

Mälardalen University
School of Sustainable Development of Society and Technology
Master Thesis Course – International Business and Entrepreneurship
EFO 705/ MIMA

ABB's Internationalization in the Emerging Chinese Market
Entry Mode and Market Development Progress



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ABSTRACT

- Date** June 19, 2008
- Level** Maser Thesis EFO705
- Authors** Phan Van Thang & Xin Zhang
- Title** ABB's Internationalization in the Emerging Chinese Market-Entry Mode and Market Development Progress
- Supervisor** Tommy Torsne
- Problems** We are going to investigate three questions in the ABB case, 1. What is Entry mode strategy of ABB when it joins Chinese market 2. Does the development process of ABB fits with Uppsala model 3. The influences of Chinese government and relationship building process of ABB with the government of China.
- Purpose** The aim of the thesis is to describe the entry mode choice and market development progress of the successful MNC ABB in the specific emerging market China. The authors also want to use theories in the master course of International Business and Entrepreneurship to explain the internationalization of one specific company ABB.
- Method** To clarify the development process of ABB in China market, we will mostly focus on qualitative method. Nevertheless, in order to make our research more persuasive, we also use quantitative method, such as the amount of capital of ABB, the number of branches and employees.
- Target Group** The conclusion and recommendation is mainly for the MNCs managers who attempt to enter emerging market China. Students majoring in international business field are also our target group.
- Conclusion** In order to effectively join Chinese market, ABB use joint venture entry mode as a bridge to get access to this emerging market, the wholly owned subsidiaries help the corporation tightly control its core technology. In the overall trend, ABB's development progress fits with U model quite well. To maintain a strong relationship with Chinese government, ABB emphasize four strategies: responsive to social needs, building up relationship with government officials, technology transfer and mutual assimilation of goals.
- Keywords** Emerging Market, ABB, Entry Mode, MNCs, Uppsala Model, Chinese Government Influences, Joint Venture, Development Progress,.

ACKNOWLEDGEMENT

We would like to take this opportunity to say “thank you” to all of you who have made contributions to our thesis work.

First of all, we have to thank our tutor Tommy Torsne, who always encourages us in doing our work and his valuable instruction to make our work better. Secondly, the support and knowledge provided by our main tutor Professor Leif is invaluable during our studying time in Mälardalen University. We also appreciate supports of other lecturers and all staffs in our University during our stay here. Besides, the supports of Mr. Franklin-Wangqi and especially Peter Lennhag CEO of Asia Executive Adviser who participated an open interview with us in Stockholm are important to our work.

We must say “thank you” once again to our opponent groups as well as our friends in the class, who always back us when we meet difficulties in doing our work.

Finally, the support from our family and friends in China and Vietnam to us is important during our studying time in the best country in the world Sweden.

Västerås June 19, 2008
Phan Van Thang
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TABLE OF ABBREVIATIONS

ABB	Asea Brown Boveri Company
CEO	Chief Executive Officer
CFPA	China Foundation for Poverty Alleviation
ETDZ	Economic and Technical Development Zone
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
JV	Joint Venture
MNC, MNE	Multinational Corporation, Multinational Enterprise
P.R. China	People Republic of China
R&D	Research and Development
Rep.	Representative
SOC	State Owned Company
U model	Uppsala Model
WTO	World Trade Organization

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Chapter1: Introduction and Research Problem

1.1 Introduction

1.1.1 Overview of MNCs and FDI

MNCs play a critical role in today's global economy. Until 2005, there were more than 60,000 multinational corporations (MNCs) with over 800,000 subsidiaries all around the world. MNC's production make up a great part of world's production and their total assets reached to US\$2 trillion in 2000. There are more than 6 million employees over the world working for MNCs. Their development thus has drawn a lot attention from researchers. (Luo & Park 2001, p. 142)

FDI (foreign direct investment) is the major investment method of MNCs and in these FDI accepting countries, developing countries take up a large proportion. 24 out of world top 50 FDI inflow nations are developing countries. Asian emerging market is the largest FDI host, amounting to US\$143 billion in 2000 (Luo 2002, p. 1~4). China is the largest and fastest growing site among them. Since the Chinese economic reform in 1979, it has drawn in US\$467 billion foreign investment by the end of 1996. MNCs play an important role in Chinese economy (Luo & Park 2001, p. 142).

1.1.2 Definition of Emerging Market

Since in this paper, our investigative target is the emerging market, primarily, it's necessary for us to introduce the definition of emerging market. According to Hoskisson et al. (2000, p. 249), "Emerging markets are low-income (below 8000 US\$ annually), rapid-growth countries using economic liberalization as their primary engine of growth." Luo (2002, p. 58) claimed that if a country possesses a rapid economic growth, changing industrial structure, a booming but volatile market, economic liberalization favored regulator, and a free-market system, and its government is making an effort to reducing control over economic activities, then we can say, the country is an emerging market. From this definition, emerging market is

characterized by rapid growth and structural changing. Political system is relatively unstable and suffering a series of reforms aiming to transform from centrally-planned system to market-determined system.

1.1.3 MNCs in Emerging Markets (Evolutionary Perspective)

Previous studies have put emphasis on the role of emerging market environment in the strategy designing process of MNCs, including entry strategy and organizational structure, which have a great influence on MNCs' performance (Jain in Cui 1998, p. 98). It would be affected by the external triggers (local market environment, government policies) and internal triggers (firm's experience, resources) (Douglas & Craig in Cui 1998, p. 98). Former literatures about MNCs in emerging market almost all concern about how firms set down strategies under the influence of special features of emerging market.

In this article, the influence from the market environment will be also our primary concern; especially the influence of the government. Government policies have long been considered as one of the most important factors in the internationalization process of MNCs (Boddeyn & Brewer in Osland & Bjorkman 1998, p.91). The investigation of such influence will be carried out in the choice of entry mode and further market expansion.

The process of entry and later expansion include many aspects, such as entry mode choice, operational management, expansion speed and scale. In these stages, MNCs should make decisions using an evolutionary perspective, that is to say, the emerging market environment is changing continuously (economic reform, investment policies, industrial structure, regulatory framework) and the performance of MNCs is greatly influenced by the host country's environment, thus, the firm's operating strategies, organizational structure should constantly adjust to the changing environment. Firms aiming at global expansion should constantly response effectively to the changing environment and discover the hiding opportunities but also the threats. Moreover, the operational strategies are also influenced by firms' former international management experience. The interplay between the host country environment and the MNC and such interplay's influence on the entry style of the MNC are going to be deeply discussed in present work.

1.1.4 Introduction of Case company-ABB

a. ABB Group

ABB (abbreviation of **Asea Brown Boveri**) is a multinational corporation

headquartered in Zurich, Switzerland. Two main categories of productions of ABB are power and automation, power products include transmission, distribution components and turnkey substation system, and automation products are used to control and monitor equipment and operational process in industrial plants and factories (ABB report). ABB is the European largest power and automation technology. ABB has operations in around 100 countries, with approximately 112,000 employees (2007). The biggest market of ABB is Europe; however, Asia market is growing rapidly in revenue share, especially China market (the second biggest market of ABB among one hundred countries that ABB is operating its business). (ABB publications 2008)

Fig. 1 below presents ABB’s revenue by division and revenue by region:

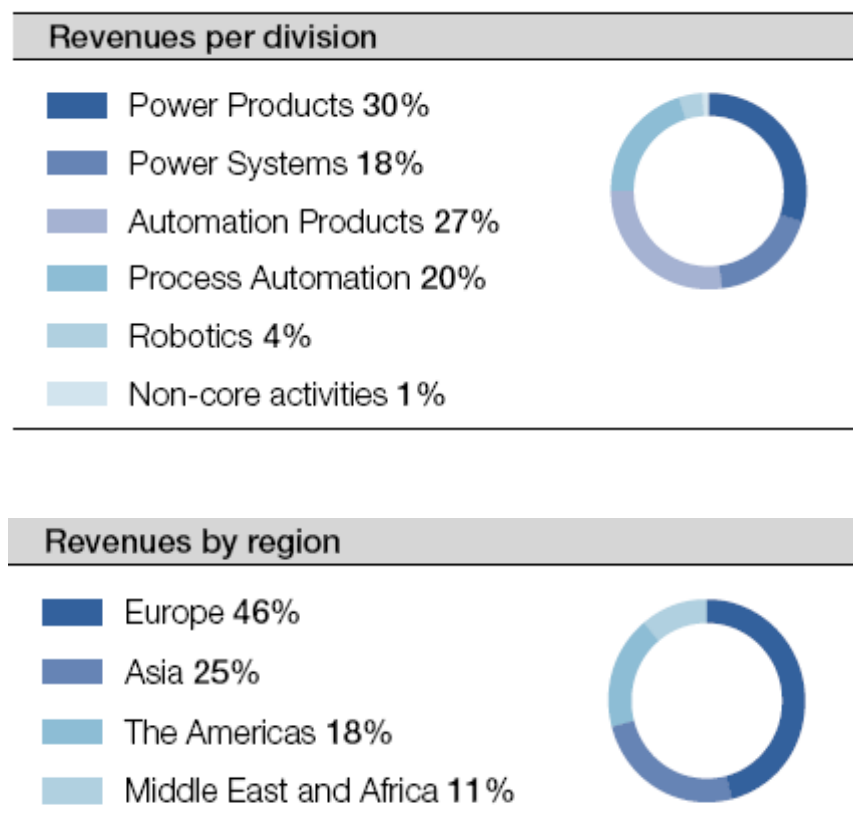


Fig.1: Revenue per division and revenue by region

(Source: ABB 2007 annual report)

ABB resulted from the 1988 merger of Swedish and Swiss corporations ASEA and BBC Brown Boveri (Brown, Boveri & Cie), the latter had absorbed the Maschinesfabrik Oerlikon in 1967. CEO at the time of the merger was the former CEO of ASEA, Percy Barnevik, who ran the company until 1996. (ABB publications 2008)

ABB's history dated back to the late nineteenth century. ASEA was incorporated in 1883 and Brown, Boveri & Cie (BBC) was formed in 1891. (ABB publications 2008)

From the emerging in 1988 to 1996, ABB had doubled its size, the revenue expanded from US\$18 billion to 34 billion. The new emerged body has achieved more profitable than its predecessors. However, from late of 1990s to early 2000s, the business of the corporation was gloomy. Especially in 2001 the company cut 12,000 employees, 8% of total number of staffs. The company lost US\$691 million in the year. Continuously, ABB posted a record loss of US\$783 million on revenues of US\$18.3 billion and in 2003; it reported the loss of US\$767 million. (ABB publications 2008)

ABB started recovering from 2004, the report of first quarter indicated that company reversed its business operation from loss to profit. In 2006, its earning before tax of the corporation reached US\$2.6 billion (11% of total revenue) and the figure increased to US\$4 (nearly 14% of total revenue) billion in 2007. The strong recovery is due to strong performance of China and India market. (ABB publications 2008)

b. ABB China

ABB's relationship with China dates back to 1907, when it delivered the country's first steam boiler. Today ABB has established a full range of business activities in China, including R&D, manufacturing, and sales and service, with more than 13,000 employees, 25 joint ventures and wholly owned companies, and an extensive sales and service network across 38 cities. Currently, China is second largest market of ABB. In 2006, total orders in China rose to US\$3.1 billion with revenues of US\$2.8 billion, turning China into ABB's number-one market in terms of revenues. (ABB's 100 years report)

Because we are going to use ABB Company's successful experience to make implication for the other companies, it's necessary to explain successful performance. Many former researches used financial performance to evaluate MNCs' performance. However, judging a firm's performance just in a single perspective may be ex parte since objectives and needs of different companies would be varied. In other words, a company usually has different objectives, interests, and transfer pricing policies, its performance will not be only determined by its financial performance. Even though the financial performance of a company is not good, it still could be considered as successful if it contains a big market potential and insures a long-term growth (Isobe, Makino & Montgomery 2000, p. 473). In the present work, we will measure the performance by the long-term revenue of ABB China and the overall satisfaction of the employees in ABB China.

ABB has an organic development in China and the profit keep on increasing each year. Before 2008, ABB achieve 20% incensement in profit annually. Fig.2 indicates the growth in revenue of ABB in China from 1998 to 2005.

