Comparison of entrepreneurial establishment in China and Sweden

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Master thesis in Business Administration

May 2010
Purpose: This thesis aims to research the business environments, entry modes and legal structure, and steps to establish an enterprise in China and Sweden, through the comparison and analysis to provide a clear portrayal and some recommendations for the SMEs who wants to establish the enterprise in China and Sweden, especially for Swedes who want to establish enterprises in China and Chinese who want to establish enterprises in Sweden.

Method: To clarify the characteristics and comparison of establish the enterprise in China and Sweden, this thesis will use inductive method. Meanwhile, a qualitative method is adopted to conduct the interviews for persuading the research.

Conclusion: Chinese and Swedish business environments are composed of different cultural, political, legal, and economic. The entity forms are also different. When determined to establish an enterprise in China and Sweden, it’s vital to know the business environment, choose the suitable entry mode and follow the local steps to establish the enterprise.

Keywords: Business environment, Legal structure, Establish enterprise, China, Sweden
We would like to thank the people who have contributed their knowledge and time to help us make this thesis possible. Firstly, we are heartily thankful to our supervisor, Lars-Torsten Eriksson, for all his valuable guidance, suggestions and support provided to us during the whole process of the research. We also appreciate the support from Christer Sjöström, the chairman of the Svenska Aerogel AB; Peter Norberg, the chief technology officer of Svenska Aerogel AB; Helen Trinh, the CEO of Trinh cash AB; Miss Lily Kuang, the manager of Donghailong environmental protection and technology Co., Ltd and Mr. Zhong Li, the director of Guangzhou Chunwei import & export Co., Ltd. who devoted their time and effort to provide us the valuable information. Lastly, we offer our regards and wishes to all of those who supported and helped us in this thesis.

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2010-05-27
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List of abbreviation

CEO: Chief Executive Officer
CJV: Cooperative Joint Venture
CPC: Communist Party of China
CSR: corporate social responsibility
EJV: Equity Joint Venture
EPC: Economic and Planning Council
EU: European Union
FDI: Foreign Direct Investment
IDV: Individualism
ISA: Invest in Sweden Agency
LTO: Long-Term Orientation
MAS: Masculinity
PDI: Power Distance Index
PRC: People’s Republic of China
PRV: Paten and Registration Office
SME: Small and Medium Enterprises
SOE: State-Owned Enterprise
UAI: Uncertainty Avoidance Index
VIP: Vacuum Insulation Panels
**WFOE**: Wholly Foreign Owned Enterprises

**WTO**: World Trade Organization
1. Introduction

This chapter will present an introduction of the thesis. It outlines the background to provide a brief overview of the research area, and illustrates the research purpose and problems, as well as the distribution.

1.1 Background

The Sino-Swedish relations date back as far as the 18th century. In 1739, Sweden “Gothenburg”, the ancient merchant voyaged to China and opened the China-Sweden trade door. After the founding of New China, Sweden was the first western country to establish diplomatic relations with China. Sweden was also the first country that signed the trade agreements and investment protection agreements with China. (Government of China, 2010) After 60 years of trials and tests, Sino-Swedish relations continue to strengthen friendly and mutually beneficial, the exchanges and cooperation in the political, economic, trade, science and technology, education, culture is expanding between two countries. (Xi, 2010)

In the international financial crisis of 2009, the trade between China and Sweden are still up to 96 billion dollars. China’s imports from Sweden grew by 8.3%. At present, there are more than 1,000 Swedish investment projects in China, and the investment amounted to nearly 2 billion dollars. Chinese enterprises to invest in Sweden accounted for China’s investment in 3/4 of the Nordic countries. Sino-Sweden non-governmental and local exchanges are increasingly active, reach to 16.5 million people in average every year. (Xi, 2010)
1.1.1 Swedish invest in China

In the published information of Swedish bank “SEB”, it shows that more and more Swedish SMEs and entrepreneurs are searching for opportunities in other markets. From December 2007 to April 2009, the companies have the business in foreign markets increased from 22% to 28%. (Hemming, 2009)

China is a developing country with new emerging economic in the world, it growing increasingly important in the world economy. Increasingly more small and medium sized entrepreneurs make the decision to establish enterprise on the Chinese market. There are many Swedish companies active on the Chinese market, since China’s accession to the WTO the year 2001 China has gotten even more interesting. China’s WTO accession does not only make it easier for Swedish companies to be present in China, it also provides Chinese companies an increased opportunity to access the Swedish market.

1.1.2 Chinese invest in Sweden

In recent years, China has shown an increasing interest in investing in the Swedish market. It creates a “two-way street” which means the investments could go both ways. (ISA, 2010)

The reason for the implementation was that many of the larger companies were far ahead of the Chinese market and needed influences from other more advanced markets in order to develop further. Sweden can be seen as an attractive investment market not only due to advanced technology, know-how and stable political and market conditions but also since it brings access to a large amount of customers in the rest of the Europe.
The Swedish government has founded Invest in Swedish Agency (ISA). ISA is a government owned agency that assists and informs foreign investors about the opportunities of investing in Sweden. ISA, the Regional Councils and representatives from the industry are working together to provide foreign investors with information and services in order to increase the number of foreign establishments in Sweden (ISA, 2010).

