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## Encounters on the far side

Internationalization and domestication of Norwegian  
lifeboats in China

Thesis for the degree of Philosophiae Doctor

Trondheim, January 2009

Norwegian University of Science and Technology  
Faculty of Arts  
Department of Interdisciplinary Studies of Culture

 **NTNU**  
Norwegian University of  
Science and Technology

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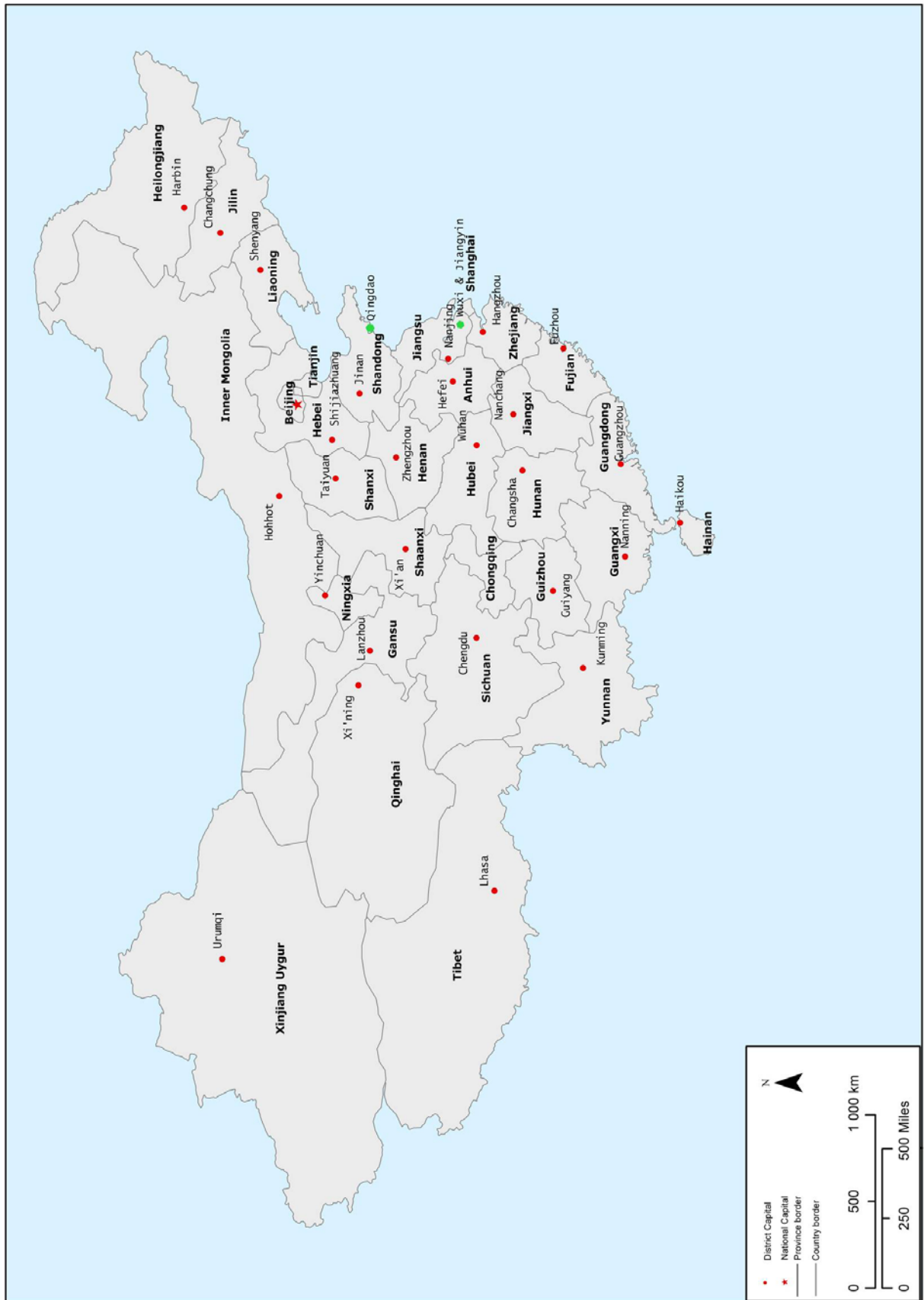
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## Preface

Looking away from the computer screen and beyond the heaps of books and papers more or less relevant for my work, I see my bicycle's spiked winter tires, the third season of the TV series 'The Wire' as well as the second season of 'Twin Peaks' (part one), a squash racket, a souvenir from Syria, somebody's future Christmas gift, an old towel, ski cleansing spray, two cheap deodorant sticks, nine pair of shoes and quite a few other elements with no obvious purpose in an office environment. I can't really explain how and why the majority of my footwear ended up in my office, but I guess this accumulation of shoes and other stuff could be interpreted that it is time to come to an end with this project and transfer a considerably larger share of my belongings and time to the domestic arena.

Although writing a PhD thesis sometimes feels like a lonely endeavor, many have in some way or other contributed to make my job easier, better or funnier. First, I'd like to thank my two supervisors Professor Merete Lie at the Department of Interdisciplinary Studies of Culture (NTNU) and Professor Knut Bjørn Lindkvist at the Department of Geography (University of Bergen). You have challenged my stubbornness and more or less clever ideas with valuable and constructive comments which have contributed to make this product and process better.

I want to thank Dolly Jørgensen who has made a great effort removing some of the Norwegian accent in my writing. I'd also like to express my gratitude to all colleagues at the Department of Interdisciplinary Cultural Studies. Although – or perhaps because – most of you work with quite different questions and approaches than I've done, working here has been interesting, enlightening and enjoyable. Especially, I'd like to say hello and thanks to the "basse team"<sup>1</sup> for the 2-300 matches we've played during work hours over the last couple of years. I'm sure that the energy we won made up for the time we lost!

Since this dissertation is a collection of articles it means that I've received quite a lot of input from a number of anonymous reviewers. Their reports have been constructive and in most cases encouraging! Thanks to all of you – whether you concluded yes or no in your recommendation to the respective editor!

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<sup>1</sup> 'Basse' is a local game played with a "ball" made by a bicycle inner tube (see [www.basse.no](http://www.basse.no)).

As part of this work I've also had a few stays in China where I've met, traveled, discussed, argued, cooperated, played tennis, dined and wine and studied with a lot of people. Thanks to all of you! You've contributed to confirm my conviction that fieldwork is the best part of any research project. In particular, I'd like to send my regards to my fieldwork partners Zhou Gang, Gu Yan and Zhou Xiaolan who accompanied me in research on "the far side of international business".

This thesis is quite slim as it is, but without informants it would be downright meager. Thanks to all of you who at some point or another agreed to meet me to discuss your business and opinions, even though it probably didn't seem very clear to you how this information would be used. Especially the Norwegian lifeboat company Le Bang<sup>2</sup> and its plant manager deserves tanks for hospitality, interest and information!

Then, the star of any thank you speech/section: my mother! Thanks for good and long-lasting support and for all the berries and mushrooms. I promise to find time for some berry-picking next year!

Finally, Siri and my favorite work obstruction Eldar – we need to make space for nine pair of shoes and a few other belongings you haven't seen in a while. Thanks for your endurance and for giving me the flexibility to come through with this project! We had a great stay in Shanghai; I hope we can go back some day!

Trondheim, September 8, 2008



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<sup>2</sup> Real company, fictitious name.

## Contents

### **From salmon to lifeboats: Introducing the far side of international business .....1**

Introduction .....	1
The four articles.....	2
Opening the black box of international business .....	6
From imitation to innovation: China's economic miracle from a lifeboat perspective.....	13
Method and fieldwork .....	30
Section appendix: List of interviews .....	36
References .....	38

### **Taking the mess back to business – studying international business from behind .....45**

Notes by the Geographer: The externalities of the internationalization process .....	46
Exploring the far side of the internationalization process.....	49
Conclusions .....	59
References .....	60

### **The far side of international business: local initiatives in the global workshop.....63**

Introduction .....	63
Merging perspectives .....	64
Studying the far side – the methodological approach .....	68
On top of the world – but not on top of China.....	71
Conclusion – Toward a reflexive theory of international business.....	82
References .....	85

### **Entering *Local* Value Chains: Upstream and Downstream Linkages in the Midst of China's Shipbuilding Industry .....89**

Introduction .....	89
A new perspective on cross-border linkages and economic activity ...	90
Methods: between smirks and shrugs in the value chain .....	96

Up- and downstream linkages of an entrant in China .....	98
Limited governance and upgrading in the local value chain .....	107
Concluding remarks .....	110
References .....	110
<b>Karaoke or Corruption – Balancing Diverging Expectations and Demands in International Ventures.....</b>	<b>115</b>
Introduction: The Gap and the Bridge.....	115
Culture Quantified.....	116
The expatriate manager as broker .....	120
The Gap Within .....	122
The Dubious Offence .....	127
Conclusion.....	130
References .....	132



## Figures and tables

Figure 1: The project design illustrated .....	3
Figure 2: The traditional understanding of the internationalization process .....	9
Figure 3: A more dynamic understanding of the internationalization process.....	12
Figure 4: imitation of product based on information in products.....	21
Figure 5: Creative imitation of products and processes based on information from other producers.....	23
Figure 6: Partial innovation based on existing knowledge sourced from distant knowledge pools.....	25
Figure 7: Radical innovations based on explorative activities .....	27
Table 1: Interviews with lifeboat companies.....	36
Table 2: Interviews with suppliers to the lifeboat industry .....	36
Table 3: Interviews with shipyard and other lifeboat customers.....	37
Table 4: Additional interviews conducted to learn about international companies in China.....	37
Table 1: Interviews conducted in lifeboat companies in China .....	69
Figure 1: Lifeboat companies in China .....	72
Table 2: The relationship between local and foreign lifeboat firms in Qingdao .....	74
Table 3: The relationship between local and foreign lifeboat firms in Jiangyin .....	76
Figure 2: The interactive relationship between international and local actors .....	82
Table 1: Upstream interviews - suppliers .....	96
Table 2: Downstream interviews - customers .....	97
Figure 1: The up- and downstream linkages of a lifeboat company .....	99
Figure 1: China and Norway according to Hofstede .....	117



# From salmon to lifeboats: Introducing the far side of international business

## Introduction

My first project in China, which resulted in the master thesis “Lykkefisk & Love Kitchen”<sup>1</sup> (Hansen, 2002), was a slightly critical examination of Norwegian strategies to establish salmon as an ingredient in Chinese cuisine. An outcome of this study was that I realized that the Norwegians learned and adapted to the Chinese market and business structure, but the local actors were learning and adapting to a new situation as well. “Perfect” adaptation to Chinese business and consumer preferences, structure and behavior was consequently not a goal that Norwegian salmon exporters could pursue and finally achieve – the preferences, structure and behavior of Chinese consumers and businesses were (and still are) dynamic and both influenced by as well as able to influence international companies entering China. This may not sound like a groundbreaking discovery, but at the time (and, for that matter, still) theories and empirical work dealing with internationalization were preoccupied with the learning and adaptation processes of international companies, largely overlooking local response to international initiatives and how the dynamics between international and local actors together contribute to create a new situation which alters the business environment. True enough, many have emphasized the impact of multinational corporations (MNCs) on local actors, but these studies tend to portray the locals (be it consumers, workers, companies or governments) as merely recipients of impulses from the global economy, depicted as MNCs or some kind of vague force.

My conclusion after Lykkefisk & Love Kitchen was that there was still work to be done. In my approach to the PhD project the fundamental

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<sup>1</sup> English translation: Fortune Fish & Love Kitchen

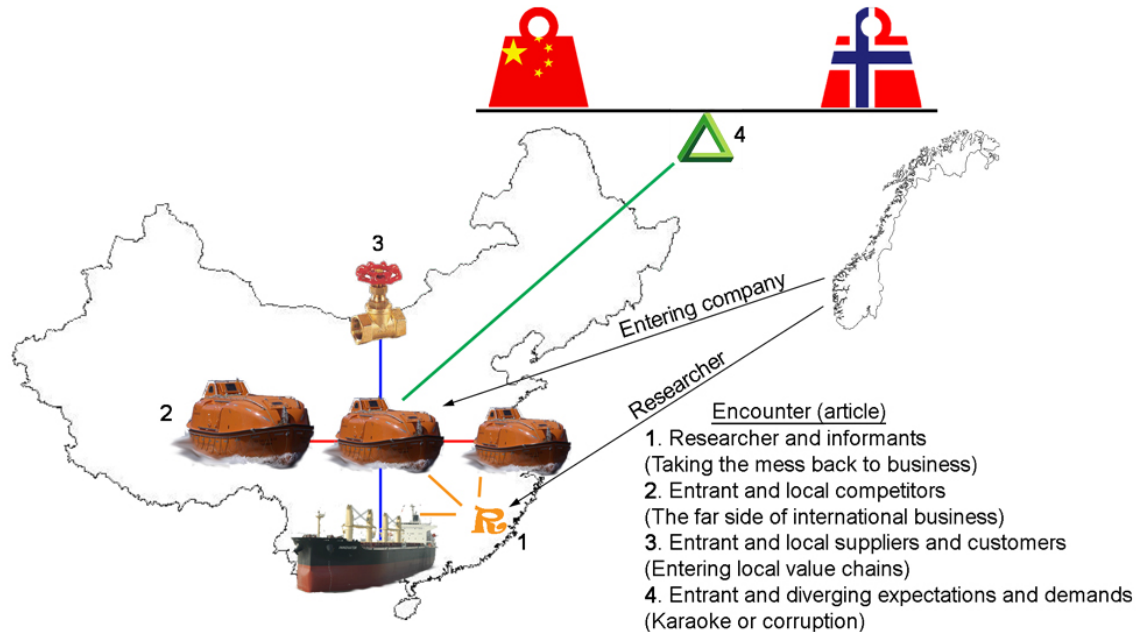
assumption is that both internationals and locals are empowered with the ability to evaluate and act on the situation in which they find themselves and that evaluations and actions on both sides intersect and shape the reality in which both sides operate. In order to capture the dynamics between entrants and locals it is of vital importance to study the encounters between them from various angles and by questioning actors on both sides of the local-international divide. The starting point of this project is not salmon exports, but a Norwegian lifeboat producer that entered China by acquisition in 2004. This dissertation is to a certain extent the story about how this company adapted to China, but even more, it is a story about how their new Chinese competitors, suppliers and customers adapted to them; how the presence of Norwegian lifeboat producers have contributed to the development of the Chinese lifeboat industry and, further, how Chinese development in this industry now is affecting Norwegian activities in the same industry – in other words, the internationalization and domestication of Norwegian lifeboats in China.

The first section of this introduction provides a brief summary of the four articles included in the dissertation. The second section which is titled ‘Opening the black box of international business’ addresses international business studies lack of interest in host country actors, dynamics and linkages between internationals and locals. The section continues by applying the concept ‘domestication’, borrowed from Science and Technology Studies, to support the need for a perspective which contributes to dismantle the dichotomy between active internationals and passive locals. The third section ‘From imitation to innovation: China’s economic miracle from a lifeboat perspective’ discusses theories on innovation and industrial upgrading and aims to put some of the empirical findings in perspective by linking the development of the Chinese lifeboat industry to the upgrading of China’s industrial system. The fourth and final section of this introduction shed light on the fieldwork and methodological approach to learn about the far side of international business.

## **The four articles**

In addition to this introduction the dissertation consists of four articles which all focus on the encounters and linkages between entrants and insiders in China. Figure 1 provides a visualization of the encounters in

scope and the articles examining them. Except for some cosmetic reformatting to fit the style of the dissertation, the published articles have not been altered. All articles included here are solo publications.



**Figure 1: The project design illustrated**

### **Article 1: Taking the mess back to business – studying international business from behind<sup>2</sup>**

‘Taking the mess back to business’ is a quite experimental, conceptual article which addresses the role of the qualitative researcher in international business (IB) studies and the need for a host country perspective to better comprehend the complexity and consequences of international economic activity. The article argues that the internationalization process is constructed at the doorstep where local and international actors meet and should thus be studied from both angles. The article provides some empirical examples and anecdotes from research in China to underpin the argumentation, but I’d like to emphasize that this is not an article exploring empirical questions; rather it is a call for new perspectives and for researchers of international business to rethink their approach to the field. The arguments are

<sup>2</sup> Article (Hansen, 2008d) published in *Critical perspectives on international business* 4(1): 42-54.

discussed in the voices of ‘the Geographer’ and ‘the Explorer’ – fictitious characters borrowed from Saint-Exupery’s novel ‘The Little Prince’. First, a theoretical critique of current research on international business is proposed by ‘the Geographer’, then I as author conduct an interview with ‘the Explorer’ to learn how he experiences working as a fieldworker on the far side of international business. ‘The Explorer’ argues that more knowledge on how local actors evaluate and act upon international initiatives and the relations between entrants and locals may provide better understanding of realities and dynamics of actors in both camps. In order to achieve this knowledge, researchers of international business should go beyond the traditional sources of information (i.e. MNC-managers) and also consult actors on the far side of international business (i.e. host country competitors, suppliers, customers etc.). By entering deeper into the field of study the researcher may be able to gain profound insight, but s/he will also become a more active ingredient in the realities being studied.

## **Article 2: The far side of international business: local initiatives in the global workshop<sup>3</sup>**

‘The far side of international business’ is a more conventional and empirically grounded follow-up to article 1. The article presents a case study of the entry of two Norwegian lifeboat companies into the Chinese production system, but rather than merely studying the situation through the eyes of these two Norwegian companies, it includes a perspective from the far side of international business, i.e. the local competitors. Three questions are explored: 1) How do local companies evaluate the presence of international competitors in the local production system? 2) How is information and knowledge transferred between competitors as a result of this presence? and 3) How do international presence and knowledge transfers affect the evolution of an industry and the relative competitiveness of the participants? The article argues that to understand the dynamics and development of both international companies and localized production systems in a global economy, it is necessary to explore how international and local actors reflexively evaluate and act upon each other. The article then presents a model for studying the intersection between international actors entering somewhere and

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<sup>3</sup> Article (Hansen, 2008b) published in *Journal of Economic Geography* 8(1): 1-19.

localized production systems and the actors already there. This model is inspired by Malmberg's (2003) and others' call for new theoretical approaches that integrates international and local perspectives when conducting research on both international business and localized industrial development.

### **Article 3: Entering local value chains: Upstream and downstream linkages in the midst of China's shipbuilding industry<sup>4</sup>**

Whereas article 2 deals with the horizontal dimension of the actor entering a new production system, 'Entering local value chains' aims to explore how companies in the vertical dimension evaluate and act on the presence of an entrant in their domestic environment. The article takes one of the two Norwegian lifeboat producers from article 2 as a starting point, but rather than focusing on the entrant's relations to competitors, this article looks into the value chain of the entrant to study how local suppliers and customers evaluate and act on the presence of an international company. This approach provides insight into a three tier fragment of the shipbuilding value chain. Upstream there are local second tier suppliers providing nuts and bolts for the foreign entrant as well as for local companies; downstream, there are shipyards buying lifeboats from the entrant as well as domestic suppliers. This article thus presents a slice of Chinese industry ranging from the small and locally anchored workshops supplying the entrant with various components, to the huge globally oriented shipyards buying some of the boats delivered from the entrant's Chinese affiliate. Based on this fragment of the value chain and the contents of the linkages between its actors, I discuss how governance and upgrading in Chinese value chains take place and why foreign entrants and their 'soft' technology possibly play a different role than local companies.

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<sup>4</sup> Unpublished paper

#### **Article 4: Karaoke or corruption – balancing diverging expectations and demands in international ventures<sup>5</sup>**

More than 120 Norwegian companies are established in China today. While article 2 and 3 explore local-international dynamics from a company perspective, this article focuses on how the Norwegian managers who are in charge of some of these companies walk the line between expectations and demands from the Norwegian headquarters with expectations and demands arising from both within the affiliate in China (internal issues) and from the business environment in which the affiliate operates (external issues). This in-between position is discussed in terms of the ‘cultural broker’ concept; in order to perform; the manager should not only comprehend both sides, but also act as a broker and make the two realities understand each other. Congruent with the far side-approach, both Norwegian and Chinese informants were consulted. However, the focus here is to show how Norwegian and other expatriate managers in China communicate and deal with issues concerning diverging notions of corruption and ethical issues in the Chinese business environment, and also how conflicting standards regarding quality, human relations, incentive systems and distribution of responsibility within the company are central challenges to operating an international company in China. The empirical scope of this article goes beyond Le Bang and the lifeboat industry. This article is based on a review of existing literature as well as a number of my own interviews with Norwegian and Chinese managers and employees – mainly in the seafood and maritime industries.

### **Opening the black box of international business**

The paramount theme of the four articles included in this dissertation is the encounter between entrants and insiders in China. In the first article, between the researcher and informants, second, between the entering company and new host country competitors, third, between the entering company and suppliers and customers and fourth, the encounter between expectations and demands stemming from the international ventures

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<sup>5</sup> Chapter (Hansen, 2008c) published in *Making it in China*, eds. Merete Lie, Ragnhild Lund and Gard Hopsdal Hansen, Høyskoleforlaget (Norwegian Academic Press).



home country and the expectations and demands of a new business environment.

My research on these encounters has been guided by several theoretical approaches and strands of literature – some theoretical approaches are thoroughly discussed and commented in the dissertation, while other streams of literature play a more supporting role. To enhance my understanding of China I've been reading books and articles about Chinese history, economic development, culture and traditions and the odd 'how-to-do-business-in-China' book. Furthermore, to understand more of the international company, their challenges and solutions I've been looking into literature on human resource management (HRM) (e.g. article 4), intellectual property rights (IPR) (e.g. article 2), total quality management (TQM) (e.g. article 3) and a few other abbreviations. To better comprehend localized industrial development I've consulted my old home ground, economic geography, and read about clusters and national innovation systems (NIS) and, by global extension, global value chains (GVC) and global production networks (GPN); while at the same time impulses from my new work environment, the Department of Interdisciplinary Studies of Culture, have been trickling in and added a hint of science and technology studies (STS) and actor-network theory (ANT) to this theoretical potpourri. All along, my initial question – to find out how local actors evaluate and act on international entrants and the dynamics between insiders and outsiders – arose out of international business (IB) research and this tradition's emphasis on the learning process of international actors.

### **Mountains matter – and so do flowers**

In Antoine de Saint-Exupéry's prominent publication from 1943 (Saint-Exupéry, 2000), *The Little Prince*, the main character was travelling across the universe when he met an old gentleman living alone on his own planet, writing enormous books about geography. They engaged in conversation:

'Oh, my home isn't really very interesting,' said the little prince. 'It's tiny. I have three volcanoes. Two active ones, and one extinct. Though you never know.'

'You never know,' said the geographer.

‘I also have a flower.’

‘We’re not interested in flowers,’ said the geographer.

‘Why ever not? It’s the prettiest thing there!’

‘Because flowers are ephemeral.’

‘What does “ephemeral” mean?’

‘Geography books are the most precious of all,’ said the geographer.

‘They never go out of date. It’s very rare for a mountain to move. It’s very rare for an ocean to dry up. We write about eternal things.’

‘But extinct volcanoes might become active again,’ said the little prince.

‘What does “ephemeral” mean?’

‘It’s all the same to us whether volcanoes are active or extinct,’ said the geographer. ‘Mountains are what matter for us. And they don’t move.’

