literature review.

Internationalisation
Both Company A and B has gone through a similar internationalisation process when entering the Chinese market. After the open door policy\textsuperscript{2} in China the companies incrementally opened business through exports, agents, sales office and later on production and research. At present, both companies are well known and established actors in the Chinese market place as well as perceived leaders in their industries. What Company A perceive as the biggest change since they enter the market is a growing competition from newly established local suppliers. Company B have also experienced this facing more competition from several local suppliers offering low-end products.

Developing sale strategies
Company A develop a global sale strategy that will be deployed to the different regions in the world. In an interactive process the strategy will be verified or modified by the regions to finally settle the company over-all global strategy. Within the global strategy each region can have their specific goals and target that may differ considerably from other regions. At present there is a common strategy for North East Asia but due to the size of China there will be local differences in the strategy and the way Company A perform its business. For instance, doing business in Beijing is not the same as in Shanghai and vice versa. Politics are more important in Beijing and business are more important in Shanghai according to Company A. Developing strategies for the Chinese market requires very clear goals and total understanding of the market. What require a strategic adoption to the Chinese market are though the large business volumes that need to be considered. For instance one of Company A biggest customer is remarkably larger than a normal Western – Europe customer.

\textsuperscript{2} The “open door policy” refers to when Deng Xiaoping in 1978 opened up Chinas financial systems for foreign trade and economic investment.
“Regarding the planning of sale strategies in China there must be very clear goals and a total understanding of the market” – Manager of General Affairs, Company A

Company B just recently changed from working with six worldwide business units to nine market applications. Therefore they also develop they strategies by region calling it different market applications, each application is analysed in a calculation program to find pros and cons for the that region. There is a manager within the management particular in charge of this whom the different regions report to. The top management will put out the goals and the ambitions with an interactive dialogue with the regions. Company B includes China in the Asia Pacific region and much focus has lied within the Chinese market the past years. The marketing manager of Company B believes that the strategies for the Chinese market needs to be tailor-made to fit Chinese conditions, but also to catch up with opportunities and handle to eventual problems.

**Unique factors for the Chinese market**

**Market knowledge**

Company A emphasize the differences in strategy making between western and the Chinese market. According to Company A local market knowledge is pre-requisite when operating on the Chinese market. Local knowledge was the vital factor for the establishment and for the present operations. To get local market knowledge Company A stresses the importance of being present and active in the market, the company must be a part of the Chinese market and the society to succeed. This knowledge is much more important to gain in China due to different cultural, social and political aspects compared to western markets.

“What many companies miss-out, both large and small, is to do proper market analyses” – Manager of General Affairs, Company A
Company B also stresses the need of market knowledge since it was vital for their establishment as well and today’s operations. Their business was in the begging struggling due to the lack of this knowledge.

Since China has been a closed part of the world western firms lack of knowledge regarding the market and therefore it’s even more important to gain local market knowledge to be able to understand challenges such as cultural differences. Company B argue that common mistakes western firms do when developing strategies for China are that they miss out on doing a proper market analyze. Many companies are blinded of success stories from China and elude important factors. Company A also states that the competition is much more intense than in western markets and it is difficult for both small and large firms to challenge large companies on other markets than their own.

**Political and social systems**

One of the biggest differences when developing strategies for the Chinese market compared to the western are political and social systems that should be taken seriously according to Company A. Company A has experienced this arguing that there may not always be rational decisions in China since the government has a high influence in business decisions i.e. decisions can be political.

> “The awareness that political factors affects business decisions is important when operating at the market” – Manager of General Affairs, Company A

As many companies are state-owned in China there will always be a miss match between business driven decision and political where the latter many times overrule. To succeed there is not enough only to be aware of the political system situation but to be able to influence decisions going in your company’s favour. Company B also argue for the importance of knowing who’s taking the decisions and the processes of it. This is for many western companies the real challenge. Things that could go very fast in western countries can take much longer time due to complicated bureaucracy.

What Company A noticed recently is that more local companies are taking the greater part of the market shares and they have obviously an easier way to manoeuvre within the Chinese business environment. Company A states that it is much more difficult to be beat a local competitor on the Chinese market than meeting the same competitor elsewhere in the world. Company A & B argue that western companies sometimes
under-estimate the efficiency and rationality in making business decisions. Other factors that may threat a successful strategy is that western companies has short-term focus with quarterly reports of results while in China this doesn’t exist since they come from a planned economy. This is a difference when competing on other markets that has market economy and knowledge regarding Chinas political regime is therefore vital.

