Abstract

In this paper we look at the internationalization of 31 Norwegian firms in China in the period 1977 to 2003. We find strong support for the stage or Uppsala model as there is a clear trend from low commitment choice of organization (agent and contract relations) at the time of entry to high commitment (joint ventures and wholly owned) over time. Our data also show, however, that more than 40% of the firms choose to stay with non-ownership over time, and that this choice is unrelated to the amount of specific investments. Qualitative comments suggest that these firms have been able to develop strong social ties with their contract partners in China. This story is different from the much more profiled development of entrance to China through joint ventures and gradually shifting to wholly owned (Li, 2001) as well as different from the Uppsala model focusing on formal commitment (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Based on our data we suggest that the stage model should not only involve a strengthening of formal ownership but also an alternative: strengthening of social relations. In addition, we also look at the entrance to China in three different time periods and find some interesting differences in the type of firms that enter in the different periods. The first period (to 1985) is dominated by large manufacturing firms, the second period by a variety of firms seeking specific advantages by combining their resources with the advantages of China as a market (Mathews & Zander, 2007), whereas the third period (after 1997) is dominated by the small service firms following their international clients.

1. Introduction

In this paper we want to explore the internationalization process of small western companies into Emerging Economies, or as in our case Norwegian Firms into China.

From the literature, three dominant ways of understanding the internationalization process in China is suggested. One is simply the "rational" way, represented by the OLI framework, suggesting in simple terms that internationalization will take place if firms based on their own resources see an advantage in a new market, and if so they will select the organization form appropriate for protection of these resources (Dunning, 1977, 1993). This is generally accepted as a "static" model of internationalization (Cheung & Leung, 2007), whereas a more "dynamic" model is represented by the "Stages model or Uppsala model" (Johanson et al., 1977; Johanson et al., 1975). According to this model, the internationalization process is gradual as market commitment is followed by knowledge gains. Cheung and Leung (2007) follow the expansion of service firms in China, and find partial support for this model. A third model that has been presented as one of the most common entrance forms in China has been the IJV (International Joint Venture) (Li, Xin, Tsui, & Hambrick, 1999), particularly because Chinese authorities has encouraged this form of entry to assure technology spillover to its State-Owned Enterprises. This form of entry has been difficult, with high failure rates (Lei, Slocum, & Pitts, 1997; Mudambi & Zahra, 2007; Parkhe, 1993). Four examples of this development is given by some of the largest Norwegian companies, Orkla, Hydro, Kenmore and Skaugen that all have experienced rough times with Joint Venture partners in their early days in China. Through preliminary interviews with these companies we learned that these companies had experienced high financial losses in their early ventures as well as having created fierce competitors.

We know, however, that there are about 140 Norwegian firms that do business with China, and in this paper we attempt to report a broader and more systematic picture than just the one of the larger companies following a JV entrance strategy. Our study is semi-explorative in the sense that instead of testing a narrow model, we set out to identify a broad range of factors, including various open questions. Some of these factors are, however, developed by previous researchers. Our research approach involves many characteristics to be investigated for each firm, thereby sacrificing a larger sample (McGrath, 1982). In this sense we have in McGraths model (page 73) focused more on understanding the context of doing business in China for these firms rather than maximizing precision or generalization of a research model. Our sample is therefore relatively small, 31 respondents, allowing us to do few statistical exercises, but the data gives information that seems to give some interesting insights that can shed some light on traditional theories on internationalization into emergent economies. Some characteristics of our sample accentuate these promises:

First – whereas the four Norwegian companies described in the introduction entered China through JVs, in this sample only 3 firms entered China through JVs, whereas 8 entered through wholly owned structures (in this number is also counting representative offices). As most of our firms entered before 1998, this deviates from Li (2001) arguing that before this date more than 70% of companies with foreign investments were JVs.

Second- 2/3 of our sample firms chose to enter through agents or contracts. Most of the firms have distinct technologies either connected to shipping or manufacturing, and therefore licensing should be a viable alternative for at least some of the firms (Root, 1987) as licensing has been a growing method of international trade (Mottner & Johnson, 2000). This alternative was not, however, used by any of our firms.

Third- about a third of the companies entered China before 1986, a period characterized by political instability and institutional uncertainty (Saich, 2004). These companies were first movers into an emerging economy on the brink of strong economic development, and we think it is interesting to look at their entry and development over the two decades that have passed and compare these early movers to later entrants.

Based on these characteristics of our sample, we can offer some new insight into the internationalization of firms from smaller developed economies into an emerging economy. Our data show that to some extent internalization can be explained by type of activity as export and service firms (with activities in China close to the customer) seem to be stronger correlated with entry through JV or wholly owned, supporting the OLI paradigm. This paradigm cannot, however, explain ownership developments over time or help us understand the lack of links between asset specificity and ownership. We find strong support for the transformation of ownership from low commitment forms of organization to ownership forms, supporting the stages or Uppsala model. We find, however, few examples of moves from JVs to wholly owned. Our data also challenges the stages model in the sense that many of the firms in our sample over time choose *not* to commit to tighter organizational structures, but stay with the agent or the contract relationship. Based on qualitative comments from these relations we get to know many of these low-commitment relations as highly trust based and interpersonal, supporting a different stage development model – not towards more formal involvement, but this involvement instead being social. China is often seen as a high risk context because of weak institutional structures protecting intellectual properties (Yang, 2003), cultural differences and resource challenges (Child, 1994; Child, Boisot, Ireland, Li, & Watts, 1990), and different attitudes to time, contracts and performance (Chen, 2001), with a strong focus on ownership, and even more so management control of daily activities (Walsh, Wang, & Xin, 2001). The findings in this study, where weak ownership control persist over time in an emergent setting as challenging as China, therefore offers an interesting, complementary picture to the most dominant one, painted by the larger firms concerned with ownership control.