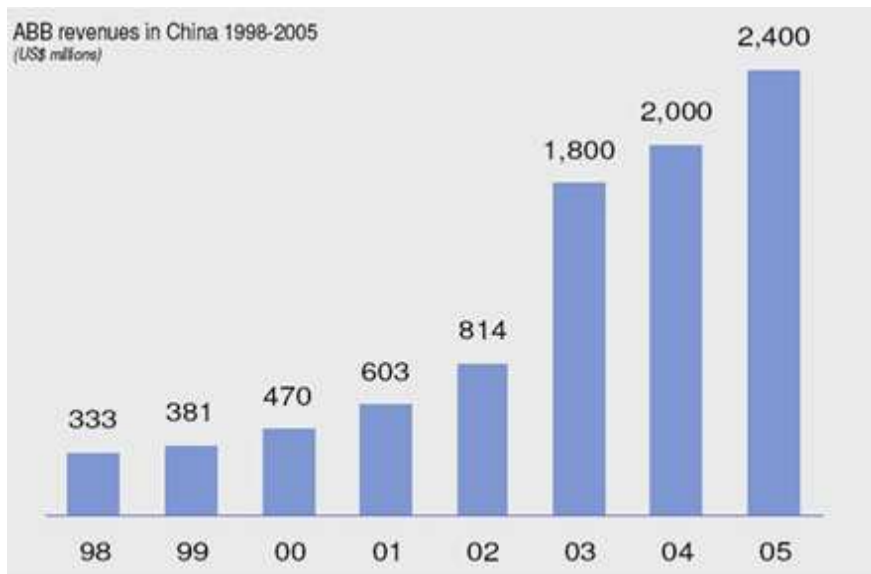


Fig.2 Strong and profitable growth of ABB in China
(ABB China's annual report, 2006)

Moreover, in November 2003, ABB is listed as one of the best 10 employers in China in an investigation held by *treasure magazine* and *sohu website* (one of the most famous website in China). It's evaluated according to the loyalty and satisfaction of employees, salary and welfare, leadership, management efficiency and working environment and so forth. There were 65 companies joining the investigation. Moreover, ABB is evaluated as one of the top10 employers in the electronics and power industry in the "2005 China HR Annual Award-100 Outstanding Employer Enterprises" hold by Asia Pacific Human Resource Research Association (ABB China's annual report, 2007).

Considering the both criteria, ABB indubitably has achieved a successful performance in China.

1.1.5 Chinese Market overview

Since the end of 1978, China opened its market. After that, China has undertaken successive reforms to restructure and make a better investment environment for the foreign companies. These reforms contributed to a growth in real per capita GDP averaging 6.04% from 1978 to 1995 (Walmsley, Hertel & Ianchovichina 2006, p. 315). On December 11, 2001, China successfully joined the WTO after thirteen years negotiation, which has a remarkable impact on the economic growth of China (Chan 2006, p.1). There is an increased amount of FDI inflows into China from all over the world. According to China's Trade and Economic Affairs Ministry, in 2000, the total

FDI amounted to US\$27.64 billion (Ng & Tuan 2001, p. 1052). From 2004, 400 of the Top 500 MNCs had invested in China (Luo in Gao 2008, p. 1). Because there are many market features which are not available in the developed countries, such as rapid economic growth, cheaper but high quality human resources, and a plentiful of market opportunities, China is like an oasis of profit generating for the MNCs (Gao 2005, p. 1).

However, MNCs also will meet lots of challenges when they enter this market. The major risk comes from unstable political system and high intervenes of political influence on economic operations and development (Chen in Gao 2008, p. 2).

Nowadays, China is undergoing a transition from a command economy to market oriented. Although this transform has achieved a great success, government intervene is still intensive. Chinese central and regional government officials still have a power to determine the resource allocation (Walder in Gao 2008, p. 2). Therefore, maintaining a close relationship with the government sectors and officials will be essential for MNCs. In order to perform successfully in Chinese market, MNCs should not only consider the market factors, such as the resources cost, market demand but also the critical roles of the government agencies in China (Li & Zhou in Gao 2008, p. 2).

However, there are few literatures studying on the political environment in China except for Chinese relationship (Hwang, Xin & Pearce; Yang, Yeung & Tung in Gao 2008, p. 2). Interactions between government and the MNC are seldom conducted as well. Therefore, much more emphasis will be put on the interplay between Chinese government and MNCs in our work.

1.2 Research Problem

We are going to investigate three questions in the ABB case, 1. What is Entry mode strategy of ABB when it joins Chinese market 2. Does the development process of ABB fits with Uppsala model 3. The influences of Chinese government and relationship building process of ABB with the government of China.

1.3 Aim of the Thesis

The aim of the thesis is to describe the entry mode choice and market development progress of the successful MNC ABB in the specific emerging market China. The authors also want to use theories in the master course of International Business and Entrepreneurship to explain the internationalization of one specific company ABB.

1.4 Target Group

The conclusion and recommendation are mainly for the MNCs managers who attempt to enter emerging market China. By analyzing the influence of the special features of Chinese market on ABB's entry mode choice and expansion progress, MNCs' managers will know better about Chinese market and realize what influence imposed by the Chinese market environment they will meet. The result can also help them choose the suitable entry mode and expansion style using ABB's successful experience for reference.

Students major in international business field are also our target group. By combining the theories with the practical company's behaviors, our analysis process, finding and conclusion will help them have a better understanding of entry mode theory and Uppsala model. Furthermore, they can also get knowledge about Chinese emerging market features.

Chapter2: Literature Review

In this section, we are going to present three main literatures. They are market entry, U model and features of emerging market.

2.1 Foreign Market Entry

According to Werner (2002) that international entry modes (entry modes) represent the third most researched field in international management, behind foreign direct investment and internationalization.

We first start with definition of entry mode: according to Root (1998) foreign market entry mode is an institutional arrangement that makes possible the entry of a firm's products, service, know-how, management and other resources into a foreign market. A firm can set up an entry to a foreign market in only two ways, it export its products to a foreign market or it can transfer its resources such as technology, capital, know-how, brand name to a foreign market in which those resources can be sold directly to customers or combined with resource in the host country to manufacture product for that market.

Export entry mode is the lowest level of commitment to the foreign market and joint venture is higher degree of commitment and wholly owned subsidiary is highest degree commitment to the market, the following table shows the features of "sales" approach (export) and entry strategy approach (joint venture or wholly owned subsidiary)

	Sales approach	Entry strategy approach
Time horizons	Short-run	Long-run
Target market	No systematic selection	Selection based on analysis of market/sales potential
Dominant objective	Immediate sales	Build permanent market position
Resource commitment	Only enough to get immediate sales	What is necessary to gain permanent market position
Entry mode	No systematic choice	Systematic choice of most appropriate mode
New-product	Exclusively for home market	For both home and foreign

development		markets
Product adaptation	Only mandatory adaptations (to meet legal/technical requirements) of domestic products	Adaptation of domestic products to foreign buyers preferences, incomes and use conditions
Channels	No efforts to control	Effort to control in support of market objectives/goals
Price	Determined by domestic full cost with some ad hoc adjustment to specific sales situations	Determined by demand, competition, objectives, and other marketing policies as well as cost
Promotion	Mainly confined to personal selling or left to middlemen	Advertising, sales promotion and personal selling mix to achieve market objectives/goals

Fig. 3: Difference between sale approach and entry strategy approach
(Source: Franklin, Entry strategies for international markets p. 5)

Also, Pan and Tse (2000) divide entry modes into two categories: equity and non-equity. They explain that these two categories of entry modes considerably differ with regard to investment requirements and control. First, they assert that equity modes (e.g., joint ventures and wholly owned ventures, and acquisitions) require the exercise of higher levels of control from firm headquarters, due to their involving a relatively large commitment to investment. Second, they suggest that non-equity modes (e.g., contractual modes such as licensing, franchising) require lower levels of control since these forms of entry are much less investment intensive.

The study about foreign market entry considers the choice of entry mode, which market to chose, when to enter and on what scale the firm choose when it penetrates a foreign market.

There are three major dimensions that the firm has to comprehensively consider when it joins a foreign market: selecting a right market, joining at the right time and committing the right scale.

Which market to chose: There are more than 200 nations-states in the world, each countries has different business opportunities for the firm to internationalize. Eventually, the choice of the firm to a foreign market must base on an assessment of a nation's long-run profit potential. The attractiveness to of a country as a potential market for a firm depends on balancing the benefits, costs and risks associated with doing business in this country. The economic potential of a foreign country also relies on size of the market, present wealth, purchasing power of customers, the likely future wealth of customers, economic growth rates and the political stability in that country. (Hill 2007, p.480)

When to enter: it is important to consider the timing of the entry. The entry is considered early when it enters the market before other company while considered late when it enters after the establishment of other international company in the market. The early comers is the first-mover would have some significant advantages such as ability to preempt rivals and capture demand by establishing strong brand name, ability to build sales volume and ride down the experience curve ahead of rivals, giving the early entrant a cost advantage over later entrants, ability to create switching costs (cost the customers suffer from change familiar products to a new one) that tie customers into their products or service. However, disadvantages of first-mover also occur, the major is pioneering cost, the cost of failure due to ignorance of the foreign environment, the cost of promoting and establishing a product offering, the costs of educating customers. The costs arise when the business environment in the foreign market is so different from that in the firm's domestic market. (Hill 2007, p.481)

Scale of entry and strategic commitments: entering a market on a large scale involves the commitment of significant resource. The consequences of large-scale commitment are associated with the value of the resulting strategic commitment, if the company invest big amount of capital, it will gives both customers and supplier belief that the company will stay in the market for a long term, that will attract them to do business with the company. Nevertheless, the rapid large-scale investment also increase the inflexibility and risk of the company, it will depends on the situation of the market. Meanwhile, if the company invests in small-scale, they can lean about the market and limit the exposure to that market. Small-scale entry also allows the company to gather information to reduce the risk when it decided to pour money in large-scale to the foreign market, but it might be difficult for firm to build market share and to take advantage of first-mover (Hill 2007, p.484).

Following we will review the advantages and disadvantages of six kind of entry mode:

Entry mode	Advantages	Disadvantages
Exporting	Ability to realize location and experience curve economy	High transport costs Trade barriers Problem with local marketing agent
Turnkey contracts	Ability to earn returns from process technology skills in countries where FDI is restricted	Creating efficient competitors Lack of long-term market presence
Licensing	Low development costs and risks	Lack of control over technology Inability to realize location and experience curve economies

		Inability to engage in global coordination
Franchising	Low development costs and risks	Lack of control over quality Inability to engage in global strategic coordination
Joint ventures*	Access to local partner's knowledge Sharing development costs and risks Political acceptable	Lack of control over technology Inability to engage in global strategic coordination Inability to realize local and experience economies
Wholly owned* subsidiary	Protection of technology Ability to engage in global strategic coordination Ability to realize location and experience economies	High costs and risks

Fig.4: Advantages and disadvantages of six kinds of entry mode
(Source: Hill 2007, *competing in the global market place*, p.494)

Because in our case study, mostly entry modes of ABB group are joint venture and wholly owned subsidiary therefore we will discuss in more detailed about these two kinds of entry.

a. Joint venture

Joint venture entry takes place when an international company shares in the ownership of an enterprise in a target country with local private or public interests. Most commonly, an international company agrees to share capital and other resources with a single local company in a common endeavor (Franklin 1994, p.146).

We cite here one more definition from wikipedia website (www.wikipedia.org) in order to give better understanding of what is a joint venture to readers:

A joint venture (often abbreviated JV) is an entity formed between two or more parties to undertake economic activity together. The parties agree to create a new entity by both contributing equity, and they then share in the revenues, expenses, and control of the enterprise. The venture can be for one specific project only, or a continuing business relationship. This is in contrast to a strategic alliance, which involves no equity stake by the participants, and is a much less rigid arrangement. The phrase generally refers to the purpose of the entity and not to a type of entity. Therefore, a joint venture may be a corporation, limited liability company, partnership or other legal structure, depending on a number of considerations such as tax and tort liability. (Wikipedia.org)

Joint venture has a number of advantages (Hill, 2007), the investing company benefits from its local partner's market knowledge of the host country in the field of

competitive conditions, culture, language, political system and business system. Also, the investor and its local partner will share the costs and risks of the development of the firm. The joint venture also helps the firm to reduce risk of being subject to nationalization or other forms of adverse government interference because local equity partners, who may have some influence on host government policy.