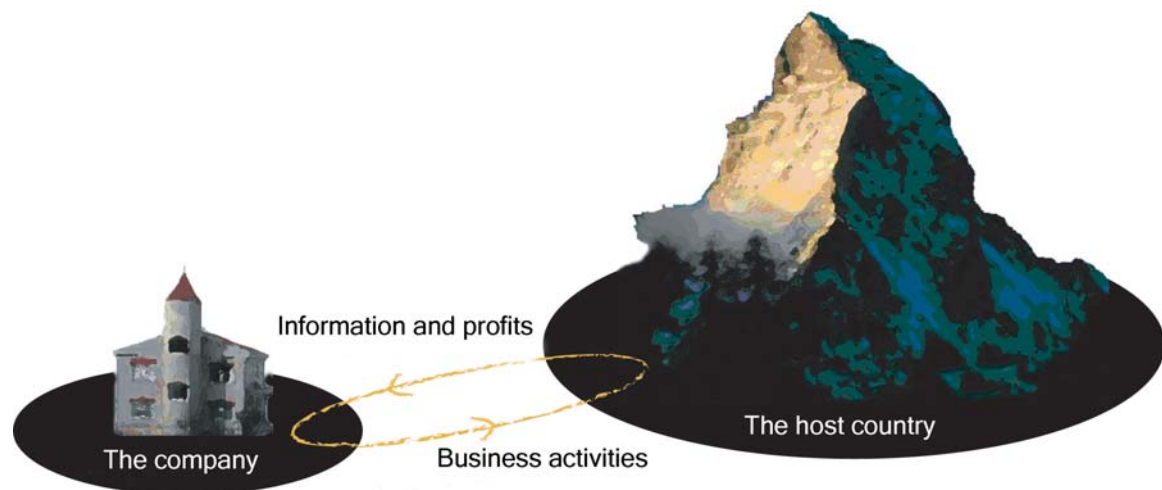
The encounter between the little prince and the geographer paints a picture of geography and science in general as activities far from both the reality they claim to be about and the audience: the geographer writes about cities, oceans and mountains in the universe, but lives on a planet of his own and never leaves his office, and he won’t tell the little prince what “ephemeral” means. Further, the geographer establishes that geography is a discipline that’s not supposed to change, and that geography is about eternal things that don’t move, such as mountains.

Today biogeography, i.e. the spatial patterns of biodiversity, is a sub-discipline within geography – flowers, though still ephemeral, have become important as indicators of climate change – and climate has a profound effect on mountains. Geography and science in general have become less preoccupied with eternal truths about everlasting objects, turning to include research on more dynamic, ephemeral matters. Formerly ignored or excluded subjects may be integrated as sub-disciplines and even contribute to the disciplines original core. The strict borders that surrounded geography have opened up – or at least they have been transformed. And it is ok to focus on objects less eternal than mountains – maybe it is the understanding that even mountains erode and change that has made this extension of topics possible. However, knowledge producers are still sometimes (seen as) sitting on their own planets *observing and treating matters as if* they were dealing with mountains on other planets. In this section *the mountain* is put forward as

a metaphor for *the constant*; a variable too often imposed upon situations and arenas where it does not belong. *Flowers*, on the other hand, signify the ephemeral, messy, irregular and maybe unexpected variables that inevitably occur when we study complex realities.

### The mountain remains...

The work on the internationalization process of firms has provided good understanding of international companies, their activities and learning processes, but these approaches have rarely attempted to integrate the interplay between the international actor entering somewhere and the host-country actors already there (Welch and Luostarinen, 1993; Karlsten, Silseth, Benito and Welch, 2003; Lie and Lund, 2005; Wright, Westhead and Ucbasaran, 2007). The respondents informing research on international business are usually managers of MNCs and their subsidiaries, not the actors domestic to the environments being entered. The host country is, so to speak, put in a black box<sup>6</sup> – its dynamics and internal complexity made invisible by the vast number of publications dealing with entrants and their activities. The internationalization process can be illustrated like this:



**Figure 2: The traditional understanding of the internationalization process**

<sup>6</sup> A black box is a concept referring to devices, systems or objects defined by their input and output, rather than their intrinsic characteristics (see for instance Latour, 1999).

It is still the perspective and activities of the international firms' that are accounted for in the recent empirical contributions to the internationalization literature: dynamic companies enter foreign markets and production systems, and harvest information, knowledge, profits and sometimes losses (see figure 2). In these studies, the impact of internationalization on the host economy, if any, is unidirectional; creating undulations that the international actors may adjust to without further ado, but the impact is never seen as something that might backwash on the international actor (see for instance Luo and Peng, 1999; Bell, Crick and Young, 2004; Blomstermo, Eriksson and Sharma, 2004; Carlsson, Nordegren and Sjöholm, 2005). Or, to stick with my geological metaphor; the country receiving international initiatives is still largely seen as *a mountain* where international firms can initiate business and gather knowledge and profits.

### **Domesticating technology and international activity**

Lapérouse was able to put Sakhalin on a map, but the South Pacific cannibals that stopped his travel put him on their map! (Latour, 1987, 229)

The challenge to understand international-local linkages is then to acknowledge that internationalization is an interactive process including both entrants and host country actors, and invent some means to illuminate the dynamics of the relationship between the involved actors. The nature of relationships is also an issue in Science and Technology Studies (STS), for instance the relationship between use and design, or users and designers, of technology. While the traditional view on this connection would suggest that users adapt to the design provided, or for that matter, that designers actively try to adapt to meet users needs, the concept 'domestication', refers to the way users interpret and adapt technology to fit their needs, tastes etc. (Lie and Sørensen, 1996; Sørensen, 2006). To domesticate an artefact is to negotiate its meaning and practice in a dynamic, interactive manner and thereby integrate it into the structures, daily routines, and values of users and their environment. This negotiation implies that technology as well as social relations is transformed (Aune, 1996; Sørensen, Aune and Hatling, 2000; Berker, Hartmann, Punie and Ward, 2006). Domestication may thus imply that the user partially or completely breaks with the intentions – or “script” to

use Akrich's (1992) concept – provided by the designer/producer. This break may be transient and trivial, as for instance if you use your pencil to scratch your forehead, or it may be of some consequence, as for instance when hackers renegotiate the use of computers and turn them into sub-cultural artefacts (Håpnes, 1996). Domestication is a notion closely related to Latours' statement (1987, 29), *the fate of what we say and make is in the later users' hands*. Users may adapt to facts and technology according to the intentions of the designer, but they may also adapt the facts and technology in accordance with their own need for facts or technology.

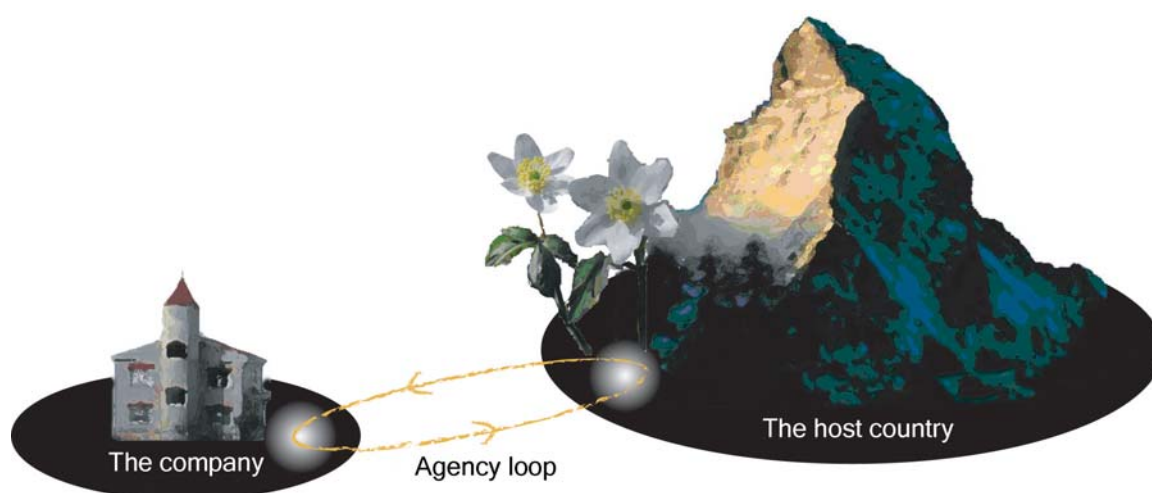
Even though the application of technologies and international economic activities are processes working in different arenas, the interactive relationship that is fundamental to the domestication-concept is a perspective that should apply also to international economic activities. Economic systems are reflexive; the actors concerned explicitly question the organization, and based on an analysis of the organization's functioning, try to conceive and establish new rules for the game (Callon, Meadel and Rabeharisoa, 2005, 28). As Sterman (2000, 10), a scholar of system dynamics pointedly asserts:

We are not puppet masters influencing a system out there – we are embedded in the system... As our actions alter the state of the system, other people react to restore the balance we have upset.

Latour (1987), Callon et al. (2005) and Sterman (2000) all point to the reflexivity of actions and the impossibility of placing oneself outside the circuit of events. Transferred to international business this means that any new entrant in a market or production system on some level alters the system which then again triggers responses from local actors affected by this entrance. Through commitment to foreign markets the firm becomes a participant in the very same market. The firm becomes bound to the market (Johanson and Vahlne, 2003). So, the international companies' presence as knowledge producers and the actions they take on based on this knowledge may refuel the local actors' knowledge and inform their actions. The domestication concept as used in technology studies represents an alternative to the established 'active producer - passive user' duality, and may be used in a similar way to dissolve the 'active entrant - passive recipient' dichotomy of international business studies. Learning occurs on both sides, and the locals may to some extent domesticate the presence of the internationals to become resources on

some level. Important to underline, ‘domestication’ in this context does not refer to international companies becoming more Chinese; domestication rather refers to the way the intentions and actions (script) of the entrant is received, translated and adapted to fill a purpose desired by the host country actors receiving foreign initiatives. In China, domestication of foreign direct investments has been a prevailing, articulated policy for decades – foreign companies have been invited to invest in China to benefit from low-cost production opportunities and an emerging market, and at the same time this invitation is – from a host country perspective – motivated by a desire to bring advanced technology, management skills, access to overseas markets and competitive pressure into China (Wu, 2005).

The internationalization initiative should therefore be seen as a force causing a change in the local environment, as figure 3 illustrates. The encounter between internationalization and domestication creates erosion where new, unforeseen initiatives (illustrated as flowers) can grow, that in turn may erode and spur new initiatives also in the home environment of the international actor.



**Figure 3: A more dynamic understanding of the internationalization process**

To study international economic activity and in particular the internationalization process we need to open the black box which so far has contained the host economy. The internationalization process is a process in action; and the initiative to action is not a privilege reserved the companies that in the first place initiate activities in a foreign setting. The initiative may shift, and thereby the course of both the internationalization process and the local industrial development. This is

my main argument, and this is also the reason why I chose the passage from Latour's *Science in Action* as an appetizer for this section. The French explorer Lapérouse was on a mission to map the Pacific and to learn about the people, natural characteristics and everything else that might be of interest to the king. Lapérouse was the subject, the one holding the initiative to action in his hands, but suddenly someone else grasped the initiative and Lapérouse became domesticated to an ingredient in the local cuisine.<sup>7</sup>

## **From imitation to innovation: China's economic miracle from a lifeboat perspective**

To this point I've argued that the linkages between international and local actors are important to understand development and dynamics on both sides of the internationalization process. In this section I will take a look at the contents of these linkages, what kind of effect they have on the participating actors and how domestication occurs in the encounter between entrants and locals in China. First, I will briefly discuss literature on innovation and catching-up strategies, then carry on with an introduction to China's ongoing economic development and finally present an illustrated account of China's journey from imitation to innovation from a lifeboat perspective. Although this dissertation mainly takes a company-level approach, this section aims to connect my own research to the national scale, examining the interdependency between the development of the Chinese economy and industrial system and development of indigenous companies through their linkages to each other as well as foreign actors.

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<sup>7</sup> Whether Lapérouse and his shipmates actually were eaten by cannibals is not an established historic fact. The expedition disappeared in the Pacific in 1788, and it was not until 1826 that an Irish captain found some remains from the ships. What had happened in between can only be surmised.

## **Innovation and proximity**

According to Schumpeter (1934), economic development has to be studied as an interactive process of qualitative change, not something bound within the individual firm and the distribution of resources. Along the same line as Schumpeter, Storper (1997) argues that the conservative notion of economic systems *as machines*, with hard inputs and outputs, must be replaced with a new guiding metaphor that see the *economy as relations*, the subjects of the process not as factors, but as *reflexive human actors*, and the nature of economic accumulation as not only material assets, but as *relational assets*.

Research on innovations and innovation systems has established that linkages between firms and other firms and non-firm actors are important to understand innovation capacity – firms don't innovate in isolation, but in collaboration and interdependence with other actors (Kim, 1997; Boschma, 2004; Edquist, 2005; Altenburg, Schmitz and Stamm, 2008). Linkages are, intentionally and sometimes accidentally, used by firms to identify opportunities and challenges and to find new technological and organizational combinations to meet these opportunities and challenges. Innovation capacity is thus, to a large extent, a product of the density and quality of the firm's linkages to other firms and non-firm actors. Density and quality of linkages is a matter of proximity – but proximity is more than geography. According to Boschma (2005) geographical proximity is neither a necessary nor an adequate condition for learning, but it may be a facilitator of knowledge creation by supporting other forms of proximity (cognitive, organizational, social and institutional) that contribute to enhance the density and quality of linkages and buzz between actors. According to Bathelt, Malmberg and Maskell (2004, 38) 'buzz' refers to the information and communication ecology created by face-to-face contacts, co-presence and co-location of people and firms within the same industry and place or region. Buzz may assist participants in the same value chain identifying relevant information and opportunities for cooperation with other actors, but proximity and buzz may also be an active ingredient in the horizontal dimension of an industrial place or region as it provides companies with opportunities for continuous monitoring and benchmarking against competitors (ibid.).

Innovation is principally a process of differentiation from the competition (Crevoisier, 2004), but going beyond competitors is hard if they all dip in the same knowledge pool. Although proximity in its different forms is important there can also be too much proximity. Places and regions tied



together in networks of dense linkages may experience lock-in, embeddedness problems, lack of economic rationality and failure to recognize and accept novel ideas (Boschma, 2005). Consequently, innovations and the development of regions, clusters<sup>8</sup> and individual companies depend not only on the density and quality of local linkages and buzz, but also on their ability to establish pipelines to extra-local sources of knowledge (Bathelt et al., 2004; Boschma, 2005). While the local buzz of a certain industrial environment largely facilitates informal exchange of tacit information and intangible assets between actors who are familiar with each other, global pipelines are seen as more targeted efforts to obtain codified knowledge from distant and less familiar sources (Bathelt et al., 2004). The buzz-pipeline logic resonates well with Granovetter's (1973) seminal work 'The strength of weak ties'. Granovetter elaborates how information (e.g. rumors) moving through strong personal ties tends to be confined to a few cliques (since those linked by strong ties tend to share friends), but if the information moves through weak ties it can traverse greater social distance. The weak ties are seen as bridges to other cliques or environments.

Bathelt et al. (2004) study buzz and pipelines from a cluster perspective and suggest that while buzz usually takes care of it self; building pipelines to reach external environments may require assistance, for instance from local policy makers. However, pipelines may also be initiated from the outside – for instance, by foreign companies entering the cluster or region in scope and thereby building a bridge between their existing network of customers, suppliers, competitors and other acquaintances and sources of inputs, and the new host country. Although researchers of local and regional development usually acknowledge that places and regions are not autonomous entities, but intertwined with and connected to other geographical scales and places, few empirical attempts have yet been made to merge the local with an international perspective in order to study insider-outsider dynamics in more detail (Humphrey and Schmitz, 2002; Malmberg, 2003; Hansen and Kuada, 2006; Coe and Wrigley, 2007). In the international business camp, on the other hand, inward processes related to internationalization – i.e. how host country actors relate to incoming initiatives – have received equally little attention (Karlsen et al., 2003; Wright et al., 2007). Some relatively recent empirical contributions (e.g. Holm, Malmberg and Sölvell, 2003; Karlsen

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<sup>8</sup> A cluster is defined by Porter (2000, 16) as: a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities.

et al., 2003; Ivarsson and Alvstam, 2005) do indeed focus on the inward-outward connection of internationalization and the impact of foreign subsidiaries on host country economies, but still without conducting empirical fieldwork on both sides of the local-international divide to learn how host country actors evaluate the entry and presence of foreign companies.

### **Catching-up strategies**

A central question in research on innovation systems is to find out why some regions or countries are more innovative and adaptive than others (Nelson, 1993; Edquist, 2005; Fagerberg and Godinho, 2005). Like market shares shifting between firms, successful regions will increase their relative share in the (national or world) economy at the expense of lagging regions (Boschma, 2004, 1005). Hobday et al. (2001) suggest that the East Asian economies for a long time were cut off from the traditional sources of innovation and the pull from demanding users, but as a response these economies adopted and adapted novel organization forms and innovation strategies to overcome their difficulties and catch-up with the global leaders of various industries. Concepts like ‘catch-up’ and ‘developing’ can easily be misleading as it connotes that the catching-up (or developing) country is simply copying the paths of others on its way towards a predefined goal. Although the practices of more advanced economies usually serve as a model for catching-up countries, what is achieved may differ a lot from the template and rather provide fertile soil for new initiatives and innovations (Kim, 1997; Hobday et al., 2001; Nelson, 2004).

A particularly influential contribution to understand East-Asian industrial development is Linsu Kim’s (1997) comprehensive book *Imitation to Innovation: The Dynamics of Koreas Technological Learning*. According to Kim, the process of firms, industries and countries technological learning is so dynamic and complex that it defies simple analysis and frameworks. Consequently Kim presents a comprehensive framework composed by four sub-frameworks to analyze incremental and discontinuous learning at Korean firms. The first sub-framework examines the global technological environment and the interface and interaction between technology trajectories in advanced countries and catching-up countries and postulates that technological change in catching-up countries partly stems from the acquisition, assimilation and

improvement of foreign technology. Inherent in this understanding is that imitative activities may lead to a platform from which local adaptations and incremental innovations can emerge. Second, Kim includes an institutional sub-framework in which he identifies international, domestic and in-house sources of learning in newly industrialized countries. The third sub-framework highlights the learning processes at firm level. Understanding the intrinsic factors that make some firms more efficient learners is important because technological change in many ways depends on firms' capability to absorb knowledge and information. The final sub-framework included in Kim's paramount framework is about technology transfers from foreign companies. Technology can be transferred actively by means of foreign direct investments, consultancies and technical assistance, or it can be transferred passively through commodity trade, reverse engineering etc.

Although Kim (1997) primarily analyzes technological learning and change on a microeconomic level (i.e. the firm), he emphasizes the importance of a holistic approach which also has to include macro and meso perspectives and the linkages and interaction between these levels. The innovation processes can be understood only by considering the multidimensional context (e.g. economical, political and cultural) and the multiscale context (local, national and international) in which they take place (Crevoisier, 2004, 374).

While recognizing that the factors influencing national catching up processes are many and diverse, Nelson (2004) suggests that all successful cases of catching-up have at least included the following three elements: 1) considerable cross-border flow of people, 2) active government support of the catch up process, and 3) weak enforcement on intellectual property rights regulations. China has no problem meeting the terms above; Chinese students are going abroad in great numbers<sup>9</sup> and at the same time foreign students and business people are coming to China; the Chinese government is dedicated to economic and industrial growth (Hansen and Kristoffersen, 2008); and intellectual property rights are still weakly protected (Hansen and Møller, forthcoming 2009).

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<sup>9</sup> China Statistical Yearbook (2006), table 21-8.

## China's turn towards quality growth

At the onset of China's opening towards the global economy in the late 1970s, China's technological competence was lagging far behind developed countries – as well as many other developing countries.<sup>10</sup> China, still marked by the Great Leap Forward and the more recent Cultural Revolution, had only participated in the global circuit of trade and exchange of knowledge and ideas to a very limited degree, but this was to change dramatically in the decades to come. From 1978 to 2005 government expenditure for science and research increased from 5.3 billion rmb to 133.5 billion rmb (while the science and technology activities funded by Chinese enterprises in 2005 amounted to another 344 billion rmb), the number of students graduating with a master or PhD degree from Chinese universities rose from 9(!) in 1978 to 189.726 in 2005 and the total value of import and export increased 330 times, turning a two billion rmb deficit to an 837 billion rmb profit.<sup>11</sup>

Foreign investments have been crucial to China's development, building up the industrial sector and boosting technological and managerial competence. Reform of the domestic economy and opening to the outside world have been reinforcing each other and driving the fast growth of China's economy (Wu, 2005). Over the past decades, the majority of foreign investments streaming into China have entered the labor intensive manufacturing industry, but recently this started to change and there is increasing investment in hi-tech sectors such as telecommunication and electronics in which the knowledge worker is a key asset (Raatikainen, 2003). According to Professor Zhou Dunren (see Hansen and Kristoffersen, 2008), foreign investments have overall played a very constructive role in China's development, but not all investments are good and it is now time for China to carefully reconsider what kind of investments to attract in order to achieve *quality* growth, rather than aiming for a double digit GDP percentage year after year. The Chinese government is strongly encouraging efforts to channel more foreign capital into the higher value-added and technology-intensive sector. In the words of Vice Premier Wu Yi, "We expect multinational companies to transfer the high-end link in manufacturing and research and development bases to China" (Zhu, 2006).

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<sup>10</sup> See IMF for a classification of developed/developing countries.

<http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/groups.htm#oem>

<sup>11</sup> China Statistical Yearbook 2006, tables 8-7, 21-8 and 18-3 respectively.

The Chinese economic miracle has for a long period been based on *perspiration*, but *inspiration* is now becoming more important (Professor Zhou Dunren to Hansen and Kristoffersen, 2008). Others have made the same observation. Xie and White (2006) analyze the period from 1949 to present (that is, 2006) and demarcate five stages in the evolution of China's technical learning. The first four stages spanning the period from 1949 to 2001 are characterized by an imitation paradigm wherein China in various ways aims to catch up with the rest of the world by imitating products and processes developed elsewhere. The fifth stage, however, beginning in 2001, represents a change towards creativeness in which Chinese companies and policy makers increasingly focus on developing technical and organizational knowledge in China and as a result several Chinese companies (e.g. Haier, Huawei, Lenovo, COSL etc.) are now entering into global competition.

While still and quite fairly known as the home of cheap mass production and imitations, China is simultaneously becoming a tremendous force in the global economy bidding for oil contracts on other continents, sending out her own companies and brands to foreign markets and production systems, hosting the Olympics and even drifting her own space program.

Recent high-profile international acquisitions and takeover bids by mainland Chinese companies have dramatically shifted media attention from spotlighting China as a 'giant sucking vacuum cleaner' for global inward foreign direct investment (FDI) to characterizing the country as a cash-rich 'predator' embarking on a global buying binge (Wu, 2007, 445).

The Norwegian business newspaper 'Dagens Næringsliv' (July 8, 2008) reported that China Oilfield Services (COSL) offered 12.7 billion NOK for the Norwegian offshore oil rig company Awilco. According to the newspaper, the Chinese bid is motivated by the "Viking Spirit" of Awilco as well as its social technologies and capital such as management, operational organization, employees and culture.