2. Literature Review

Emergent Economies can be described as "..low income, rapid growth countries using liberalization as their primary engine of growth" (Hoskisson, Eden, Lau, & Wright, 2000: 249), and Hoskisson et al (2000) define China as belonging to the group of transitional countries, the other group being developing countries mainly from Africa. Emergent economies represent an increasing part of FDI inflows and outflows (Wright, Filatotchev, Hoskisson, & Peng, 2005), but "institutional voids" caused by underdeveloped capital markets, scarcity of skilled labor, lack of reliable market information, and extensive state intervention may make market transactions less effective and create uncertainty (Khanna & Palepu, 1997). China is by many seen as a specific case, because of its sheer size and extreme growth (Shenkar, 2005), and its dominance within manufacturing (Engardio, 2007), and the question about generalizability from one emerging economy to the other prevails (Hoskisson et al., 2000). Although countries differ, emergent firm characteristics like fast growth, institutional uncertainty and a large and unstable state sector prevail in many developing economies and as firms from developed economies entering emergent economies is an important research agenda (Wright et al., 2005), we believe that the knowledge generated in our sample can have interest also for a general discussion on internationalization processes into emergent economies.

Small economies will internationalize earlier than larger economies to gain access to economies of scale (Krugman, 1991; Narula, 1996). To be globally competitive, smaller economies often concentrate their resources in certain niches, or clusters where a concentration of specialized resources and information exchanges may lead to competitive clusters (Porter, 1990; Reve, Lensberg, & Grønhaug, 1992). In their study of the internationalization processes of the largest firms in Denmark, Finland and Norway, Benito, Larimo, Narula and Pedersen (2002) include in their sample the 10 largest firms in each country over a period from 1990 to 1999 and find that Danish firms have a stronger connection to agriculture, Finnish firms to metals, engineering and paper and pulp, and Norwegian firms to petroleum and offshore. Over this period they find that these companies have become international at a significantly higher rate than their home economies, and find that the main drivers for internationalization seem to be operational, rather than strategic, seeking low cost, markets and accessing resources outside their main home markets. Based on this insight we expect firms from smaller countries to be more aggressive internationalizers, driven by a need to gain access to scale economies or resources. This increase in foreign direct investment may also be driven by institutional constraints in the home market, that for Western economies seem to be positively linked to foreign direct investments (Witt & Lewin, 2007). Witt and Lewin (2007) show that Norway is one of the countries with the highest institutional misalignment, hence firms are at a higher rate using FDIs to escape domestic conditions (op.cit.). Whereas Benito et al focused on the large companies and their internationalization, 60% of our firms had less than 250 employees, and it is interesting to see whether these companies follow the same or a similar pattern than larger multinationals. Statistics show that foreign trade and investments have increased in Norway in the period from 1990 to 2000 (World Investment Report 2002 and Norwegian Statistical Yearbook) as total exports from Norway had increased from 32% to nearly 47%, Imports from 26 to 30% and Outward FDI from 9 to 27% (Inward FDI from 11 to 19%).

In this period of internationalization among Norwegian firms the question about where and how to internationalize arises. Based on the OLI framework (Dunning, 1993) the choice of market depends on the competitive advantages of the firm in that market, the resource advantages offered by the market and the ownership advantages tied to the control of core activities. This framework highlights economic factors more than distance between the firm and its potential new market.

Another perspective places more weight on the knowledge of the foreign market, and suggests that markets that are culturally closer will offer more familiar characteristics hence entering these markets involve less uncertainty. Ellis (2006) looked at the relation between market orientation (defined as the understanding of customers needs) and performance, and found that this relation is stronger in large domestic markets than in studies set in small, more trade-dependent economies. He explains this by a handicap caused by distance, where signals from the customers are obfuscated by cultural, political and linguistic filers. In addition, a gradual internalization process will incur learning, hence firms that enter unfamiliar markets will tend to use these experiences to commit gradually. Welch and Luostarinen (1988) suggest for example that the degree of internationalization may be measured and understood in terms of how well the organizational basis for foreign operations is developed. Based on the behavioral theory of the firm (Cyert & March, 1963) and Penrose's (1959) theory of the growth of the firm, Johanson and Vahlne (1977) suggest that market commitment and market knowledge are critical factors in the ability to carry out chosen international activities and that the necessary knowledge can be acquired mainly through operations abroad. Lack of such knowledge is an important obstacle to the development of international operations. They offer a model of the internationalization of the firm, suggesting that the dynamic interactions between market knowledge and commitment decisions and between current activities and market commitment constitute the basic mechanism of internationalization. Without appropriate experience and knowledge, risk and uncertainty becomes high and this influences the choice of foreign operations methods (FOM) in that one does not choose a mode which implies heavy involvement for both money and personnel. These researchers also indicate that control concerns could have an effect on FOM. Without experience and knowledge one has little control over the international operations. This again leads one to choose modes which indicate a high grade of involvement from local partners. With more experience one may shift from low commitment to more high commitment modes (wholly owned subsidiaries).