Over the past six years, ISA has helped complete nearly 190 Chinese investment projects in Sweden, of which 160 Chinese enterprises have established a business presence (Chen, 2009). According to Chen (2009), his office has assisted 18 Chinese-owned or partnership business programs so far this year, while they will help put another 15 to 20 projects into operation in Sweden by the end of this year.

1.1.3 SMEs internationalization

According to the official European Union definition (EU Commission, 2003) the Small and medium-sized enterprises (SMEs) are enterprises with fewer than 250 employees and 50 million Euro turnover. Considering that a large number of SMEs expand from domestic markets to foreign countries, they would come across various problems in the internationalization process, such as which countries should be chosen as target markets, what kind of entry mode should be conducted and which order of steps should be followed. Therefore, there is an increasing interest in the research field of the internationalization strategy of SMEs (Andersson, 2000; Holmlund & Kock, 1998).

Under the wave of globalization, small and medium sized enterprises (SMEs) have become a very great power in contributing to the world’s wealth and economic growth in the past few years.
1.2 Problem and focus

Companies are becoming more internationalized driven by various motives. When planning to enter a foreign market the incentives could either be to achieve market access, gain economic advantages, make a strategic move or a combination of the three (Shenkar & Luo, 2004). When one decides to establish the enterprise in the market abroad, it is vital to know the business environment in that country, such as the political, legal, economy and culture. And carefully consider the entry mode, which legal structure is suitable for the company. In the start-up stage, it’s also necessary to know clearly the steps establish the enterprise in foreign country.

“Each national business environment is composed of unique cultural, political, legal, and economic characteristics that define business activity within that nation’s borders.” (Wild et.al, 2010) The national business environment can differ greatly from country to country. Both China and Sweden have their unique business environment and characteristics.

According to Hollensen (2004), the entry mode selection is fundamental since the wrong selection could create a threat for future market expansions and new market entrances. Nevertheless, depending on different markets and conditions, there are various types of entry modes suitable for the firm.

Considering the fact that SMEs play a significant role in the domestic and international business both in developed countries like Sweden, and in developing countries like China, it would be interesting and inspiring to do a cross-national analysis and to compare the differences of the business environments in the two countries. In this thesis we will focus on the SMEs’ entrepreneurial establishment in Sweden and China, and especially in the start-up stage.
1.3 Purpose and research questions

This year is the 60th anniversary of Sino-Swedish diplomatic relations. It’s also the last year for the authors to study in Sweden. So the authors hope through this thesis to commemorate Sino-Swedish establish diplomatic relations 60 anniversary, and also to commemorate their study and life in Sweden.

To study entrepreneurial establishments in China and Sweden is interesting because it could let us know more about two countries’ environments and also have a general idea about how to start the business in China and Sweden.

The aim of this thesis to research the business environments, entry modes, legal structure and steps to establish the enterprise in China and Sweden, through the comparison and analysis to provide a clear outline and some recommendations for the SMEs who want to establish the enterprise in China and Sweden, especially for the Swedish who wants to establish enterprise in China and Chinese who wants to establish enterprise in Sweden.

The research questions are:
1. What are the differences in business environment between China and Sweden?
2. How to establish the enterprise in China?
3. How to establish the enterprise in Sweden?

1.4 Outline & distribution

The thesis is divided into mainly 4 parts: introduction, methodology, findings & analysis, and conclusion. In order to solve the research questions, the thesis will start with a brief description of the introduction, which outlines the background, problems & focus, as well as the purpose & research questions. It will make the readers understand the Swedish and Chinese business environment and legal structure, and
compare the similarities and differences of entrepreneurial establishment between these two countries. To be able to answer the research problems, the thesis will combine inductive method and qualitative method. The thesis will mainly illustrate “the business environment, entry mode, legal structure, and steps to establish the enterprise” theoretical framework. Through the combination of the theoretical framework and findings, the thesis will compare and analysis the entrepreneurial establishments in China and Sweden. Finally it will be finished with the recommendations for the companies who want to establish the enterprise in China and Sweden. The distribution of thesis is visualized in figure 1.
2. Methodology

This chapter describes research methodology in general. It includes: research approach, data collection, sample selection, data analysis and reliability & validity.

2.1 Research approach

Inductive approach and deductive approach are two common views on research approach. Inductive approach includes the development of a theory resulting from the survey of empirical data (Saunders et al, 2003). The inductive approach starts with specific survey and measures, begin to detect patterns and regularities, formulate some research questions that the authors want to explore, and finally end up developing some general conclusions. (William, 2006) The deductive approach has a theory as a base of survey and tests it whether match with reality by illuminating a hypothesis (Saunders et al, 2003). A deductive approach might start with a theory about the interest topic. And then narrow down into specific hypotheses that we can test. This can lead us to test the hypotheses with specific data - our original theories. (William, 2006)

The aim of this thesis is to analyze and summarize how to establish enterprise in China and Sweden rather than test a theory, so an inductive approach is more suitable.

Quantitative and qualitative research approaches are two kinds of research methods used in social science. (Gill & Johnson, 2006) Quantitative research is based on collect multitude of data, and through analyzing the data to present in figures with
statistics. The quantitative method is one way to measure the amount and play a central role in the analysis of quantitative data. The mainly purpose of qualitative method is demonstrate by collecting data in different ways. On one hand can partly obtain deeper understanding of the studied problem, on the other hand can partly describe the context of the whole problem.