Besides, this entry mode has disadvantages for the firm. First it will give control of its technology to the partner, but establishment of joint-venture agreement in operation can reduce it. Second weakness of the entry is the firm cannot have tight control over subsidiaries that it might need to realize experience curve or location economies. Nor does it give a firm the tight control over a foreign subsidiary that might need for engaging in coordinated global attack against its rivals. Third advantage is the shared ownership arrangement might lead to conflicts in choosing strategy to conduct (Hill 2007, p.491).

b. Wholly owned subsidiary

This entry is made when the firm owns 100 percent of the stock. Establishing a wholly owned subsidiary in a foreign market could be done in two methods. The firm installs a new operation unit in the host country (a Greenfield venture), or it can acquire an established firm in that country and use that firm to promote its products. (Hill 2007, p.492)

There are several major strong points of wholly owned subsidiary. Firstly, when competitive advantage of the firm is based on technological competence, it will prefer this entry mode because it can reduce the risk of losing control over that competence. Secondly the entry mode helps the firm tight control over operation in different countries.

Absolutely, wholly owned subsidiary also causes some difficulties to the firm. It is the most costly method in market penetration. Secondly, the firm would suffer from high risk, interference of the host government...(Hill 2007, p.493)

2.2 Uppsala Internationalization Business Model

The Uppsala model has its theoretical base in the behavioral theory of the firm (Cyert & March, 1963; Aharoni, 1966). The behavioral theory describes the internationalization of the firm as a process in which the firm gradually increases its international involvement, which is expressed in the Uppsala model through psychic distance and the establishment chain that will be discussed later. The process evolves in interplay between the development of knowledge about the foreign markets and operations, and an increasing commitment of resources to those markets (Johanson &

Vahlne 1990, in Johanson & Associates 1994). The central issues of the model are how organizations learn and how their learning affects their investment behavior (Forsgren, 2002). Another important aspect of the Uppsala model is that it is a dynamic model; it describes the internationalization of a firm as a process.

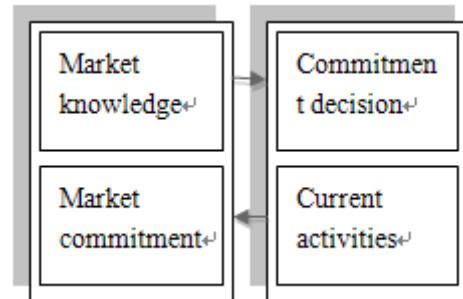


Fig.5: Uppsala model

(Source: Johanson & Vahlne 1990, *The mechanism of Internationalization*, p. 84.)

Uppsala model has two aspects, state aspect and change aspect. State aspects are comprised of market knowledge and market commitment while change aspects include commitment decision and current activities.

Market knowledge: that is the understanding and knowledge of the firm about the market such as business climate, culture patterns, structure of the market system and characteristics of individual customer firms and their personnel (Johanson & Vahlne 1977, p.39). Market knowledge plays fundamental role in decision-making process of the firm, the firm has sufficient market knowledge of the market is more willing to make higher commitment to that market. Carlson (1974) argued that knowledge generally relates to demand and supply of market in present and future as well as competition and distribution, payment conditions and transferability of money, these factors vary from one country to another.

According to Johanson and Vahlne (1977) there are two kinds of market knowledge, general knowledge such as marketing, production, common features of every market or clients, suppliers, market-specific knowledge, market-specific knowledge is knowledge about characteristics of specific market namely market system, business environment and most important is understanding of individual firm. The later knowledge can be obtained mostly through the operation in specific market while the former knowledge can be diffused from one market to other.

Market commitment: it is composed of two factors the amount of resources committed and the degree of commitment to a specific market. The more specialized the resources are to the specific market the greater is the degree of commitment. Regarding the amount of commitment, this is the amount of investment for marketing, organization construction, people, training and other issues. (Johanson & Vahlne 1977, p.37)

Current business activities: it is important because of three main reasons, current activities are sources of experience, there is often a lag between current activities and the consequences therefore longer the lag the more committed resources are needed, finally if the activities are highly production-oriented or there is a low need for interaction between the activities and the market environment the easier will be to start new operations which are not incremental additions to the current activities (Johanson & Vahlne, p.39).

Commitment decision: decisions are made in response to perceived problems and opportunities on the market. The firm will make incremental commitments to the market until its maximum tolerable risk is reached and the commitments are made incrementally due to market uncertainty (Johanson & Vahlne, 1977). As a result, the firm will face less risk when it increases the market knowledge.

The Uppsala has been developed based on observation of the authors that Swedish companies often do business in international market in incremental pace. They prefer the step-by-step of commitment in foreign market. Normally, the firm started with export activities its product to foreign market, then it establish a sale branch, then they might join hands to establish joint venture with a partner from the host country or set up its own production unit in that market eventually.

Critical view on Uppsala model

Forgsgren (200) argued that the model builders apply a more narrow interpretation of learning than that allowed by literature, which limits the ability of the model to explain of certain form of internationalization behavior. The learning concept of Uppsala model comprises three assumptions. The first one is that knowledge is first for most condition for firm to acquire in market rather than collecting and analyzing information should obtain it. The second assumption is commitment decisions are made incrementally because of market uncertainty so that “learning by doing” is the core concept. The last one is knowledge could be acquired only by individual and cannot be separated from them, therefore, opportunities and challenges would be perceived mostly by people working in the specific market. However, Eriksson et al. (1997) criticized the learning concept of Uppsala model strongly. He stated that research from 1980s to 1990s indicated that organizational learning has several dimensions for firm’s behavior. Firms can learn by imitating success of others or they can get knowledge by acquiring other firm in that specific market or hiring experienced staffs, especially they can learn by conducting market research to get information rather than getting experience from current activities. Those factors had not been presented in the Uppsala model.

One can also argue that the Uppsala model employs a reactive rather than proactive perspective of experiential learning (Forgren, 2000). It means that the learning

concept in the model only focuses on acquiring knowledge from the already identified solutions but proactive learning, which focuses on the search for new solutions. Consequently, the application of the model is limited according to Forgren.

In addition Forgren (2000) stated that the model has not yet explained detail about experience. Individuals bear experience of the organization, but the evaluation of different individual is not identical, therefore, the experience would be interpreted different in the organization due to different evaluation. Also, the model does not deal explicitly with individual decision maker and there is an absolute condition that personnel of the firm are stable over the time. In fact it is not true, personnel of the firm changes by the time. Moreover, in the model the firm only makes investment when the perceived risk is lower than the tolerable market risk, however, the model miss the possibility that the firm need to consider the risk of not making the investment.

Low market knowledge can as well be connected with high perceived risk of not investing. Arguably, the risk of not acting may be even higher than of acting (Forgren, 2000). In the market, the advantages of first mover are so important for firm, that in some industry or for some firms, they must invest before they had obtain specific knowledge of the market. Finally, the model has a significant weakness that is the link between incremental behavior and the experiential learning.

“If we treat experiential learning and incremental behavior as to distinct variables rather than two sides of the same coin, it becomes apparent that they have a different impact on the internationalization process” (Forgren, 2000, p.262).

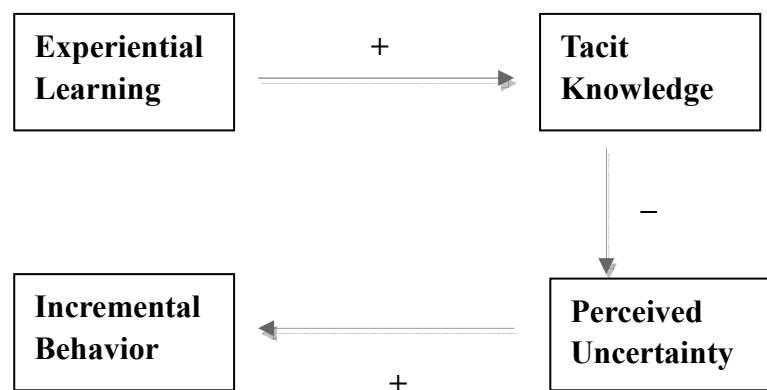


Fig.6 The relationship between experiential learning, tacit knowledge, perceived uncertainty and incremental behavior
(Source: Forsgren, 2000)

The figure shows that the firm obtains tacit knowledge by learning from its current activities in a specific market, then the perceived uncertainty of the market will be reduced. In turn, the incremental behavior will be reduced. Consequently, the pace of internationalization process will increase in a specific market.

2.3 Business Environment in emerging market

Five common features of emerging market:

1/ Legal infrastructure including legal system is generally weak in emerging market. It is generally difficult to enact and develop various laws, but political, social, historical or culture factors often impede the implementation and enforcement of these laws. People, rather than laws themselves, still play an important role in shaping business activities. Bribery and corruption are evidently more pervasive in emerging markets than in developed market and many emerging market have unique commercial practices and business culture that are people-oriented and embedded. Therefore, interpersonal networking is often necessary for nourishing business activities. (Luo 2002, p.5)

2/ Factor market, such as an institutional support for development of business and economy are weak. Factor market including capital, labor, production materials, foreign exchange market, and information market are generally undeveloped and thus still intervened by governmental institutions and departments. (Luo 2002, p.6)

3/ Emerging market tend to experience faster economic growth than other type of economies but the growth is often go together with uncertainty and volatilities. Risk may arise from government policy changes under developed market factor. Fast economic growth is mainly driven by strong market demand, improvement of its deregulated industries, enhanced efficiency of decentralized or privatized state-owned enterprises, and heightened contribution of private-owned business institutions and participation of foreign investors. (Luo 2002, p.6)

4/ Strong market demand is a significant feature of emerging market, especially from emerging middle-class consumers. Nevertheless, in some large emerging markets, product or service markets are highly segmented and differentiated along consumption behaviors, income levels, social norms, and cultural traits. Strong market demand is contributed primarily by increased individual incomes (especially middle-class), pent-up demand previously stifled by government control, and large population of consumers. (Luo 2002, p.6)

5/ Emerging markets offer first-mover advantages and opportunities to MNCs, but these markets quickly become competitive given the high imitation ability of local firms and intensified rivalries from other foreign firms. Local companies in emerging market tend to be skillful in learning MNC technology and imitating MNC products. Increasing convergence with global markets and governmental support for technological development also sharpen local firms skills. As a result, MNC confront not only foreign competitions but also local companies. (Luo 2002, p.7)

In the emerging market, Luo (2002) argued that the government plays an important role in shaping country competitiveness. It can intervene policy-making process, government can take control the micro, macro- economic business environment and also human resource. The form of government influence should be import protection, financial subsidiary, interventions in labor, technology and natural resources.

One significant feature is that in emerging market, government is often a big customer of MNC as it purchases products in large-scale project such as infrastructure, defense goods, telecommunication equipment, electricity, airplane etc.

In emerging market, a common way for MNC to join the market is joint venture. Emerging market local partners are critical to the success of joint ventures (Luo, 2002 p.244). In emerging market the role of government agency is really important, the relation-oriented country is strong, therefore the joint venture entry sometimes is a must to MNC when it joins an emerging market, especially when a firm enter a special market which is under control of the government such as electricity, banking and finance industries in China. Child (1996) also has the similar viewpoint, he suggested that the power of the state owned government in emerging market is very important because in the structure of such the kind of firm, it has strong support of governmental institutions.

Discussing in detail of choosing emerging market of China, Tim (2000) found that building relationship with government in China is more important than many other countries, Cultivating good relationships with government is therefore often a critical factor in assuring the success of a venture (Tim 2000, p.93). In China government plays a much more important role in the economy than in Western country or in other developing countries, its economy is seen as being at the service of the state, therefore, government might intervene when it thinks the economy is going in undesirable orientation. It is an essential endeavor for every quality manager to know how to do business in China because it is inevitable. China is clearly emerging as dominant player in global economy (Kohnen 2008, p.64)

It follows that if you have good relationships with the relevant branches of government, you are more likely to get what you need, be it permission to build, develop, sell goods, set up a factory, and form a joint venture or whatever. Good relations with government can make the wheels of bureaucracy turn faster, even allowing you to “jump the queue” and get approval more quickly than you might expect. Poor relationships or none at all, conversely, can put ventures at risk. (Tim 2000, p.97)

Establishment of relationship with government

In order to build a strong relationship with host government, MNCs should commit resources where the social communities need. They should strengthen the personal relations with the governmental officials since the later can create a favorable regulatory climate for the former. They should respond to social needs in order to prevent the anti-globalization group. This effort will help them build a close relationship with host government and take up an advanced market position(Luo 2002, p. 66).

In high tech industry fields, MNCs and host government always have a corporative relationship because government can create a favorable regulatory environment for MNCs and the MNCs can contribute to the local government by technology transfer and innovation diffusion. A dependent and mutual relationship holds the two partners together (Luo 2002, p. 73). Kang, Lee and Zhao (2008) also recommended that Chinese government promotes building joint venture with foreign firms aiming at technology transfer from developed world and encourage R&D investments for technical catch-up.