Looking at the external environment of the firm, the choice of target markets has been subject to several studies. Hallén and Wiedersheim-Paul (1979) define "psychic distance" as a dynamic model based on the following concepts: inter-firm distances, inter-country distances and intra-firm distances. Those factors which inhibit trade between countries are differences in language, education, business practices, culture, and industrial development. There is a basic tendency for firms, particularly in the early stages of internationalization, to approach markets that are psychically closer. As the firm gains more experience and confidence it tends to move on to new markets, even more distant in terms of culture, economic and political environment.

The above presentation represents what we can call the school of **"**process or stage approach**"** to the international area for a firm. A study by Benito and Gripsrud (1992) challenges the process stream on both theoretical and empirical grounds. They focus on the pattern of expansion of foreign direct investment. The data are based on 201 Norwegian firms' foreign direct investments up to 1982. The authors claim, from an economic rationality viewpoint, that the extra cost of operating in a foreign environment is real but that this extra cost does not necessarily prevail over other factors. If a firm wants to take advantage of low labor costs they may have to move a long distance. Location choices are seen as a discrete rational decision in an attempt to optimize control and minimize cost and not as a cultural learning process.

Likewise, Turnbull (1987) claims that a company's stage of internationalization is determined by the operating environment, industry structure, and its own marketing strategy. Both empirical and theoretical evidence contradicts the theory of stages in the internationalization process. He found in his study that also companies with little international sales volume established sales and manufacturing subsidiaries abroad and this was due to strategic reasons regarding market access and market presence. Turnbull concludes his article stating that the stages theory has merit as a framework for classification purposes and not for an understanding of the internationalization process itself.

Cheung and Leung (2007) examined the expansion of advertising MNEs in China and found that many of these firms entered four stages in their internationalization process, supporting the Uppsala model. They question, however, the assumptions behind this development as they found that the rationale for this process was not only knowledge acquisition, but also the scope of operation and sheer business volume.

Both a "rational" approach to internationalization represented by the OLI framework and a "knowledge based" approach based on cultural proximity and internationalization stages are based on an assumption of internationalization after the company has built a platform in its home base. If we look specifically at small and medium sized companies, there has lately been a strong focus on firms that internationalize shortly after their inception, the "born-globals" (Knight & Cavusgil, 1996, 2004; Rennie, 1993). International entrepreneurial SME's internationalizing early can exploit business opportunities that earlier were capitalized by large multinational companies (Knight et al., 1996), used as a springboard to overcome competitive disadvantages (Luo & Tung, 2007). Zhou, Wu and Luo (2007) report from a study in China, where they find that social networks facilitate the internationalization process of born globals.

Buckley (1989) argues that small firms that internationalize have more flexibility than larger firms, but often face two critical problems, capital and managerial time and skills. These problems often make managers have a short investment horizon, and jump on investment opportunities without proper scanning and analysis. He therefore warns that small firms face a large risk when going international because failure is more costly. Because of this risk, lower commitment alternatives to organization, like licensing and joint ventures are favored, although financial problems and lack of international experience may make the JV option difficult. For smaller firms we should therefore expect to find fewer ownership alternatives in their international operations.

3. Research Method

Before we started this particular research project, we interviewed six prominent Norwegian companies that were present in China. All of these companies were interviewed in 2 hour sessions, and tape-recorded. Three of these companies we have also followed through other research projects, and have additional data, like more interviews and observations. These companies qualify as large companies (with more than 500 employees), at least in a Norwegian setting. Four companies are manufacturing companies and two are service firms. The four manufacturing companies entered China in the early 1990ties through JVs with Chinese SOEs (One JV partner was private), experienced very difficult times with their partner, and ended up establishing their own plants after year 2000. All of these companies are global, and see their Chinese plants as a cornerstone supplying their Asian markets. Two of the companies are service firms, belonging to the certification industry. One firm re-entered China (it was present before 1947, and then expelled) in the early 1980ties, through a pro-forma JV, the other firm has up until now had limited activities in China, but is this year opening up their first laboratory in Shanghai. Except for the latter company, that actively uses, and state that they will use even more JVs and alliances, the other companies state that they prefer to be in control of their main activities through full ownership. The development of these companies in China is similar to what is described in other studies (Li, 2001), and follows theoretical predictions from TCE as both cultural and political distance increases partner uncertainty and therefore the need for ownership control (Williamson, 1975, 1991, 1993).

Based on this insight we wanted to understand if this was a typical pattern of internationalization of Norwegian firms in China, and decided to expand our search. We wanted to reach broadly to try to cover many characteristics of the firms and their internationalization process, as we suspected that our 6 firms from the earlier study were not typical exponents of Norwegian firms entering China. We therefore chose to have many different types of questions (number of *m*-factors) that because of time and resource constraints could limit the number of observations (*the n-factors*). We developed a preliminary questionnaire covering questions about the company, the entrance into China, Changes after the entrance, their motivation for being in China, and questions about their Chinese partner concerning governance and trust. We also included open questions allowing the respondents to detail their experiences and their view on the future of the business in China. This questionnaire was tested on colleagues to get professional insight as well as on two companies to get their feedback on the relevance of the questions, following the instructions on questionnaire development suggested by Churchill (1979). We particularly checked for the interpretation of questions and also attitudes towards the length of the questionnaire. Based on these insights we did some minor adjustments, like including a question on whether views represented were from HQ or a Subsidiary. We developed one Norwegian and one English version, and paid a professional translator to translate the Norwegian version to English. We then compared these two versions and found virtually no differences.