Yin (2003) argued that the best way to study depends on the aim of the study and the research questions. In this thesis, the aim is to get more detailed information about the business environment and how to establish the enterprise in China and Sweden, so the qualitative method has been chosen.

2.2 Data collection

According to Yin (2003), documentation, archival records, interviews, direct observations, participant-observations and physical artifacts are the six main sources of evidence.

The choice of data collection method will influence the approach of research. It is necessary to understand what your reasons for the decisions are and which your research participants have taken (Saunders et. al, 2000). If you hope for the interviewees to explain their responses, the in-depth and Semi-structured interviews offer the chance to probe answers. Sauders et al. (2000) stated that compared to completing a questionnaire, managers prefer to be interviewed, and especially the topic of the interview is interesting and relevant to their work.

In this thesis, the authors used interviews and documentation as two sources of evidence. The authors chose documentation data collection to compare and analyze the business environment while interview to analyze the entrepreneurial process. Considering the choice of semi-structured interviews, firstly the authors wish to
enable the interviewees to talk freely in a conversation. A semi-structured interview is flexible, new questions can be brought up during the interview after what the interviewee says. The interviewer in a semi-structured interview generally has a framework of themes or topics to be explored. A prepared interview guides researchers to focus an interview on the topics without constraining them to a particular format. This freedom could help interviews to adapt the questions to the interview situation and to the interviewee (Lindlof & Taylor, 2002) Secondly, authors hope through the freedom conversation could get more deep information and to increase the reliability and validity of the paper. About the documentation data collection, it consisted of articles, data base of the University of Gävle, and official website information.

The authors conducted four interviews in this research, two interviews with the Chinese companies and two with the Swedish companies, which included a face to face interview, an e-mail interview and two telephone interviews.

**Swedish companies interviews:**

Firstly, the authors did a face to face interview with Christer Sjöström and Peter Norberg together. Christer is the chairman of Swedish Aerogels AB and Peter is the Chief Technology Officer in Aerogels AB. They are in charge of different areas in the company, and introduced the company and answered our questions from different perspectives. Based on the interview topic, they offered much useful information. Both of them are humorous and insightful, the whole interview process are relax and pleasant. The interview was conducted in their office on the second floor of the building and lasted for about 2 hours. A MP3 recorder was used throughout the face to face interviews in order to more correctly register the empirical data.

The second interview was an e-mail interview with Helen Trinh, who is the CEO of Swedish company Trinh Cash AB. Since of the location factor, Helen lives in
Stockholm, it’s not convenient to do the face-to-face interview. So the authors chose the e-mail interview. Based on the first e-mail interview, the authors sent the second e-mail to further discuss with her on some questions. She explained the questions very clear and also enumerated some examples to us by e-mail.

**Chinese companies interviews:**
The interviews with the Chinese companies were conducted on the telephone because the authors are in Sweden, so face-to-face interview is not suitable.

The third interview is with Miss Lily Kuang, who has been engaged in foreign exchange and cooperation in Donghailong environmental protection and technology Co., Ltd for 6 years. She is one of the initial founders of the company and has worked there since the company was established. After Miss Kuang’s e-mail consent, the authors made a telephone interview with her which lasted about 40 minutes. The whole interview was in Chinese, and the authors translated it into English.

The fourth interview is with Mr. Zhong Li, who is the director of Guangzhou Chunwei import & export Co., Ltd. After Mr. Li accepted the interview, the authors sent the main interview questions by e-mail and made the appointment of the telephone interview. The telephone interview was about 30 minutes and in Chinese, the authors translated it into English.

### 2.3 Sample selection
The sample selection for this study is based on the objective. This thesis is focused on the business environment in China and Sweden and SMEs entrepreneurial process. In order to collect information about how to establish the enterprise in China and Sweden, authors chose samples from following standers. Firstly, the enterprises are small and medium sized enterprises and have the international plan or experience.
Secondly, the enterprises were founded in last ten years since the enterprises or managers will be more clearly about the entrepreneurial process and also the entrepreneurial establishment experience have more reference meaning and close for us. Thirdly, the companies compared between China and Sweden are in the same industry, which will help reduce the inaccuracy in the comparison and analysis. After selecting, authors finally chose Swedish companies Svenska Aerogel AB, Trinh Cash AB and Chinese companies Donghailong environmental protection and technology Co., Ltd, Guangzhou Chunwei import & export Co., Ltd. as the sample.

2.4 Reliability and Validity

Lillis (2006) states that researchers have to face the threat of reliability and validity, both in the data collection and analysis phases. Reliability can be explained as follows: “A researcher should come to the same results and conclusions as a second investigator, if both are studying the same phenomenon with nearly equal purposes.” (Yin, 2003) Validity can be defined as “a continuous process that is integrated with theory and that requires the researcher to continuously assess his assumptions, revise his results, retest his theories and models and reappraise the given limitation that have been set for the study.” (Evert, 2000)

To ensure sufficient validity in the research, the authors adopted semi-structured interview to try to let the interviewees talk freely while still focusing on the topic. In order to minimize misinterpretations, the authors recorded the face-to-face interview which gave a chance to go back to listen again to avoid the vague information. About the e-mail interview, based on the first communication in e-mail, authors sent another e-mail to discuss some questions with interviewee. The telephone interviews could be a shortage in validity since the interview was in Chinese and could not be documented which might cause misinterpretations.
In the thesis, the findings of business environment are from documentation. The validity of the documentation is dependent on the sources. The authors have been critical towards all the documentation. All references are documented in the end of the thesis. The findings of companies’ entrepreneurial process are based on interviews; to some extend personal opinions will affect the reliability.
3. Theoretical framework

The theoretical framework in this thesis can be divided into three main parts: business environment, entry mode & legal structure, and steps of entrepreneurial process. The business environment will affect the selection of entry mode & legal structure; entry mode & legal structure determines the establishment procedure of the enterprise. These three parts overlap.