Although there are still Chinese companies that with good reason can be accused of producing substandard quality, there is no longer any valid reason to generally disapprove of China's technological competence. China's development, which indeed is continuing, can be explained along a variety of trajectories: political explanations focusing at the capability

of the Chinese government, cultural explanations focusing at the energy and entrepreneurial mind of the Chinese people, economic explanations focusing at resources inherent urge to increase return on investment, international business approaches focusing on the inflow of foreign direct investments etc. All these explanations, sometimes standing alone, other times combined, can be studied from a bird's eye perspective or zoomed down to a business or even individual level.

### **Opening scene: From imitation to innovation**

In this attempt to illustrate and to some degree explain China's economic miracle and her ongoing turn from imitation to innovation, I take a *product* perspective. The product chosen here is not a key product, as for instance *the car*, which is often seen as the outcome, as well as the driving force behind a highly complex and correspondingly global production system (or network); giving birth to grand concepts such as 'Fordism' and Toyotas just-in-time philosophy defining both the production best-practices and to some degree the entire society of the 20<sup>th</sup> century. Lifeboats and their producers are never – reasonably enough – regarded as a force governing value chains, consumers, suppliers and customers across the globe. The lifeboat is located somewhere in the middle; it is obviously the outcome of its own value chain (as most products are), but enters into the shipbuilding industry and becomes attached to a ship where it usually has no practical purpose until the day something goes wrong.

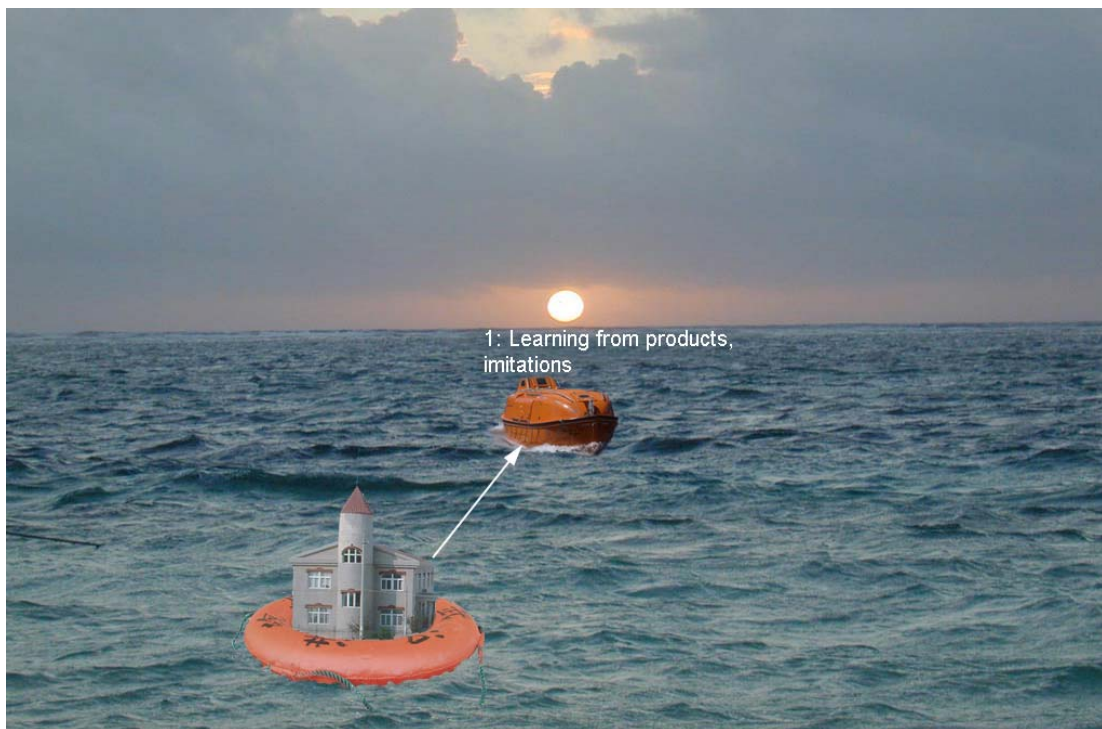
Lifeboats should not be in the news. They should be there to save lives when needed and out of the news when not. Unfortunately, all too often, lifeboats are in the news for the wrong reasons because people have been hurt using them. Part of the reason for that is simply that lifeboats are not just out of the news, they are out of sight and mind when there is no emergency (Røssland, 2006, 7).

Although the lifeboat in many senses is invisible, there are significant differences with regard to quality; the better lifeboat requires little deck space, but can still save many people; the painting and technical details should be durable; the hook attaching the lifeboat to the ship has to be reliable and release when supposed to and hold when not etc..

Inspired by Linsu Kim's (1997) analysis of Korea's industrial upgrading and my own fieldwork on the far side of international business, I'd like to present an illustrated four step account of industrial development from a lifeboat perspective. The four steps are deduced based on the source of knowledge contributing to industrial upgrading:

- Imitation of products based on information *in* products.
- Creative imitation based on other producers processes.
- Partial innovation based on distant sources.
- Radical innovations based on explorative activities.

### **First act: Sourcing knowledge from products**



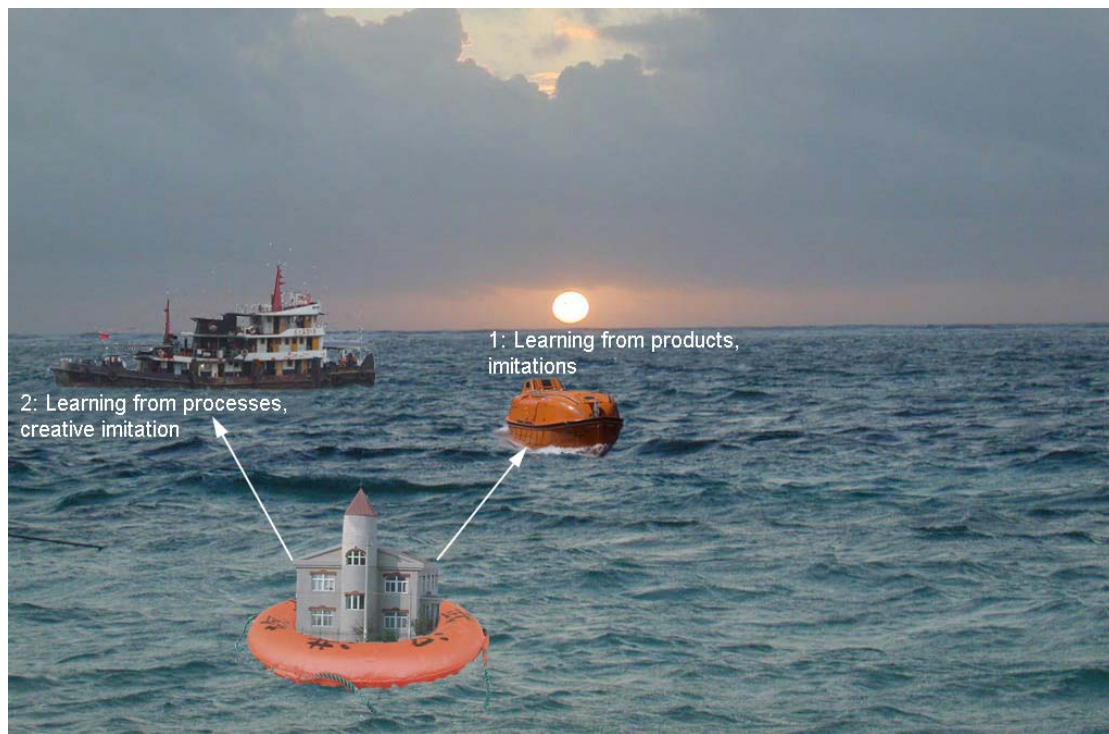
**Figure 4: imitation of product based on information in products**

The existence of a product on the market may catch the interest of other actors sailing the seas of business opportunities. The company in the life buoy illustrates an entity so far uninvolved in lifeboat production that comes across a lifeboat and starts contemplating whether it can make money or not on the product. The first phase in voyage from imitation to innovation can be entitled 'learning from products' and the major sources of knowledge will often be the products of others. Technical knowledge is translated into artifacts (Pavitt, 2005) and some of this knowledge can

be recovered and learned through reverse engineering and careful examination of the product itself. According to a manager of a Norwegian lifeboat company, this is what happened in the Chinese lifeboat industry. In his words, it seems like the whole lifeboat industry in China is based on a model they brought to China in the early eighties to initiate cooperation with a Chinese company (see article 2). Chinese managers don't agree that the story is quite that simple, but they willingly admit that they go to expos and take notes and photos of other lifeboats and, at occasions, have bought lifeboats from other producers to dismantle and reassemble them to learn how they are constructed. Although imitative activities may result in controversies between the original developer and the imitator (article 2), this kind of technological learning is usually legitimate as patents are uncommon or easily bypassed in many industries (Kim, 1997; Hansen, 2008b). However, this kind of technological learning was more common a few years ago, according to most of the Chinese managers. Duplicate imitation conveys no sustainable competitive advantage to the imitator technologically, but a considerable price advantage may be gained through lower R&D and wage expenses (Kim, 1997). The customer potential for Chinese lifeboats was for a long period restricted to domestic shipyards building for domestic customers. One of the Norwegian managers called this China-China quality. According to Xie and White (2006) reverse engineering was particularly essential for the industrial development before 1978, but this mode of learning seems to continue into the 1980s and onwards – especially for first and second tier manufacturers which received less pressure and stimulation from both the Chinese government as well as foreign enterprises (article 3).



## Second act: Sourcing knowledge from processes



**Figure 5: Creative imitation of products and processes based on information from other producers**

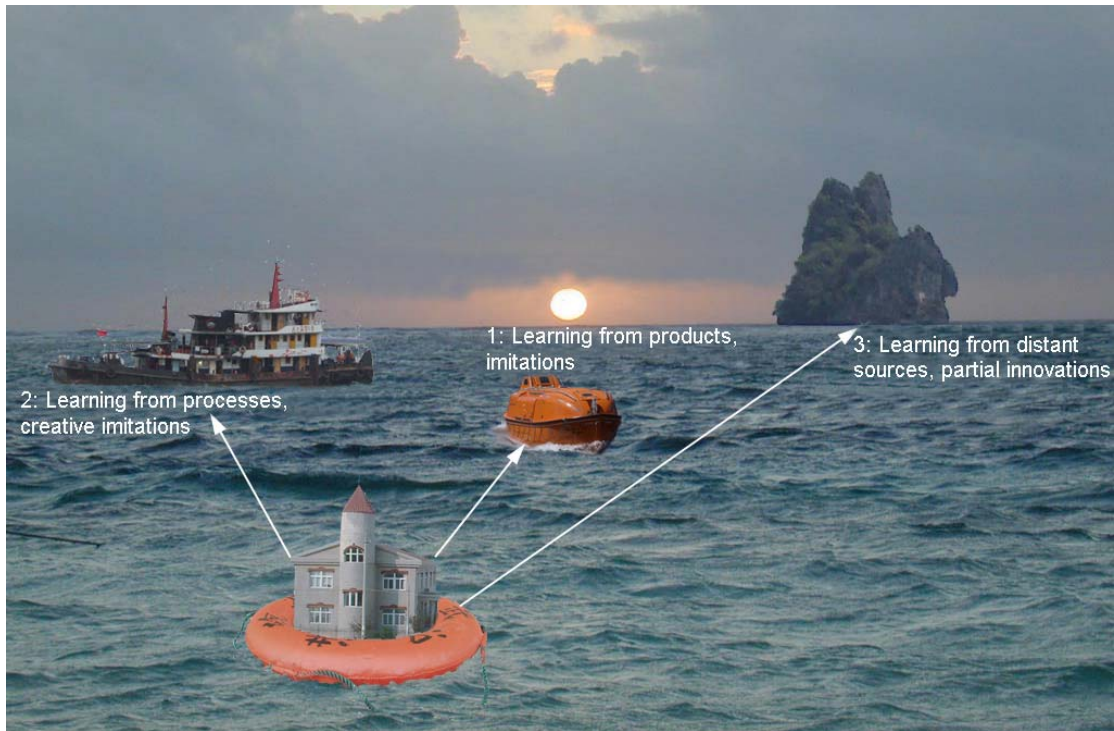
But there are limits to how much one can learn from the product alone. In the early phase of a company's, industry's or region's efforts to initiate production of something, the products of more advanced competitors might be the best available source of input, but when the developing company (or industry or region) in the life buoy advances, it may also start looking at what happens at the competitors to learn *how they do it*. Companies imitating products based on the information embedded in other products will hardly be able to manufacture anything more advanced than a substandard copy – effective operation of many physical technologies requires the implementation of various 'soft' technologies (Burgess and Gules, 1998; Nelson, 2004).<sup>12</sup> Soft technology includes, among others, management- and production practices such as just-in-time (JIT), total quality management (TQM), supply chain management (SCM), human resource management (HRM) etc. If the company in the life buoy has a sound understanding of *how* the product should be produced and *how* the production process should be organized, the result

<sup>12</sup> Nelson uses the concept 'social technology' and applies it to discuss learning and industrial upgrading on a national, rather than company, level. However, Nelsons reasoning is easily transferred to a company level.

can be more or less as good as anybody else's products. But, acquiring soft technology takes more than reverse engineering. Rather than being embodied in physical hardware, soft technology is found in organizational forms, production practices, standards, codes of good business behavior, public policies, customs, expectations and norms (Nelson, 2004). This kind of knowledge is neither easily codified nor traded and acquiring it may require interaction with bearers of soft technology. Furthermore, implementation of soft technology often requires systematic and substantial changes involving both the internal procedures and human resources of the company as well as its suppliers and customers (Burgess and Gules, 1998).

This phase can be called 'learning from processes'. The boat coming in from the left illustrates the second source of knowledge coming to focus – other companies and their methods. According to several managers in the Chinese lifeboat industry it is a good thing that the Norwegian companies entered China because now they can learn more about the production process, management practices, quality control, after-sales service and the global market (article 2). A small portion of this learning stems from locals observing the entrant, but the majority of soft technology transfers are credited job changes between the entrant and its competitors and the linkages between former colleagues. However, it is not fair to say that knowledge transfer is a unidirectional stream from the entrant to its competitors. Learning in the interface between entrants and locals is a process of mutual adaptation (article 1). Companies entering China have a lot to learn about their new business environment and much of this knowledge can be sourced from local partners and competitors (article 4).

### Third act: Sourcing knowledge from distant pools

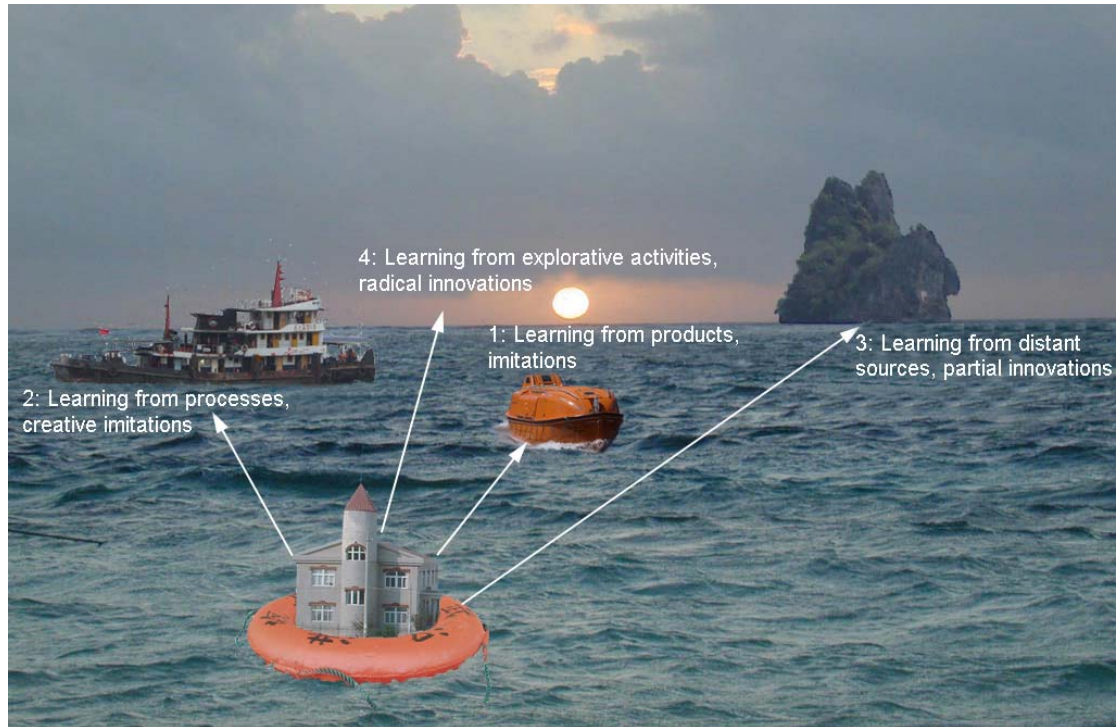


**Figure 6: Partial innovation based on existing knowledge sourced from distant knowledge pools**

A central notion in theories explaining innovative activities is that feedback loops between producers and demanding users are important drivers of innovations (Lundvall, 1988; Storper, 1997), but domestic user-producer linkages seem to be weakly developed in China (Altenburg et al., 2008). The island in the distance represents existing technology, forms of organization and customer preferences in the distance. In other words, sources of knowledge outside the firm’s immediate environment. The third phase of the upgrading firm (or region) may be to look further ahead and make use of existing technology, organization forms and customer preferences that can be utilized to become *partial innovative*. Although this stage is based on “old” innovations, introducing them for the first time in a new context can also be regarded as innovations. Furthermore, the diffusion of technology and organizational structure into new contexts often require a great deal of adaptation and may thus create a base for future innovations (Kim, 1997; Nelson, 2004; Fagerberg, 2005). The presence of Norwegian lifeboat companies in China is, according to the most advanced Chinese companies, something that contributes to integrate them into global networks as the entrants bring with them increased attention from international customers to the Chinese lifeboat producers – the entry establishes a pipeline between the Chinese

producers and external environments. Through this pipeline the Chinese producers may learn about customer preferences and receive direct technological and organizational input from demanding customers taking lead requiring suppliers to upgrade product quality as well as quality control procedures and organization. Research on local value chain linkages in the Chinese shipbuilding industry indicates that locally owned companies in China to a lesser extent than international companies take control of the value chain and make efforts to upgrade suppliers. But if Chinese companies increasingly adopt soft technologies, like supply chain management (SCM) and total quality management (TQM), this might change as these management strategies advocate the benefits of user-producer relationships, closer interaction in the value chain and governance of upstream suppliers (article 3). However, inputs of any kind, whether they are products, business initiatives or management strategies are always subject to a translation or domestication process in which actors evaluate how and why inputs should be assimilated and adapted. Just as one cannot expect any Norwegian firm to comprehend and accept textbook strategies perfectly and uncritically (see for instance Moltu, 2004), one cannot expect Chinese actors to do so either.

### Fourth and final act: Sourcing knowledge from explorative activities



**Figure 7: Radical innovations based on explorative activities**

The fourth and final source of knowledge to be found as part of this journey from imitation to innovation is new opportunities behind the horizon. By allocating some resources to explorative activities the firm in the buoy may aim for radical innovations. Being in stage four is not necessarily better or more profitable than being in stage three – or even stage two or one for that matter. In many cases, ‘good enough’ is better than ‘best’ (see article 2). The ‘technological frontier’ is a mythical place filled with uncertainty where no one knows which strategies will work and pay off (Langlois, 1989). Where a firm positions itself on this rough scale from imitation to innovation is related to access to knowledge, absorptive capacity, customer requirements, production costs, development costs, motivation and other more or less good reasons to develop or stick with the old solutions.

A good example illustrating how apparently better ideas are ignored to the benefit of old solutions is the invention of the totally enclosed lifeboat. In August 1904, the young, Norwegian shipmate Ole Brude and three fellow sailors set out from Ålesund, Norway. The vessel was Brude’s invention ‘Uræd’ (Fearless), an 18-foot egg-shaped, totally enclosed lifeboat made of riveted steel. The destination was New York and the

purpose was to demonstrate the merit of the totally enclosed lifeboat over the traditional open lifeboat. They reached the shore of Massachusetts in January 1905 – both the craft and the crew was battered by storms and other trials, but the expedition was acclaimed a success. The boat was patented (Brude, 1906), but the business of producing totally enclosed lifeboats did not prosper at the early part of last century. Only 23 “Brude-eggs” were ever produced. It was not until 1977, 73 years after the Uræd expedition and 29 years after Ole Brude’s death, that the Norwegian government mandated the use of enclosed lifeboats on larger vessels (Ellefsen, 2005). To be successful, an innovation must mesh with the complex system of production (and use) of which it is part. Sometimes this is easy because the innovation fits well with the existing system, other times the innovation is sufficiently radical to require significant changes elsewhere in the system. At the time of Uræd, maritime safety was presumably of less concern to ship owners and Brude’s ideas were obviously too far ahead of his time to win acceptance in the market – although proven to be the better solution (at least from the perspective of sailors in distress).

A typical attitude in both the Norwegian and Chinese lifeboat companies is that since Norway is a high-cost country it is reasonable that Norwegian manufacturers concentrate on being leaders on technology and design, while Chinese manufacturers keep up by building decent quality for a low price. However, partly as a consequence of Norwegian companies’ entry into the Chinese production system, this division of labor has become more unclear. The Norwegians have enabled themselves to produce cheaper boats, while some of the Chinese companies have strengthened their outward linkages and innovation capacity, and initiated sales to more demanding and less price-sensitive customers.

### **Summing up**

Although this account of Chinese industrial upgrading deals with a single product, it is quite illustrative of the upgrading process of the entire country and the role of foreign inputs as part of this process. Just as Chinese lifeboats previously were imitated based on information sourced from other lifeboats, a large share of Chinese industry were based on technology extracted from other products. Later on, both lifeboat producers and other industrial sectors increasingly focused on learning

technological know-how and management skills from the production processes of foreign companies present in China. All along, inputs are continuously translated and transformed to a Chinese context. Learning in the horizontal dimension can be described as a domestication process in which local competitors make use of the presence of the entrants to source knowledge and upgrade their own activity. This learning process is not part of the entrant's strategies and intentions, and may thus be described as local competitors (users) going beyond the script of the entrant (designer). Learning occurs in the vertical dimension as well, especially between the entrant and its local suppliers, but as this learning process largely occurs in accordance with the entrant's script, it does not to the same degree represent a domestication process as such. However, the local supplier may still transform and adapt the inputs intentionally transferred from the entrant.

Recently, both a couple of the Chinese lifeboat producers as well as an increasing share of Chinese enterprises have expanded their outward activities and are now gradually more branding their own products and engaging more actively with international customers, production opportunities and external sources of knowledge. The Chinese lifeboat producers are not yet allocating significant resources to explorative activities aiming for radical innovations, but in other sectors (e.g. electronic and telecommunication equipments), both private enterprises (e.g. Huawei) and government institutions (e.g. Chinese Academy of Science) are making major efforts to look for new opportunities beyond the horizon.

Similar to Xie and White (2006) remarks to their stage model, I would like to underline that the steps put forward here are by no means inevitable developments. Some firms or industries will always leapfrog the development, others will stay put and may still do well, and others may follow completely different trajectories to industrial development. There will always be a variety of factors informing and deciding business beyond sources highlighted here (and elsewhere). Nevertheless, the trajectory presented here is supported by both Chinese and Norwegian informants in the lifeboat industry who repeatedly established that Chinese lifeboat producers have moved from sourcing information from products, to sourcing information from competitor's processes and more recently from demanding international customers.