To enhance the partner relationship, MNCs should be responsive to “social needs or concerns (e.g., education, employment, training, pollution control, research funding) of host government.” The cooperative relationship will be stronger if there is a “mutual assimilation of goals”, which means one party adapts to the other party’s goals. The “mutual assimilation of goals” relies on the mutual understanding of each other’s mission (Luo 2002, p. 84).

This partner relationship is also demonstrated in the enhancement of individual level productivity. MNCs can benefit from the improving productivity of the managers, workers, and engineers by reducing the managerial and production cost. In the other hand, the local talents can improve their skills and experience in sophisticate management or production activities (Porter 1990 in Luo 2002, Page 73). Many MNCs cooperate with host governments by “establishing business or engineering schools”, which generates a flow of local talents and also play an essential role as company’s training program (Luo 2002, p. 73).

Luo (2002) claimed that a cooperative MNC could be an “asset to the host government” since it can improve the local economy and social welfare though “employment and training, technology transfer and product innovation.” (Luo 2002, p. 71).

In conclusion, the MNCs should cultivate a partner relationship with host government, and they should focus on the four strategies: responsive to social needs, building personal relations with government officials, transferring technology and developing mutual assimilation goals with host government.

Chapter3: Conceptual Framework

After the literature review part, the above three theories are combined to form a conceptual framework showing the connectedness among three theories and guiding the analyzing part of the thesis.

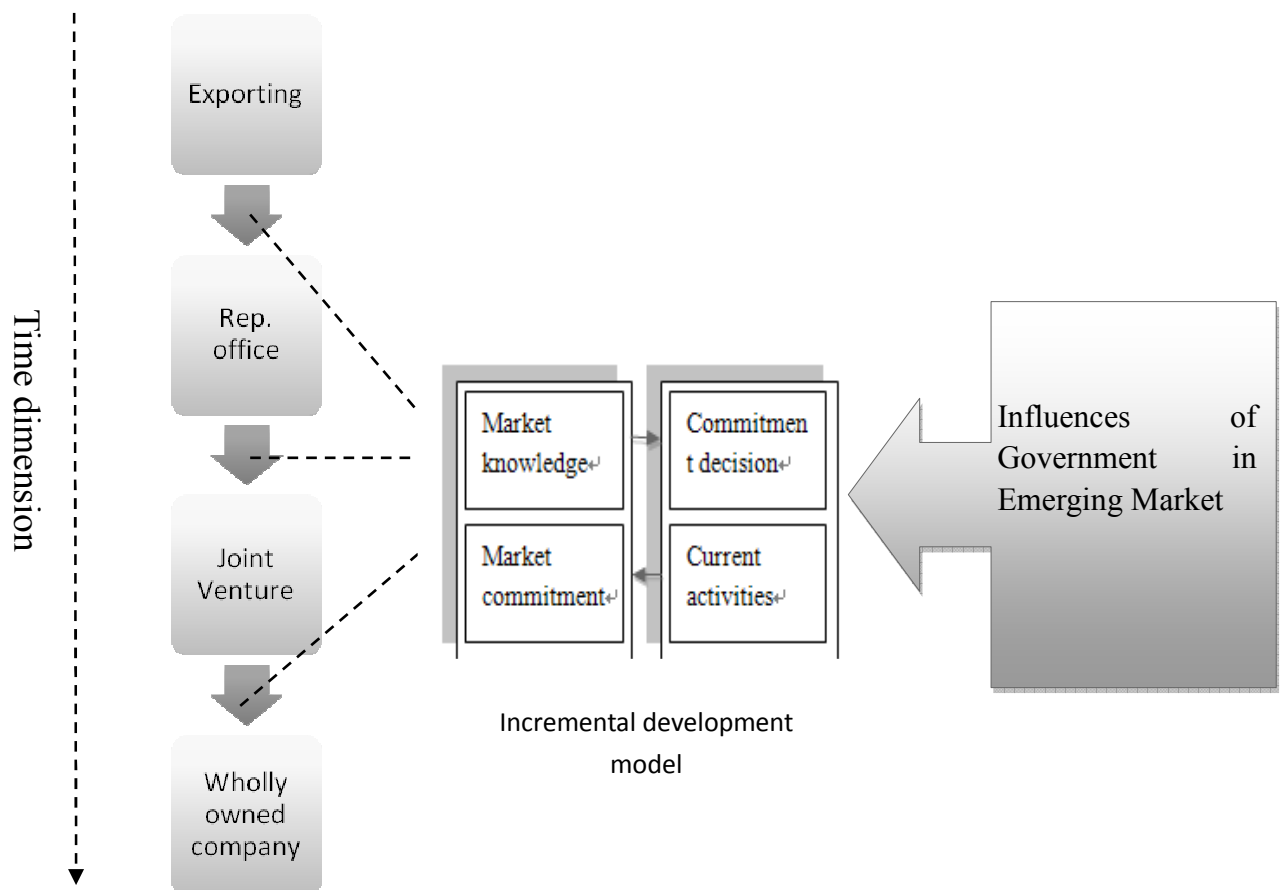


Fig. 7: Conceptual framework for development of MNCs in emerging market
(Sources: the authors)

With the combination of Uppsala model and market entry, a company will increase the commitment to the market along the time dimension and the learning process is continuous. At the first stage with limited knowledge of the market the company would have only export activities and then it would establish Rep. Office in the host country to support the export operation (Rep. Office is not an entry mode in the relevant theories but we want to put it here in the case of ABB because it is a significant development step of ABB in China). By those first exporting business, it has learnt more about the market then the representative will be opened indicating that the company will make more commitment of resource to the market. When the company has collected enough knowledge about market, it will make more investment by establishing the joint venture with local partner to enhance its business in the host market. After that, the wholly owned company will be born by the investor when they want to make highest commitment level to the local market with rich knowledge of the market. As a result, the development process of the company is taking place in an incremental way.

Each kind of entry mode has its own role in development process of the company.

Export with representative office helps the firm to start interacting with the local market. Joint venture serves as the bridge of the firm to the local market, it also meets the requirement of the local government because the host government wants to learn know-how from the foreign investor. Wholly owned subsidiary help firm earn more benefit and take strict protection on its key technology.

Besides, in the emerging market, the development process of company is accompanied with features of this market; especially the role of government in emerging market is very significant. The government influence will be our focus.

Chapter4: Research Methodology

4.1 Literature Searching

Books and articles related to our Master International Business course is first priority of us in doing the research such as “Researching and Writing a dissertation” of Colin Fisher (2007) or “The international process of the firm: A model of knowledge development and increasing foreign market commitment” of Johanson and Vahlne (1977). Additionally, we use books from Malardalen University and especially books and articles from Malardalen University websites including Ebrary, Elin@Malardalen, Google Scholar and Samsok. Moreover, information from internet can be consider as a minor source of literature in our work. We have use the searching words such as: MNCs in Emerging Market, Emerging Market China, FDI policy in China, economic transformation in China, doing business in China, Chinese electric power market, government influence on MNCs in China and so forth.

4.2 Research Approach

There are two different approach choices in doing the dissertation: qualitative and quantitative. Qualitative research often involves interviews and observations without formal measurement. The main purpose of this kind of research is to understand the phenomenon studied and describe the situation. Qualitative data consists of descriptions, quotations, observations, and excerpts from documents (Quinn, 2002). In contrast, quantitative research approach uses numerical data and bases on the measurement of quantity and amount or statistic. The features of each research approaches has been shown in Fig.8 bellow:

Qualitative Method	Quantitative Method
Emphasis on understanding	Emphasis on testing and verification
Focus on understanding form respondent's/information's point of view	Focus on facts and/or reasons for social events
Interpretation and rational approach	Logical and critical approach
Observations and measurements in natural settings	Controlled measurement
Subjective 'insider view' and closeness to data	Objective 'outsider view' distant form data
Process oriented	Result oriented
Explorative orientation	Hypothetical-deductive; focus on hypothesis testing
Holistic perspective	Particularistic and analytical
Generalization by comparison of properties and contexts of individual	Generalization by population membership

Fig.8 Differences between qualitative and quantitative methods

(Source: Ghauri and Gronhaug 2005, p. 110)

The qualitative approach would offer better understanding of a given context and underlying motivations, values and attitudes according to Ghauri and Gronhaug (2005, p. 112), our purpose is clarifying the development process of ABB in China market, therefore, we will mostly focus on qualitative method. Nevertheless, in order to make our research more persuasive, we also use quantitative method, such as the amount of capital of ABB, the number of branches and employees.

4.3 The Choice of Topics and Forming the Research Model

The reason why we chosen “how ABB join the emerging market China-entry mode and market expansion” as follow:

- Since ABB has a close connection with Vasteras where our university is located, it has drawn much attention from us. We all know that ABB is a big and multinational Swedish-Swiss company; besides, it has a successful performance in China. So we have intention to use traditional theories including entry mode theory, Uppsala model and emerging market features to investigate the internationalization process of ABB to emerging country China and to make some implications to the other companies which want to enter China.
- During the time studying here, entry mode theory , U model and emerging market features are among core literature of our program therefore we want to use those literatures to learn how it fits with the internationalization of ABB in developing world. By doing this, we can combine the theories we've learnt with the practical economic activities so as to have a better understanding of these theories, therefore, doing this research is also a learning approach.
- Emerging market is a central point of study of economics and business in recent years because of strong development and the largest market in the world. Furthermore, China is a focus among these emerging markets. It has already been the second largest FDI absorbing country. Its fast growth rate has drawn the attention of the MNCs all around world.

After the intensive search for information of ABB and related theories, we come to three sub-questions for the topic of the thesis. We propose here the research process model for the thesis. Fig.9 below shows our research process

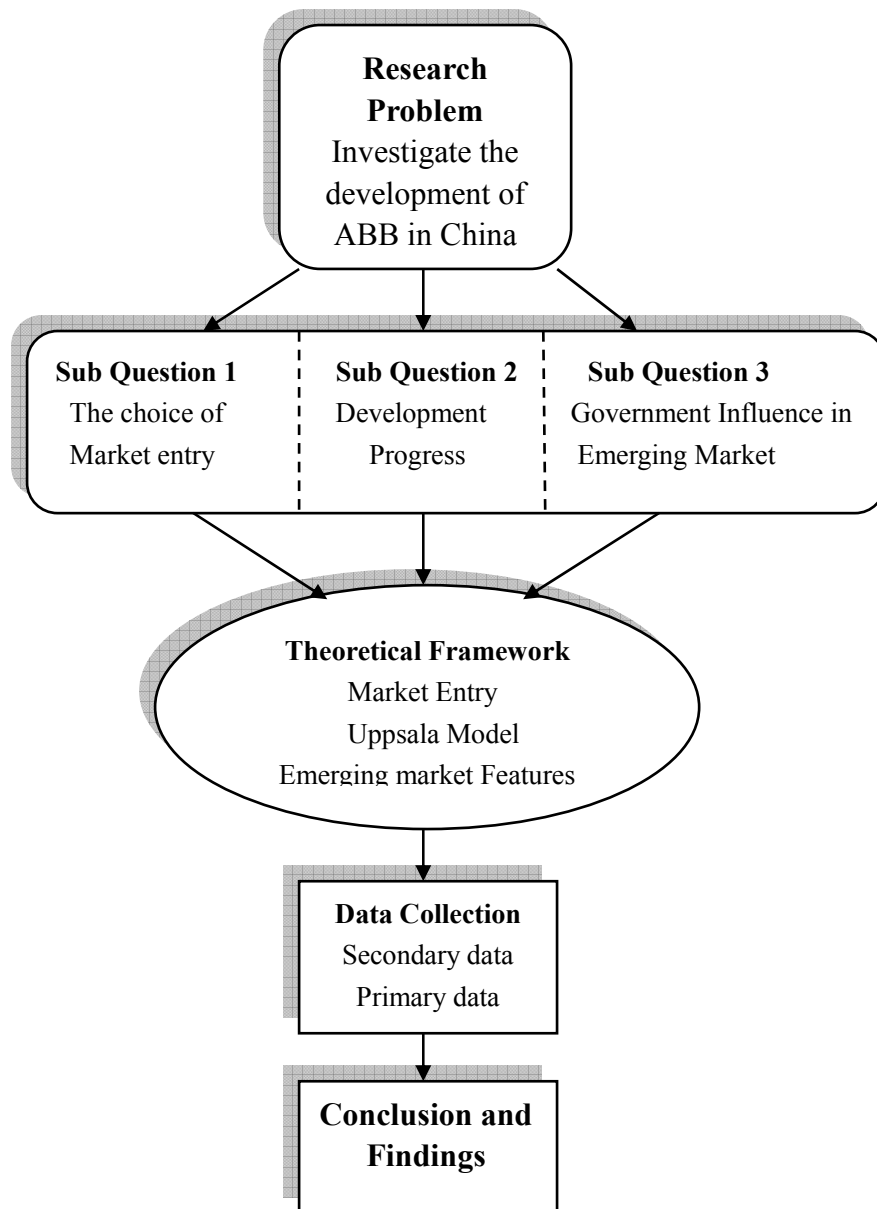


Fig9. Research Process Model
(Source: the authors)

4.4 Methods for Data Collection

Yin (1994) argued that there are six main source of evidence in doing academic research; they are documentation, archival records, interview, direct observation, and participant-observation and physical artifacts.