3.1 Business environment

According to Henisz and Delios (2002), cross-national variation in business environments add uncertainty to foreign operations. In turn it also affects international strategy decisions, entry mode selection and the legal structure register. So here we will first exposit the theory about business environment. An enterprise is an organization and system. It gets resources from the environment and supplies its goods or services to the environment. The business environment provides chances or threats to the enterprises and enterprises try to grasp the available chances and face the threats from the business environment. Enterprises cannot change the business environment but they can react to it. Thus, it is important to analyze the business environment before enterprises enter into a new market.

3.1.1 Business and International Relations

The political relations between a company’s home country and the nations in which it does business affect its international business activities. Favorable political
relationships foster stable business environments and increase international cooperation in many areas, including the development of international communications and distribution infrastructures. In turn, a stable environment requires a strong legal system through which disputes can be resolved quickly and fairly. In general, favorable political relations lead to increased business opportunities and lower risk. (Wild et al., 2010)

3.1.2 National business environment

Each national business environment is composed of unique cultural, political, legal and economic characteristics that define business activity within that nation’s borders. This set of national characteristics can differ greatly from country to country. But as nations open up and embrace globalization, their business environments are being transformed. Globalization can cause powerful synergies and enormous tensions to arise within and across various elements of a society. Company managers must be attentive to such nuances, adapting their products and practices as needed. (Wild et al., 2010)

3.1.3 International business environment

The international business environment influences how firms conduct their operations in both subtle and not-so-subtle ways. No business is entirely immune to events in the international business environment, as evidenced by the long-term trend toward more porous national borders. The drivers of globalization cause the flows of trade, investment, and capital to grow and become more entwined—often causing firms to search simultaneously for production bases and new markets. Companies today must keep their finger on the pulse of the international business environment to see how it may affect their business activities. (Wild et al., 2010)
3.1.4 Political and Legal Systems

A political system includes the structures, processes, and activities by which a nation governs itself. (Wild et al., 2010) A country’s political system influences how business is conducted domestically and internationally. When enterprises evaluate a country as a potential place to do business they need to be aware of the political risk. (Daniels et al., 2004) All companies doing business confront political risk, which includes government stability, internal and external conflict, military and religion in politics and so on. They need to be aware of political risk. (Wild et al., 2010)

The legal system is another dimension to the business environment that influences business. Enterprises must be aware of the legal systems in the country they do business, both domestic and international, and the legal relationships between countries. (Daniels et al., 2004) A country’s legal system is its set of laws and regulations, including the processes by which its laws are enacted and enforced and the ways in which its courts hold parties accountable for their actions. A country’s political system inspires and endorses its legal system, and its legal system legitimizes and supports its political system. There are three types of legal system in use around the world: Common Law, civil law and theocratic law. (Wild et al., 2010)

Common Law—based on a country’s legal history (tradition), past cases that have come before its courts (precedent), and how laws are applied in specific situations.

Civil Law—based on a detailed set of written rules and statutes that constitute a legal code.

Theocratic Law—based on religious teachings.
3.1.5 Economic Systems

Understanding the economic environment of foreign countries could help enterprises to judge how trends and events may affect their firms. A country’s economic system consists of the structure and processes that it uses to allocate its resources and conduct its commercial activates. There are three kind of economic systems: centrally planned, mixed and market economies. (Wild et al., 2010, Daniels et al., 2004)

**Centrally Planned Economy**
A centrally planned economy is a system in which a nation’s land, factories, and other economic resources are owned by the government. All economic activities’ dimensions, including the pricing and production decisions are determined by a central government plan.

**Mixed Economy**
A mixed economy is a system in which land, factories, and other economic resources are rather equally split between private and government ownership. In a mixed economy, the government owns fewer economic resources than does the government in a centrally planned economy.

**Market Economy**
In a market economy, the majority of a nation’s land, factories, and other economic resources are privately owned, either by individuals or businesses. The key factors that make market economy work are the right of customers to decide what to buy and freedom for firms operate in the market. Prices are determined by supply and demand.

3.1.6 Culture

When people from around the world come together to conduct business, they bring
with them different backgrounds, assumptions, expectations, and ways of communicating---in other words, culture. A culture is the set of values, beliefs, rules, and institutions held by a specific group of people. (Wild et al., 2010) The differences of culture will affect the business in foreign market.