Using Innovation Norway’s list of firms dealing with China as a starting point, and web searches as complementary searches, we identified 140 firms as the sampling frame. We hired two master’s students to interview these through telephone. The reason we chose telephone interviews was to save time, but allow probing and the respondents a chance to explain and expand their answers. It may be difficult to get a hold of the person by telephone, and there is also a risk that the respondents cut off the interview (Nachmias & Nachmias, 1981), but despite these risks, we decided that this method was convenient for us to get a bigger sample at the same time that we could have the chance to explain and probe. The firms were contacted by us by mail first, and then the students followed up by calling the company and identifying the responsible person for the activities with China. We decided to do this in two steps, but often the respondents were met during this first call, and it was then convenient to just do the interview during the first call. The students used an electronic system called Confirmit that made recording while talking easy.

The questionnaire was divided into two main parts. In the first part we recorded the characteristics of the firm, their form of entry, their way of organizing activities in China today, their main activities and their scope, their views on institutional conditions, their motivation, and China's importance in their company's total activities. The items to this part were mainly taken from the pilot interviews, and literature on emergent economies (Hoskisson et al., 2000), literature on alliances and entry strategies (Anderson & Gatignon, 1986; Contractor & Lorange, 1988, 2002; Dunning, 1993; Johanson et al., 1977), and literature on intellectual property in China (Yang, 2003), which in most studies on China is claimed to be a particular risk of doing business in China.

The second part was devoted to a description of their main Chinese partner. When the firms reported on their partner, we found that this partner was a customer, an institutional agent (authorities), suppliers or other type of partners. The data revealed that most of these were chosen as partners in China because of reputation and recommendations (2/3), and the other third found their partner because this was the only option or their partner was the largest firm with a superior market access. The questions for this section were mainly governance oriented, focusing on previously researched variables such as trust, asset specificity, maladaption, bonding, negotiation, and contract (Benito & Tomassen, 2003; Bergen, Dutta, & Walker, 1992; David & Han, 2004; Eisenhardt, 1989; Masten, Meehan, & Snyder, 1991; Zaheer & Venkatraman, 1995; Zaheer, 1995). The governance questions were analyzed through factor analysis, and variables computed. Cronbach's alpha is reported in Appendix 1.

The students reported that the respondents felt very comfortable with the questions, and responses confirmed that the questions were all very relevant for these China activities.

Each interview lasted about 30 minutes, and we were able to get data from 31 firms, making a response rate of 22%. This rate is fairly low, and we would of course have liked to have a higher response rate. The students reported that the response rate would have been much higher if we had chosen a postal or e.mail administered study instead of telephone, as many respondents did not have time to set aside 30 minutes for this interview. Some respondents were contacted up till 10 times, and access was overall deemed difficult. Quite a few firms on the list reported that the unit in Norway did not have much contact with China, but that this was done either through HQ located outside Norway or through other subsidiaries. A number of other firms felt that the right person to contact was a representative in China that the students had difficulties to get hold of. Our 6 companies from the qualitative pilot study were not part of our 31 firms. If we add these firms, we are convinced that we through this study have met a good number of firms that run their business with China from Norway, and are very involved with this business on a day-to-day basis. The companies that are less involved either because the unit in China is very autonomous or controlled through other countries are thus underrepresented from our sample. Only 3 companies represented the views of a subsidiary, the rest represented HQ, which underscores the situation of these companies being strongly in charge of their China operations.

4. Data Analysis and Discussion

After Communist take over, China started its international trade already in 1973, after President Nixon visited China and the US lifted their import restrictions. The growth in trade started, however, after 1978, and up to the year 2000, annual international trade increased with around 15%, more than 3 times World Total trade (Lardy, 2002). In 1978 China ranked 32 among the largest trading nations, in 2001, the rank was 4, and China's part of world trade increased from 0,7% in 1978 to 5,1% in 2002 (World Bank 2003). Inward FDI has also increased dramatically from 15 bill dollar annually in the early 1990ties to 53 bill in 2002 (World Bank 2003). Norwegian firms have been a small contributor to this growth, but their investments have followed the general pattern:

Norwegian Outward FDI China (mill. NOK), Invested Capital

	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Total Equity	303	336	382	652	797	612	714
Net loans	17	38	54	180	143	101	173

Table 1: Norwegian Outward FDI China 1998-2004 (Source Norwegian Bureau of Statistics 2007)

Import from China to Norway represented in 2004 about 5% of the import value, but it is interesting to note that between 2001-2004 the import of machinery and telecom increased with 359%. Export to China represented about 2% of the value. Ship and petroleum related activities are, however, not a part of these statistics (Norwegian Bureau of Statistics, 2004). The firms in our sample entered their business activities in the years between 1978 and 2003, hence they were all a part of this continuous “boom” of trade activity taking place in China. All of our firms state that China is representing and has represented a strategically important part of their strategic development.