Fig.10 shows the strength and weakness of the six sources of evidence:

Source of evidence	Strengths	Weaknesses

Documentation	Stable – can be reviewed repeatedly Unobtrusive – not created as a result of the case study Exact – contains exact names, reference and details of an event	Retrievability – can be low Biased selectivity, if collection is incomplete Reporting bias – reflects (unknown) bias of author Access – may be deliberately blocked
Archival records	(Same as above for documentation) precise and quantitative	(Same as above for documentation) accessibility due to privacy reasons
Interviews	Targeted – focuses directly on case study topic Insightful – provides perceived causal inferences	Bias to poorly constructed questions Response bias Inaccuracies due to poor recall Reflexivity – interviewee gives what interviewer wants to hear
Direct observation	Reality – covers events in real time Contextual – covers context of event	Time – consuming Selectivity – event may proceed differently because it is being observed Cost – hours needed by human observers
Physical artifacts	Insightful into culture features Insightful to technical operations	Selectivity Availability

Fig.10 Six sources of evidence: strengths and weaknesses
(Source: Yin, 1994, Case study research design and methods, p.80)

No single source has a complete advantage over all the others. In fact, the various sources are highly complementary, and a good case study will therefore want to use many sources as possible (Yin, 1994, p.80).

Six mentioned sources of evidence could be divided into two categories: primary data and secondary data. Secondary data are the data that may have been collected for a different purpose (Ghuri & Gronhaug 2005, p. 91). Secondary data is easy to access and it would save time and money for researcher but it may not fit the objective of different researches. In contrast with secondary data, primary data are more consistent with the research questions and research objectives as they are collected for the particular project at hand (Ghuri and Gronhaug 2005, p. 102). However, it takes a lot of time and high expense to collect and it also depends on the willingness and ability of interviewer. Therefore, among the six kinds of evidences, interview and

direct-observation is primary data and four remaining sources is secondary data.

So that in our thesis work, we try to use as many sources as we can. We have collected secondary data as well as primary data. Regarding secondary source, we have documentation including announcements, progress reports, newspaper clippings and articles in mass media. We also use archival records such as organization record, maps and charts which have been collected from formal website of ABB and provided by Franklin – Qi Wang, Head of External Communication of ABB China.

Regarding primary data collection, first we had conducted an email-interview with Issabelle Liu, Head of Corporate Communication for ABB China; however, she can only answer our questions in too short and brief form due to her busy working schedule or maybe because of other reason. Luckily, we once again tried to contact with Peter Lennhag, CEO of Asia Pacific Executive Advisor, who has advised ABB in a big project relating to Chinese electricity market, and he went to Stockholm on 4th June for a business trip. Peter agreed to participate in a face-to-face interview with us in one hour. A lot of information from his practical view we have archived during the open-ended interview, he also suggested us some ideas we should add to our thesis work, such as the important of innovation and know-how, but the time is limited and the time for data collection is not enough so that we cannot bring it to our thesis. As a leader of an advising company providing service for many MNCs, Peter's idea is really helpful for us in our data collection process for the thesis. Finally, we only use information we have got from the interview with CEO Peter as the source of primary data.

Quality of Interviewee: Peter Lennhag

Peter Lennhag is President of Asia Pacific Executive Advisors. He has worked and lived in Asia since 1982 and has more than 20 years experience assisting major Asian companies and leading Western multinationals with strategy and organizational development. His focus today is to help multi national companies to build and grow their businesses in China. (ABB 2007 Special report)

4.5 Delimitation

We would like to admit that our investigations have a number of limitations due to the fact that ABB is global giant company, not only the structure of the company but also the operation of ABB are really complicated, therefore, our research work in some way cannot fully describe the development of ABB in China market. We only focus on: 1: explaining the development process of ABB, does it fit with incremental development process of firm described in U model 2: How the choice of entry mode helps ABB when it join China Market 3: The important role of Chinese government in that emerging market, how ABB commits to relation with that government.

Moreover, we cannot carry out any interview with ABB China CEO, if it was possible,

our thesis work would be more persuasive. Therefore, we have only one choice to get contact with one advising company CEO who has consulted ABB when the corporation join China market.

From the interview with CEO Peter Lennhag he also suggested us the importance of innovation and know-how in development process of ABB, but due to limited budget of time and difficulties in accessing information from ABB, we hope that in a near future research we would pay more attention to that matter.

Chapter5: Empirical Data

5.1 *Business Environment in China*

5.1.1 FDI policy in Chinese Emerging Market

Despite many researches on the MNCs performance in the emerging markets have been conducted in the past, a few investigations discuss a given emerging market, especially China. In this study, we will give a full description of the economic environment in Chinese market.

When China enacted the openness policy in 1978, it opens a door for the inflow of FDI. There are three phases of FDI in China:

The first phase is 1978~1985. In the beginning of this period, Chinese government promulgated the JV law and enacted preferential economic policies in four Special Economic Zones (SEZ) in Guangdong and Fujian provinces. Later in 1984, Chinese government opened another fourteen coastal cities to FDI. These policies brought the first boom of FDI in China from 1984 to 1985. However, the first boom ended in 1985 as a result of high inflation and weak legal system about FDI (Luo 2000, p. 4). Although there is the first boom in 1980s, the record documents show the increase speed of FDI is still slowly (Gao 2008, p. 7).

The second phase is from 1986 to1989. It began with the promulgation of the provisions for encouraging FDI in October 1986 and then a series of central and regional lever regulations were enacted to improve the legal environment and to provide solutions to the major problems of FDI. Particularly, in order to encourage FDI in high-tech industries, economic and technical development zones (ETDZ) were set up in all open coastal cities. In these areas, extra tax on the MNCs is canceled (Luo 2000, p. 4). Generally speaking, the policies transformed to be more FDI friendly and the host government aimed at providing a better investment environment than it in the MNC's home country. These policies contributed to a recovery of FDI after 1986 but the boom ended in 1989 due to some political events and changes in economic conditions (Gao 2008, p. 7).

The third phase is from 1990 to date. Several critical events accelerated FDI in China. One event is 1992's "South Talk". "South Talk" ended the debate over whether Chinese market economy should be socialistic or capitalistic. Consequently, many FDI encouraging policies were announced in most provinces. FDI in China has increased from US\$ 4.37 billion in 1991 to US\$ 11.01 billion in 1992, and it even

amounted to US\$ 27.52 billion in 1993. The second event is that China joined WTO in 2001, which lighted up another boom of FDI. During 2000 to 2002, the amount of actually used FDI increased from US\$ 40.72 billion to US\$ 52.74 billion (Gao 2008, p. 7).

Fig.11 shows the FDI inflows trends from 1983 to 2005:

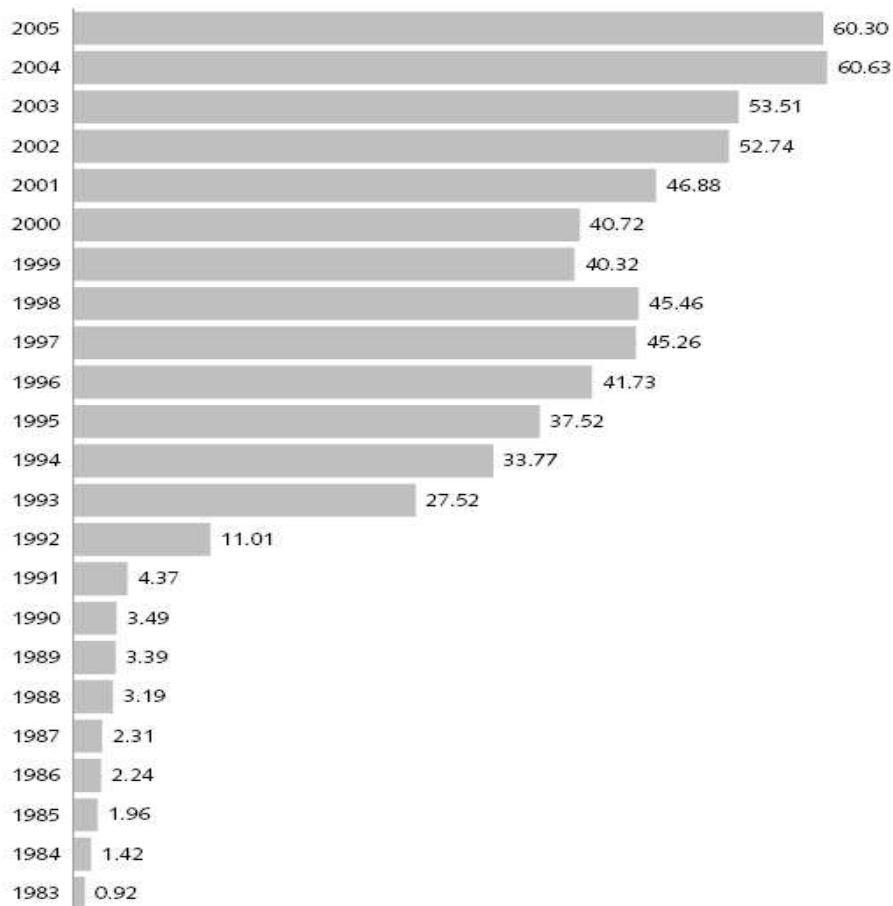


Fig. 11 FDI Inflows into China (in billion US dollars, drawn from Gao 2008, Page8)

5.1.2 The Reforming of Chinese Electric Power Industry

The first reform: since the establishment of P.R. China to 1985, Chinese power resources almost totally owned by state and power industry almost all owned and managed by state-owned enterprise. Government applies central vertical control system to electric power industry. Local government allocates resources directly and intervene electric power enterprises production and management behavior. There is a strict control on the market entering and price system (Chen, 2005).

Through the strict control on market entering, Chinese electric power enterprises

achieved an economic of scale and reduce cost. Therefore, this strict control firstly had a positive effect on electric power industry. However, as the development of Chinese economy and the improvement of people's living standard, there was dramatic increase in the demand of electric power market. The sole state-owned model restricted the other investor's enthusiasm and the lively and effectiveness of Chinese power industry. As a result, Chinese government decided to reduce the monopolistic degree by releasing the market entering control. Government began to encourage the other power enterprises entering Chinese market. This policy attracted lots of private sector and foreign investment and generates competitiveness in electric power industry (Chen, 2005).

The second reform: After 1985, as government released control of market entrance and bring competitiveness into market, there was a relatively balance of the shortage of electric power. However, government still had a strict control on electric power grid. In August of 1998, Chinese government applied Price bid policy. Shanghai, Shandong and Zhejiang are the first test areas; however, the result was disappointed. Since in the monopolistic market, this policy caused a revenue increase of state-owned enterprise but not any interest to consumer (Chen, 2005).

The third reform: China enacted another reform in 2002. The reform aims at separating the power plants with the power grid, bringing in competitiveness into power market system and slowly carrying out the policy of bidding for access to grids, improving power industry administrative system, and setting up a new regulatory system to make sure a favorable environment for fair and rational market competition (Bingren 2005, p. 81~82).

5.1.3 Changing Role for FDI in Power Industry

In the 1980s foreign capital was one of the most important sources of finance for many power plant projects, favored by many local governments. Today, the relative importance of FDI inflow has fallen with respect to the total volume of invested capital. Policy makers in China are expecting a new generation of FDI, combining managerial know-how and state of the art technology, especially for clean coal and renewable energies. The big national power generation groups, controlled by national and regional state agencies, are also looking for strategic foreign investors to help them transform corporate governance, gain international competitive advantages and access certain technologies, e.g. in nuclear sector (Chen, 2005).

For the incumbents, most of whom are large state-owned holdings of power plants. It's the major reason for why electric Power Company should have a close relationship with government (Chen, 2005).