## **Method and fieldwork**

Guanxi? They eat dogs and monkeys in Guangxi... But I don't think they like salmon down there...

The quotation above traces back to my first fieldwork in China. I was a master student; searching the Norwegian-Chinese salmon business for the infamous guanxi relationships. “Guanxi” is often used as a key concept to understand several aspects of the Chinese society and can be translated as ‘relation(s)’. Guanxi is sometimes described as an asset with positive connotations, for instance, it is associated with having a lot of friends and a well working business network; other times guanxi is pronounced with a more negative undertone and coupled with features such as corruption and misuse of personal relations. Guangxi, on the other hand, is a province in southern China, well known for its exotic cuisine. I’m still not sure whether the quotation above is an example of a question ducking strategy or plain language trouble, but in this section, which will be dealing with methods and fieldwork substantiating this dissertation, I’ll be touching on both problems so it works either way. Methodological issues will be further discussed in article 1, and article 2 and 3 will also elaborate the production of empirical data. The purpose of this section is to give a general overview.

### **The initial phase of the project**

I started this project with a clear idea that the encounters and relationships between international companies entering China and the local actors already there, had to result in some kind of dynamic change not only affecting the local actors, but also the internationals coming in. To study an encounter or relationship from one side only will most likely (or inevitably) result in bias and reinforced misunderstandings, so a premise from the very beginning was that this project would include fieldwork on both sides of the international-local divide. To study the encounters and relationship between internationals and locals, I needed a point of departure; an international company with ambitions, but relatively short experience in China. I was considering continuing studying Norwegian seafood companies in China, or perhaps some international entrants into the Chinese paper or aluminum industries, when I came across the



lifeboat company Le Bang. They showed interest in the project and allowed me access to their affiliate and personnel in China without requiring (or getting) sneak peaks into my material before I was ready to publish as planned. But more important than access to their in-house activities, was that this company worked as a starting point which allowed me to learn about the lifeboat industry in China and its actors.

## **The fieldwork**

The fieldwork was mainly conducted in two periods. In the spring 2005 I spent seven weeks in China; most of this time I stayed in Qingdao and at Le Bang's plant where I interviewed most of the managers as well as several workers and other employees (see section appendix for details). I was also allowed to participate in meetings and observe most daily activities without restrictions. In addition to Le Bang, another Norwegian company is producing lifeboats in China. I made several interviews in this company as well; both in the Norwegian based headquarters and at their plant in Jiangyin, a dense lifeboat cluster west of Shanghai. Following my stay in Le Bang I set forth to learn more about the local companies in the lifeboat industry, and how they evaluated and acted on the presence of Le Bang and the other Norwegian lifeboat producer. Although I didn't get access on the same level as I did in Le Bang, I was surprised to discover how frank and outspoken the managers of the Chinese owned lifeboat companies seemed to be. None of them painted a black and white picture of the lifeboat business or the foreign companies operating in China; even though some were quite negative to the entrants, they also had positive remarks (and vice-versa). They answered most questions, provided detailed accounts of certain happenings as well as the general situation in the business and they rarely gave me the evasive answer "hen nan shuo" (Eng. 'hard to say') which sometimes makes research in Chinese business environments frustrating. By interviewing actors that on some level knew each other I got the opportunity to focus on actual events in their competitive environment, rather than solely basing the interviews on abstract, general questions detached from their daily operations.

In the autumn 2005 I went back to China for a longer stay. This time I spent nine months based in Shanghai to study language, write and to conduct more fieldwork. While the previous fieldwork period focused on Le Bang's competitors, this stay was dedicated to reach their suppliers

and customers – as well as other informants who somehow could enlighten the dynamics between international and domestic actors in China. These informants included several Norwegian business people working in China, mainly in the maritime industry. I also conducted some in-depths interviews and had numerous informal conversations with Chinese students and young professionals to better understand how they saw their situation in a rapidly changing and increasingly international oriented job market constantly providing new opportunities and barriers.

### **Qualitative approach**

My empirical data are mainly qualitative. I originally considered a mixed method approach (i.e., a combination of qualitative and quantitative methods), but concluded that the upside of such an approach would be relatively limited. The reasons are several: limited availability and reliability of both statistics and other information about the Chinese shipbuilding industry, the nature and complexity of the research questions, as well as the need for an approach that allowed for continuously re-evaluation of questions as my own understanding of the area in scope improved. In any research endeavor, we must know enough about our subjects not only to ask questions, but to understand the answers. This depth of understanding is particularly important when conducting cross cultural studies. In quantitative research, cultural differences have to be addressed already in the design stage, while qualitative research allows for an integrated process of data collection and interpretation (Jones, 2004). I didn't know much about the maritime industry when I started this project. The shipbuilding industry, compared to other industries such as ICT, the automotive industry, pharmaceuticals, shoes, and apparels, has received very little attention from researchers of social and economic sciences. Few industries are as internationalized as those comprising the maritime sector, yet there exists few studies that deal particularly with this sector (Kind and Strandenes, 2002). To learn about boat and shipbuilding industry in China, and in particular the interaction between local and international actors, it was consequently necessary to go out and gather information more or less from scratch (see also article 1).

However, as a side project I did in fact conduct a quantitative survey. The initial idea was to distribute a bilingual questionnaire to employees in both indigenous and international companies in China to learn about the

employees' values and preferences regarding work and career, and how this possibly differed between international and indigenous firms. I was well aware of the optimistic nature of such an approach, but I thought it was worth a try. Several companies, both international and domestic, actually agreed to distribute the questionnaire among the employees, but when they were returned to me it was often obvious that many were filled out by the same respondents. At one occasion a HR-manager of a state-owned shipyard even asked me how many responses I needed before he sat down to complete them all by himself.

After all, I am the HR-manager and I know how my employees feel about these things,

he said. Another problem was that many found it hard to understand the questionnaire. Administrative employees had no problem reading and completing it, but shop floor workers, who are not used to read on a daily basis, found it frustrating and time-consuming to make sense of my questions. The employee survey had to be discarded, but I conducted a similar and more successful survey including nearly 1.000 students at six of China's top ranked universities.<sup>13</sup> The results, however, are not included in this dissertation.

### **Collecting data in China - challenges**

To extract information and understanding from a business environment (as well as many other environments) is not an easy and straight-forward process. First, it is essential to somehow get an overview of the environment or situation in scope, the next step is usually to find some access to deeper understanding.

China is frequently described as a difficult country for both business and research, but based on my research and limited business experience from both China and Norway I'd say that 'different' is a more accurate description. The crossing of national borders means that researchers, no less than companies, cannot assume that what works at home will work abroad (Marschan-Piekkari and Welch, 2004, 9). To arrange an interview

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<sup>13</sup> The universities are Fudan, Shanghai (n=198), Jiaotong, Shanghai (n=210), Zhongshan, Guangzhou (n=150), Huazhong, Wuhan (n=192), Qinghua, Beijing (n=92) and Renmin, Beijing (n=153).

in Norway, I call or send an email to potential informants, briefly describe the project and suggest a meeting. If the informant says no, there's nothing to discuss. If s/he says yes, we'll agree on time and place suitable for both parts. To arrange scheduled meetings some time in advance is harder in China – informants would often say something like, 'just catch a flight to Wuhan and call me when you arrive'. To travel for hours without having an exact appointment is frustrating, but usually it worked very well. Furthermore, when arranging an interview with Chinese informants it was often necessary to provide a more direct reason for them to agree to a meeting – for instance, by pointing to some common reference person or company, or perhaps the possibility that the interview somehow could result in future business opportunities.

Language is a barrier for many foreigners in China. Most Chinese do not speak much English and Chinese is spoken in a variety of dialects. My own Chinese language skills are basic. I'm quite adept in restaurant and taxi jargon, other daily life operations in China are usually reasonably manageable (although misunderstandings are frequent), but to conduct an interview alone is far beyond my proficiency. Consequently, I worked with assistants who translated my questions and comments from English to Chinese and back again. I recruited master students at universities to join my fieldwork activities, and I spent quite a lot of time with them to get to know them, as well as to ensure they got a sound understanding of the project and the aims of the interviews. Some meaning is inevitably lost in translation, but by making sure that the translators were up to speed on the topics to be discussed and purpose of each interview, this margin of error was significantly reduced. This was clearly demonstrated to me in one particular interview where I hooked up with a new assistant only a couple of hours before meeting the informant – the result was not very useful. Anyone who has functioned as an interpreter will know that being regarded as part of the communication process with the goal of establishing a common understanding is vastly different from being treated as a machine that miraculously can transform one language into another (Thøgersen, 2006, 122-3). I also urged my assistants to pose their own questions and to function as a partner, rather than merely act as a medium for my questions. The active participation of my assistants sometimes contributed to a more relaxed and open dialogue as the informants understood that they could explain some topics directly to my assistants without taking too much consideration to the foreign researcher (see also Eckhardt, 2004). We used a tape recorder sporadically, but for the majority of interviews we trusted our joint note-taking efforts. As

soon as possible after the interview, we found some place so sit down to discuss the interview and write a detailed report.

### **Targeted fieldwork and learning by living**

A qualitative fieldwork is a stratified endeavor. To carry out fieldwork is to recognize that relevant knowledge is situated in a certain place – somewhere outside your office (Sæther, 2006). To approach this knowledge one may identify certain informants or observation points and target these sources to capture meanings and facts about the situation in scope. These are the interviews and observations that are accounted for in the methods sections of academic publications. But before, between and after these targeted fieldwork efforts, other meanings and facts are captured that may be of great significance. Some of these meanings and facts may be directly relevant, reliable and valid pieces of information that contribute to enlighten the issue in question, but perhaps more important is the gradual learning process that help the researcher understand how to understand and further approach the research questions. Although most of the data I refer to in my work stem from targeted interviews, each stay and each month (about 20 altogether) in China have provided me with better understanding of how to conduct interviews, pose questions and interpret their answers. Furthermore, by doing research on China in China the relative closeness to issues in question also makes one more available for unexpected inputs. By staying in China I often met people, Chinese as well as foreigners, who, more or less out of the blue, provided me with tip-offs or inputs directly relevant for my research. In addition to the targeted interviews, other sources of background information and personal experience somehow relevant to carry out this project includes my master fieldwork conducted in 2001 (Hansen, 2002), my own business adventures in China (e.g. dealing with t-shirts and advanced membrane technology for the Chinese fishmeal industry), research on Shanghai's Xiangyang "fake market" (Hansen and Møller, forthcoming 2009), participation at a number of conferences, courses, expos, workshops and seminars in and about China and, last but not least, countless random (and occasionally arranged) encounters and small talk with students, business people, taxi drivers, waitresses, officials, academics, monks, bicycle repairmen, diplomats etc.

The tables (1-4) in the section appendix list the targeted in-depth interviews conducted as part of this PhD project. In total this amounts to

42 interviews with 52 informants in 30 different companies or organizations. The names of the companies in the table are the fictitious names I have used in all of my articles included in the dissertation. The lifeboat companies are renamed after bars and restaurants in Beijing, Shanghai and Qingdao, while the suppliers and customers are renamed after the zodiac animals of the Chinese lunar calendar.

## Section appendix: List of interviews

**Table 1: Interviews with lifeboat companies**

Company	Interviewee position (Nationality)	Location	Date
Le Bang (Norwegian)	General manager (Norwegian)	Norway	February 2005
	Plant manager (Norwegian)	Qingdao	April 2005
	Production manager (Chinese)	Qingdao	April 2005
	Sales manager (Chinese)	Qingdao	April 2005
	Quality control engineer (Chinese)	Qingdao	April 2005
	Senior engineer (Norwegian)	Qingdao	April 2005
	Secretary (Chinese)	Qingdao	April 2005
	Technical manager (Chinese)	Qingdao	April 2005
	Purchase manager (Chinese)	Qingdao	May 2006
	External sales agent (Chinese)	Shanghai	March 2006
Red Capital Boat Building	General manager (Chinese)	Qingdao	April 2005
	Vice-director & sales manager (Chinese)	Qingdao	April 2005
Constellation	General manager & owner (Chinese)	Wuxi	April 2005
People 6	General manager & owner (Chinese)	Jiangyin	April 2005
Tanghai Lifesaving	Sales subordinate (Chinese)	Jiangyin	April 2005
	Vice director & owner (Chinese)	Jiangyin	March 2006
Madame Zung	General manager & owner (Chinese)	Jiangyin	April 2005
Cloud 9 (Norwegian)	HR manager (Chinese)	Jiangyin	April 2005
	After-sales manager (Chinese)	Jiangyin	April 2005
	General manager & owner (Norwegian)	Norway	July 2005
Pegasus	General manager & owner (Chinese)	Jiangyin	April 2005
<b>Totally 21 interviews with 21 informants</b>			

**Table 2: Interviews with suppliers to the lifeboat industry**

Company	Interviewee position (all Chinese)	Location	Date
Horse Agent	General manager & owner	Qingdao	May 2006
Sheep Copper	General manager & owner	Qingdao	May 2006
Monkey Copper	General manager + production manager	Qingdao	May 2006
Rooster Steel	Vice-manager + production manager	Qingdao	May 2006
<b>Totally 4 interviews with 6 informants</b>			

**Table 3: Interviews with shipyard and other lifeboat customers**

<b>Company (owner)</b>	<b>Interviewee position</b>	<b>Location</b>	<b>Date</b>
	<b>All Chinese, except one (see Shipyard 6)</b>		
Dog Shipyard (CSSC)	Purchase manager	Wuxi	March 2006
Pig Shipyard (CSSC)	International business manager	Guangzhou	April 2006
	Purchase manager + assistant	Guangzhou	April 2006
Rat Shipyard (CSSC)	Purchase manager	Guangzhou	April 2006
Ox Shipyard (CSSC)	Business manager + senior engineer + visitor dept. manager	Guangzhou	April 2006
Tiger Brokering Firm (private)	Vice general manager + manager of commercial dept.	Shanghai	April 2006
Rabbit Shipyard (CSIC)	Business manager	Wuhan	April 2006
Dragon Shipyard (joint venture)	Assistant manager, business dept. + senior manager, business dept. (Japanese) + purchase manager	Nantong	April 2006
Snake Official Agency	Project manager + senior engineer, purchase + unidentified participant	Qingdao	May 2006
<b>Totally 9 interviews with 17 informants</b>			

**Table 4: Additional interviews conducted to learn about international companies in China**

<b>Company</b>	<b>Interview position (nationality)</b>	<b>Location</b>	<b>Date</b>
Norwegian Certification	Project manager (Norwegian)	Shanghai	October 2005
	Senior engineer (Chinese)	Shanghai	October 2005
Norwegian Aluminum	Senior engineer (German)	Suzhou	December 2005
	HR-manager (Chinese)	Suzhou	December 2005
	Sales manager (Chinese)	Suzhou	December 2005
	Senior engineer (Norwegian)	Karmøy (Norway)	November 2006
Norwegian Cranes	Plant manager (Norwegian)	Shanghai	February 2006
Norwegian Ship Repair	Site manager (Norwegian)	Shanghai	February 2006
<b>Totally 8 interviews with 8 informants</b>			

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Article 1:

## Taking the mess back to business – studying international business from behind

A geographer is too important to go wandering about. He never leaves his study. But he receives the explorers there. He questions them, and he writes down what they remember. And if the memories of one of the explorers seem interesting to him, then the geographer conducts an inquiry into that explorer's moral character.

**Saint-Exupery (2000 [1943], 45)**

This fairly comfortable view of what academic work involves belongs to 'the Geographer', an old gentleman inhabiting a planet of his own, located in the universe of Antoine de Saint-Exupery's novel *The Little Prince*. The business of this Geographer is the *location* of seas, rivers, cities, mountains and deserts, but he never leaves his office. The reality subject to this Geographer's inquiries does not hide; the reality is singular, unambiguous and unchangeable, waiting patiently out there to be discovered by the Geographer's explorers.

We are both geographers, Saint-Exupery's Geographer and I, but his understanding of how to conduct our mutual business seems quite distant from mine. My version of geography relates to other realities – I have no professional interest in the location of mountains and deserts. Instead I study the dynamics of economic interaction and internationalization processes, and to do this I sometimes have to leave my office and stay in chilly hotel rooms somewhere far away waiting for some potential informant to call me back – and I usually have plenty of time to conduct inquiries into my own moral character.

There are three voices, or subjectivities, that are trying to be heard in this paper: the Geographer (the theorist), the Explorer (the fieldworker) and I (the narrator). This is a story about methods and perspectives in international business (IB) research and how I combine the role of the Geographer with the role of the Explorer in order to create some mess and get a glance at some realities outside my office. The reality, I argue, is constructed and represented in the intersection between theory and fieldwork, between researcher and informant, and also, in the case of my own research, between the international and local actors who cross paths in the course of the internationalization process. We'll soon question the Explorer, who is the main target of this little inquiry, but let's first give the word to the Geographer so that he can give us a brief introduction to the topic.

## **Notes by the Geographer: The externalities of the internationalization process**

Researchers attempting to understand complex realities tend to assign some substances, actors or processes a dynamic role, while other substances, actors and process are deported to the rim of relevance; this can be referred to as “framing”. But there are always relations who defy framing, and it is to these relations which remain outside the frame that economists apply the term “externalities” (Callon, 1998). They are defined by economists themselves as “net effects on parties other than those agreeing to buy and sell in a marketplace” (Pugel and Lindert, 2000, 165). Economy is a discipline where the path to success and citations is often laid by inventing models and theorems so noiseless and universal that they work under all weather conditions (see for instance the widely acknowledged *Diamond Model* by Michael Porter (1990), or the infamous *Growth-Share Matrix* by the Boston Consulting Group (Stern and Stalk, 1998)). But what remains when the mess is cleaned away? When researchers try to squeeze heterogeneous and complex realities into expected patterns and formulas the result can be a holistic fallacy (Andersen and Skaates, 2004). The world is complex and messy, and sometimes we have to give up on simplicities to actually understand what's going on (Law, 2004). The intention of this section is to propose a slight critique of the typical work conducted on the *internationalization process of the firm* as performed by economists, IB scholars and



occasionally economic geographers. Nevertheless, I think it is imperative to present a modest and introductory understanding of the concept that resonates with the traditional view *and* my coming critique of this work; “the internationalization process” refers to *the development and continuing activities conducted by economic actors in foreign contexts*.

To explain the internationalization process Johanson and Wiedersheim-Paul (1975) proposed a stepwise establishment chain in which a firm gradually increases its degree of involvement in foreign operations. This incremental development towards increased involvement abroad is founded on an ongoing learning process based on the firm’s new experience and information. Further, they argue that there is a close relationship between firm’s attitudes towards foreign activities and their actual behavior, i.e. whether and how firm’s attitudes materialize into action abroad (ibid.). Over the last three decades, numerous studies, employing various methods, have scrutinized how firms’ attitudes, experiences, social relations, physical resources etc. influence where, when and how they enter foreign markets and production systems (e.g. Johanson and Vahlne, 1977; Coviello and Munro, 1997; Hassler, 2003; Johanson and Vahlne, 2003; Blomstermo, Eriksson and Sharma, 2004; Li, 2004; Carlsson, Nordegren and Sjöholm, 2005). Internationalization research has so far had a strong bias towards outward operations, such as exporting, whereas it has given considerably less attention to the reverse side of these activities, such as importing (Karlsen, Silseth, Benito and Welch, 2003). Inward internationalization, such as imports of inputs or influx of competitors, may have a stimulating effect on a company’s skills and receptiveness regarding outward business activities (Bell, 1995; Bell, Crick and Young, 2004). The entry of foreign firms from developed markets not only imposes pressures on local companies to proactively learn, but also provides an opportunity for local actors to acquire knowledge (Hitt, Li and Worthington, 2005). When international actors initiate activity in a foreign context they also *submit* their initiative to the new context. Economic systems are reflexive; the actors concerned explicitly question the organization, and based on an analysis of their functioning, try to conceive and establish new rules for the game (Callon, Meadel and Rabeharisoa, 2005, 28). It is apparently acknowledged that the far side of the internationalization process, i.e. the local actors, are factors that very well may influence the operations of the international actors, but the informants enlightening the internationalization process are nevertheless always the representatives of the firm going international, mostly the top managers. Consequently, the realities that emerge in these studies are those of the firms entering foreign markets and production

systems; the realities of the local actors, how they act upon the reality as they see it and how their interpretations and actions may affect the international actors are apparently seen as irrelevant to understand the dynamics of the internationalization process.

Earlier, I presented a broad understanding of what the internationalization process is. Based on the short discussion above, I find it productive to reframe this understanding to include local learning processes as externalities that indeed are relevant to the dynamics of the internationalization process. Thus, *the internationalization process is enacted<sup>1</sup> by international actors initiating new activities overseas and the actors of the host economy receiving initiatives from abroad.*

So, how should the internationalization process then be studied? Wright (1996) writes that qualitative research offers answers to messy problems and complex issues that are typical for international management research. Nevertheless, qualitative approaches are still greatly underrepresented in international business research, merely accounting for about ten percent of the published work (Andersen and Skaates, 2004). Furthermore, as mentioned above, an approach that integrates international and local perspectives to understand the internationalization process, industrial transformation and dynamics has not been developed (see Malmberg, 2003). According to Holstein and Gubrium (1997) qualitative inquiry is especially sensitive to representational matters because of its unique position at the *lived border* of reality and representation. “Lived” signifies the actual locations within the lifeworld where those things, events, and circumstances that people experience are meaningfully described and conveyed, to one self as well as to others (ibid.). Knorr-Cetina (2005) uses the concepts “reflexive” and “pre-reflexive” to describe the realities and dynamics of the financial market. The pre-reflexive reality is the reality as seen by an observer, who has the opportunity to communicate this reality to an audience which will then see a reflexive reality and get the opportunity to react to it. In the financial markets studied by her, the reflexive mechanism and “projection plane” is the computer screen, but this screen is not just a device for monitoring the market; as hundreds of thousands of traders act and react to each other, this screen has *become the market* – a system that effectively eliminates the pre-reflexive reality by integrating within its

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<sup>1</sup> Law (2004) explains ‘enactment’ as the claim that relations, and so realities and representation of realities are endlessly brought into being in a continuing process of production and reproduction.

framework all relevant venues of the specialized lifeworld of financial markets (ibid., 127). However, Knorr-Cetina does not argue that *all* markets and their pre-reflexive realities have been consumed by the computer screen, and that is certainly not the case for the markets, business systems and internationalization processes mentioned in this paper. What I try to grasp from her way of seeing it is the importance of considering the market and any reality as continuous processes shaped by the actors acting and reacting on it (see also Callon, 1998). The answer to the question how should internationalization be studied is simple and yet quite difficult – to study the dynamics of the internationalization process it is necessary to focus on the relations, the realities and the representations of realities brought into being by actors on both sides. By including the local's perspective in my research on the internationalization process I intend to take home some of the mess and complexity I think belong in IB and economic geography.

## **Exploring the far side of the internationalization process<sup>2</sup>**

To this point most of this text has been in the hand of *the Geographer*. Now I think it is time to question *the Explorer* so that he can explain how he experiences working in the mess created by the Geographer.