Hofstede, the influential organizational sociologist, has identified five dimensions of culture in his study. In agreement with numerous other researchers, the work of Hofstede is seen the most influential and often cited scholarly work (Muller and Turner, 2004). Hofstede (2007) defines culture as “the collective programming of the mind, which distinguishes the member of one human group from another.” His five dimensions explain differences between cultures and measured each on a scale from 1 to 100. The definitions of the five cultural dimensions are as follows (Hofstede, 2005)

Power distance (PDI) describes how willing the less powerful members are to accept that power is distributed unequally in the society. In large PDI cultures, people accept order and their position by hierarchical. In small PDI cultures, people try for equalization and demand justification for power inequalities.

Individualism (IDV) describes to what extent the ties between individuals are loose. On the individualist side, the ties of societies are loose and the individual is expected to take care of him/herself and his/her closest families. One the collectivist side, the individuals is tied to a group after birth and support in exchange of unconditional loyalty.

Masculinity (MAS) describes to what scope a society is masculine or feminine. For masculine, are easy to extinguish the emotional gender roles, but for feminine it can overlap the roles. In masculine society “men are supposed to be assertive, tough and focused on material success, whereas women are supposed to be more modest, tender and concerned with the quality of life”.

Uncertainty avoidance (UAI) describes a society’s tolerance for unknown
circumstances and ambiguity. High uncertainty avoidance has the consequence of organizations promoting stable careers, producing rules and procedures; People strive after predictability by written and unwritten rules. Low UAI cultures are more tolerant towards deviants and principles counts less than practice.

Long-Term Orientation (LTO) versus short-term orientation. Values associated with Long Term Orientation are thrift and perseverance; with short term orientation is respect for tradition, fulfilling social obligations, and protecting one’s ‘face’.

### 3.2 Foreign entry mode selections

According to Shenkar and Luo (2004) entry modes are the way for entering a target market to achieve strategic goals underlying international presence in that country. Wild et al (2010) explain that “An entry mode is the institutional arrangement by which a firm gets its products, technologies, human skills, or other resources into a market.” The different company will choose different mode for their target market.

According to Wild et al (2010) what mode to choose depends on several reasons, including experience in a market, amount of control managers’ desire, and how big the market is. There are three categories of entry modes (Ibid):

- Exporting, importing and countertrade
- Contractual entry modes
- Investment entry modes

In this part, the authors mainly focus on the investment entry mode. Wild et. al, (2010) stated in the local operation, investment entry modes entail direct investment in plant and equipment in a country coupled with ongoing involvement. Now let us explore three simple forms of investment entry mode

- Wholly Owned Subsidiaries
Joint Ventures

Strategic Alliances

**Wholly Owned Subsidiaries**

The wholly owned subsidiary offers managers the highest level of control and the possibility to make their decisions. It comes to acquisition get faster access to production, local knowledge, established brand name, distribution channels, and customers (Wall & Rees, 2001). However, establishing a wholly owned subsidiary is complex, expensive and takes more time. The main disadvantages are that this mode requires large investment and a high level and long-term commitment (Shenkar & Luo, 2004).

**Joint Venture**

The most common foreign entry is through a joint venture (Shenkar & Luo, 2004). It is special type of strategic alliance including build up a new entity is jointly owned and conducted at least two companies (Hollensen, 2004). In international joint ventures, between a domestic and a foreign multinational firm, while the domestic firm offers a knowledge of local conditions, access to distribution channels, etc., normally the MNC supply the advantages technology, knowhow of management and capital, access to finance, etc (Miller et al., 1996). Mukherjee and Sengupta (2001) explain that in the joint venture the instability of it possibility because of the partner of the foreign joint venture and other firms build up fully owned subsidiaries, and show the different kinds of control structure.

**Strategic Alliances**

A Strategic Alliance is a formal relationship between at least two parties to seek a set of agreed-upon goals or to meet a critical business need while remaining independent organizations. (Kale P, Singh H, & Perlmutter H, 2000) Strategic alliances have gradually become a significant component of companies’ global strategies used by
business managers to achieve various strategic goals (Judge and Dooley, 2006; Mockler, 2001; Patel, 2007). The cooperation between international organizations can take many forms, and known as Strategic alliances, where the business arrangements are founded to create mutual benefits (Griffin & Pustay, 2002). Although numerous studies related there are still defects in the knowledge base of the partner selection criteria (Doherty, 2009; Evans, 2001; Holmberg and Cummings, 2009), some of strategic management scholars still advise that select the right partner is a key determinant of strategic alliance success (Dong and Glaister, 2006; Shah and Swaminathan, 2008).

3.3 Business Legal Structures

The national business environment refers to factors of economic, political, and social/cultural conditions. Based on the business environment, companies’ structures and behavior are influenced by their national business environment (Henisz, 2004; Scott, 1995). Before entering the target market, the entrepreneurs need to be sure which legal structure will best suit the demands of the venture (Kuratko, 2009). So, it is very important for entrepreneurs to think about the formation of the business. The sole proprietorship, the partnership, and the corporation these are three basic legal forms of organization (Kuratko, 2009; Mariotti & Glackin, 2010).

3.3.1 Sole proprietorship

One person who owns and operates a business is called a sole proprietorship (Kuratko, 2009). Besides having only one owner, there is no distinction between the personal estate of the owner and the business estate; it is the most important aspect of a sole proprietorship. That is because the business is not a separate legal entity. The owner conducts the business in his or her own personal capacity and does not have to register the business as a legal entity. (Nieman, 2006) The profit of the protection
offered by a separate legal entity leading to limited liability is not available to sole proprietors (Nieman, 2006), this individual has unlimited liability (Kuratko, 2009). If the company meets the financial crisis and finally bankruptcy, the owner may be forced to sell whatever assets would satisfy the creditors.