China Electricity Council a state institution coordinated with some giant electricity companies to carry out a survey in 2005. The joint survey team carried out interviews with senior executives of power generation and grid enterprise. 90% of the interviewees believe the governmental relationship is the most decisive factor securing the investment success on the power market in China. A good relationship with the central government may help power enterprises or investors to apply for power investment and construction projects, and also acquire favorable power price and sales contracts (Chen, 2005).

However, there is short-term investment tactics too. Although for power generation companies it is difficult today to sign long-term supply contracts directly with large energy-intensive industrial users, they are allowed under certain circumstances to participate in the building of self-owned power plants for those big industrial customers. These short-term alliances in the form of joint ventures or management service contracts can be developed in a more effective way and used as an interim option for achieving the ultimate goal of a long-term supply contract (Capgemini n.d.).

5.2 ABB in China

5.2.1 ABB performance in China

Since we would like to use our result to make implications for the other MNCs expecting to enter Chinese market, it's necessary to make sure ABB has a successful performance in China. Otherwise, our recommendations will be worthless.

“You can explain that one company success when its growth rate is high, profit is strong, I agree with this point. From my own experience, I also think ABB is a successful company. Because I know the former CEO of ABB before, he is Percy Bamerh. He was the first people who consider China is the important market in future and he put a lot of effort in penetrating China market. He carried out an intensive strategy in order to get high sale target and large-scale of investment in China market. In conclusion, ABB can be considered as a successful company in China market.” (P. Lennhag, 2008, Interview, June 04).

5.2.2 ABB Investment in China

ABB has an organic development in China and the profit keep on increasing each year. Before 2008, ABB achieve 20% incensement in profit each year. In 2004, ABB makes US\$1.084 billion dollars. Fig.12 shows the total investment of ABB in China from 1992 to 2004. (ABB's annual report 2005)

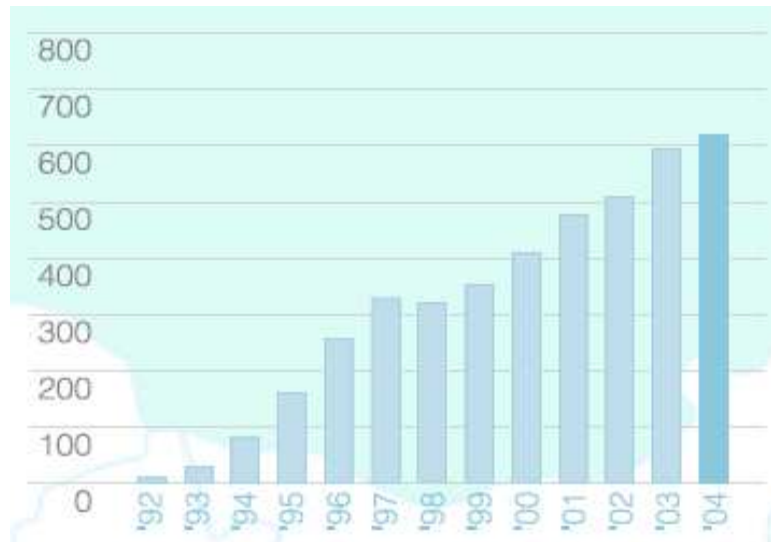


Fig.12 ABB's total investment in China (in US\$ millions)
(Sauce: ABB publication 2005)

5.2.3 History of ABB development in China

- ***Before 1993: First stage, few individual projects in Hong Kong***

The presence of ABB in China was marked by the supply of steam boiler in 1907. However, three quarters of decade passed, the company came back to the country by establishing one office in Hong Kong, in 1974, this time Hong Kong was still under the control of the United Kingdom. Five years later, the permanent office was found in mainland capital of Beijing (ABB n.d.).

In 1992, ABB and China established first joint venture in Xiamen named ABB Switchgear Co., Ltd. producing medium voltage primary switchgears and circuit breakers (ABB n.d.).

- ***1994-1998: Rapid expansion, stepping up direct investment in China by Establishment of JVs and wholly owned subsidiaries.***

1994 is the decisive year of ABB China, the ABB mother company moved its China branch headquarter to Beijing, one year followed, it formally establish ABB China Ltd. The establishment of the headquarter means the company starts offering full

scope of service and support close to customers. Especially, ABB opened Pulp and Paper North East Asia Center in Beijing, it committed to the Chinese pulp and paper industry by transferring its leading edge technology and engineering competence to China. The integration of automation and drive systems solution concept has been widely accepted by the market. ABB has largest installed base in both automation and drives systems for China's pulp and paper industry (ABB n.d.).

Following is the establishments of 5 wholly owned companies and 3 joint ventures with Chinese counterparts.

- ***1998-2003: Consolidation and future expansion, investment in management resource, build-up local sale and distribution channel***

During this period, 5 new companies have been established. The strategic of ABB changed a bit in this time, the company enhanced the management and distribution. At the end of the year 2003, ABB has branches and service office in over major cities in China including Hong Kong offering well-established distribution channel.

Fig. 13 shows the presence of ABB in China territory.



Fig. 13: Presence of ABB distribution network in China territory
(Source: ABB website)

- **2004-future: Sustainable development, effective market penetration**

During the period from 2004 to today, four new joint ventures were established. We can see strong and full commitment of ABB to the China market. The following events end figures show us the full-range investment of ABB to China.

The number of employee increase by more than 100% from 2004 to 2008 from more than 6000 staffs to 12,800 staffs. During the period, the global automation and engineering giant has invested more than US\$100 million in new joint ventures, branches, facilities and R&D. (ABB publications 2008)

Besides, the company has built a number of new production units and has expended existing factories:

- 5-2004: expand operation in Shanghai.

- 11-2005: open high voltage motor factory in Shanghai and expand transformer joint venture in Guangdong.
- 11-2006: expanded joint venture ABB Zhongshan Transformer Co., Ltd in Guangdong
- 12-2007: install new low-voltage production facility in Shanghai.

ABB has moved global Robotic Business headquarter from Europe in September 2005, the robot center started operating in April 2006. In October 2005, ABB launched first customer product in China, which is wiring electrical accessories. A R&D center opened in 2005, it is a drive for local innovation for Chinese customers. (ABB Publications 2007)

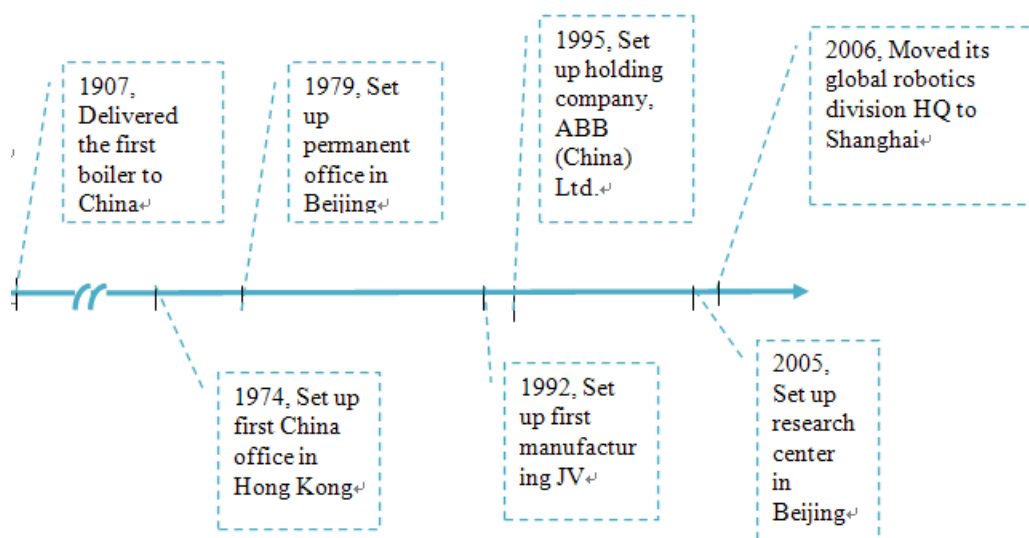


Fig. 14 Incremental development process of ABB in China
(Source: ABB China 100 years report)

5.2.4 Choice of Entry mode

- ***From exporter to permanent office:***

From 1907 – 1992 the presence of ABB in China is the export of steam boiler, the establishment of first office in Hong Kong and the permanent office in Beijing. (ABB Publications 2007)

- ***Joint venture***

The first joint venture of the company was established in 1992, it is ABB Xiamen Switchgear Co., Ltd.. Later on, 7 of joint ventures had been formed, they are:

- ABB LV Installation Materials Co.,Ltd. Beijing (1994)
- ABB High Voltage Switchgear Co. Ltd. Beijing (1995)
- ABB Xinhui Low Voltage Switchgear Company Limited (1995)
- ABB Xi'an High Power Rectifier Co., Ltd with Xi'an Power Rectifier Company
- ABB Tuborcharger with Jiangjin Turbocharger Plant Company
- ABB Datong Traction Transformers Co., Ltd. with Datong Electric Locomotive Company
- ABB Tellhow Generators Ltd., with Tellhow Sci-Tech Company
(ABB publications 2008)

From available information for ABB's website and using Internet searching engine we have found information of 5 among the 8 joint ventures:

- Partner in ABB Beijing High Voltage Switchgear Co. Ltd., Jingcheng Machinery Electric Holding is a large- scaled state-owned company authorized by Beijing government,
- Partner in ABB Xi'an high Power Rectifier Co., Ltd., Xi'an high Power Rectifier Co., Ltd. is a state-owned company which has over 50 years history, the company was one of the key 156 programs during establishment of PR China and performed as one of the propellants of Chinese industry
- Partner in ABB Datong Traction Transformers Co., Ltd., DELC was established in 1954. It is the first class large-scaled state-owned enterprise, and the major Chinese Railway Electric Engine R&D and Manufacture center.
- Partner in ABB Jiangjin Turbo Systems Company Limited, Jiangjin Turbocharger Plant is an old state-owned company which has 40 years history. In these 40 years, it has got many national and provincial credits, and has been honored by government department many times. It was cited as "the advanced unit of National Spirit and Civilization Construction" in September, 1999 and "the best civilized department" of the municipality of Chongqing
- Partner in ABB Tellhow Generators Ltd., Tellhow Sci-Tech Limited is one of the most important high technical enterprises under National Torch Plan approved by the Science & Technology Ministry and one of the 520 enterprises announced for the first time that "Abiding by the Contract and Keeping Promise" appraised by State Administration of Industry and Commerce.

Idea of ABB advisor, CEO Peter Lennhag:

It is a common way for many MNCs to join China market cause joint venture of ABB with local partner support ABB in creating relation with local customers. However, joint venture also can create risks to the investor because after the transfer of technology from MNCs to its local partner, the partner with the support from government might beat the MNCs in the market. In case of ABB, the company does not face this risk because they protect their technology well and they can control it strictly in wholly owned subsidiaries.

Big contracts with Chinese government that ABB wins:

- US\$440 million order to supply ultrahigh-voltage technology for world longest power transmission link (2007)
- US\$390 million to build a key power link from central China (Three Gorges hydropower plant) to coastal city of Shanghai (2004).
- US\$360 million order to build a high-voltages direct current power transmission system linking hydropower plants in central China to Guangdong prvince (2001)
- US\$60 million order to supply a equipments for Three Gorges dam project of China government. (2004)
- US\$33 million order to provide equipment for energy projects in Shenzhen and Guangzhou provinces (2006)
- US\$18 million project to supply medium-voltage as insulated switchgear for metro lines in Shenzhen and Guangzhou provinces.

(Source: ABB formal website www.abb.com.cn)

- ***Wholly Owned Company***

The operation of wholly owned companies of ABB in China marked with the establishments of ABB Headquarter in Beijing in 1994 and ABB Shanghai Transformer and Beijing Drive Systems, from 1994 to 2007 is the wholly owned companies' establishment offering full-range of ABB products and services.

Automation products:

- ABB Chongqing Transformer Company Limited
- ABB Hefei Transformer Company Limited
- ABB High Voltage Switchgear Company Limited, Beijing
- ABB Shanghai Transformer Company Limited
- ABB Xi'an Power Capacitor Company Limited
- ABB Xiamen Electrical Controlgear Company Limited
- ABB Transmission and Distribution Automation Equipment (Xiamen) Co., Ltd.
- ABB Zhongshan Transformer Company Limited

Power system

- ABB Bailey Beijing Controls Company Limited
- ABB Engineering (Shanghai) Limited

Automation products

- ABB Beijing Drive Systems Company Limited

- ABB Electrical Machines Ltd
- ABB Engineering (Shanghai) Ltd.
- ABB Shanghai Motors Company Limited
- ABB Xiamen Low Voltage Equipment Company Limited

Process Automation

- ABB Jiangjin Turbo Systems Co., Ltd

Robotics

- ABB Engineering (Shanghai) Ltd.
(ABB Publications 2008)

Ideas of ABB advisor, CEO Peter Lennhag:

It's lucky for ABB that ABB can establish its wholly owned subsidiaries. In other industry, such as automobile, if investors want to do business in China, they must find a local partner and establish joint venture to do business. ABB can strictly protect its core technology and can earn 100% benefit (P. Lennhag, 2008, Interview, June 04).