As our data represent many types of variables, we have chosen to focus particularly on two issues in the presentation: First, we look at the type of entry mode chosen, and the type of organization used today, to say something about the entry process of the firms compared to the organization forms that they chose as more stable forms. Secondly, we can split the sample in 3 related to the time of entry. These three time periods had distinct characteristics in the development of the Chinese economy, and we think that it is interesting to look at possible similarities and differences between entry in these different periods. For each of these issues we start by presenting the data before we link these findings to earlier studies.

Issue 1: The type of entry mode and mode of organization.

Of our 31 companies, 14 entered through an agent, 7 through a contract, 3 through a JV and 8 through a wholly owned entity (3 of these were representative offices). More than 80% of the respondents in each group say that their main motive for entry in China was sales, about a third say their motivation was sourcing whereas only 6 respondents were knowledge motivated.

If we group agent and contract together and look at JV and Wholly owned as one group, we see that about 37% of the firms stating that export is their main activity (19 firms) chose either JV or ownership, the two firms stating that sourcing is their main activity entered China through JVs, whereas the firms that primarily focus on import (9 firms) or production (10 firms) entered in 80% of the cases through an agent or a contract. For production firms, entering through a wholly owned structure could have been illegal, as business licenses in some industries were difficult to obtain, especially before China entered WTO in 2001 (Li, 2001). If we compare import and export activities it seems as if ownership control is more important for export than import which intuitively makes sense as you would want to control the final stages of the product transfer to the customer, and for import activities those take place in the home market.

Of the 18 manufacturing firms 13 (72%) entered through agents or contracts, whereas for the 13 service firms the corresponding number is 7 (53%). Service firms therefore seem to a larger extent to want to have ownership in their entry process than manufacturing firms. If we look at the organization of Service firms today, we can from table 7 (Appendix 1) see that service firms are positively related to ownership – hence whereas manufacturing firms tend to be organized more through alliances, service firms tend to be organized through JVs or through wholly owned structures. Given the specific qualities of service firms (Knight, 1999), it is difficult to standardize services and thus to control quality, ownership options may be one way of doing it (Anderson et al., 1986).

In 2007 9 of the firms state that they use an agent, 6 use contracts, 4 use JVs and 16 use wholly owned structures. This clearly shows a transfer in reliance on agents/contracts (65% at entry) to JVs and wholly owned structures (43%). It is also interesting to note that whereas the firms that were motivated most by sourcing still use JV or wholly owned, the export group have increased their ownership (JV or wholly owned) from 37% to 47, whereas the import and production group have increased from about 20% to more than 50% ownership. This is especially seen in the group that has high production in China. The 6 firms that have more than 15% of their production in China are all wholly owned, whereas the 4 of the 7 firms with more than 20% of their sales in China are wholly owned. This means that the need for control, also in the upstream part of the production has been seen to be very important in an emerging economy like China. It is also interesting to note that about a third of the agent and contract relations are knowledge motivated, but none of the JVs and only a few wholly owned. This observation is interesting regarding the large number of research studies on knowledge transfer from JVs (Si & Bruton, 1999; Zhao, Anand, & Mitchell, 2005). The JVs and wholly owned enterprises in this sample are more motivated towards sales than knowledge development.

Overall we see a clear pattern where the firms enter this market cautiously, and over time increase their commitment through JVs or full ownership. All of these firms entered an economy with a very high psychic and geographical distance (Hallen et al., 1979), hence clearly "rational motivations" outdistanced those of psychic distance (Benito et al., 1992). We see that the firms followed a step-wise approach, taking their time, and committing mostly through an agent in the early years of business activities, over time, this relation is changed into more ownership structures supporting the "Uppsala" school of gradually increasing commitment based on incremental knowledge acquisition (Johanson et al., 1977). This finding also supports the entrepreneurial dynamics of internationalization (Mathews et al., 2007), where in initial phases those firms that survive and later expand follow path-dependent processes in which firms from one country connect skills, knowledge and resources with potential customers and partners in another country. Within these paths, successful combinations result in an accelerated internationalization. Several of the companies stated that they were aided in the process by a customer, by a consultant or by Governmental Agencies in the early phases. Based on small steps, business gradually expanded.

One issue that can to a lesser extent be explained by the Uppsala model or the entrepreneurship model concerns the large amount of firms still organized through agent or contract. Our companies have been in China from 4 to almost 30 years and it is interesting to note that about 43% of them still rely on agents or contracts in their international trade. This may be explained by a financial or managerial resources issue, as pointed out by Buckley (1989) or by low needs for control due to low level of asset specificity as explained by TCE (Anderson et al., 1986). In our sample we found no significant correlation between number of employees (indicator of managerial resources) and no significant correlation between ownership and degree of asset specificity. Based on the qualitative comments from the firms, it also seems to us that a rational expectation for this choice is that these relations have developed high trust, are working very well, and more commitment is not necessary:

" This relationship is very close"
" We have built this relation through years, it now works very well"
"This relation is very good. It works well"
"It works well between us".

The more plausible explanation thus seems to be that the firms that have chosen to keep their looser forms of commitment have done so because they have seen little need to establish more formal control as high trust substitutes formal control (Gambetta, 1988; Shapiro, 1987) as well as offers additional advantages beyond “performance to the letter of the contract” (Dyer & Singh, 1998; Macauley, 1963).