**Interviewer (I):** Cheers, my dear chap! Could you explain to me...?

**Explorer (E):** Our<sup>3</sup> intention is to study the internationalization process in a frame that includes the perceptions and activities of actors on both sides of the border. This approach was chosen because we believe that the dynamics of the internationalization process is closely linked to the dynamics of the receiving economy, and that the development of the entering firm, the internationalization process and the receiving economy are mutually informed and enacted by all involved actors. In other words, we are trying to learn how reality is represented on the far side of the internationalization process, and how the representations of realities on both sides interact. Our practical approach to learn about this is to start out with a Norwegian manufacturer of marine lifesaving equipment who

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<sup>2</sup> In this section, which is an interview with the Explorer, references are put in footnotes in order to let the Explorer give his version of reality without too much interruption.

<sup>3</sup> Since the Explorer is subordinate to the Geographer he will occasionally refer to himself in plural; giving credit to the Geographer.

recently established production in China, but rather than merely consulting the managers of this company, we also go to their competitors, customers, suppliers and employees to learn how they evaluate and act upon the situation including a new, foreign player.

**I:** I was actually going to ask...

**E:** Of course this Norwegian company had, and still has, a lot of expectations and ideas about what China is, what kind of possibilities are waiting to be utilized, what kind of threats and challenges are lurking around and so on. To cope with these possibilities, threats, challenges and other eventualities the company has strategies. However, the local companies in the Chinese lifeboat business also have a lot of expectations and ideas about the possibilities and challenges emerging from the entry of a new company into their home market and production system. And of course – they have strategies too...<sup>4</sup> We have no intention of romanticizing the role of the local actors. But in our view; studying the internationalization process without taking into account the locals' role and self-awareness is like studying the meteorological phenomenon rain without considering the role played by the sun.

**I:** Yes, I already know about this double perspective of yours. The internationalization process is a construction emerging as a result of interaction between international and local actors, but what I'm really interested in is how you actually proceed to study this?

**E:** ...We're mostly into qualitative methods.

**I:** Could you please give me some more... Your employer, the Geographer, claims that he is going to bring the mess back to business. How do you cope with this mantra in the field?

**E:** He might sound a bit pretentious sometimes. But on a more prosaic level this approach implies that we are doing interviews with open questions trying to gather the stories of both the entering Norwegians and the local Chinese actors to understand the dynamics of the internationalization process. To trigger informants' knowledge and opinions we focus on actual events, rather than actors and structures, and probe these events from different angles in interviews with different informants. Another quite obvious point is that informants in a

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<sup>4</sup> See Hansen (2008) to learn more about how the Chinese lifeboat companies evaluate and act upon the presence of Norwegian competitors in China.

competitive landscape tend to articulate stories quite differently depending on their position. This is not necessarily because they want to paint a favorable image of their own business; it is often just a matter of different perspectives and references. Triangulating data by interviewing and challenging different actors about their views on certain events serves both to strengthen validity and reliability. We want to ensure that the different ways of observing an event are taken into account, and further, it allows us to reconsider our expectations and approach to the phenomenon in scope.<sup>5</sup> While conducting fieldwork, I do not follow a strictly predefined scheme telling me where to go and who to ask about what. It is more like being a detective following clues and leads to identify events and relevant actors in the industry, to understand their way of seeing the reality and finally to learn how they act upon their understanding of the reality. The data I collect are not necessarily fit for a complicated econometric analysis, but they are pieces of a big picture that the Geographer and I put together to construct a version of a reality which is supposed to include a perspective seen from the far side. You see, writing and presenting interview data is in itself an analytical active enterprise.<sup>6</sup>

**I:** But what spurred your interest in the reverse side of international business? Maybe you can give me some of the background for your messy approach to researching these issues?

**E:** Nowadays we're studying Norwegian companies manufacturing marine lifesaving equipment in China, but this is not the first time I have worked for the Geographer. Some years ago we went to China to study how Norwegian salmon exporters were adapting to Chinese market.<sup>7</sup> It started out as a rather traditional study of the internationalization process, focusing on the experiences of the Norwegian firms, but after a while it became clear to us that the internationalization process and success of Norwegian salmon was influenced by more than the Norwegian companies' ability to learn and adapt to a set of existing characteristics and preferences in the Chinese market. The local actors and their characteristics, capabilities and preferences were adapting as well in a close and reflexive relationship with the entrants.

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<sup>5</sup> See Andersen and Skates (2004) for an interesting discussion on validity in qualitative international business research.

<sup>6</sup> Holstein and Gubrium (1995, 80).

<sup>7</sup> Hansen (2002; Hansen, 2005).

**I:** How come? Could you provide some empirical examples to illustrate how changes in the behavior of local actors have an effect upon the entry and activity of foreign multinationals in China?

**E:** Salmon was introduced to the Chinese market by the Norwegian Seafood Export Council and some Norwegian companies in the second half of the nineties. The Norwegian companies exported their products to the Chinese wholesalers of seafood and the initiative was in the Norwegians' hands to begin with. However, the Chinese wholesalers, informed by and of the Norwegian entry, soon learned about the situation, possibilities and threats and grabbed a larger proportion of the initiative in this trade relation. In China, which is still regarded as a country with rather weak legislative protection,<sup>8</sup> relationships are very important to conduct business. Thus, when the financially stronger Norwegian companies established representation offices in China, allegedly to learn about market preferences and improve cooperation with the Chinese wholesalers, many locals saw this as a threat to their own position in the value chain. A number of them chose to avoid contact with the Norwegian companies' representatives in order to keep their main competitive advantage, that is, local knowledge and relations, out of reach of the new entrants. The locals decided to see the Norwegian entrants as potential competitors, rather than business partners, which was how the Norwegians intended to be perceived. The salmon trade in China is today generally controlled by the local actors and of course by the international supermarket chains present in China, despite efforts made by the Norwegian actors to regain control over prices, quality, outlets and the image of salmon.

**I:** Ok...

**E:** This time the Geographer and I take a Norwegian owned lifeboat company established in China as a starting point and try to figure out how the local actors, such as competitors, suppliers, customers and employees, evaluate and act upon the presence of this company, and then how this has an effect on the development of the Norwegian company. The point is that learning and initiative are not reserved for the actor that makes the first move into a foreign economy; actors of the receiving economy may learn and act too, and learning and action on both sides influence *the relationship* between the actors – a dynamic, reflexive relationship called the internationalization process.

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<sup>8</sup> Luo (2006).

**I:** But knowledge is not free, and you say that some of the Chinese companies even regard it as their main competitive advantage, so how do *you* earn it? Why should the Chinese managers give an interview and share some of their capital with an academic from the same country as a major competitor simply because the academic, who might be an industrial spy, says ‘please’?

**E:** Well, even though my informants usually share a lot, they still keep secrets. I think there is a mixture of reasons for why they actually agree to meet me in the first place. These people, the Chinese managers, are busy, and there is really no profit in being interviewed by foreign academics. A useful way to mull over this issue might be to reflect on what kind of role they assign to me. Chinese businesses are not, like Norwegian businesses, run down by hordes of students and researchers conducting enquiries and I believe they find my approach to research rather alien from what they are used to. Of course I’m met by suspicion, but also curiosity. I found that some of the Chinese companies actually had substantial knowledge about my project, my research questions and my whereabouts several days before I made my first contact. I remember an episode when I thought it was time to step out of the shadows and actually call the English-speaking sales and marketing manager of a Chinese company very important for my investigations. My efforts to present myself and my project in a most laudable manner were abruptly silenced by a “*Yes-yes-yes-yes, I know who you are... I know who you are!*” So you see, it is hard to be a secret academic agent in China, but on the other hand, if I had come to this Chinese company out of the blue, they would probably not have accepted my invitation for a meeting. Thanks to the inter-firm business relations that revealed my true identity before I decided to do so myself, the Chinese company got the understanding that I was a person who already had some knowledge about the industry and that I knew some of the people in the business. By meeting me I think the Chinese managers somehow hoped to pollinate their own stock of knowledge about the present business situation. I think the Chinese companies looked at me initially as some kind of industrial spy from Norway, as you suggest, but as the locals’ “contra-espionage” proceeded, I think they started seeing at me as some kind of broker – a person with knowledge and connections on both sides and I was occasionally encouraged to pass on messages and opinions to the competitors.<sup>9</sup>

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<sup>9</sup> See also Scapens (2004) for related experiences.

**I:** According to Holstein and Gubrium<sup>10</sup> it is the interviewer's task to activate different aspects of the informants stock of knowledge, and that the informant's narrative position may shift several times in course of the interview; how do you proceed to get the best out of your informants?

**E:** Some of my informants were cautious to begin with. If I asked about something, like for instance their opinion on international companies entering China in general, they'd just clear their throats and declare something like 'we welcome competition!' and they would typically continue by providing a lot of facts about market shares and product assortment. They took the role as *the representative*, speaking from their company's information brochure.<sup>11</sup> To trigger the stories behind the representative's factual and glossy version of reality I found it essential to create some kind of involvement by discussing actual events and incidents in their business environment. Rather than conducting an enquiry into the moral character of the informant in front of me, I often ask about his or hers perceptions of the other players in the business.<sup>12</sup> One of these incidents was the turbulent life and death of a certain joint venture – a tale casting villains and victims from Norway, Singapore and China. The different stories about this episode are interesting per se, but in my research these stories are even more interesting as evidence of realities, relations and dynamics I would never have discovered without bringing this event into the interview arena. Denzin<sup>13</sup> said, and I think Holstein and Gubrium would agree, that the interview is a way of bringing the world into play and the interviewer and interviewee have to work together to make this play come about. It might be useful to think of each interview as an isolated event, to team up with the informant and try to construct a mutual version of the reality. Sometimes it is necessary to share opinions, provoke and challenge; other times the trick is just to be a good listener – to let the informant talk and give some vague response once in while.

**I:** Aha... interesting... hmmm...<sup>14</sup>

**E:** By the way, I'd like to make a distinction between two qualitatively different kinds of data deriving from my methods in this context. First,

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<sup>10</sup> Holstein and Gubrium (1995, 33).

<sup>11</sup> See also Easterby-Smith and Malina (1999) for a similar account of doing interviews in Chinese companies.

<sup>12</sup> See also Fang (1999) for some similar observations.

<sup>13</sup> Denzin (2001).

<sup>14</sup> The interviewer is talking notes, giving the Explorer some room to continue.



there are the data provided by the actual interview, questionnaire or whatever method being employed. This category of data includes the hard facts, the statements, opinions and feelings expressed, as well as the information found somewhere between the lines. In other words, the information transmitted to me or constructed by me and the informants. But my research methods also provide first hand experiences as I operate as a knowledge producer in a context inhabited by other knowledge producers. I am a Norwegian researcher studying the horizontal and vertical relationships of a company from my home country in China and unsurprisingly, in the eyes of my informants, I become some kind of representative of this company for good and bad. This became evident when I move up and down in the value chain: the small companies supplying the Norwegian lifeboat company were always very welcoming as they saw me as a delegate from an important customer; the competitors of the Norwegian company were more suspicious, but also curious and polite; while the customers, the big Chinese shipyards, were rather unimpressed by my presence as they probably would rather cooperate with the cheaper Chinese lifeboat suppliers. To gain some interest by the Chinese shipyards I had to get a letter of recommendation from the Norwegian Ship-owners Association which stated that they were interested in the results of my research.

**I:** So you are saying there are some similarities between your work as a researcher and the processes you are actually studying?

**E:** Yes, whether you are a company entering a new market or production system, or a researcher entering any kind of research context, you have to remember that by entering an arena you also become a player in the arena. My own experiences, failures and successes in this business environment also provide valuable insights into the workings of this business environment, the relations and the function of those relations. What a scientist observes is not independent of the process of observing, but an outcome of the scientist's methodological interaction with, and conceptual constitution of, his or her objects of knowledge, contrary to the more positivistic stance in which a researcher is a neutral collector of data.<sup>15</sup> Just as we claim that the internationalization process is enacted in the relationship between the entering company and the companies in the receiving economy, the researcher's reality is constructed in the relationship between the interviewer and the informants.

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<sup>15</sup> Cassel (2005).

**I:** I see... So would you say that research activity and fieldwork as such potentially may merge with the informants reality and perhaps inflict changes in the environment being studied?

**E:** Yes indeed. That's what I meant by pollinating; by flying between flowers collecting pollen, the bee also contributes to the flowers reproduction. The researcher is similar to the bee in the sense that he or she moves around to gather information, but simultaneously leaves something behind. To give a mundane illustration of the traces you leave behind as a researcher in a foreign setting I'd like to draw on one of my own experiences. When I did most of the fieldwork on the horizontal dimension of the Chinese lifeboat industry I was working closely with a Chinese assistant. We were a good team, my assistant and I, but less than a year later, while my own results still were being reviewed by some strict referees, I found out that my assistant quite unexpectedly already had published some findings in a Chinese journal.<sup>16</sup> This article, however, focused on how the Chinese companies should meet the competition from foreign entrants. At first I found the existence of this piece a bit annoying, but soon I realized that this was nothing but a good example of how foreign initiatives, like my own research, always leave some traces that locals may act upon. I read somewhere that methods, their rules, and even more methods' practices, not only describe, but also help to produce the reality that they understand.<sup>17</sup> This is what the distinguished economic geographer and expert on Chinese capitalism Henry Yeung became aware of and confessed in his keynote speech to the annual meeting of Finnish geographers: "I realized that I was more than just an academic researcher who produces knowledge on Chinese capitalism (...) The totally unexpected coverage of my views on Chinese family business by three highly influential media products<sup>18</sup> made me aware for the first time that academics could be an important actant, in the words of actor network theory, in shaping the ways in which business community operates".<sup>19</sup> A similar point is made by Michel Callon,<sup>20</sup> who says that economics, in the broad sense of the term, performs, shapes and formats the economy, rather than observing how it functions. John Urry<sup>21</sup> makes the same point: "practices of investigation themselves produce complex effects upon the

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<sup>16</sup> See Dai and Zhou (2005).

<sup>17</sup> Law (2004, 5).

<sup>18</sup> The three influential media products were The Financial Times, Far Eastern Economic Review and CNBN.

<sup>19</sup> Yeung (2004, 6-7).

<sup>20</sup> Callon (1998).

<sup>21</sup> Urry (2003, 37).

system in question, in cases resulting in a self-fulfilling prophecy where research findings help to bring about the very effects that they are themselves investigating”. The Geographer and I are not distinguished academics like Henry Yeung, Michel Callon and John Urry, but our point is the same: we must include all the participants, including the researcher, as dynamic actors that to some extent take part in the enactment of the focal process. The entering company and their methods to conduct business interact with actors in the market and production system being entered, and the researchers studying this process produce a representation of reality that is a product of the interaction between the researcher and informants. And further that both the making-of and the product, that is the reality presented, may merge with the reality ‘out-there’.

**I:** So by extension this implies that the interview I now am conducting with you as the informant on some level or another may have consequences for your work. What do you think about that?

**E:** I guess you might have a point... To ask good, relevant questions the interviewer sometimes has to provide some facts or opinions, and based on these facts or opinions the informant to some extent might be assisted in a short escape from his or her embedded logic and see the reality from another angle. It’s like therapy... Some of the questions you have been asking make me re-evaluate my own work in new terms, and that may, indeed, have some effect on my future activity. Thanks by the way...

**I:** Oh, never mind... and thank you for answering my questions! Let me just ask you one more before we call it the day...

**E:** Aia... the final question is usually the tricky one...

**I:** Nah, it’s not too bad, I think. I’d just like to ask you to summarize some concrete suggestions for other researchers in IB and what you think should be the direction of future efforts in international business studies.

**E:** That’s two questions, I believe... Well, I’ll start with the latter. What I find inadequate, not to say boring, is that researchers of the internationalization process and IB as such, appear to have forgotten how to ask good and interesting questions. It seems to me like researchers first consider what kind of data is already available or, at best, what kind of data is easiest available, and then formulate some kind of tailor-made question. This results in a heap of studies confirming that experience and cleverness is positively correlated with corporate performance and the

like. Instead of this approach, I think that IB studies needs to rediscover curiosity. I won't say that the far side of international business is the only area where blank spots remain, but I think a lot of good questions are yet to be explored on the relationship and dynamics between companies entering somewhere and those actors already there, and I would therefore like to encourage others to follow this lead. It is our job as researchers to produce data, not merely process them. By 'produce' I don't mean fabricate or forge, but rather to invent ways of making other realities visible. That brings me to your first question – how can it be done? To give you some concrete suggestions and bullets for your list I'd start by saying that questions, here understood as fascination for a topic rather than expectations and rigid research questions, should come first. Next, I think the researcher should consider a variety of methods and their combinations to feed his or hers curiosity. Even though we for the most part have been talking about qualitative methods, I'd also advocate using quantitative methods whenever that seems to be the best way to explore a certain relationship. Third, I'd like to repeat the point we made on activating the informants stock of knowledge. In the course of a research interview, the interviewer and informant generate a shared context for the exchange of experiences, ideas and meaning.<sup>22</sup> This shared context can intentionally and accidentally be influenced to incite stories that otherwise would remain untold. Fourth, this influence should be carefully considered when conducting fieldwork, but also later while analyzing and presenting the data. Just as we argue that reflexivity is a factor influencing the relationship between local and international business actors, it is also a factor influencing relationship between the researcher and the informant and the data coming out of it, and in some cases even the business reality being studied. My fifth and final suggestion is to make use of the role as an outsider when conducting research on insider's relationships with other outsiders, and try to see the parallel between your role and the context being researched. Well, it's getting late – any final questions?

**I:** Nothing further... And again, thanks a zillion for spending so much time on me!

**E:** You're welcome... By the way, did you have lunch before our meeting?

**I:** No, I'm actually starving!

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<sup>22</sup> Marschan-Piekkari, Welch, Penttinen and Tahvanainen (2004, 246).

E: Good, I know this place, it's called... well, I don't remember the name, but they serve dog meat in aspic, if you like...

I: ... great, I'll pay, of course...

E: Oh no, I'm inviting!

I: Ok, then...

E: By the way, did I tell you about the time when I...

## Conclusions

The best stories always come alive when the tape recorder is shut off and the notepad stuffed away. Yet, it is time to let the actors in this little play go to lunch, and reunite the voices of this essay into one. The critique put forward in this paper is not something that exclusively applies to the studies of the internationalization process; similar arguments regarding biased information sourcing could be applied to a number of academic disciplines. As researchers studying complex realities we can always consult additional sources, invent new questions and approaches, disturb the daily routines of just one more manager or distribute questionnaires to even larger samples. Yet, we will never capture the full complexity of the situations and phenomena we attempt to study. What we *can* do is to occasionally reframe the realities in scope, leave our studies and take a look at the far side in order to learn from the unknown. Earlier in this paper, the internationalization process was framed as a reflexive relationship influenced and enacted by both international and local actors. By acting through the Geographer and the Explorer I tried to give a brief illustration of how reality is constructed in the interface between theory and methods, between interviewer and informant in the research setting, and also between the participating actors in the internationalization process. To discuss these issues through metaphorical characters like the Geographer and the Explorer, and, on top of this, construct an interview is of course a rather unorthodox solution. However, considering the methodological issues being discussed and the messy approach advocated I found this solution appropriate.

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Article 2:

## The far side of international business: local initiatives in the global workshop

### Introduction

One ingredient in the intricate cocktail called globalization is the process of firms' increasing involvement in international operations. This process, termed *internationalization* (Welch and Luostarinen, 1988, 36), has received substantial attention in international business (IB) research for decades. Research on the internationalization process of firms has primarily focused on why, how and where firms develop outward international operations. This development is typically explained by the firm's accumulation of new knowledge and making sense of an unknown and unfamiliar situation (Blomstermo, Eriksson and Sharma, 2004, 242). Several studies have been conducted on how information and knowledge are transferred between strategic partners across borders (Yan and Gray, 1994; Lane, Salk and Lyles, 2001; Zhou and Xin, 2003; Buckley, Clegg and Tan, 2004), but less research has addressed the analysis of unintended transfers of information and knowledge across borders, how international presence may contribute to transform host milieu actors and how this eventually may have a reflexive effect on the international company.

This article is part of a project that studies the internationalization process as an interactive relationship between a company entering new markets and production systems and the local actors (i.e. competitors, customers, suppliers and employees). The article explores how host milieu actors participate in the internationalization process by examining the relationship between two Norwegian companies producing lifeboats in China and their local competitors. Based on the assumption that internationalization should be seen as a mutual and reflexive learning process, the questions explored are: 1) How do local companies evaluate

the presence of international competitors in the local production system? 2) How is information and knowledge transferred between competitors as a result of this presence? and 3) How do international presence and knowledge transfers affect the evolution of the industry and the relative competitiveness of the participants?

In the next section, I briefly review existing theories regarding the internationalization process of the firm, identifying shortcomings regarding local learning processes and initiatives. I then draw upon cluster theory in an attempt to overcome some of these shortcomings by adding a local perspective. In the third section, I explain the methodological approach. The fourth section, *On top of the world – but not on top of China*, discusses two case studies of Norwegian shipbuilding companies and their relations with the local actors. I discuss how local and international actors play on different competitive strengths and attitudes and how knowledge and information is transferred as a result of their interaction. In the fifth concluding section I sum up the main results and suggest a theoretical model to bridge the gap between the outward oriented approaches used by international business scholars and the inward oriented research conducted by those concerned with clusters and local production systems.

## **Merging perspectives**

Research on industrial transformation today is separated in (at least) two different camps (Malmberg, 2003) and these need to be reconciled. Students of IB focus on how globally-organized companies develop their strategies, tap into, integrate and disseminate various bodies of knowledge and restructure their activities at a global scale. In the other camp, research focuses on regionally-defined systems of firms and other institutional actors and how interactions and spill-over among these create innovation, competitiveness and prosperity. To understand the dynamics between international and local companies, the evolution of an industry and the relative competitiveness of the participants, this article attempts to integrate insights from these two theoretical camps and include a perspective from the far side to study the dynamics of international business and local development on a practical level.

## **The internationalization approach**

To explain the internationalization process, Johanson and Wiedersheim-Paul (1975) proposed a stepwise establishment chain, where the firm gradually increases its degree of commitment in foreign countries as it incrementally accumulates international experience. In the late 1970s and early 1980s, a wide range of different stage models suggested that the internationalization process should be seen as a stepwise development driven by the interplay between market commitment, market knowledge and decisions (see for instance Andersen, 1993 or Leonidou and Katsikeas, 1996 for a review of some of these models). Even though the stage models in later work have been criticized for being too deterministic (Melin, 1992; Bell, Crick and Young, 2004), the understanding that learning is a crucial aspect in the development of operations abroad has endured. Business researchers have for decades been inviting managers of multinational corporations (MNCs) to consider the motivations underlying their foreign activities, what kind of challenges they meet in foreign economies and how they (and their organizations) learn and cope with these challenges (e.g. Johanson and Vahlne, 1977; Bell et al., 2004; Blomstermo et al., 2004; Carlsson, Nordegren and Sjöholm, 2005).

This research has provided valuable insight about the strategies and development of international companies, but tends to be overly focused on the intrinsic characteristics and strategies of the actors going international. Glückler (2006) describes the existing internationalization theories as 'atomistic' because they treat the internationalizing firm and its selection of markets and organizational forms of entry exclusively on the basis of internal characteristics and general market characteristics, disconnected from its institutional and relational context. Glückler advocates a revitalized version of the network approach to internationalization (see Johanson and Mattsson, 1988; Coviello and Munro, 1997; Hadley and Wilson, 2003) and argues that the company's relations *prior* to the actual entry are important explanatory variables to understand the motivation and capacity to internationalize.