The advantage of a sole proprietorship is that it is relatively easy to start (Nieman, 2006; Kuratko, 2009; Mariotti & Glackin, 2010). Compared to other forms of business, there are fewer government regulations. So sole proprietors can making fast decisions and control vested without interference from others. A sole proprietor can keep any benefits from the business; the proprietor does not need to share benefits with others. (Kuratko, 2009; Mariotti & Glackin, 2010) The most significant disadvantage it is unlimited liability, which means the owner liable in his or her personal capacity for all their actions, can lose their personal assets such as a house during the business (Nieman, 2006; Kuratko, 2009). The operation of a sole proprietorship depends on one person, it can be hard to raise enough money or obtain long-term financing. Due to some person’s limited viewpoint and experience, leads to the odds of failure are high. (Kuratko, 2009; Mariotti & Glackin, 2010)

### 3.3.2 Partnership

Mariotti & Glackin (2010) state that a partnership consists at least two holder who make the decisions of the business and undertake the benefit, deficit, property, and responsibility. That means any partner can be in charge of the debts or judgments, even those happened by their partners. To prevent any misunderstandings and disputes, it is best to have a partnership agreement in writing and drafted by a lawyer (Nieman, 2006). Because, for want of other agreements in writing, the courts assume equivalent partnership, that means equal share of benefit, losses, and other aspects of the business (Kuratko, 2009). The limited partnership is an exception. In the daily operation of the business and have, the limited partners have no official say (Mariotti
& Glackin, 2010). As the same with Sole Proprietorships, a partnership is also not a separate legal entity, so between the estates of the individual partners and the partnership, there is no distinction. Each partner does not have the protection of limited liability, and held responsible for paying debts. (Nieman, 2006)

Compared to sole proprietorship, partnerships are growth and performance facilitated, and they often receive more funds and some better skills, each partner is motivated to do their best effect to a business by directly share the benefit. As we know, partners can bring different strengths and skills to a business, that is can help the investment succeed. On the other hand, partners can support and advise each other. However, the disagreements between each partner can become unpleasant; even destroy the partnership, the friendship and the business. (Kuratko, 2009; Mariotti & Glackin, 2010)

3.3.3 Corporation

A corporation is considered a legal “person,” or entity (Mariotti & Glackin, 2010). It is invisible and intangible and only exists in relation to the law. A corporation is a separate legal entity (Kuratko, 2009). There are several kinds of corporations as below: (Mariotti & Glackin, 2010)

- **C Corporation**

  Under the law, it has rights and responsibilities to buy and sell property, enter into leases and contracts, and be prosecuted. Called “C Corporation”. Lots of large and small companies are C corporations. The company sells ownership as shares of stock. After the shareholders buy the stock, they can vote on important company decisions. The C corporation can sell more stock or secure loans to raise capital.

- **Subchapter S Corporation**
The maximum number of stockholders for this kind of corporation is 75. It provides lots of the limited-liability protection of the C Corporation, but the income of Subchapter S corporate is only taxed once – the same with the personal income of the owners.

- **Professional Corporation**

  Accountants, lawyers, doctors, and others certain professionals can form corporations. Professional Corporations are subject to some special rules, and cannot protect individual members from malpractice liability, but others member of a Professional Corporation from liability arising from the negligence of one individual member.

- **Nonprofit Corporation**

  A Nonprofit Corporation is build up for a special target, typically with a specific mission to improve society. Such as museums, charitable foundations are examples of Nonprofit Corporations. For a Nonprofit Corporation, there are no individual shareholders and any benefit are must go for the mission.

- **Limited Liability Company**

  The Limited Liability Company combines the best characteristic of partnerships and corporations and probable a good choice for small business with a limited number of owners. For the Limited Liability Company, the income taxed is the same with the personal income of the members, and the lawsuits are protected the personal assets of the members. The most important is the Limited Liability Company has many choices to make it as a flexible type of legal entity.

  The difference between sole proprietorships and partnerships, the holders of a corporation cannot have his or her personal capital taken to pay business lawsuit settlements or debts. The corporate debts only can pay by the assets of the corporation. Corporations could publish stock to raise money, for generally speaking, the company
sells pieces of ownership to stockholders. However, because a corporation is a legal entity, it must pay the income tax on its earnings, and then the stockholders must one more time from the dividends.

### 3.4 Steps in the entrepreneurial process

When entering into a foreign market, after knowing the business environment, the entry mode and legal structure in that country, following is the concrete steps in the entrepreneurial process. It’s a specific process in the entrepreneurship as well as a comprehensive process to establish the enterprise. This theory will focus on the insights of entrepreneurial process. It will mainly introduce Klofsten (1994) and Delmar & Shane (2003)’ views towards entrepreneurial process, and compare the steps related to discovery process and exploitation process.