Issue 2: Entrance in different periods

Based on Saich (2004), it is possible to outline three periods in the development of the Chinese economy after 1978. The first period (1978-1985) was a “rocky” period, characterized by instability on the political arena with sorting out Mao’s legacy with the trial of the “Gang of Four”. In this period China joined the World Bank and the International Monetary Fund, and economic modernization processes revolving around promotion of market mechanisms to deal with inefficiencies of planning and allocation through central planning were proposed. The focus was, however, mostly on administrative clean-up and the economic development was rocky.

The second period (1986 – 1996) can be divided into two- as the first part of this period were characterized by problems with the transition to market economy, overheating, production downturns and social unrest. In 1992 Deng went on his famous southern tour, and the big push towards easing central control was initiated followed by a great growth period with influx of foreign capital. The third period (1997-2003) constitutes the “After Deng era”, characterized by strong growth, and continuously opening up the restrictions towards foreign ownership and trade, this was particularly boosted by China’s entrance to the WTO in 2001. It seems to be important to Chinese leaders in this period to encourage strong growth to mitigate social unrest, but still, however, with a strong party to ensure state control over the areas of the economy considered strategically important, like petroleum, telecommunication and education.

Of our 31 firms, 10 firms entered before 1986, 10 firms in the second period, and 11 firms entered after 1997. Can we see any differences between these three groups?

If we start by looking at the reasons for coming to China, sales motivation dominate strongly in all three groups. In the early period no firms were knowledge motivated, whereas in the second time period three firms came to China to learn, in the third period only one firm was knowledge driven. Sourcing motivation was very low in the first period, but increased in the second and third period.

If we look at what mode of entry was favored in the three periods and compare this to the mode of entry chosen today, we get the following table:

Entry Period	Agent		Contract		JV		Wholly	
	Entry	Today	Entry	Today	Entry	Today	Entry	Today
1978-1985	5	2	3	2	2	2	2	5
1986-1996	5	4	2	3	0	1	3	5
1997-2003	4	3	2	1	1	1	3	6

Table 2: Mode of entry and mode of organization

Adding up, the total number of organization modes exceeds 31. Some firms are, however, using multiple forms, and we allowed for that in our survey. One firm for example entered via agent and contract, another used agent and JV when they entered. The same firm uses both agent and JV today. About 80% of firms in each period use expats, and they typically have from 1-4 employed.

These data show a remarkable stable pattern independent of periods of entry. Apart from the second period firms showing a slightly higher tendency to use the non-ownership option (7/10) compared to (4/10 and 4/11) in the first and last period, the development from low commitment entry to higher commitment forms of organizing is stable in all of these periods. These data seems to show that the theories of internationalization into an emergent economy stressing the gradual commitment aspect are strongly supported (Johanson et al., 1977; Johanson et al., 1975)– also across time periods with increasing institutional stability in emergent economies. We also have strong indicating that this period of transition may take some time – two firms in the first period and one firm entering in the second period expect changes in their mode of organization in the next few years, whereas six firms that were later entrants expect such changes. This may point to the transition period not being completed in the latter group, suggesting that increases in commitment after entry takes up to 10 years, which seems quite a long time for firms to learn in the new market of entry.

If we look at the main activities these firms have in China, there are some variations:

Entry Period	Export	Import	Production	Sourcing
1978-1985	4	4	6	0
1986-1996	7	3	3	1
1997-2003	11	2	1	1

Table 3: Main activities in relations to China

This table shows some interesting developments. Early movers into this economy came to produce, whereas the firms that declare their main activities as exporting are typically later movers. Consequently, the early movers were driven by access to low cost production, whereas the later movers wanted to export their products to customers in China. Today the early movers are also the group with the highest percentage of their production in China. Six of the 10 firms in this group have more than 20% of their production in China, whereas in the second group, no firm had more than 10%, and five firms had no production, and in the third group two groups have more than 50% of their production in China. When it comes to sales, in every group about a third have up to 40% of their sales in China, the remaining 2/3 have less than 15%.

Apart from one company producing cheap goods in China for import to Norway, eight of the late movers to China are hi-tech companies that supply products and services to the shipping and maritime industry, like various forms of shipping facilities and technology. Two companies are fish exporters. These late-movers have production sites, often in Norway, are typically in the high end of the market, and are therefore more often suppliers to foreign companies building ships or doing other forms of business in China than particularly attract the wide mass of Chinese customers. In the first and second group of entry we find more typical shipping companies, but also a variety of other types of firms from industries such as education, healthcare and lightning.

We may also distinguish between the different entry periods in terms of a categorization according to manufacturing, service and size:

Entry Period	Type		Size		
	Manufacturing	***Service***	***Less than 100 employees***	***Between 100 and 500 employees***	***More than 500 employees***
1978-1985	7	3	1	2	7
1986-1996	6	4	4	1	5
1997-2003	5	6	7	4	2

Table 4: Type of firms and their size

Table 4 shows that manufacturing firms tend to be earlier movers into an emerging economy, whereas service firms to a larger extent follow in later periods. We also see clearly that larger firms tend to enter an emergent economy earlier than small firms.