But if internationalization is to be understood as more than merely the entry of firms into new markets and production systems, it is equally important to take into account the effects of new relations created as internationalization proceeds. The vast majority of the literature within IB and the internationalization process focuses solely on the activities of international actors. Considerably less effort has been made to improve

our understanding of how the local actors learn and act in a situation involving an influx of foreign capital, technology, competition, people and information (Welch and Luostarinen, 1993; Holm, Malmberg and Sölvell, 2003; Karlsen, Silseth, Benito and Welch, 2003; Hitt, Li and Worthington, 2005; Coe and Wrigley, 2007). The entry of foreign firms from developed markets not only imposes pressures on local firms to learn, but also provides opportunities for them to acquire the needed knowledge stocks (Hitt et al., 2005). Karlsen et al. (2003) argue that inward activities, which provide an opportunity to build relations with foreign actors and to learn about the ‘nuts and bolts’ of foreign activities, may form an important platform for subsequent outward operations. This is supported by Child and Rodrigues (2005) who note that some Chinese firms have internationalized via close, continuing, operational and organizational relationships with one or more MNCs in order to gain competencies and knowledge relevant to eventual ‘outward’ internationalization. Most foreign companies entering China make efforts to learn about and adapt to this new, dynamic environment. But, at the same time, they are a source of input and further transformation for Chinese corporations who are eager to learn the rules of the market from the organizations that provide the best lessons for a successful transition to a market economy (Guthrie, 2005). This strategy has for nearly three decades enabled some Chinese firms to acquire knowledge of extensive competitive value (Child and Rodrigues, 2005).

### **Local characteristics: lessons from the cluster approach**

To analyze the dynamics of localized industrial systems, scholars frequently apply the cluster concept. Porter (2000, 16) defines a cluster as a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities. Clusters are typically analyzed along two lines: a *vertical dimension* including firms linked to each other by input and output relations in the same value chain and a *horizontal dimension* encompassing firms producing similar products. Although these two dimensions have been studied and debated the most, there may be other dimensions that contribute to the evolution of regional clusters and the creation and distribution of knowledge within clusters. Bathelt (2005b) suggests a five dimensional framework that adds institutional, power and external dimensions. The *institutional dimension* refers to a set of particular norms, rules, shared habits and conventions that are the result

of ongoing social relations (Bathelt, 2005a). The institutional context of the cluster defines how things are done within it and how learning transpires (Wolfe and Gertler, 2004). The dynamics of unequal relationships and different actors' capacities to make the clusters strengths, characteristics and other actors work to their own advantage constitute the *power dimension*. The power of a certain actor in a cluster may depend on the actor's relationships and reputation within and outside the cluster, financial strengths, innovativeness and absorptive capacity, i.e. the ability to recognize the value of new, external information, assimilate it, and apply it to commercial ends (Cohen and Levinthal, 1990). As most studies tend to focus on well-functioning clusters in particular regions, there is a tendency to under-conceptualize issues of power and culture in cluster-studies (Depner and Bathelt, 2005). In these harmonious clusters, efficient communication processes enable reproduction within a uniform cultural and institutional environment. This environment, however, may be introverted and hard to break into for entering firms. In addition, deep-rooted industrial environments, although effective for a while, may lead to path dependency, inertia and a collective decline in absorptive capacity (Malmberg, 2003; Lindsay, 2005; Maskell and Malmberg, 2007). Both individual firms and clusters need access to both *local buzz* and *global pipelines* in order to be successful (Bathelt, Malmberg and Maskell, 2004; Wolfe and Gertler, 2004). Buzz is a concept referring to the basic, yet highly efficient, communication technology of face-to-face contact, which is a means of overcoming coordination and incentive problems in uncertain environments; a key to socialization and in-group membership; and a direct source of psychological motivation (Storper and Venables, 2004). Accordingly, local buzz is about 'the information ecology' of the cluster, an ecology consisting of specific information and continuous updates, intended and unintended learning processes in both organized and accidental meetings, and the mutual understanding of new knowledge and technologies (Bathelt, 2005a). Whereas local interaction and participation in local buzz often happen by chance in the course of daily activities, participation in global circuits is usually a result of more devoted and targeted activities (Malmberg, 2003). Global pipelines refer to the linkages clusters establish to external environments, for instance by dealing with suppliers, customers and competitors outside the local environment. This *external dimension* has been especially neglected in many studies of the success and growth of clusters. Although it has been acknowledged that external inputs are important triggers to stimulate growth within a cluster, little systematic analysis deals with the outcome of a cluster's insertion into global value chains and what happens when

companies from abroad internationalize and set up within clusters (Humphrey and Schmitz, 2002; 2004; Bathelt et al., 2004; Bathelt, 2005a).

Even though research on the relationship and dynamics between foreign entrants and the local milieus in which these entrants set up is limited, it is not an entirely blank page. Coe and Wrigley (2007) propose a model, grounded in a relational perspective, which shows how retail transnational corporations (TNCs) in emerging market are necessarily embedded in webs of intra-, inter- and extra-firm network relationships. This approach acknowledges that these network relationships are simultaneously shaped by the institutional/regulatory/cultural context of both the home economies of the retail TNCs and also of the host economies/societies those firms enter in the emerging market. Furthermore, it is recognized that neither the TNC nor the host economy/society are static entities, but mutually contributing to transform each other in an ongoing process of learning and adaptation. Holm et al. (2003) show how the dynamics of the host country influence the development of foreign owned subsidiaries and points out that the local counterparts may, as well, develop new competencies – from having business contact with the given MNC's subsidiaries (ibid, 390). However, there is still little empirical research on the far side of international business. Coe and Wrigley's contribution is largely theoretical, while Holm et al. derive their empirical data from the managers of the foreign owned subsidiaries.

## **Studying the far side – the methodological approach**

A 'relational turn' has recently been identified in economic geography (Boggs and Rantisi, 2003). This is a paradigmatic shift towards an increased focus on economic action and interaction, rather than geographically dispersed economic structures (Bathelt and Gluckler, 2003). According to Yeung (2005, 38), actors are not static 'things' fixed in time and space; they are dynamic and evolving so that their differential practices unleash multiple forms of emergent power in relational geometries. This approach to economic geography resonates well with actor-network theory, which underlines that it is the traces of human actions, not the whole actor, that are important (Yearly, 2005).

To investigate the relationship between foreign entrants and the host environments in which they set up, this study explores the entry and presence of two Norwegian companies in the Chinese lifeboat industry.

Rather than focusing on the structures, assessments and decisions of these two companies, the focus of this exploration is on the *relationships* between the Norwegian entrants and their Chinese competitors and the *traces* of these relationships. In this empirical endeavor, to understand the dynamics between international and local actors in the Chinese lifeboat industry, the main sources of evidence have been interviews and direct observations. Companies interviewed include two Norwegian-owned entities, one state-owned Chinese company and five privately-owned Chinese companies (table 1). In order to hide the true identities of the companies, they are renamed after bars and restaurants in Beijing, Shanghai and Qingdao.

**Table 1: Interviews conducted in lifeboat companies in China**

Company	Interviewee position (Nationality)	Location	Date
Le Bang (Norwegian)	General manager (Norwegian)	Norway	February 2005
	Plant manager (Norwegian)	Qingdao	April 2005
	Production manager (Chinese)	Qingdao	April 2005
	Sales manager (Chinese)	Qingdao	April 2005
	Quality control engineer (Chinese)	Qingdao	April 2005
	Senior engineer (Norwegian)	Qingdao	April 2005
	Secretary (Chinese)	Qingdao	April 2005
	Technical manager (Chinese)	Qingdao	April 2005
	Purchase manager (Chinese)	Qingdao	May 2006
	External sales agent (Chinese)	Shanghai	March 2006
Red Capital Boat Building	General manager (Chinese)	Qingdao	April 2005
	Vice-director & sales manager (Chinese)	Qingdao	April 2005
Constellation	General manager & owner (Chinese)	Wuxi	April 2005
People 6	General manager & owner (Chinese)	Jiangyin	April 2005
Tanghai Lifesaving	Salesperson (Chinese)	Jiangyin	April 2005
	Vice director & owner (Chinese)	Jiangyin	March 2006
Madame Zung	General manager & owner (Chinese)	Jiangyin	April 2005
Cloud 9 (Norwegian)	HR manager (Chinese)	Jiangyin	April 2005
	After-sales manager (Chinese)	Jiangyin	April 2005
	General manager & owner (Norwegian)	Norway	July 2005
Pegasus	General manager & owner (Chinese)	Jiangyin	April 2005

The Norwegian company Le Bang worked as a starting point for this study. Based on their account of who's who in the Chinese lifeboat industry, I contacted the most significant competitors. Some other companies in China sporadically produce lifeboats for the domestic market, but these companies were not seen as real competitors by the

informants in the eight companies interviewed and were not contacted. None of the managers of the eight companies refused to be interviewed, but some were reluctant at first. The order of the table above is based on the date I first conducted an interview in the company. In addition to the companies in the table, one company involved in the history is now defunct and was renamed 'Cotton Club'.

The interviews listed in the table were scheduled, semi-structured in-depth interviews that typically lasted between one and two hours. A Chinese assistant aided in conducting and transcribing most of the interviews. The interviews covered a range of issues, including the company's history, products, markets and employees. Interviewees were invited to discuss the keys to success in the lifeboat business, future prospects, imitation issues, knowledge transfers, international ambitions, recruitment strategies and their relationship to other companies in the industry. Sometimes this relationship was best revealed by asking the informant questions about the characteristics of the other companies and the people working there. According to Fang (1999), who has conducted research on Chinese business negotiating style, it is often a productive approach to talk about *the others*, rather than asking the informants directly about *their own* character and strategies. Besides the interviews, I was given a tour of each company's production facilities, usually with permission to take photos and sometimes to conduct short field interviews with other employees of the company. I had lunch with managers and employees from several companies which provided a chance to listen, observe and discuss in a more informal setting. I also attended activities where I met some of the companies' representatives, for instance 'Marintec China 2005', which was an exposition gathering thousands of shipping and ship building industry participants from China and abroad.

### **Challenges on the far side**

In traditional business research, one does often have access to a large number of quite homogenous informants, and based on their information the researcher may be able to produce some generalizations. The number of informants interviewed for this study, on the other hand, is rather limited and the information they provide is sometimes contradictory. The main reason explaining the sum of informants is simply that the lifeboat industry in China contains a limited number of actors, and I was usually not permitted to meet other informants than the top management in the



Chinese firms. In those cases where I actually did speak to other employees, these employees usually referred to the general manager if the questions went slightly off the track. Le Bang was an exception. I took part in meetings and other daily activities in this company over a three week period and I also came back a year later and had some very interesting interviews and discussions with employees in various levels of the organization.

To establish trust and get access to information and opinions is always a challenge when conducting research in a business environment, and perhaps even more so when studying a competitive environment from different angles. By moving between competitors, the researcher may lose some advantages and qualities – such as consensus and access to informants beyond the general manager or to strategic and sensitive information that perhaps is more willingly revealed to a more steadfast researcher. But some insight is also won on the far side, such as different perspectives and the opportunity to scrutinize relationships between actors.

As part of this walkabout in the competitive landscape of China's lifeboat industry, stories emerged that could be utilized in later interviews to trigger other informants' accounts of what happened and thereby reveal what otherwise would have been untold. Needless to say, informants articulated some events quite differently depending on the position of the informant. To synthesize the different perspectives and opinions expressed by actors in different camps and reconstruct a unison version of what in fact did happen is sometimes a challenge, other times downright impossible or unethical. Grounded in a relational perspective I consider the varying opinions and stories as traces of a business reality that is in fact depending on the perspective of the observer (see also Hansen, 2008).

## **On top of the world – but not on top of China**

When companies from developed countries established themselves in China in the 1980s and 1990s, it was a proactive step to seek an unspoiled market and low-cost production opportunities – China was seen as a great opportunity. When companies now enter China, it is because China appears to be the only opportunity. According to the GM of Le Bang,

The question is not if we by staying in Norway can compete with China – which we can't. The question is whether we can compete with China in China.

The majority of Chinese lifeboats are built in two locations: the city of Qingdao and in the small town of Jiangyin, west of Shanghai. Cloud 9 established in Jiangyin in 1998, while Le Bang (re-)established in Qingdao in 2004. The Chinese affiliates of both companies are led by Norwegian managers, and both companies still have headquarters, R&D and production plants in Norway (see figure 1). The numbers in parentheses indicate the approximate number of boats produced in 2004, based on the managers' own statements, and to a certain degree confirmed by the other local managers. The figures for the two Norwegian companies count only boats built in China; production in Norway and elsewhere is not included. It should be noted that the figure below is only a sketch of the lifeboat industry in China – it paints a simplified picture and some of the numbers, connections and events illustrated here are disputed by the companies.

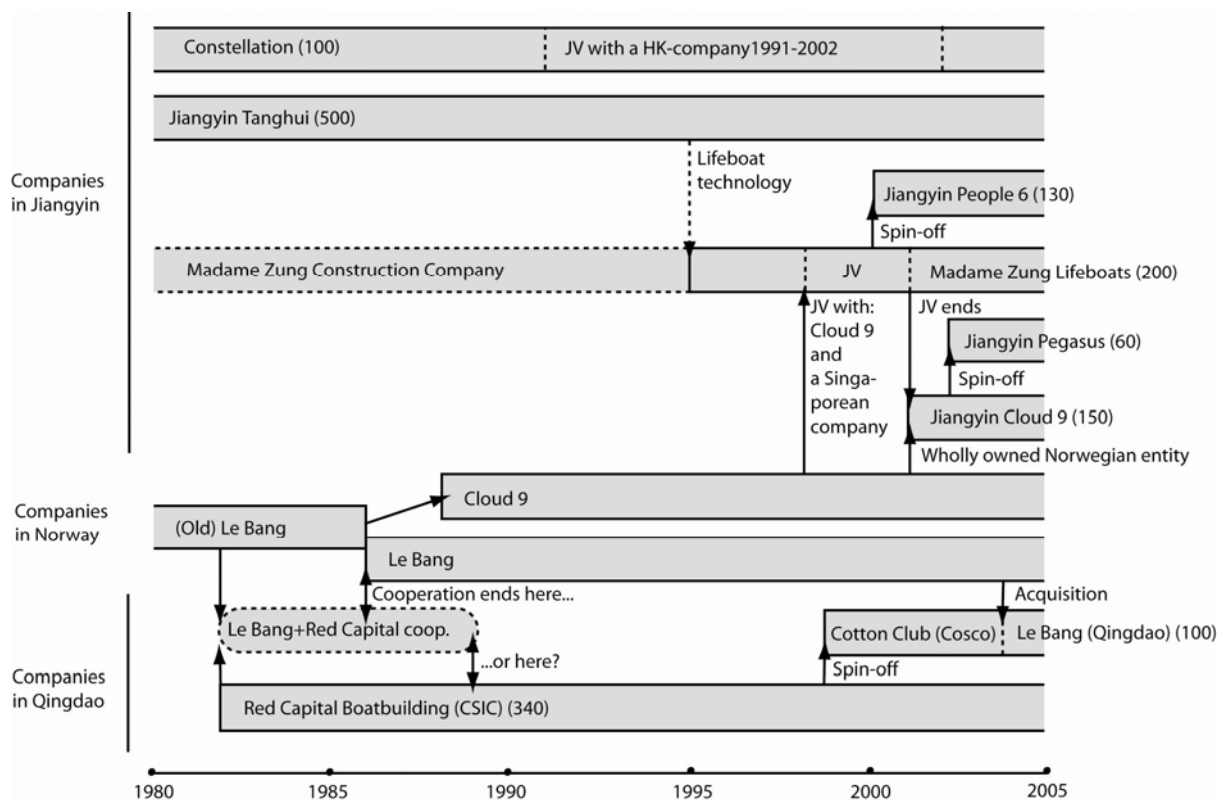


Figure 1: Lifeboat companies in China

## **Qingdao: a Norwegian comeback to China**

In 2004, the Norwegian lifeboat company Le Bang established an affiliate in China. High production costs at home and the long distance to the growing markets in East-Asia encouraged the company to move some production capacity to Qingdao. At that time, there were already two lifeboat companies in Qingdao: the big state-owned producer Red Capital Boatbuilding, which is a branch of a large ship repair and construction company, and a small, outdated company, 'Cotton Club', established as a spin-off by former Red Capital employees in 1999 (figure 1) and owned by a major Chinese player in global shipping and ship building industry. According to several Chinese informants, the only reason Cotton Club was able to keep its head above the water was sales to customers within the parent company. Le Bang considered three different alternatives when they decided to establish in China: *greenfield*, i.e. to build a new factory from scratch, *joint venture (JV)* with a Chinese company or *acquisition* of an existing lifeboat company (see Child and Rodrigues, 2005 for an overview of pros and cons of different routes toward internationalization). Due to high investment costs in the case of greenfield, and some bad experiences with JVs, they chose the latter alternative and bought Cotton Club.

This acquisition was not the first time Le Bang established activity in Qingdao. In 1982 they had initiated cooperation with Red Capital. At that time, Le Bang did not invest significantly in China. It was supposed to be the beginning of a long-term cooperation in which Red Capital, aided by Le Bang's technology and design, produced boats for both companies' benefit. This is a typical example of cooperation between international and Chinese actors in which MNCs form JVs primarily to penetrate local markets and pursue financial goals, while the local partner gets to learn more advanced Western technology (Yan and Gray, 1994). The partnership went along well for a few years, but in 1986 Le Bang went bankrupt. According to Norwegian informants, the Chinese venture somehow vanished from Le Bang's asset portfolio that was purchased by a bigger Norwegian company. The current GM of Le Bang states,

Red Capital just kept the whole joint, including our brand name!

Another Norwegian in Le Bang said that,

The new owner of Le Bang decided that the China venture was of no interest.

Informants in Red Capital, on the other hand, assert that the cooperation actually continued as usual until 1989, when the Tiananmen incident resulted in a change of policy towards China that forced the Norwegian company to withdraw.

Nevertheless, the boats, designs and technology that immigrated to China in the early 1980s left their mark. Red Capital, and other Chinese companies, continued to build lifeboats on their own and became important suppliers of maritime lifesaving equipment for the domestic shipyards and as well as Japan, South Korea and Singapore. As the GM of Le Bang sardonically put it:

It seems like the whole lifeboat industry in China is based on our MCB-24.<sup>1</sup>

Table 2 summarizes some of the opinions the managers of the two companies in Qingdao expressed when asked about their view on their own company's future prospects and their relationship to other companies in the lifeboat industry.

**Table 2: The relationship between local and foreign lifeboat firms in Qingdao**

<b>Company</b>	<i>Red Capital Boatbuilding</i>	<i>Le Bang (Qingdao)</i>
<b>Owner</b>	Chinese, state owned	Norwegian, private
<b>Future prospects</b>	Optimistic	Optimistic
<b>Attitude towards new competitor</b>	Slightly positive. International presence improves technology and local reputation; They're no threat.	Negative. "Red Capital is curious about us and has many sources of information inside this plant"
<b>Attitude towards new competitor's chance of success</b>	"They don't understand China; they're too concerned with quality, and they won't find good personnel"	"Several brand-less, Chinese companies produce low quality and will probably disappear soon; Red Capital has made many foolish investments"
<b>Attitude toward cooperation with other local producers</b>	"We have many friends in Le Bang; we visit each other, but we don't cooperate"	The Chinese employees assert that they sometimes cooperate and share info with Red Capital.

<sup>1</sup> The enclosed lifeboat Le Bang brought into the cooperation with Red Capital in the early 1980s.

## **Jiangyin: joint ventures and divorces**

While Le Bang and Red Capital are located far from each other on opposite ends of the big city of Qingdao, Jiangyin is a classic cluster with several ship building companies and their suppliers. Most of the companies began operations by supplying the small-scale, and less demanding, shipbuilders along the Yangtze River. Later, some companies matured and started supplying the large and more quality oriented shipyards in Shanghai and Guangzhou or exported to South Korea and Japan. Jiangyin is home of China's oldest and largest lifeboat producer Tanghui, often called 'the mother of Chinese lifeboat industry' because of the company's relationships to later establishments in the industry. With the exception of Constellation, which is located in the nearby city Wuxi, five companies are located within a very short radius in Jiangyin.

Following Le Bang's bankruptcy in 1986, a new Norwegian lifeboat company, Cloud 9, emerged in 1988 (see figure 1). Cloud 9 was started by the heir of the entrepreneur who founded Le Bang in 1945. In 1998, together with a Singaporean company, Cloud 9 set up a JV with the Chinese company Madame Zung in Jiangyin. As part of the agreement, Cloud 9 chipped in two boat models, the company from Singapore brought the same value in money, and Madame Zung provided the production facilities, workers and local expertise. But cooperation soon became difficult. The owners could never agree on a common goal and soon began to blame each other for not fulfilling the agreement. According to one involved party,

This was not a happy joint venture!

First, the sales manager left the JV in October 2000 to start People 6, and in 2001, Cloud 9 and their Singaporean partner divorced themselves from Madame Zung. According to the managers of Madame Zung and People 6, the foreign companies drained resources from Madame Zung before leaving. Others claim that the reason of this divorce was the opportunistic behavior of the Chinese partner. Nevertheless, the JV was dissolved and Cloud 9 set up their own operation on the same street. A former Madame Zung-employee was given 20 percent of the new venture to act as a partner and GM of the new Cloud 9. But in July 2002, this partnership also ended. According to a Norwegian informant, this happened because the local partner established a company of his own, Pegasus, next door to Cloud 9. The local partner, however, claims he never actually received

the 20 percent company share he was entitled to and that he was locked in a room for six hours and forced to accept a settlement that released him from all ownership and positions in Cloud 9. Pegasus was, according to him, established *after* he was thrown out of Cloud 9. In 2004 Cloud 9 sued their former GM for stealing blueprints and copying Cloud 9’s design. The defendant claims that he, while working at Madame Zung and Cloud 9, is the one who designed these boats anyway, and that Cloud 9, if anyone, is the one stealing technology:

They argue that the shape is similar, but we are talking about lifeboats... they all look more or less the same! Just as a car has four wheels, a lifeboat has a certain shape!

Some of the attitudes the international and local companies in Jiangyin express about each other and how they consider their own future prospects are recapitulated in table 3.