5.3 ABB's relationship establishment with Chinese government

5.3.1 ABB responsive to social needs

ABB always show a great enthusiasm to involve itself in the fulfillment of social needs. In many publications of the company we can find one of ABB's Slogans is "Sharing social responsibilities for sustainable development." (ABB China's Annual Report 2007). It thus can be seen that ABB put much emphasis on the social responsibilities.

In the interview with Peter Lennhag, he talked about his idea about the importance of social responsibility for ABB. "In my point of view, commitment to social needs is very common activities of MNCs. Absolutely, it helps ABB build up its brand image and it shows the strong commitment of ABB to China. To sum up, I want to tell you that ABB success in China it has to differentiate and has unique and high value product so that R&D is really important. Also, the policy of environment friendly is a strong advantage of ABB." (P. Lennhag, 2008, Interview, June 04).

- *Donation to local charity*

ABB Company is always enthusiastic to donate in disasters. It includes donating 1 million RMB to Beijing Municipal Government during SARS strike China in 2003 and the donation to China Foundation for Poverty Alleviation in order to help the needy victims in the snow-stricken regions of China in 2008. In the earth quake happened recently (May, 2008), ABB donated 1.4 million US dollars to the Red Cross to help the victims in Sichuan Province. In 2007, ABB launched a senior citizens caring project in Shanghai to help the aged people. ABB also donates more than one million Euros to Special Olympics. (ABB n.d.)

- ***Training and Employment of Local Talents***

From 1998 to 2004, ABB's Chinese staffs increased by 500 ~1000 each year. In 2004, ABB employed 1000 more Chinese people and the total amount of Chinese staffs up to 8000. At present, 99% of ABB employees come from China (ABB China's annual report 2004).

To increase the loyalty of employees, training of local talents is an essential tool for ABB. ABB's target is to provide 40 hours training for every employee. In 2004, ABB brought in a new performance evaluation system to evaluate each employee's achievement. One distinctive characteristic of ABB's training system is designing different training schedule for different people. Moreover, each year ABB will send employees to Shanghai and Middle European International Business College to study, offer advanced lever English training for managers, and provide 18 months top management training program for graduates (ABB China's annual report 2004).

- ***Contribution to Chinese Education***

During the operation in China, ABB contribute a lot to Chinese education. In May, 2005, ABB donated US\$100,000 to impoverished engineering students throughout China. In July, 2006, ABB donated US\$125000 to the New Great Wall Project run by the China Foundation for Poverty Alleviation (CFPA). The aim of this project is to help the college students who have the economic problems to finish their college education. In September of the same year, ABB donated another US\$20000 to CFPA to support a grade school in Xinzhou County in North China's Shanxi Province. In October of this year, ABB awarded 2006 ABB scholarship to the students of Xiamen University of Technology and also donated technical books and training equipment to the university. ABB sign a contract with the university and agreed to donate US\$20000 each year to the top students of electrical and mechanical engineering department. The money is also used to help the excellent students who have financial problems (ABB n.d.).

- ***Pollution Control***

ABB North Asia Region's president Brice Koch said "To continue and expand our win-win partnership in the next century, ABB is fully ready to play a stronger role in raising energy efficiency and avoiding negative impact for environment. ABB is ready to promote its belief 'the greenest energy is energy saved' together with its local customers and suppliers." (ABB China's annual report, 2007)

- ***Research Funding***

ABB Company has established many corporation research centers with famous Chinese universities, such as the top university of China-Tsinghua University, the best engineering university-Tianjing University and North China Electric Power University. The projects mainly investigate the high voltage technology, system control and dynamic characteristics of the electric power system. ABB contribute the main investigation fund (ABB n.d)..

5.3.2 Government Relations

"That's the one truth in emerging market China, Chinese communist government has strong role in the economy, and it takes control some industries therefore investors in those kinds of industries will be under the influence of Chinese government. However, relations with the government in recent 10 or 15 years have weaker effect in business because Chinese economy is on the way to market mechanism, therefore, guan xi become less important, company would find their best suppliers or customers base on price, quality of the product, not really depends on relationship with some special suppliers or customers." (P. Lennhag, 2008, Interview, June 04).

"There are two aspects here. Firstly, the government needs investments of MNC to develop their economy and learn technology from MNC so that they also want to build up strong relationship with MNC, in regional scale, provincial governors want to invite MNC to invest in their province so that there is a competition between provinces in acquiring investment of MNC, so that provincial governors also want to build relation with MNC. Secondly, state and provincial governments are customers of MNC so that MNC need to build strong relation with them in order to do business and also to receive privileges from them such as tax, land and resources. In case of ABB, I think both factors are correct and I see ABB is very successful in creating close relation with Chinese government." (P. Lennhag, 2008, Interview, June 04).

Many central government officials visited ABB including Chinese present president Hu Jintao and former president Jiang Zeming. During the visit to Chongqing ABB in July, 2007, President Hu Jintao warmly shook hands with ABB's workers and engineers and show kind care about the ABB Company's salary and working environment. In January, 2008, central government commissar Zhang Dejiang once visited ABB Chongqing accompanied by Chongqing city commissar Pu Xilai and

Chongqing mayor Wang Hongju. Commissar Zhang bestowed his highest honor upon the performance of ABB and show great considerate about its future development (ABB n.d.).

5.3.3 Technology Transfer and Protection

As a technology leading company, technology transfer is a critical element for ABB. We have found plenty of information about technology transfer of ABB to China and some comments of ABB's top managers about it.

For the host country, joint venture is a critical way to absorb the technology from the foreign firms. ABB make a huge technology commitment to the host country by establishing JVs with the local firms. On October 31, 2006, ABB signed a contract with Tellhow Sci-Tech Ltd (a Chinese State-owned Company) to set up a joint venture. ABB and Tellhow have invested around US\$10 million to set up this JV. The new JV will produce Low-Voltage generators for ship and auxiliary power emergency generator sets. ABB promises to transfer its world leading technology into Chinese Low-Voltage market. In November 10, 2006, ABB built up another JV in Guangdong province. Chairman and president of ABB China Peter Leupp said "It is also to further our strong commitment to Guangdong, in terms of investment and technology transfer" (ABB n.d.).

ABB North Asia Region's president Brice Koch said "China stresses the importance of its domestic independent innovation ability. For international brand like ABB, we will continue our effort in localizing our R&D and technological innovation, and developing local talent, so as to make our China local companies competitive also in international market. That's ABB China's strategy, and also our commitment to China." (ABB n.d.)

However, ABB also think of preventing the leakage of the core technology. "Regarding the technology control, the joint venture with host government partner might create risks to them. Because doing business in joint venture mode, MNC will have to transfer technology to its partner, after the partner learns the know-how, it with the strong support of local government will expend its own business and acquire whole the market, the MNC will gradually lose in competition. In ABB case, however, they don't face this risk, because they protect their technology well and they can control it strictly in wholly owned subsidiaries." (P. Lennhag, 2008, Interview, June 04).

"I want to stress one point that when the company establish R&D center in local market, it means the localization is strong and the research center show the high

commitment of the company to that market, it would secure for long-term development of the company in that market.” (P. Lennhag, 2008, Interview, June 04).

5.3.4 Mutual Assimilation of Goals

Energy efficiency is an urgent problem of China. In the fastest growing economy, energy wasting is in a serious situation. Chinese 11th five-year plan emphasizes on the importance of energy efficiency and building a resource-efficient society in China. ABB has committed itself to helping China to achieve its goal of energy efficiency and environment sustainability. By continuing to introduce high energy efficiency products, ABB keeps on cooperating with Chinese agenda (ABB’s annual report 2007).

Chapter6 Analysis

6.1 Entry Mode

6.1.1 Export and Representative Office

In the first phase from 1907 to 1979, the interaction between ABB and China is just the export of some equipment of Swiss company to China. This time even ABB has not been here because the two parents company was not emerged. Moreover, the market condition is really difficult to access because China in this time was still a communist centrally planned economy, the access to the market that time is impossible. The country just started the open policy in 1978, the FDI flow started being considered as the support for development of the country.

So that the choice of export and only representative office in Hong Kong was made in this period a nearby territory and had much more open economy than main land China because this time was still under the control of the United Kingdom.

6.1.2 Joint Venture

The joint venture can be used to overcome market barriers in a foreign country. In case of ABB, we can see the huge benefit it has enjoyed from the joint venture with local partner.

Huge projects of ABB with Chinese government are the evidences for the benefit of the joint venture between ABB and its Chinese partners.

In those projects the involvement of ABB joint ventures is decisive element because of following reasons: ABB and its partners, state owned companies, in joint ventures will together share benefit in the projects, the participation of state owned companies in governmental project would help China to supervise and take control in the electric and energy industry which is still under the monopoly control of Chinese government. So that the joint venture entry mode plays vital role in business operation of ABB in China.

In the interview with CEO Peter we also asked him about the importance of joint venture in operation profile of ABB China, he told us that the role joint ventures of the company is quite crucial and sometimes it is a pre-condition for any MNCs who want to join China market. Chinese government is a major customer of ABB, partner of ABB in joint venture is state-owned enterprises so that absolutely ABB's local partner will serve as the bridge between ABB and China government.

Moreover, the joint venture help MNEs gain access to, or secure at a low cost, locally scarce production factors such as labor force, capital, or land (Luo 2002). ABB has now more than 12,000 workers and 99% of them are Chinese, over 90% of ABB's business in China are carried out with locally-originated product and services, the branches and office of the firm has dispersed in 38 main cities in China. (ABB.com, 2008). So we can conclude that the access to labor force and land of ABB absolutely become easier via the relationship of Chinese partners in the joint ventures of the firm.

Furthermore, a partnership with a local firm with superior marketing competence enables a foreign company to quickly establish its market position, organizational image, and product reputation in emerging markets. This also helps the foreign company increase profitability, reduce uncertainty, and boost its competitive edge in the host country (Luo, Yadong, 2002). In the period from 1998-2003, ABB focused on building the distribution network in Chinese territory, this time the role of partners in joint venture is critical to the expansion of delivery network, all local partners in joint ventures of ABB are high reputation state companies, among top company in China in scale and key state owned companies in the areas of electricity and engineer.

Sharing business operation with such kind of company, ABB can quickly establish relationship with local suppliers and customers as well as market position and a strong image in the business network.

6.1.3 Wholly Owned Company

ABB choose highest commitment to foreign market since 1994 two years after the formation of the first joint venture.

The first important reason for ABB to establish number of wholly owned the highest commitment entry is the potential of large-scale market China. According to the 2005 ABB China report, China is the most potential one for the company in the long run due to the scale and energy consumption with 1.3 billion consumers, 2nd biggest purchasing power and strong economic growth for nearly 20 years (around 10% of GDP growth rate). From the viewpoint of Hill Charles (2007) establishing a wholly owned subsidiary gives the firm a 100 percent share in the profit generated in a

foreign market. So that, the firm absolutely expand its operation by establishing a number of wholly owned units in order to get benefit from the prosperous market of China.

When a firm's competitive advantage is based on technological competence, a wholly owned subsidiary will often be the preferred entry mode because it reduces the risk of losing control over that competence (Hill 2007). In the case of ABB, the core competitive advantage of the firm is technology as the corporation regards the fundamental strategy as keeping the leading position in technology. ABB is the founder of a series of new technologies, those are important innovations of the corporation. CEO Peter also suggested the important role of wholly owned subsidiaries of ABB in protecting technology. He also argued that in a wholly owned company, ABB can earn benefit itself without sharing with Chinese local partners.

6.2 Development Progress

The development process of ABB in China could be divided into four stages: preparation, entry, expansion and market penetration.

6.2.1 Preparation Stage

Since in this stage, ABB lacks market knowledge such as the local culture, political environment; market environment survey is essential for ABB in this period.

Due to lacking market experience and confidence, ABB established a representative office in Hong Kong in 1974, ABB devoted great effort to information gathering, risk assessing, relationship establishing with the local partners and obtaining Chinese government support. Therefore, the representative office in Hong Kong acted as a window for ABB's expansion into the Chinese market and also served as a distribution center and a bridge to build up networks with Chinese mainland companies. Then in 1974, ABB opened its first permanent office in Beijing. It's a further step of ABB to build relationships and gather market information of the mainland. Knowledge and experience accumulation is a critical mission in the preparation stage.