**Relationships**
Company A stresses that it is important to develop and maintain both business and personal relationships in China to manage the business. The market situation in China requires a relationship building partly due to the concept guanxi. Company A believes that relationships are important in many countries in Asia compared to western countries but with China in front. Within the company it is mostly the local employees who has the direct contact with the customers and who builds the relations. Western employees focus more on the contacts with the headquarters.

Since the competition in China is extremely high the need of creating customer loyalty is important. Company A believe that you gain loyalty from trust by providing customer high quality services and solutions. What characterizes the Chinese market is that personal relationships between two persons can develop to a business relation with a third person. This is the ground stone of guanxi, vital to master in this environment. Local competitors and supplier can as well have an easier way where the guanxi is embedded.

Company B argue that guanxi is everything in China and when they entered China they struggled due to the lack of this knowledge. It was vital for the establishment to build relations and network with right people and authorities. It was also very important within the establishment to build relations to customer to create a customer base. Other factors to succeed are to hire the right people. A Chinese persons guanxi is a big asset for the company since it could lead to contacts and opportunities but it is also very vulnerable since the person can decide to leave and the company will loose that persons network.

"One of our greatest strengths is that we are skilled in both building and maintaining relationships at the Chinese market" – Marketing Manager, Company B
Company B also believe that relationships are more vital in China than in the rest of Asia or in Western countries. There is also a bigger need of showing empathy and respect for your customer in the building of the relations. Compared to western countries business goes fast and focuses on quick results. To succeed in China the relations must be preserved and the company has to be patient focusing rather long-term than short-term.

**Branding and Quality**

Other factors important for operating in the Chinese market are according to both Company A and B the quality of the product, the service and to guarantee an end-to end responsibility. Company A believes that it is a competitive edge to deliver superior services since the competition in the market is extremely intense. Loyalty and trust can also be gained by showing the customers that your service package is made especially to fulfil their particular needs. Company B mean that other vital factors in the strategy making is to present a total solution. To offer high quality in service and solutions and be able to take end-to end responsibility are factors that contributes to competitive edges in the Chinese market. Being able to provide value-added to customer makes the sales strategies much more competitive compared to other similar actors competing on the market.

> "The competition is increasing in China and especially from domestic companies"
> – Marketing Manager, Company B

Company B is struggling with local suppliers counterfeiting their products, selling them to lower prices. Therefore it is Company B:s quality and service that make their products to customers even though their price is higher. A strong brand and to offer a total solution is therefore vital to master threats in the market. Both Company A & B has strong brands; well known for their industries within the Chinese market and they believe that this is partly due to good service and quality.
Analysis

This chapter will include an analysis where the literature review is connected to the fragments of the empirical results. This will contribute to the conclusions that will answer the research question and the propositions. At the end of the chapter a guideline with a summary of the most vital factors on how to succeed in China will be presented.

Proposition. 1: “The classical- and SCP approach to strategy need modifications to be suitable for emerging markets”

Classical and SCP approach to strategy
The classical approach to strategy defines strategy as a process of planned calculations and analysis designed to make long-term advantages. A good planning is vital to master internal and external environment (Chandler, 1962, Ansoff, 1965, Sloan, 1963, & Porter, 1980). Both Company A and B develop their sale strategies trough this approach including planned calculations and analysis designed to make long-term advantages. Firstly they develop a global sale strategy that will be deployed to different regions or markets. The process is interactive and every region strategy has different customer bases, business goals and directives.

Porter (1980) is referring positioning as the heart of strategy and Sloan (1963) argue that the solution to strategic issues is to position the business in those markets where maximum profit can be earned. Both Company A and B plan their strategies region wise to find the most profitable market and afterwards develop strategies with proper goals for that particular region. Hence both Company A and B use the classical approach as a tool in their strategy making.

Whittington (2002) is arguing whether strategy matters or not and Argyris (1977) says that despite what approach to follow: “every manager in their strategy making process must start with a strategic choice that include what picture of the environment that fit to the theory of action”. This means that companies must choose what tool to use to overcome the reality and environment. As already stated both Company A and B operate trough a classical approach but when operating in China both companies has met new
sort of challenges. The results of operating through a classical approach are that current strategies need modifications.

In line with Argyris (1977) both Company A and B needed to find out what was unique with the Chinese market and therefore somewhat go beyond traditional planning. Company B stated that their sale strategy needed modifications in order to fit Chinese conditions due to several factors such as intense competition, changing regulations in the market and concepts embedded in the Chinese business culture. This phenomena is also pointed out by Hannan & Freeman (1988) & Williamson (1991) who believe that the managers must ensure that they fit the conditions of the market to develop successful strategies. Tse (2010) is as well arguing that managers must develop new strategies where they integrate China with the business elsewhere. Company B modified their global strategy to catch up with challenges and new opportunities in the Chinese market.