**Table 3: The relationship between local and foreign lifeboat firms in Jiangyin**

<b>Company</b>	<i>Constellation (Wuxi)</i>	<i>Tanghai</i>	<i>People 6</i>	<i>Madame Zung</i>	<i>Pegasus</i>	<i>Jiangyin Cloud 9</i>
<b>Ownership</b>	Private Chinese	Private Chinese	Private Chinese	Private Chinese	Private Chinese	Private Norwegian
<b>Future prospects</b>	Pessimistic	Optimistic	Slightly pessimistic	Neutral	Optimistic	Optimistic
<b>Attitude towards other side</b>	Negative. “Foreign entrants are unfair and create turbulence”	Slightly positive. “They’re ok, we can learn about management models and technology, but they abuse the tax system”	Positive and negative. “Improves technology and quality routines, but they create local friction”	Negative. “Foreign companies exploit local companies and create turbulence”	Negative. “They always make China look bad and they exploit local companies”	Negative “The business environment is harsh. The locals copy our technology and routines”
<b>Attitude towards other side’s chance of success</b>	“They won’t sell much in China; Le Bang made a bad deal when they bought Cotton Club”	“They have high costs, and they don’t know much about the Asian market”	“Their quality is not that good and their prices are too high”	“They are too expensive and unable to compete for Chinese customers”	“Norwegian management is not good. They depend on good, local personnel”	“They’ll not be able to compete abroad; they lack sales and service network and reputation”
<b>Attitude</b>	“For Chinese	“It’s	“We’re	“We’re	“I know	“We don’t

<b>toward cooperation with other local producers</b>	people it is hard to cooperate; I know the others, but we're not really friends"	important that all local companies make good quality. We try to help the others"	friends and rivals; we eat and drink together, but we don't talk about business"	friends, but we don't do business together"	people in the other companies, but we're not friendly"	cooperate on R&D, but sometimes we borrow equipment from Tanghui"
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### Different attitudes and sources of inspiration

The horizontal linkages in a cluster can be analyzed in terms of cooperation and competition for customers, employees, supplies, technologies and designs. A company's ability to maneuver in the business environment is dependent on its competitive advantages such as delivering the goods at lower cost than competitors (cost advantage) or by delivering products that exceed other products (differentiation advantage). These advantages come from the firm's innovativeness, efficiency, and customer responsiveness, which again are shaped by the company's resources and capabilities to utilize its resources effectively (Porter, 1998). The competitive advantages of Norwegian and Chinese lifeboat producers are at the outset distinctly different, but this picture changes as co-location conveys new resources to both sides, which the respective companies may capitalize on if they have the resources, capability and motivation to change. The Norwegian companies spend substantial efforts on a worldwide service network, quality control, design quality and technological development. They primarily target cruise and offshore customers which are considerably less price sensitive than the merchant marine ships. The Chinese producers spend less on service, design and development; they have significantly lower management and production costs and thus lower prices, also compared to the Norwegian affiliates in China. A manager in Red Capital remarked,

The Norwegian lifeboat companies are on top of the world, but they are not on top of China.

Although Le Bang and Cloud 9 are world-leading companies in many respects, their Chinese competitors do not admit to worrying about their own positions in the local industrial system and East Asian market for lifeboats. One common explanation offered by Chinese managers is that

the Norwegian companies don't understand China and the East Asian market. Another reason emphasized by the managers of the leading Chinese companies, Red Capital and Tanghui, is that international customers become aware of the Chinese producers when the more famous Norwegian companies establish nearby. But the most important reason has to do with the opportunity to gain knowledge from the entrants.

China has a reputation as a notorious violator of intellectual property rights (IPR). According to Alford (1995), the Chinese attitude towards IPR and copying can be traced back to Confucius who 2500 years ago declared 'I transmit, rather than create'. Transmitting the best known solution rather than striving to create new solutions is an attitude that seems to prevail in the Chinese lifeboat industry. The Chinese managers openly admit that they study the products and routines of other companies and bring engineers to expos to examine other boats. The manager of Tanghui asserts that they once bought, deconstructed and analyzed a boat from Japan to learn how to replicate similar quality. However, this is not, with a few exceptions, illegal activity because lifeboat models and details are rarely protected by patents. Rather this is evidence of a pragmatic attitude to utilize the resources available to learn and improve products and production processes. The Norwegian managers, in contrast, emphasize the importance of being technological leaders and do not acknowledge that other lifeboat producers are a significant source of inspiration. Similar attitudes are also conveyed in the managers' understandings of the concept 'quality': the Norwegians emphasize that quality can never be good enough; Chinese informants, on the other hand, assert that the best quality is the quality that is just good enough.

Chinese lifeboat companies have developed from being quite primitive imitators in the late 1970s to become producers that deliver good quality standard lifeboats for a reasonable price in the 2000s. This development, perhaps inspired by the MCB-24 Le Bang brought to China in the early 1980s, has been largely based on a gradual internal learning process where the Chinese companies have imitated other boats on the market, sometimes with adjustments requested by their customers. Today, the Chinese lifeboat companies are eager to learn more, but in contrast to the previous phase of industrial upgrading where the product was the main source of inspiration, they do now want to learn about production processes, management practices, quality control, after-sales service and the global market. This kind of knowledge, which is often tacit rather than codified, cannot be extracted from the product alone, but may be within reach when companies possessing these qualities enter and



establish activity in the vicinity (Guthrie, 2005). Knowledge of this nature is transmitted most effectively through interpersonal contacts and inter-firm mobility of skilled workers (Wolfe and Gertler, 2004).

### **People and technology travel together**

Even though some of the managers of both the Chinese and Norwegian firms claim that they prefer not to mingle with people from the other companies (table 3), the Chinese lifeboat industry is knit together in a tight network of deliberate and accidental flows of people, information and technology. There are people in all lifeboat companies that nurture close relationships with employees of the other companies (tables 2 and 3). This information ecology created by face-to-face contacts, co-presence and co-location of people and firms within the same industry, place or region, is what Bathelt et al. (2004) refer to as local buzz. Access to premium quality local buzz, however, is not equally distributed between the participants within a cluster (Depner and Bathelt, 2005). The ability to extract knowledge, information and rumors from the local environment depends on the actor's absorptive capacity. While some of the local companies (especially Tanghui, which is increasing its market share both in China and abroad) seem to benefit from the presence of international actors, other local firms can not absorb the resources entering the local buzz, and expect to be swallowed or pushed out of business by one of the advancing companies (table 3). The Norwegian affiliates and managers have limited capacity to absorb information and knowledge from the environment due to limited language skills, limited knowledge of the local industry and unestablished reputation and relations. But they may still be contributors and recipients in the local communication ecology through other employees. Relationships make it easy to turn know-who into know-how in China (Hsu and Saxenian, 2000).

As China left the 'iron rice-bowl'<sup>2</sup> behind and started moving towards a market economy, voluntary job-change has become common and has increased competition for skilled and semi-skilled labor (Nee and Cao, 2005). The lifeboat industry is no exception; skilled engineers and good

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<sup>2</sup> A concept referring to a system providing job security, as well as modest, but steady income and benefits, especially common for workers in the state-owned enterprises.

key personnel are a crucial competitive advantage. Sales personnel are particularly valued due to their personal relationships with customers and production and quality managers for their knowledge of design and technology. As the GM of Red Capital put it,

People and technology travel together; the boats are in the workers' minds and can be built anywhere.

When key personnel switch jobs, they bring knowledge and business relationships to their new employers, but such switches may also establish links that facilitate transfers of information and knowledge back to their former employers. Grabner and Ibert (2006) assert that personal networks engender lasting and latent ties in the background of the manifest and temporary 'plumbing' of organizational relations. The Chinese managers confirm that engineers, especially in Jiangyin, go in and out of different companies, but they do not see this as principally a problem,

I think it is good if everybody spies a little bit on each other because it improves production (Sales manager, Red Capital).

We study Cloud 9's routines for quality control and learn from them (GM, People 6).

Some of the Chinese managers describe Cloud 9 as a training camp where engineers stay for a while, then return to the locally owned companies with their knowledge:

If Cloud 9 develops a new boat everyone in Jiangyin will produce it by the end of the day (GM, Red Capital).

That there is a brain drain from Cloud 9 to the Chinese companies is moderately rejected by the GM of Cloud 9, but he admits that information and technology frequently is transferred via their employees to competing companies,

Some of our engineers seize the opportunity to sell blueprints and information to our competitors to earn some extra money. It is important

to deal with this, but it is also important not to become too paranoid, because that is not good for the company either.

As a result of their concern about leaks and opportunism, firms are likely to guard their core competencies and any capabilities that represent a source for their competitive advantage, but this kind of protectionism can also become a barrier that may obstruct learning and development (Hitt et al., 2005). At one point, Cloud 9 was so concerned about unauthorized knowledge transfers that several good employees were fired or quit by themselves.

Le Bang in Qingdao is faced with similar, although more congenial, attitudes from their local competitor. Due to the relationships between employees of Le Bang and Red Capital, the manager of Le Bang stresses that they have to be very cautious with strategic information within the firm. One time, Red Capital actually conducted a covert information gathering operation. During a customer site visit at Le Bang, one person was asking a lot of odd and detailed questions, but he never properly introduced himself and claimed to have forgotten his name cards. Later, he admitted that he worked for Red Capital. He took the opportunity to invite the GM of Le Bang to an official visit of Red Capital's site. As the GM of Red Capital put it in a humorous tone,

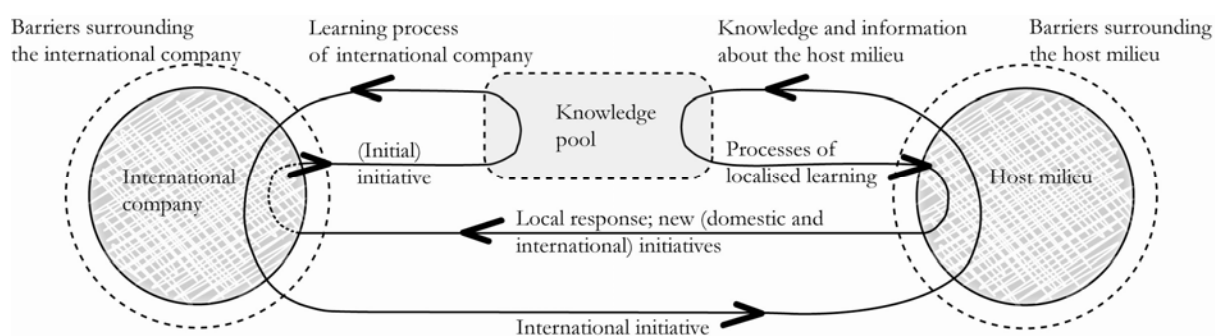
It is good for us that Le Bang came to Qingdao, because now we can get training for our workers as well.

Le Bang has so far delayed moving production of more advanced boats to China. According to the Norwegian management the main reason is that they need to upgrade the plant and the workforce before taking this step, but their local executives as well as the competitors claim that the actual reason is the threat of making the technology, design and production process of advanced freefall and off-shore boats more available to local companies.

## Conclusion – Toward a reflexive theory of international business

Whereas cluster studies can be criticized for evading the external dimension, research on the internationalization process can be criticized for failing to acknowledge the local dynamics of the host milieu in which international activity is established. Economic systems are reflexive: the actors concerned explicitly question the organization and, based on their understanding, try to conceive and establish new rules for the game (Callon, Meadel and Rabeharisoa, 2005). When companies enter distant markets, they are not moving into a static configuration, simply adding another input or output source to their value chain – they are entering a dynamic system consisting of other actors who also learn, evaluate and act in the situation. Therefore, a new approach to understand the internationalization process and the dynamics of the international and local actors might be to turn the concept of foreignness around and focus on how the host-country actors understand the international actors as foreigners, and how both sides learn, adapt to and transform each other.

Based on theoretical contributions from IB studies, economic geography and the case studies in the Chinese lifeboat industry, I suggest a model (Figure 2) to analyze how international and local actors learn and participate in the development of each other. Instead of using the term ‘cluster’ in the model, I employ the concept of ‘host milieu’. The reason is that this is not primarily a model about clusters, but the interaction and knowledge transfers between international and local actors. In my case study, the ‘local actors’ were competing companies, but the model could also be applied to the interaction between the international firm and local policy makers, employees, suppliers, customers, etc.



**Figure 2: The interactive relationship between international and local actors**

The model is set in motion when the internationalizing actor (I-actor) starts exploring opportunities and barriers for business in another country or milieu. This (initial) initiative may be triggered by the I-actors existing relations to other companies (relational entry), or it can be set off by the I-actors market or resource seeking strategies (atomistic entry) (Glückler, 2006). To initiate this exploration process, the I-actor will, depending on its absorptive capacity, draw on accessible resources including former experience and relationships with other companies, academic and popular literature and chambers of commerce. These information resources are referred in the model as a ‘knowledge pool’. Some of the resources in this pool may be explicit knowledge put down on paper and easily shared, while other resources may be tacit, i.e. technical or cognitive knowledge made up of mental models, values, insights and assumptions which are not expressed verbally (Smith, 2001). The I-actor will then evaluate its capacities and qualifications (the *internal barriers*) in accordance with the perceived *external barriers* in the host milieu. These are *formal barriers* such as tariff-barriers and *informal barriers*, which may include the actions of competitors and partners, consumer preferences, language, and differences in culture, business practices, and industrial development. These barriers can all serve to complicate the firm’s production and transactions, impeding the flow of information and thereby limiting the external firm’s capability to learn, understand and predict the dynamics of the host milieu. The informal barriers are similar to Johanson and Vahlne’s (1977) concept *psychic distance* – the sum of factors preventing the flow of information to and from the market. If the I-actor decides that it will be able to draw advantage from and cope with the characteristics of the host milieu, the company may launch an initiative to access the identified business opportunities.

After the I-actor has entered the host milieu, it may gradually increase its capability to understand the new environment. This is illustrated in the model as ‘knowledge and information about the host milieu’ flowing (or sometimes leaking) from the host milieu to the knowledge pool. The model so far is very much in line with general theories about the internationalization process of the firm. But the model differs by considering that the I-actor’s presence creates a global pipeline to the host milieu that contributes to fill the locals’ knowledge pool. Inward internationalization may stimulate processes of localized learning (see Maskell and Malmberg, 1999) as it provides local actors with an opportunity to have international knowledge, experience and attention delivered at home. The impact and influence of the international initiative may via a ‘process of localized learning’ alter the horizontal and vertical

linkages of the cluster and hence the relative power between its actors. In the case of Chinese lifeboat companies, the local companies can manufacture and sell standard lifeboats for a low price, but they rely on inputs from external sources to upgrade their routines and technologies. This knowledge is to some extent unintentionally transferred from the Norwegian companies to their local competitors via labor mobility between the companies and employees ongoing relationships with former colleagues. But it is also transferred as a result of direct observation of products and practices and, in some special cases, undercover work and more illegitimate methods.

The knowledge transfer may also spur new local initiatives, i.e. technological innovations, imitations, production processes, exports or imports. In my cases, the Chinese producers believe that the Norwegian lifeboat companies increase competition, turbulence and mutual distrust, but the foreigners are also seen as gateway to external resources. The entry of Norwegian firms in the Chinese lifeboat production system seems to have an equalizing effect on the evolution of the companies in the industry: the entrants get the opportunity to produce cheaper boats and access price sensitive markets hitherto out of reach, whereas some of the local actors get more attention from the global customers and the opportunity to upgrade their products and routines to meet global standards. Whereas Norwegian and Chinese companies in the past were competing for different segments of the market, they are now increasingly meeting in the same competitive arena. These changes and new initiatives may again have a feedback effect on the I-actor (illustrated as 'local response'). The model of the interactive relationship between international and local actors encompasses an ongoing dynamic which does not end when the international company receives response from the host milieu, but continues as the involved actors persist to evaluate and act based on their understanding of the situation.

Even though the model of the interactive relationship between international and local actors (figure 2) has emerged as a result of research on the competitive environment in a transition economy, I would encourage others to take a perspective from the far side even when studying international business in more mature markets and production systems. More research on the linkages between international and local actors will contribute to enhance our understanding of both the internationalization process and local industrial development. This fieldwork conducted on both sides of the internationalization process supports two important points. First, the reality is a point of view: the

stories that are told and the explanations offered about events and relationships in international business affairs are substantially different depending on the position of the narrator (see also Hansen, 2008). This was demonstrated in the stories about why and when Le Bang pulled out of China after its first entry in the 1980s and the turbulence around Cloud 9's JV in Jiangyin. Second, the internationalization process is not, and should not be studied, as a one-way learning process. Internationalization is a reflexive and dynamic process. Local actors absorb the effects of incoming companies and act upon them. New initiatives, ideas and values regarding management, quality, and design emerge in this process, producing a hybrid culture and industrial structure at the doorstep where local and international actors meet.

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Article 3:

Entering *Local* Value Chains: Upstream and  
Downstream Linkages in the Midst of China's  
Shipbuilding Industry

Is not included due to copyright

Article 4:

Karaoke or Corruption – Balancing Diverging

Expectations and Demands in International Ventures

### **Introduction: The Gap and the Bridge**

China is getting closer. Economic activity of all kinds, conducted by different actors all over the world, can more often than not be traced back to China in some way or other. Chinese factories and consumers have become important ingredients in the global economy, and vice-versa, the global economy has become a vital ingredient in the development of Chinese society. The growth of the Chinese economy has not come about unnoticed. Companies from all over the world are entering China's market and production system to take part in this growth – already ten years ago described as 'perhaps the greatest gold rush the world has ever seen' (Faure, 1998). The motivation underlying Norwegian companies' establishments in China are multiple. The most common explanations when company managers and owners are asked why they are present in China are access to low cost labor, cheap factor inputs, close proximity to important business-to-business markets and the dream of one billion customers.

Running an overseas affiliate is a challenge, and China is surely no exception. Some managers describe an adventure come true, but many report harsh competition for factor inputs and market shares, high employee turnover rates, copying and unintentional knowledge transfers, poor legislative protection of foreign economic activity, and perhaps most importantly, problems staying informed about the challenges mentioned above. On top of this, the international company in China (and especially its manager) has to balance expectations and demands from two separate realities which both provide different notions of ethics, values and best practices.

In this chapter, which is not only about karaoke and corruption, the purpose is to look into how Norwegian managers in charge of some of the Norwegian-owned affiliates in China walk the line between expectations and demands provided by their headquarters, which are embedded in a Norwegian style of management (as well as jurisdiction), with the expectations and demands rooted in Chinese reality. This balancing act is discussed in two different relationships. First (*The Gap Within*), I take a look inside the international affiliate to examine how diverging Norwegian and Chinese standards and ideas regarding quality, human relations, incentive systems and distribution of responsibility within the company often are conflicting and thus become fundamental challenges for the international company, its employees and perhaps in particular to its general manager. Next (*The Dubious Offence*), I examine the gap between expectations and demands from headquarters back home and the expectations and demands of the actors in the local environment outside the affiliates' walls and how the managers communicate and deal with issues concerning diverging notions of corruption and ethical issues between these two realities. But before we continue to the tightrope-walking managers, I'm going to give a brief introduction to how some of the differences between China and Norway are accounted for (*Culture Quantified*), and I will also introduce the concept 'cultural broker' and explain its relevance to this story about the Norwegian manager in China (*The Expatriate Manager as Broker*).

## **Culture Quantified**

The differences between Norway and China are many, but nevertheless dependent on the perspective of the observer. A backpacker travelling in Sichuan will meet quite a different country than the one presented to a delegation of business people and officials coming to Beijing for a week of 'walling and ducking'.<sup>1</sup>

A quantitative study that illustrates differences between Norway and China (as well as other nations and their cultures) is the *Corruption*

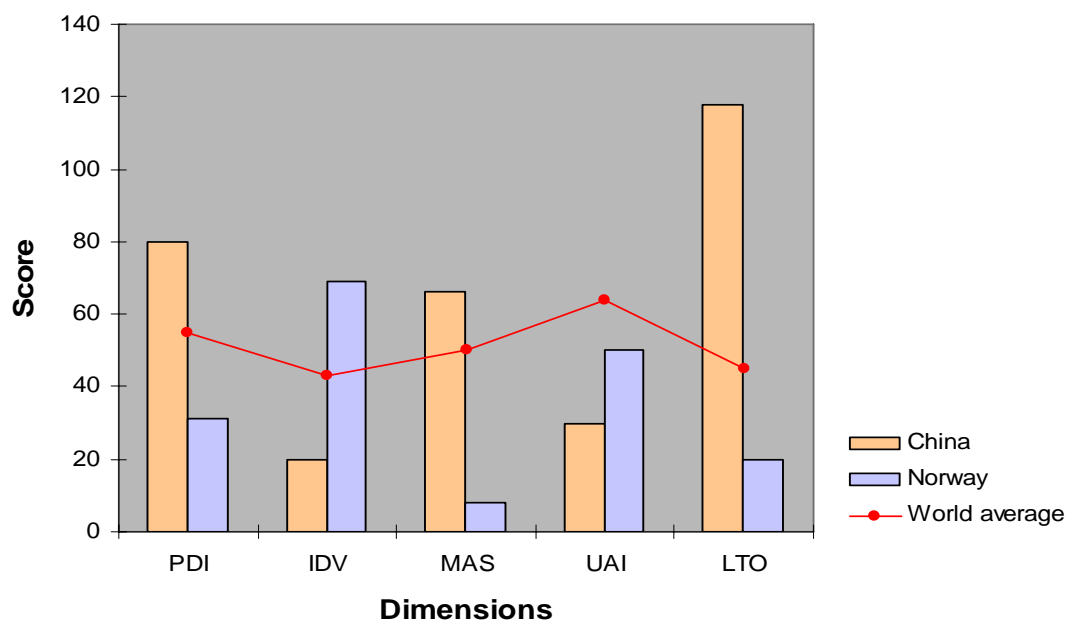
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<sup>1</sup> A concept referring to the treatment of important guests in China – trips to the Great Wall and the Forbidden City and the mandatory Peking duck banquet. See McGregor's book 'One Billion Customers' or 'Mr. China' by Tim Clissold for some entertaining stories about this and other aspects of the Chinese business reality.

*Perception Index* (CPI) published by Transparency International.<sup>2</sup> The 2007 index, including 180 countries, reflects business people's and country analysts' perception of corruption. The scores are given on a scale ranging from 0 (highly corrupt) to 10 (highly clean). In the index Norway scored 8.7, ranking as the global number nine regarding cleanness, while China, scoring 3.5 points, ranks as number 72, in other words, regarded as a quite corrupt country.

Another well-known approach to quantifying cultures and their differences was conducted by Geert Hofstede (2001), who wrote the book *Culture's Consequences*<sup>3</sup> where national cultures are reviewed along five bi-polar dimensions based on a quantitative survey in which IMB employees from 70 different countries participated.

**Figure 1: China and Norway according to Hofstede**



The *Power distance index* (PDI) measures the degree of equality (or inequality) regarding the distribution of power and opportunities. In China, the distance between nobody and somebody is quite high, while Norwegians apparently are more equally distributed (figure 1). In the second dimension, *individualism* (IDV), Norway has a high score, while

<sup>2</sup> See [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2007](http://www.transparency.org/policy_research/surveys_indices/cpi/2007)

<sup>3</sup> The book was originally published in 1980 including four dimensions. The fifth dimension was added in the 1991 edition and applied to 23 countries.

China, according to Hofstede, is a collective society in which people are tied into strong, cohesive groups, often extended families, which continue protecting them in exchange for unquestioning loyalty. The third dimension, *masculinity* (MAS), measures gender differentiation. Norway is described as a gender-neutral society, while China is described as quite masculine. The fourth dimension, *uncertainty avoidance index* (UAI), is the only dimension in which Norway and China are on the same side of the world average.<sup>4</sup> Both countries belong to the share of the world less concerned about ambiguity and uncertainty. The fifth dimension, included in the 1991 edition, allegedly based on Chinese and Confucian values, is termed *long-term orientation* (LTO). A high score in this dimension indicates having a sense of shame, relationships ordered by status, thrift and perseverance. A low score points to a culture in which respect for tradition, fulfilling social obligations and protecting one's 'face' are important elements. China touches the ceiling – which is quite surprising considering the central role of traditions, social obligations and the concept 'face' in Chinese culture. Norway scores low in this diligent dimension.