6.2.2 Entry Stage

Although ABB has gained market information through the representative office, it still lacked operational experience in the Chinese market. Therefore, in 1992, ABB set up its first manufacturing JV with a big state-owned company which has plenty of management experience and is familiar with the Chinese business environment and characteristics in Xiamen.

This development style is consistent with the Swedish firms' typical development progress

claimed by Johanson & Vahlne (1977), first began their international operations in small steps rather than large scale investment within a short time. Typically, firms start exporting through a representative agent or sales subsidiary then began production in the local country.

6.2.3 Expansion Stage

From 1994-1998 is the rapid development phase of ABB in China due to two main reasons. Firstly, the high growth rate of development leads to high demand in emerging market of China. Secondly, the current business activities of ABB pushed up its knowledge of the China market so that the company committed higher level of commitment by installing a series of new joint venture and wholly owned companies. Regarding amount investment and employee number, they increased from nearly US\$100 million to around US\$320 million and the amount of ABB people in China expanded from nearly 2,000 to around 5,000

In the latter development, from 1998-2003, further level of commitment had been made. ABB established more 5 wholly owned companies. It built a strong network of distribution in over 30 major cities of China. The capital investment rose from more than US\$320 million to 600 million while the number of employee upped from nearly 5,000 to around 7,800.

6.2.4 Market Penetration Stage

Successfully building up an intensive distribution networks and brand recognition in China, ABB has an advanced market position to strengthen its market performance. With over ten year's market experience in China, ABB started up its market penetration into China.

In the latest phase from 2004 – currently, ABB promote stronger commitment, the two most significant movements are opening of the R&D center in Beijing in 2005 and the movement of ABB robotics into Shanghai in 2006. These developments indicated that ABB fully committed to the emerging market of China. In addition, 4 more joint ventures have been established. Capital investment has increased to US\$800 million while number of employee has exceeded over 13,000 (ABB.com, 2008).

From the above analysis of four development stages of ABB, it's obvious that the internationalization or market expansion of ABB into China is a sequential progress of incremental development. With the accumulation of market knowledge and experience, ABB has a successive market investment into China. Overall, the development of ABB is incremental with step-by-step increase in commitment. In conclusion, the development of ABB fit in Uppsala model quite well.

6.3 Relationship with Government

In China, despite of the government influence on economy has declined due to Chinese economy is on the way to market mechanism in recent 10 or 15 years. Government intervene is still relative severe than the developed nations, the political risk would be a major influence of the choice of strategies of international investors. So establishing a close relationship with the local government is a central consideration of ABB.

In high technology industry, MNCs and government should develop a partner relationship since the later could create a harmonized political environment for MNCs and the former would be an essential assert for the host government through technology transfer. This mutual dependent will enhance the relationship bond and make sure a long term commitment (Luo 2002, p. 73).

From the data we've collected, it's easy to find out during operation in China, ABB emphasize four strategies to maintain a strong partner relationship with local government: responsive to social needs, building up relationship with government officials, technology transfer and mutual assimilation of goals.

6.3.1 Responsive to social needs:

To cultivate a healthy partner relationship with host government, MNCs attach importance to social accommodation. It means MNC adapt itself to the social environment, take on social responsibilities and dedicative to social needs (Luo 2002, p. 73). With regard to response to social needs, ABB contribute itself mainly in donation to local charity, training and employment of local talents, supporting Chinese education, pollution control and research funding. By doing this, MNCs reduce liability of foreignness perceived by officials and build up credibility and legitimacy perceived by the public.

The training and employment of local talents represent a reciprocal partner relationship between ABB and Chinese government. On the one hand, by training and employment local talents, ABB can improve its operational efficiency and lower the employment cost. On the other hand, by absorbing the leading management skills, the local managers can gain experience and improve productivity.

ABB's success implies that the more commitment to social need, the more likely to maintain a closely relationship with the government authorities.

6.3.2 Building up relationship with government departments and officials

ABB has built a strong relationship with both central government and regional government officials. This is a critical strategy for ABB to create a favorable development environment since Chinese central or regional government officials still have a strong power to allocate resources, approve projects despite of reforms. Although many new economic constitutions and laws have been enacted, the implement is still not completely carried out. Personal ties with government officials are thus as significant as the legal regulations. Furthermore, since the harmonious personal ties will expand to inter-organizational relations. Connections with the government officials will strengthen the relation with government.

6.3.3 Technology transfer

From the information we've found, it's obvious that ABB's put great attention on technology transfer to China. From entry period to present operating in China, ABB is always trying to bring in the latest technology into China and performing as a technology leader in the host country. With this strategy, ABB has successfully integrated its leading technology to its local production and commercialized it in the local market and possessed a strong market share in Chinese electric industry.

The reason for the positive relationship between the degree of technology transfer and the cooperative between ABB and Chinese government is that emerging countries have a strong demand of leading technology; When a MNC provides complementary resources (high technology) to the local market, there will be an increase in corporation and decrease in competition between the government and the MNC. Here we list the reasons in details below:

Firstly, these complementarities are a basic foundation of long-term relations between the firms and government, since it creates a reliance of government on the MNC and this reliance will motivate the government more committed to, and better cooperates with the MNC. Secondly, sharing the valuable resources which is strong demanded by the local market is essential for MNC's successful coordination with the government of the emerging market. Most demanded resource is the leading technology because of the emerging region's technique still lags behind and Chinese government tries to transform the labor intensive economy to the technique intensive economy (Luo 2002, p. 94).

6.3.4 Mutual assimilation of goals

ABB has committed itself to helping China to achieve its goal of energy efficiency and environment sustainability. By continuing to introduce high energy efficiency products, ABB keeps on cooperating with Chinese agenda (ABB's annual report 2007).

ABB tries to assist Chinese government fulfill its goals because of when there is a congruent goal of MNC and government, the MNC's perceived uncertainty from the government behaviors is going to decline since government and MNC should cooperate with each other to achieve the common goal.

Chapter7: Conclusion and Recommendation

7.1 Conclusion

7.1.1 Entry Mode of ABB into Chinese emerging market

ABB has applied four types of entry mode into Chinese market, respectively, export, Rep. Office, JV and Wholly owned subsidiary.

At initial entry stage, because of the immature FDI policies, shortage of market experience and Chinese communist central economy, Rep. Office and exporting modes are adopted when ABB began to enter China.

We have found that JV is an essential entry mode of ABB for several reasons: firstly, JV can be used to overcome market barriers in China; secondly, almost all ABB's JVs' partners are state-owned companies (SOC) with strong position in the Chinese market. Chinese government has a strong support for these SOCs, both in finance and policy. These benefits can be enjoyed both by ABB and its partners; Thirdly, ABB's local partner will serve as the bridge between ABB and China government and also a media for ABB to build networks with local suppliers and customers; Moreover, JV can help ABB gain access to lower cost and locally scarce production factors; Furthermore, a partnership with a local firm with superior marketing competence enables ABB to quickly establish its market position, organizational image and reputation in China.

Wholly owned subsidiary is also a critical entry mode for ABB since it reduces the risk of losing control over its core competence.

7.1.2 Development Progress

The development process of ABB in China could be divided into four stages: preparation, entry, expansion and market penetration. In these four development stages, ABB applies a sequential progress of incremental development. With the accumulation of market knowledge and experience, ABB has a successive market investment into China. The overall development trend of ABB is incremental with step-by-step commitment increase. In conclusion, the development of ABB fit in U model quite well.

7.1.3 Relationship with Government

Since the government intervene is relative severe in Chinese emerging market, establishing a close relationship with the local government is essential for ABB. There is a partner relationship between ABB and Chinese government. During operation in China, ABB emphasizes four strategies to maintain a strong partner relationship with Chinese government: responsive to social needs, building up relationship with government officials, technology transfer and mutual assimilation of goals.

7.2 Recommendation

We have two main suggestions:

Firstly, the development process of ABB in China could be considered as a reference for MNCs involving in manufacturing industry whose major customer is Chinese government and doing business in the industry that is tightly controlled by the government. When it penetrate the market, it would be a rational choice to divide the process into four stages: preparation, entry, expansion and market penetration and increase their commitment in an incremental way according to their market knowledge and experience accumulation. With regard to the relationship establishment with Chinese government they should put more attention in four aspects, which are the ABB's focuses, responsive to social needs, building up relationship with government officials, technology transfer and mutual assimilation of goals. The MNCs should act in a corporative way and keep a strong partner relationship when it interacts with Chinese government.

Secondly, in a further research, the importance of innovation and know-how of a MNC should be taken into consideration.

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APPENDIX

Interview

Interviewer: Peter Lennhag, CEO of Asia Pacific Advisor of ABB

Time and date: 18-19h on Wednesday 04 June, 2008

1/ From the information we have collected from performance report of ABB, we have found that benefit and growth rate of company is quite high so that we come to conclude that ABB is successful in doing business in China. Do you agree with us in this point and from your practical view could you give us some comment on the performance of ABB.

Answer in brief:

You can explain that one company success when its growth rate is high, profit is strong, I agree with this point. From my own experience, I also think ABB is a successful company. Because I know the former CEO of ABB before, he is Percy Barnevik. He was first people who consider China is the important market in future and he put a lot of effort in penetrating China market. He carried out an intensive

strategy in order to get high sale target and large-scale of investment in China market.

In conclusion, ABB can be considered a successful company in China market.

2/ In China market, we find that after phrase of development 1907 – 1993 with few activities. ABB has to choose joint venture before it can establish wholly owned subsidiaries. Could you explain why ABB developed like that?

You can see that not only ABB does like that in China market or in any other emerging market. Sometimes, they do not allow establishing wholly owned company due to restriction of the government. Sometimes, they need to find a local partner and the partner will act as a bridge to the market and help the MNC to overcome the barrier to the market. In my point of view, its lucky for ABB because the company can establish the wholly owned subsidiaries in China. In many other industries such as automobile, when the investor wants to join China, government requires them to build a joint venture with one state-owned company.

Regarding the technology control, the joint venture with host government partner might create risks to them. Because doing business in joint venture mode, MNC will have to transfer technology to its partner, after the partner learns the know-how, it with the strong support of local government will expend its own business and acquire whole the market, the MNC will gradually lose in competition.

In ABB case, however, they don't face this risk, because they protect their technology well and they can control it strictly in wholly owned subsidiaries.

I want to stress one point that when the company establish R&D center in local market, it means the localization is strong and the research center show the high commitment of the company to that market, it would secure for long-term development of the company in that market.

3/ One of the features of emerging market is the strong role of government, and in China the role of “guan xi” in doing business. Do you agree with me that those features strongly influence the way MNCs including ABB doing business.

That's the one truth in emerging market China, Chinese communist government has strong role in the economy, and it takes control some industries therefore investors in those kinds of industries will be under the influence of Chinese government. However, guan xi in recent 10 or 15 years has weaker effect in business because Chinese economy is on the way to market mechanism, therefore, guan xi become less important, company would find their best suppliers or customer's base on price, quality of the product, not really depends on relationship with some special suppliers or customers.

4/ We has found that big customers of ABB is Chinese government, so, in relation with government, we find that ABB has strong relationship not only with state government but also regional government, such as some visits of president, prime-minister of China to ABB and leaders of provinces to ABB. Do you think ABB is successful in creating close relation with this big customer?

There are two aspects here. Firstly, the government needs investments of MNC to develop their economy and learn technology from MNC so that they also want to build up strong relationship with MNC, in regional scale, provincial governors want to invite MNC to invest in their province so that there is a competition between provinces in acquiring investment of MNC, so that provincial governors also want to build relation with MNC. Secondly, state and provincial governments are customers of MNC so that MNC need to build strong relation with them in order to do business and also to receive privileges from them such as tax, land and resources. In case of ABB, I think both factors are correct and I see ABB is very successful in creating close relation with Chinese government.

5/ How do you think about commitment of ABB to China society, such as the donation for natural disaster, for elder people and education (scholarship for poor students), is it a strategy of ABB to build relation with China community and its brand image?

In my point of view, its very common activities of MNCs. Absolutely, it helps ABB build up its brand image and it shows the strong commitment of ABB to China.

To sum up, I want to tell you that ABB success in China it has to differentiate and has unique and high value product so that R&D is really important. Also, the policy of environment friendly is a strong advantage of ABB.

Interviewer is CEO of Asia Pacific Executive Advisor, this company has advised for many big MNCs in the world and he use to work for one advising project for ABB, you can find