Service firms may be distinguished from manufacturing firms by four criteria: intangibility, inseparability, perishability and heterogeneity (Knight, 1999). Whereas industries like shipping and banking have been international for centuries, many service firms are just starting to internationalize, clearly lagging behind manufacturing firms (Contractor, Kundu, & Hsu, 2003). Our data supports these insights, and it is interesting to note that although many of our firms belong to the shipping industry, they have become international late (after 1996) in the development of the emergent economy China. This may have something to do with their size, as resource constraints clearly favor the internationalization of larger firms earlier than smaller firms.

Emergent economies are characterized by weak institutions and infrastructure (Wright et al., 2005), and a particular concern for firms in China are protection of their intellectual property rights (Yang, 2003). We wanted to see if there were any differences in the use and worries about he institutional environment and property rights in these three entry periods:

Entry Period	Intellectual property rights			
	Patent and Trademark		***Company specific Knowledge***	
	Highly In use	***Concern***	***Highly In use***	***Concern***
1978-1985	8	10	3	4
1986-1996	4	6	5	4
1997-2003	2	6	5	4

Table 5: Use and concern of Intellectual Property Rights

Table 5 shows a transformation in the application and worries about intellectual property over time. We see that patents and trademarks seem to be more important in the earlier periods, whereas company specific knowledge is slightly more important over time. These numbers were checked to see if service firms (as services are often more intangible and heterogeneous) were more connected to knowledge than trademarks and patents. There was a slight tendency that manufacturing firms employed more trademarks, but otherwise there were no differences in the use and worries about intellectual property between service firms and manufacturers. Concerning size, the smaller firms were more worried about imitation of both trademarks and company specific knowledge which makes sense concerning the higher vulnerability of small firms regarding the loss of core resources (Buckley, 1989).

Concerning the many problems highlighted in the Chinese economy of the importance of the state sector, high employee turnover, resource scarcity and environmental challenges (Cooke, 2004, 2005; Engardio, 2007; Saich, 2004), relatively few of the total sample firms worry about the institutional environment, two firms from the first period and four firms from each of the last periods. Surprisingly only two firms from the middle entry period worry about access to labor, and two firms in the first and last periods worry about material access. This shows that regardless of entry period, and reported concerns from other firms that do business in China, our firms have managed to guide themselves in a fairly comfortable position.

If we compare governance costs in the three periods we also see some variations:

Period of Entry	Trust	Opportunism	Asset spec	Maladap	Perform Financ	Perform New
1978-1985	5	3,13	2,94	3,25	4,96	5
1986-1996	5,20	2,80	4,72	2,75	4,63	5,83
1997-2003	5,29	3,20	3,13	2,81	4,48	4,55

Table 6: Governance Characteristics by entry period, Means.

The most striking aspect of Table 6 is the significantly higher level of asset specific investments in period 2, combined with the higher performance concerning access to knowledge and new markets. In an ANOVA comparing means the differences in asset specificity is significant between the middle group and the early and later entrants ($p<.05$), and the performance new is significant between groups 2 and 3 ($p<.05$) and between groups 1 and 2 ($p<.10$), but not between 1 and 3. This shows that entrants in the period where institutional conditions were becoming more stable, but entry was still early as favorable to those firms that came with product and services specifically tailored to the market of the emergent economy. Anderson and Gatignon (Anderson et al., 1986) suggest that this entry should be tied to full ownership and commitment, but our research is not supporting this notion.

5. Summary and Conclusion

From the discussion of our data we would like to point to two overall conclusions. First, we discuss the entry strategy of our firms into China, secondly, we point to stages of entry and their implications.

In our data we find some indications of the OLI model, where firms have chosen a location to get access to beneficial resources, and chosen to own these based on needs or control, particularly as export and service firm’s deliveries must be controlled in the foreign market. This model is static, however, and gives little insight to the changes that have occurred over time in these companies strategies. Our sample also gives us information about 3 firms that were global at inception or shortly after, therefore they can be characterized as “born-globals” (Knight et al., 1996). We find, however, no significant differences between the internationalization of these firms and the rest of our sample. Based on the limited insight of these two frameworks concerning our sample, we have chosen to focus our discussion on other perspectives that seem more promising.

Although the firms from small developed economies in the west are very culturally different from China, other factors, like benefits of exporting and production make China an interesting market to enter, hence internationalization does not necessarily follow the path of psychic closeness (Benito et al., 1992). The entrance of firms from Norway to China follow a surprisingly stable development pattern that is independent of institutional variance, where entrance through low commitment forms (agent and contract) over time is changed to high commitment forms (JV and Wholly owned). The Stage, or Uppsala model is therefore strongly supported in our findings. Even though there is a tendency that service firms and firms with a high percentage of their production in China to a higher extent choose ownership, our data cannot give a significant relation between asset specific investment and ownership – hence there are indications that firms with major investments in China choose not to own their facilities in China – also over time. In our sample as many as 43 % of the sample belongs to this group, and this is quite a large number unaccounted for by the traditional Uppsala stage model. Through our qualitative data we find that many firms have over time developed strong social ties to their Chinese counterpart, and that these social ties seem to replace formal ties of ownership (Bradach & Eccles, 1989), offering benefits of lower financial commitments (Contractor et al., 1988) as well as ease of coordination and goodwill (Dyer, 2000; Dyer & Chu, 2003; Macauley, 1963; Macneil, 1980). We argue that understanding of the internationalization process, the organization and performance of this group of firms have been under-researched in the internationalization literature, perhaps because earlier studies of the internationalization process often are based on the large MNEs (Benito et al., 2002; Cheung et al., 2007; Johanson et al., 1977; Johanson et al., 1975), overlooking smaller or less profiled companies that have different stories to tell.