The SCP model is as well as the classical approach developed from western markets and countries. But, the SCP model emphasize market structures particular for a certain market in a larger context and the model also recognize managerial cognitions (Mason, 1949, Bain J.S. 1956, Panatigou, 2005). Both Company A and B are affected by the classical market structures such as growth, profitability and competition which thereby affect their conduct and behaviour.

Nevertheless, factors that both Company A and B mentioned as important for the Chinese market where market knowledge and political and social system. These factors could be found in the SCP model but there is a significant portion of political influences in business decisions, to a higher extent than in the western world. One structure in the market that not is mentioned within the classical or the SCP model is the embedded concept of guanxi. Both Company A & B argued that the building of relationships is vital to succeed in China.

Proposition. 2: “When developing sale strategies for the Chinese market, the firm needs to understand the unique factors in the market”
Unique factors for Chinese market strategy

Market knowledge
Many of the researchers argue that there is not much agreement regarding strategy. Chen (2001) is in guideline for managers arguing that there is no definitive strategy on how to plan but that awareness of major factors of the market simplifies the operations. Both Company A and B agrees that there are certain factors within the Chinese market that are unique and requires extra attention. Khanna & Palepu (2010) and Ghemawhat (2007) find that one-fit all strategies must be modified and emphasizes strategic re-think to create new strategic possibilities, which is supported by Company B. Consequently, Khanna & Palepu (2010) stresses the growing need of market knowledge regarding that particular emerging market to be able to create successful strategies, which could be confirmed by both companies. Company A tried to find out what was particular with the Chinese market such as customers, consumer needs and environment by being present and active. By being present in the market much local knowledge was gained, pre-requisite for the operations.

Jayaraman (2009), Chen (2001) and Fang (1999) believe that it is important to hire the right people with the “right” market knowledge and connections to succeed in China or even enter the market. This is also the case of Company B whose establishment in China was struggling due to lack of market knowledge and hiring of right people. After employing the right persons more knowledge regarding market and cultural aspects was gained and the operations could proceed. Company B believes that local market knowledge is particular important for operating in China since the country been a closed part of the world for many years and that the experiences of western companies are limited. This argument can also be found in Thompson et al (2010) arguing that new markets can lack of documented historical information.

Political and social systems
Other reasons why there must be a strategic re-think is according to Khanna et al. (2005) that many emerging markets has institutional voids. Company A argues that the decisions in China may not always be rational since the government has a high influence in business decisions i.e. decisions can be political. As many companies are state-owned in China there will always be a miss match between business driven decision and political where the latter many times overrule. What companies do wrong when
developing strategies is according to Company A with support from Khanna et al. (2005) that they under-estimate the efficiency and rationality in making business decisions. Other factors that may threat a successful strategy are that western companies have short-term focus with quarterly reports. This doesn’t exist in China since they come from a planned economy and knowledge regarding the Chinese political regime is therefore vital.

Jayaraman (2009) says that there are challenges within the political landscape and states that Chinese laws are easier to interpret compared to western. Company B believes that local employees are important to master the political landscape and that connections can be vital even for business decisions. This is partly due to cultural aspects (such as guanxi) that according to Company A & B have major influence within the Chinese society.

**Relationships**

Other factors unique for the Chinese market are the building of relationships and the concept guanxi. Firms with good relations and strong networks are highly competitive against others (Fang, 1999 & Jayaraman, 2009). Company A stresses the importance to develop and maintain both business and personal relationships in China. Since they adapt their strategy partly to the market and the market requires relationship-building Company A try to operate around this concept

Fang (1999) argue that guanxi is *everywhere* and there are many cases where firms without guanxi "simply cannot get anything done". Company B agrees with this statement and says that they need to focus more on relationships in China than in the rest of the world. This requires a more long-term focus and a new strategic thinking.

**Branding and Quality**

Other factors important for operating in the Chinese market are according to Company A and B the quality of the product, the service and the guarantee of an end-to-end responsibility. To present good quality is also one of Thompson et al (2010) statements in how to compete on fast growing markets. According to Company A the deliver of a superior service will be the competitive edge for winning the business. Company B also argues for the need to have a strong brand offering the total solution, outcompeting others such as local suppliers.
**Summary of vital factors – A guideline to success within the Chinese market**

As a summary, market knowledge is important at every market in the world. Proper market analyses needs to be done since there are cultural differences and uncertainties in the environments. This fact is emphasized in both the classical and SCP approach and could therefore be seen as still valid and vital.