Starting up a new business or establish an enterprise is a process instead of an event. Different researches have indicated that this process entails a series of behavior and activities, which will last for several months and even years. Furthermore, business start ups or enterprise establishments do not all follow one or the same process. (Carter and Jones-Evans, 2006)

#### 3.4.1 Klofsten’s cornerstones

When Carter and Jones-Evans (2006) research the enterprise and small business, after comparing different entrepreneurial process theories, they choose Klofsten (1994) eight “cornerstones” of business development as the model to research the steps in the entrepreneurial process.

The steps are as follows:
1. **The business idea.** A clear idea should be developed according to the opportunities. Make sure the business idea is based on what consumers need or want, and have the source of resources. Concerning what the company will offer and how the company to create the value.

2. **The product.** Shane and Venkataraman (2000) point out that a functional product or service is the essence of entrepreneurship. When entrepreneurs start the business or establish the enterprise they must choose a competitive product or service.

3. **The market.** Define the target market. It means make clear which group of people or organization will be interested in buying a given product or service and has the resources to buy it. Other scholars emphasize that when the product or service is innovative, the market may need to be created before it can be defined (Sarasvathy, 2001)

4. **The organization.** Organization creation is vital for the business and enterprise. Organization coordinates the purchasing, production, marketing, financing and distribution etc. the whole series of activities to serve the market. Gartner and Carter (2003) have emphasized the eminence of organization creation in the entrepreneurial process.

5. **Core group expertise.** The expertise of the core group is crucial for the business’s success. It determines the company’s managerial and developmental level, and direct affect the quality and research of the products or services.

6. **Core group commitment.** The core group must have sufficient commitment to start up the business or establish the enterprise. Many scholars demonstrated the importance of passion and tenacity in the entrepreneurial process.

7. **Customer relations.** Customer satisfaction and customer loyalty are important for
the new business. At the beginning of the business, trustful relationships with the prospective customers have to be developed.

8. Other relations. Other relations also have to be developed. For example, the relations with suppliers, investors and government agencies. Davidsson and Honig (2003) illustrate that it is very important to make progress in the start-up process.

3.4.2 Delmar and Shane’s process steps

Klofsten (1994) emphasizes the importance of not neglecting any critical dimension. Other scholars, like Delmar and Shane (2003), suggest that a certain sequence of activities leads to better results.

Delmar and Shane (2003), based on interviews with expert entrepreneurs, suggest the following sequence of start-up behavior is advisable.

- Write a business plan.
- Gather information about customers.
- Talk to customers.
- Make financial projections.
- Establish a legal entity (i.e. register a sole proprietorship, partnership or Limited Liability Company).
- Obtain permits and licenses (as needed).
- Secure intellectual property (e.g. patents, trademarks, industrial design protection, copyright, etc.) as far as possible.
- Seek financing.
- Initiate marketing.
- Acquire inputs.
3.4.3 The discovery process and exploitation process

Discovery is about developing business ideas and business ideas are the creations of individuals’ minds. They may or may not reflect external conditions that make them viable. Discovery is used for the ideas side of business development. (Carter & Jones-Evans, 2006)

Exploitation is used for the realization side. The exploitation process referred to here is the attempted realization of the value creation and appropriation potentials of the business idea. No entrepreneurial process is complete without exploitation. Exploitation activities make the start-up effort tangible and stakeholders committed to it. (Ibid)

Discovery and exploitation are complementary; neither of the two can be dispensed of. An entrepreneurial process may start with an idea or an opportunity for a profitable business (discovery). In the efforts to make the business happen and realize it is exploitation. In the process, some new ideas and changes (discovery) will lead to coordinate and adapt the realization (exploitation). Feedback from the exploitation leads to changes in the ideas and these adaptations will in turn affect how be exploited. Importantly, a balance is needed between the two processes.

In figure 2, the cornerstones and process steps discussed above have been listed and commented upon how they relate to discovery and exploitation.

Steps in entrepreneurial process as related to discovery and exploitation

<table>
<thead>
<tr>
<th></th>
<th>Klofsten’s cornerstones</th>
<th>Shane and Delmar’s process steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business idea</td>
<td>Write a business plan</td>
</tr>
<tr>
<td></td>
<td>Discovery. Conceiving and refining a business idea is the</td>
<td>Discovery. Developing a business plan is essentially the same as developing an</td>
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</tr>
<tr>
<td><strong>Product</strong></td>
<td><strong>Gather information about customers</strong></td>
<td></td>
</tr>
<tr>
<td>Discovery and Exploitation.</td>
<td>Discovery. Although behavioral rather than cognitive, this activity largely affects the business idea rather than being part of its implementation.</td>
<td></td>
</tr>
<tr>
<td>Conceiving of a product/service is an important part of the business idea. Developing a working prototype is part of exploitation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td><strong>Talk to customers</strong></td>
<td></td>
</tr>
<tr>
<td>Discovery and Exploitation.</td>
<td>Discovery and Exploitation.</td>
<td></td>
</tr>
<tr>
<td>Defining the market is part of the business idea. Approaching that market is exploitation.</td>
<td>Talking to customers gives input to idea development but is also a step towards convincing them to buy.</td>
<td></td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td><strong>Make financial projections</strong></td>
<td></td>
</tr>
<tr>
<td>Discovery and Exploitation.</td>
<td>Discovery. This exercise may lead to adaptations of the business idea but does not in itself take the emerging venture any close to market exchange.</td>
<td></td>
</tr>
<tr>
<td>An organizational plan is part of the business idea. Hiring people, distributing tasks are parts of the exploitation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Core group expertise</strong></td>
<td><strong>Establish a legal entity</strong></td>
<td></td>
</tr>
<tr>
<td>Discovery and Exploitation.</td>
<td>Exploitation. This is a necessary step in implementation. However, learning about particularities of the regulations for different legal forms may in some cases feed back on the business idea (i.e. discovery)</td>
<td></td>
</tr>
<tr>
<td>Matching the business idea with existing expertise is part of discovery. Cultivating or hiring management team expertises are aspects of exploitation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Core group commitment</strong></td>
<td><strong>Obtain permits and license</strong></td>
<td></td>
</tr>
<tr>
<td>It doesn’t really fit as part of either process. It can be an</td>
<td>Exploitation. This for some business is a necessary step in implementation.</td>
<td></td>
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<td></td>
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</table>
important input to either, or a result of matching of the business idea and the people, as well as an attractive plan for exploitation. However, learning about the aspects of the regulations for the particular type of business may in some cases feed back on the business idea (i.e. discovery)