Both Luo (1998) and Isobe, Makino and Montgomery (2000) have looked at entry timing effects of FDI in China. Luo (1998) found that early movers outperformed later entrants in terms of local market expansion and asset turnover, whereas later movers had lower risk. Isobe et al (2000) found that early entry had positive effects on performance, but that this relation was contingent on internal factors like strategic commitment. By separating between three phases of entry, we are able to highlight some interesting development in the entry process into an emerging economy. We see that early movers in our sample are typically large manufacturing firms interested in establishing production facilities in China. Their investments are, however, not particularly tied to China (low asset specificity), but are of a more general kind. The knowledge they bring with them is largely in the form of patents and trademarks. When the institutional conditions have become more stable, but the investment is still considered risky (Second period), we see the entrance dominated by a variety of firms seeking to produce, import and export based on specific investments in China, particularly interested in developing close relations and expanding their knowledge and market base. The third period is dominated by service firms that typically export their services to accommodate their foreign clients in China.

This development support Bukley's (1989) arguments that small firms await internationalization until conditions are more stable, whereas larger firms have more resources to spend, and therefore they can tolerate higher uncertainty in the earlier phase of the development of an emergent economy. The late movers are similar to the group identified by Cheung et al (2007), firms going international not necessarily because of conscious, rational evaluations of a particular market, but more because of a need to cater to major customers. The second period seems to offer a more interesting diversity of firms that for different reasons have chosen to develop their resources to align with the specific market characteristics of China.

Our dataset does not indicate that early movers have higher performance than later movers. It rather seems to be a link between middle movers and performance, but this link being connected to the specific investments taken by these firms more than their date of entry. This supports the findings of Isobe et al (2000) where firm-specific characteristics may be as important as time of entry and the suggestions by Mathews and Zander (2007), suggesting that the entrepreneurial ability of the firm to build and connect resources is important for the success and growth of the firm in a new, foreign market.

In this study we have looked at the internationalization process of 31 Norwegian firms in China in the period 1977 to 2003. These firms represent a variety of industries and firm characteristics, but are biased towards representing the firms that have chosen to stay, and that are active in the shaping of their China activities. Based on the analysis of this sample we think some new insights can be offered concerning the stage model, as social commitment may be as important as formal commitment, and also concerning the stages of internationalization, as early entry favor large production firms and late entry favor smaller service firms, whereas the firms that strategically invest most seem to be in the middle group.

Appendix 1: Table 7

Variables	Mean (Stdev)	1	2	3	4	5	6	7	8	9	10
1. Number of employees	1446 (2993)	1									
2. Service	,42 (.05)	-.04	1								
3. PerformEff	4,68 (1,3)	-.20	.14	1							
4. PerformNew	5,09 (1,3)	.13	.19	.24	1						
5. Asset Spec	3,57(1,64)	.28	.19	.22	.35†	1					
6. Opportunism	3,06 (1,28)	-.10	-.10	-.13	-.26	-.25	1				
7. Maladaption	2,92 (,99)	.18	-.11	-.03	-.22	-.18	.61**	1			
8. Ownership	0,54 (,51)	-.10	.51**	.10	.20	-.04	-.15	-.11	1		
9. Trust	5,17 (,82)	.03	.17	.07	.28	.10	-.68***	-.61**	.02	1	
10. Year of establishment	1992 (7,98)	-.57**	.29	-.14	-.12	.04	.04	-.20	.22	.09	1

Table 7: Data Descriptions and Correlations

† $p < .10$, * $p < .05$, ** $p< .01$, *** $p < .001$

Appendix 2: Measures

Anchored by 7 point Likert scale 1_ Strongly disagree, 7: Strongly agree

Trust: (Fryxell, Dooley, & Vryza, 2002; Zaheer, McEvily, & Perrone, 1998; Zaheer et al., 1995)
Alpha: 0,69

1. The partner has always been dedicated to us
2. We know what to expect from this partner
3. We can trust this partner
4. This partner is reliable
5. We expect to cooperate with this partner a long time

Opportunism: (Dahlstrom & Nygaard, 1999). Alpha, 0,86

1. We have reason to believe that our Chinese partner hide important information
2. The Chinese partner has not kept promises from initial establishment
3. Sometimes information is altered by our Chinese partner
4. Sometimes information is changes in a way that favor their way of doing things

Asset specificity **(Aulakh, Kotabe, & Sahay, 1996; Klein, Frazier, & Roth, 1990),** Alpha 0,68

1. Our company has made large investments that are specific to this market
2. Our products are tailored to this market

Maladaption Costs (Dahlstrom et al., 1999), Alpha 0,74

1. Information from our foreign subsidiary is often incomplete and therefore difficult to understand
2. Information from our Chinese partner is often to voluminous to understand
3. Information from our Chinese partner is often poorly expressed and therefore difficult to understand
4. Information from our Chinese partner rarely comes at the right time

Financial Performance (Alpha 0,73)

1. The financial outcome of our activities in China has is satisfactory
2. The activities in China has contributed to our growth
3. Our activities in China has made us more cost-efficient

Performance new areas (Alpha 0,68)

1. Our activities in China has increased our competence
2. Our activities in China has introduced us to new and profitable markets

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