At some level, a world in which national culture and their differences can be divided and understood as a handful of bi-polarities seems like comforting idea, but on the other hand, research claiming to have found the key to comprehending more or less the whole world should be met with skepticism. In the words of McSweeney (2002, 112), the on-going unquestioning acceptance of Hofstede's national culture research by his evangelized entourage suggests that in part of the management disciplines, the criteria for acceptable evidence is too loose. McSweeney points to the fact that some of the national cultures reviewed are covered by thousands of questionnaires, while others are represented by less than one hundred respondents, that there is no valid reason to assume that IBM employees should reflect any national average; likewise, a 'national average' may also be highly unrepresentative, as a country could be populated by two or several opposing groups rather than one dominant culture. Furthermore, that designing and analyzing a questionnaire is a culturally-biased enterprise as such – how people understand and respond to survey questions may be more relevant than the answers they actually give. According to Eckhardt (2004), Chinese respondents tend to carefully consider what someone in their place in the hierarchy *should* think, rather than giving their own view on the matter in scope. The Confucian

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<sup>4</sup> The value obtained by dividing the sum of the countries' scores by the number of countries in the survey.

dimension of Hofstede's research has been especially met with confusion by many scholars, as this dimension is divided into two opposing poles based on what Hofstede and his entourage conceive as positive and negative Confucian values. Tony Fang (2003) asserts that values tagged as 'short-term oriented' or negative may not necessarily be so, and values tagged as 'long-term oriented' or positive may not necessarily be so, either. The values at each end of the LTO dimension are not contrasting or opposing, but rather closely interrelated with each other. Following Fang it may seem like Hofstede has failed to understand Chinese culture already in the process of preparing this survey, and both the design and results coming out of the fifth dimension are thus of a rather odd character and quite insignificant.

Culture can be studied along several dimensions, aided by a variety of different methods, leading to a wide range of more or less correct, significant or useful results – if it is possible to talk about correctness when dealing with cultural understanding. Numbers and figures depicting cultural differences do provide some fun-facts and sometimes pieces of practical information, but to somehow discuss the more interesting and important issues regarding *how* culture works and evolves, and how to cope with challenges due to cultural differences, a more qualitative and perhaps local approach may prove productive. This chapter is by no means an attempt to write an account of Chinese culture; rather, it is merely an effort to illuminate some of the dilemmas faced by the multicultural company and their managers. 'Balance', as used in this chapter, does not refer to some invisible point on a bipolar scale of cultural dimensions. Culture assumes capability to reconcile opposite poles in a dynamic process of change and transformation (Fang, 2005), and the solutions that emerge when a Norwegian company set up in China are not necessarily something that may be summed up as 60 percent Chinese and 40 percent Norwegian (or vice-versa). Some of the solutions that may be the result of an intersection of Chinese and Norwegian realities may very well be hybrid solutions with little or no resemblance to either side. 'Balance' hence refers to the need to take both perspectives into consideration when finding these solutions, not the solution as such.

In addition to other researchers work on China, Chinese culture, business and work ethics, this chapter is based on my own fieldwork in China since 2001. In this period, when I've mainly been studying the seafood and the boat and shipbuilding industries, I have conducted numerous in-depth interviews with Chinese and Norwegian personnel in Norwegian-



owned companies operating in China, at the Norway-based headquarters, and also with the managers and owners of the local Chinese firms who meet the Norwegian companies in competition and cooperation (see Hansen, 2002; 2008a; 2008b). Most of these interviews have been conducted in small and medium sized enterprises. The interviews, often probing issues like the relationship between Chinese and foreign companies, their coping strategies and evaluations of each others, have also provided in-depth information about the roles and challenges of the expatriate managers in the Chinese market and production system.

## **The expatriate manager as broker**

In order to illustrate and discuss the role of the manager in Norwegian-owned affiliates in China, I'd like to make use of the concept 'cultural broker'. Clifford Geertz (1960) used the concept in his study of the post-revolutionary Indonesian society to describe the individuals who could translate the somewhat abstract ideologies of the "New Indonesia" into a language understood by the rural population, and in return, make clear to the intelligentsia the nature of the peasantry's fears and aspirations. More recently, the concept has among other things been applied to describe the role of the teacher in cross-cultural education (Aikenhead, 1997) and movie directors in China's booming filmmaking industry (Braester, 2005). In this context, I use 'broker' to refer to the manager working in foreign-owned companies in China, as it in most cases is his or her responsibility to translate (i.e. understand and transmit) the reality in China to Norwegian headquarters, and back again. There are no solid statistics on exactly how many Norwegian companies are established in China, how many entities they are operating and the nationality of the manager or chief representative. According to Innovation Norway<sup>5</sup> more than 120 Norwegian-owned companies are established in China today, operating at least 150 partially or solely-owned ventures. Some of the Norwegian companies operate small sales and representation offices, while others have several establishments of various size and purpose in China. Judging from the names of the contact persons, it seems like 69 of these entities are headed by an ethnic Chinese representative or manager, 61 are run by

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<sup>5</sup> Innovation Norway is an organization that offers products and services intended to help boost innovation in business and industry nationwide, foster regional development and promote Norwegian industry and Norway as a tourist destination in international markets.

Norwegian or other expatriate managers,<sup>6</sup> while 20 ventures are listed without identifying a contact person by name. Even though the broker in this context could be of any nationality and position, the brokers dealt with here are, unless otherwise mentioned, Norwegian managers working in China.

According to Tsang (2007), expatriates are usually expected to serve as agents of knowledge transfer, and to be responsible for transferring headquarters' practices to overseas affiliates. In my understanding, however, the expatriate as a broker is not merely someone mediating or processing information from some patron to a set of clients, rather the role of the broker is, or at least should be, to handle information flowing both ways and make sure that the two realities understand each other. A manager with good brokering skills may be of immense importance to the international company's success in China. Through the manager, the headquarters back home should get the information they need to make the decisions they are supposed to make, and further, the manager should be able to understand instructions and translate them into a language and actions appropriate to employees, customers, suppliers, government officials and even competitors in the host country. A strategy to fill the broker position in China has for many international companies been to hire an overseas Chinese expatriate manager (OCEM), i.e. ethnic Chinese who are permanent residents in other countries, as it seems obvious that the cultural distance to China will be less for them than in the case of Western managers (Selmer, 2002; Tsang, 2007). However, the solution might not be that simple. According to Selmer, the immediate cultural shock for a Western manager arriving in China may trigger some unlocking mechanism in which he or she acknowledges the cultural dissimilarities, becoming in turn motivated to learn and adjust to the new environment. To the OCEMs, on the other hand, the many cultural similarities may disguise the true differences and prevent learning and adjustment to take place. Western managers may also be given the benefit of the doubt whenever they behave improperly, and any step in the right direction (that is, towards cultural adjustment), may be seen as a welcome development, whereas OCEM's lack of understanding of how to deal with local colleagues, subordinates and officials may be interpreted as evidence of incompetence (Selmer, 2002).

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<sup>6</sup> Employers assigned to work in a foreign country for a substantial period of time are often referred to as expatriates.

## **The Gap Within**

In Norway, engineers have drawings made by their kids on the office wall.

### **Chinese engineer**

When a company decides to engage in new activity overseas, such as establishing a production plant or sales office in China, they are not only adding another input or output source to their value chain. They are also entering a system inhabited by a wide range of different local actors – such as political decision makers, competitors, suppliers, customers, employees etc. – who are navigating the reality guided by ethics, norms, standards, motivations, information and knowledge substantially different from those of the international actor entering this system. The challenge, for both sides and all affected parties, is then to extract and communicate some understanding from this mixture of values and guiding principles and behave as properly and reasonably as possible. In this section I will point to some of the challenges emerging when Norwegian and Chinese expectations and demands unite under the same roof.

Being a manager of an international venture is very much about communication, and communication itself is very much about language; transferring knowledge to a foreign country requires clear, unambiguous communication between the sender and the recipient (Tsang, 2007). The vast majority of Norwegian business people in China speak little or no Chinese, whereas most Chinese people do not have a working command of English. According to a Norwegian expatriate manager:

One of the problems I experience in China is sensing what is going on in the different levels of the company. Everything has to go through a translator, and sometimes working here feels like being a participant in a whispering game.

Some of the Norwegian expatriates try to solve this by employing executives that do speak English, while others emphasize that employees who master both English and some relevant business or technical skills are so expensive and ambitious that it is hardly worth looking for them. A typical solution is then to employ an English-speaking secretary who becomes the ears and voice of the manager, or in other words, the

broker's broker. But according to several Chinese executives in Norwegian-owned companies in China, this practice is problematic – the Norwegian boss gets most of his information about what is happening in the company through only one source; the English-speaking secretary, but she (it is usually a she) is often too young and inexperienced to understand the technology, people and potential controversies in the company. Apropos technology, the technical understanding of the general manager should, according to one of the Chinese executives,

be equal to all employees, and he should have very good information about what happens in the company, as only then can he make good decisions.

Being 'equal to all employees' also points to the importance of technical proficiency, which in China usually ranks high above management expertise (Tsang, 2007). The engineer was the ideal of the Communist elite (Bonnin, 2006), and if one looks at the background of the political and business elite in China, one will find that the majority are graduates from engineering schools. Expatriate managers, on the other hand, are often recruited on account of their management skills and international experience, rather than relevant technical skills, and may thus suffer from lack of authority and respect from employees as well as business partners and competitors in China. In interviews managers of Chinese-owned companies often emphasize that they know all about the technicalities of their products; that they are present in the production hall and participate actively in the construction, as well as design and development processes. One of the Chinese managers said mockingly about the manager of a Norwegian competitor,

All the years we have been competing, he has only been working with customers, whereas I have been designing and constructing our products.

Most expatriate managers of Norwegian-owned companies in China assert that they try to mix Western management ideas with the Chinese way of doing things. One effort emphasized by many of them is that they insist on treating equally well, regardless of position (see also Stenstadvold, 2005). As one of them said,

Chinese bosses often regard employees who are not executives or high-skilled engineers, as a necessary evil and treat them accordingly. I don't

accept that, and now as the staff is used to my style, it'll probably be impossible to go back to a local general manager.

A catchphrase in Chinese business literature is that the manager should be like a father to his subordinates (Kiong and Kee, 1998; Peng, Lu, Shenkar and Wang, 2001). The Norwegian managers know this and, as many of them probably are fathers in a conventional sense, they use this knowledge as a guiding line when dealing with employees. The catch is that the role of a good Norwegian father is different from the role of a good Chinese father. Authority figures in China, such as the general manager or the immediate supervisor, are seen as father substitutes, and they are given absolute loyalty and obedience by subordinates as sons (Hui, Lee and Rosseau, 2004). In a Norwegian setting the idea about the authoritarian father has a bad ring to it; a father is supposed to listen attentively and carefully consider the views of his children, and if the children can't agree on something, the Norwegian father should help them to settle the matter between themselves. In China, on the other hand, a direct and authoritarian leadership style is expected and participative management is not valued (Peng et al., 2001). Information, responsibility and decisions are pushed to the top of the Chinese company hierarchy, and orders and directives drizzle down. A manager of a Chinese company competing directly with Norwegian producers confirms this, saying that,

The Chinese and Norwegian ways are very different. Workers have more responsibility in Norway, while bosses have less.

Adhering to what they find to be the best solution, Norwegian managers in China often try to make the different units of the organization talk to each other and take responsibility for processes and also solving matters at a lower level in the company hierarchy. The "social democratic" mode of organization is well received by Chinese workers in some regards, but it is also a source of conflict and confusion. This is illustrated by the Chinese executive of a Norwegian-owned company who pointed out the following:

When we have meetings the general manager always asks us what we should do. I think the general manager should tell us what to do, not ask! This interferes with effectiveness, and it is the reason why our profits are lower than our (local) competitors!

Another local employee of a Norwegian company in China is more subtle and says,

We used to be told what to do, but now we have personal responsibility. Responsibility is good for people, but perhaps not for productivity (...) the salary is linked to productivity...

Productivity and profits are other keywords. When a Norwegian company establishes or acquires a factory in China, they often meet workers who are used to a system where a large proportion of the salary is closely connected to the company's profit and productivity (Chiu, Luk and Tang, 2002). The typical Norwegian reaction to this is that the Chinese incentive system looks like a mess, and the Norwegians make reforms in which the regular salaries increase and the bonuses are reduced. But this complex bonus system which grew out of the cracked "iron-rice bowl" during the eighties, is generally popular and regarded by many as an important motivation factor to perform well (ibid.). Another reason for decreasing the bonuses is to establish a more quality-minded attitude among the employees. According to a Norwegian engineer in China,

They are used to work for quantity-related bonuses, and then the main point is to finish the job as fast as possible – and that may jeopardise the quality. But if we remove the bonus system they'll probably just sit down and wait for the hours to pass by. It is a great challenge to establish an incentive system that not only stimulates efficiency, but also quality.

To overcome some of the cultural distance, some companies provide pre-assignment training programs to prepare managers and staff for postings in China (Selmer, 2000; Tsang, 2007). But it is not only the expatriate manager and the local staff that have to understand each other and find ways of making the business work. Several Norwegian managers in China also emphasize the importance of reporting to superiors in Norway with in-depth knowledge of the Chinese business environment as this provides them with better operational premises. Most expatriate managers stay in close connection with their headquarters, usually reporting home by phone on a regular basis, but some say that it is hard to satisfactorily explain the situation to colleagues with limited experience from China, to get relevant guidance and feedback from their superiors, and also that they sometimes feel like it sounds as they are just making up excuses

when they report about challenges and difficulties encountered as part of the daily operations of the branch plant or from the Chinese business environment as such. The same opinion is frequently asserted by Chinese representatives and managers of Norwegian companies in China, who often find it hard to transmit the Chinese reality in a way that is understood by their Norwegian employers. In the words of a Norwegian expatriate manager,

It is not hard to understand why our company's CEO, who visits the plant once or twice a year, thinks the situation is fantastic. But you have to stay here longer to understand what the situation really is like and what kind of challenges we are facing.

This is underlined by Vance (2006) who asserts that; as persistent cultural differences influence the nature of detailed activities and procedures of company strategy implementation at the local country operation level, there should be sensitivity to the demands of the local context. In order to create some sensitivity to the demands of the local context, it is vital that the headquarters make some efforts to learn from and about the Chinese reality. One means is to exhaustively debrief their expatriate managers coming home, and if possible keep them and their experiences within the company. Another way of gaining knowledge of the Chinese context is through exchange programs between headquarters or facilities in Norway and the affiliate in China. Many of the Norwegian-owned companies in China are small and medium sized enterprises that operate few overseas branches. To a certain degree their move to China has been accompanied by reduction and restructuring of staff and tasks at the home base, and this has led to a slight suspicion and bad feelings directed towards the new colleagues in China. Exchange of staff both ways has been reported to be an efficient agent of organizational learning and mutual understanding. According to a Norwegian manager in China, the communication between the staff at the home base and the plant in China used to be a bit tense, but now as they have had some engineers from China in Norway and vice-versa, the situation has improved significantly. Commenting on this one manager asserted,

Earlier, we just received a set of instructions from Norway, but now we feel more like real colleagues,

Exchanging key personnel between different plants may also encourage employees to take more responsibility and solve problems directly by contacting the relevant department at the other facility, rather than taking everything through the local plant manager.

## **The Dubious Offence**

As this year's Mid-Autumn Festival approaches, the All-China Environment Federation (ACEF) on Wednesday launched a campaign to persuade the public to refuse moon cakes that are packaged too luxuriously. (...) In recent years moon cakes, a traditional symbol of family love, have been accused of wasting resources and even becoming a tool for corruption.

**Xinhua Online (September 13, 2006)**

Corruption – defined by Transparency International as *the abuse of power for personal gain* – isn't always a brown envelope with cash cunningly handed over to someone with a sly little nod. Corruption is a concept met with confusion on the legislative arena, in media, academic work, and business practices. The Norwegian law regarding corruption (Criminal Law, Chapter 26) was sharpened in 2003, now increasingly encompassing affairs abroad, but, according to NHO (The Confederation of Norwegian Enterprises), there have so far been few verdicts, and interpretation of the new regulation is thus very much up to the each and everyone dealing with potentially sensitive matters. Cultural and legislative differences across national borders are other factors adding to this confusion. From my own personal experience, China is not one of those countries where you have to start flipping paper money in order to get a table in a crowded restaurant. Taxi drivers will, unless otherwise agreed upon, use the meter and drive from A to B without any extra sightseeing (at least in most cases). Moreover, as a passionate biker in Shanghai's traffic, I've never met a police officer who tried to take advantage of my intersection impatience.

On the other hand, in September 2006 the Shanghai party chief, Chen Liangyu and a number of other officials, were arrested for the misappropriation of 400 millions USD from the city's social-security



fund (Economist, 2006; Hui, 2006), street vendors pay off local officials to avoid confiscations and piracy charges when dealing in counterfeit Luis Vuitton bags (Hansen and Møller, forthcoming 2009), and both international and local companies in China report that they from time to time receive and also are requested to give inappropriate gifts to officials and supply managers of other firms in exchange for favorable decisions (Brand and Slater, 2003; Millington, Eberhardt and Wilkinson, 2005; Stenstadvoll, 2005). Doh et al. (2003) assert that the corruption in China is quite pervasive, but not arbitrary. In other words, the level of corruption is high, but on the “bright” side, bribes work – contrary to other countries where baksheesh are requested from all direction with no guarantee of results. The Chinese Government’s official web portal reports that it was quite common for international companies bidding for business in China to offer potential customers or partners kickbacks ranging from cash and luxury goods to paid holidays. Many companies believed that the practice was a “tacit rule” of the Chinese market until a Los Angeles company was fined in the United States for paying bribes in China (Chen, 2005). Most Norwegian managers I have met in China assert that they have no tolerance towards bribes and kickbacks, and many of them arrange meetings with suppliers to inform them that they will be cut off or reported if they wave a carrot in front of any company executives. But fancy statements are one thing; reality is something else. One of the managers told me that he had a special compartment in his safe where he stores the bribes his loyal executives couldn't avoid receiving;

I don't know what to do with this money, it just piles up,

he said. Another Norwegian manager asserts that he definitely does not approve of bribery, but if it does occur within his firm, he doesn't want to know about it.

The activities mentioned above are more or less obvious cases of corruption. However, as mentioned earlier; business is not only about input and output. In China, probably even more than most places, mutual trust and relations are important to performing in an economic environment which is perhaps a bit more flexible than the more square-headed Scandinavian environment. To give a mundane illustration of this, I'd like to exploit a Norwegian friend of mine who once complained to a Chinese friend about some troubles he had regarding the departure date of his apparently unalterable Finnair ticket, and his Chinese friend immediately and slightly surprised replied, “But don't you have any

friends in the airline company?” According to a Chinese chief representative for a Norwegian company in Shanghai,

The Chinese business environment is, partly because of weaker legislative regulation, more flexible than Western business environments.

Maneuvering oneself and stretching the environment in the right direction with personal skills and relationships are vital. See, for instance, the monumental body of research and debates on the concept and phenomena “*guanxi*”, a concept referring to a system of personal ties that carry long-term social obligations that are assumed to play a vital role in Chinese business (Millington et al., 2005). In these personal ties, gifts, favors, information and new relationships are distributed. By cultivating *guanxi* with bureaucrats, suppliers and customers, companies in China may protect themselves against some of the uncertainties in an economy still lacking some of the safeguards of a true market economy (Luo, 1997). *Guanxi* can be both positive and negative; sometimes it works as a moral system supervising the good conduct of its members, other times as a vehicle for corruption (Li, 2007). Keeping the balance right between appropriate and adequate business relations and the opposite is a great challenge to expatriates, as well as many Chinese. According to several local sales managers and agents in the Chinese maritime industry,

It is not the quality and prize that matter; it’s the relationship between buyer and seller that’s important.<sup>7</sup>

The best sales arguments are not necessarily part of the product itself. What may be the winning argument to close a business deal could very well be something external to the actual transaction, and then it gets more intricate, potentially unethical and perhaps even illegal as context, cultural complexity and laws have to be interpreted and considered. In China, relationships with customers, suppliers and local officials are often established and maintained during long, and sometimes extravagant, dinners, in karaoke lounges, or, as indicated above, by treating your contacts with the traditional moon cake or other tokens of friendship. Intuitively, friendship, fine dinners, karaoke and moon cakes are ok, but how much is it too much? Is it when the restaurant bill reaches a certain

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<sup>7</sup> It should be noted that this point of view, which is most often flagged by sales people, probably also is made to underline the importance of their own role and relations, and thus their irreplaceableness.

amount, is it when the champagne bottles in the karaoke lounge arrive on velvet pillows, or is it when the moon cake is wrapped in a Buick? Judgments of what is “excessive” and “appropriate” are finely tuned to local culture and circumstance (Granovetter, 2007), and keeping the balance on the fine line between karaoke and corruption is an endeavor expatriate managers should take seriously not only to sleep well at night but also to perform well in the host economy. According to Luo (1997), many Western business people fail to see the difference between *guanxi*, which is about strengthening personal relationships that may or may not be called upon in the future, and corruption, in which investments in a relationship is a targeted ‘fee-for-service’. Furthermore, Luo asserts that many Western business people often are in danger of overemphasizing the gift-giving and wining-and-dining components of a *guanxi* relationship, thereby coming dangerously close to crass bribery or to be perceived as ‘meat and wine friends’ which is a Chinese metaphor for mistrust (ibid., 47).

In order to cope with the ethical issues in China, Brand and Slater (2003) found that Australian managers often choose a mixture of four adaptive strategies. The most common strategy underlined by the Australian managers is about *not compromising one’s own morals*; referring to an attitude where the managers are – or at least say they are – prepared to walk out of an ethical problematic situation regardless of the potential loss of profits. The second most frequently mentioned strategy is to try to *understand the motivation of the Chinese people*, or in other words, just accept that things are done differently in China. The third strategy is to *talk to other expatriate managers* in China and use their experiences to create a common ethical understanding of appropriateness. The fourth strategy is called *adherence to company policy*; by providing clear guidelines to officers operating in foreign locations, firms may reduce the stresses experienced by managers caught between two operating cultures (see also Doh et al. (2003) for some coping strategies regarding corruption).

## Conclusion

In this chapter I’ve established that China and Norway in many respects represent different realities, and further that, in the case of the international venture in China, a manager with good brokering skills may

be a good bridge between these realities. I do not think the key to success for international ventures in China is to adapt and dovetail perfectly into the structures, culture and practices of the Chinese business environment. Nor is it to avoid adaptation and apply universal arguments and practices to resist challenges encountered in China. In order to cope with the challenges emerging out of differences, the first step should be to *identify* expectations and demands from both realities regarding operational issues such as HRM, quality management and incentive systems as well as issues related to the company's interaction with actors in the local business environment, such as corruption and other ethical matters. Neither side should be considered predefined as ambiguity exists and flexibility is needed on both sides. For the person in charge of the international company's Chinese branch, it is important to identify expectations and demands from both sides. However, in order to make the Norwegian and Chinese realities accept each other, it is crucial to create and facilitate a mutual ongoing dialogue and dynamic understanding of practices and ethics that not only rest with the manager in charge of the foreign owned affiliate but also extend to headquarters as well as the local employees, suppliers and customers. The next step should thus be to make the two realities *communicate* and get to know each other. Practical strategies to achieve this dialogue may be to integrate the affiliate better into the organization by exchanging employees between the affiliate and the headquarters, or to arrange meetings with suppliers and customers to explain the company's stand on certain ethical issues. It may very well be a good idea to establish some resilient rules regarding ethics and practices and draw the line between karaoke and corruption once and for all, but the performance, practices and ethics of a Norwegian affiliate in China neither can nor should be identical to the performance, practices and ethics of the head office back home (or the next-door Chinese company for that matter). What should be strived for is to achieve performance, implement practices and develop ethical standards that can be understood, accepted and appreciated in both realities.

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