Political and social system could also be found in classical approaches to strategy especially as a market structures in the SCP model and how the firm conduct this. But, in this case it is important to understand how the politics affects business decisions. The decisions may not always be rational and therefore it is important to understand how this influences the time cycle of doing business. Knowledge regarding the political regime and institutional voids is therefore vital as well.

The concept guanxi is not yet highlighted in western business schools and models but is according to both Company A and B essential for successful operations. If the company possess knowledge regarding the concept they can more easy operate at the market and it could also contribute to new openings and opportunities. The knowledge of this concept and a long-term thinking therefore gives value to this study.

Since both companies highlight the competition at the Chinese market branding gets more important. As the pressure on the Chinese market is extremely high compared to other countries branding is vital. To be able to extend from others, a strong brand is required and providing a total solution create loyalty and trust that in the end creates a competitive advantage.

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<thead>
<tr>
<th>Market Knowledge</th>
<th>Political and social system</th>
<th>Relationships</th>
<th>Branding</th>
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<td>• Political regime</td>
<td>• Guanxi</td>
<td>• Present total solutions</td>
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<tr>
<td>• Cultural differences</td>
<td>• Descision making</td>
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<td>(between firm and market)</td>
<td>• Institutional voids</td>
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<td>• Uncertain Environment</td>
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Conclusions

The conclusion will answer the research question and present the results of the two propositions.

Proposition 1: “The classical- and SCP approach to strategy need modifications to be suitable for emerging markets”

Both Company A and B follow the classical and the SCP approach to strategy in their global sale strategy making. Since they are worldwide companies they develop their strategies from this approach by region. But, what’s important for this study is that both companies have faced challenges operating within the Chinese market. The market has required them to modify their current sale strategies making them fit for Chinese conditions. It is not a question whether to abandon the classical approaches or not since they still are the ground stone in strategic thinking. But, what this study shows is that there is a need to modify the strategies and adapt to the unique factors in the Chinese market.

Proposition 2: “When developing sale strategies for the Chinese market, the firm needs to understand the unique factors in the market”

When operating in the Chinese market unique factors need to be emphasized such as: local market knowledge, knowledge regarding political and social systems, relationship-building and branding. Knowledge regarding these factors can facilitate the operations and is for the companies vital for their success. The world does not appear to be the same as when the “classical” thoughts emerged and therefore it’s important for managers to use strategy as a tool to master the environment. Furthermore, in new upcoming markets this gets even more important.
Limitations and Further Research

To be able to provide a guideline of unique Chinese market factors this study concentrates on the development of sale strategies. Two well-established Scandinavian companies with good reputation in China were chosen as a sample to provide important inputs and facts. The results of this study could be use as a basis for other companies in their development of strategies for the Chinese market. The knowledge regarding market structures and unique factors can create an overall picture of the market.

Tse (2010) is in his Harvard Business Review article questioning if it’s too late to enter China or not. He states that your business may not be the first one to enter but that it would be a mistake not to invest in China. I believe that China will continue attracting western companies and other investors. What we have seen recently as well is that the local Chinese companies are increasing their home market shares.

What could happen in the future is that China will adapt more to western society and that the uniqueness of the market will fade away. Nevertheless, it could also turn out the other way around that Chinese management style and business models will be the future cores of how we develop theories. Chinese companies and government are in an increasing pace investing in foreign companies as well as increasing the export of product and services so the question is, who is going to adapt?

Acknowledgements
After spending three years partly in Asia I have learnt that things does not always appears as you thought they would be. I got the idea of the thesis last fall during an internship in Shanghai analyzing competitive strategies. I noticed how complex the concept is and how companies constantly are working to develop good ones. First, I would like to thank my mentors the Vice President and the Marketing Manager at Company B for good comments and support, the Manager of General affairs at Company A for sharing his experiences in China with me. Second, I would like to thank the thesis committee members for good meetings and discussions and third my supervisor Professor Stefan Jonsson whom showed great knowledge an interest in my chosen subject. At last, my family and friends for good support and useful insights.
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Appendix

Interview questions for Company A and B

Describe how the company was established in China (the internationalisation process)

What factors was particularly important for the establishment?

- What factors would you emphasize today, the same or has the marketplace change?
- What do you suggest to be the most important factors in the future of doing business in China?

How do you develop sale strategies for emerging market such as in China?

- Do you need to tailor make strategies for this particular markets (emerging markets)?
- What major differences do you see in strategies in China compare to the western world?

In today's business environment how important is the classical/international behaviour contra the local emerging market behaviour?

Most of the available business literature is based from the western world, do you believe that this will prevail and emerging markets will adopt, or, that we stand in front of a paradigm shift in doing business?

What do you think regarding China in ten years?

- Will China still be an emerging market ten years from now?