<table>
<thead>
<tr>
<th>7</th>
<th>Customer relations</th>
<th>Secure intellectual property</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exploitation. Essential part of the exploitation process.</td>
<td>Exploitation. This for some business is a critical factor in value appropriation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>8</th>
<th>Other relations</th>
<th>Seek financing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exploitation. Developing relations is an important aspect of the exploitation.</td>
<td>Exploitation. It’s the implementation process to achieve the ideas.</td>
</tr>
</tbody>
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<table>
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<tr>
<th>9</th>
<th></th>
<th>Initiate marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Exploitation. The core of exploitation is to get customers to buy.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>10</th>
<th></th>
<th>Acquire inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Exploitation. Acquiring the resources is necessary for realizing the value-creating potential of the business idea.</td>
</tr>
</tbody>
</table>

Figure 2  (Carter & Jones-Evans, 2006)

On this basis, there are many ways to summarize the essential discovery and exploitation. One way to make sense of the figure and summarize it is to emphasize the following categories (Carter & Jones-Evans, 2006):

- Efforts to legitimize the start-up, such as creating a legal entity, obtaining permits and licenses, developing a working prototype of the product and developing relations with various stakeholders.

- Efforts to acquire the resources, such as core group expertise, financial capital,
intellectual property, and other inputs.

- Efforts to combine and coordinate all the resources through creating a functional organization.
- Efforts to develop demand through marketing and the development of customer relations.
4. Findings

The findings are presented by secondary source and primary data of interviews. We will describe the business environment in China and Sweden and demonstrate the legal structure in each country. Then present the interviews with Swedish companies Svenska Aerogel AB, Trihn Cash AB and Chinese companies Donghailong Environmental Protection and Technology Co., Ltd, Guangzhou Chunwei import & export Co., Ltd.

4.1 Business environment

4.1.1 Chinese business environment

- **Chinese Politics**

On 1st July 1921, the Communist Party of China (CPC) was established in Shanghai China. 28 years later, the CPC finally founded the People’s Republic of China in 1949. In China CPC is the ruling party. The activities are conducted by the Party within the framework of the Constitution of the PRC and the law. The Party has no right to over the Constitution and the law. The membership of the CPC increased from 70 in 1921 to over 73 million in 2007. The National Congress and the Central Committee is the highest leading body of the Party. (ChinaToday, n.d.). In China, despite the government influence on economy has declined in recent 10 or 15 years due to Chinese economy is on the way to market economy. Government intervene is still severe than the developed countries, the political risk would be a major influence for the international investors.
Chinese legal system

China is a communistic state. China’s legal foundation is based on a constitution. The current Constitution of the People’s Republic of China, the latest was adopted in 1982, is viewed as the highest source of law in China. The framework of the government is established by the Constitution, in addition to codifying the general principles of government and society and listing the fundamental rights and duties of the people of China. (ChinaToday, n.d.) 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. (Luo, 2002) When Li et.al (2010) generalize Chinese legal system, they point out the following characteristics: One is that the legal framework is difficult to define under the governance. Because China’s legal framework is embedded in the leadership of the party, and the communist party is the only ruling party in China. Another characteristic is “Parts of China’s legal principles are from the common law and civil law.” In the formation of laws, China was influenced by many factors such as the historical views, the socialism background and the impact on the society. So, the current Chinese legal seems to be a combination of traditional Chinese culture and civil law. In addition, the enforcement of law is not very well in China.

Chinese economy system

Pascal Lamy (2006), the World Trade Organisation’s (WTO) General Director, estimates China to be the third largest trading economy of today, behind the European Union and the United States. The economic system of a country included the processes and structure that it uses to distribute its resources and conduct it commercial activities. Without any nation is either fully individualist or fully collectivist in its cultural orientation. A centrally planned economy is a system in which the land of nation, factories, and other economic resources are owned by the government. China is a centrally planned economy system. The China government
makes decisions related to almost all economy which include who produces what and the price for the products, labor and capital. Central planning agencies specify production goals for factories and other production units, and they even decide prices. (Wild, et al, 2010) One reason for this is try to keep the balance of the supply and demand, to maintain the social economic development in healthy and stable. Luo (2002) argued that the government plays an important role in shaping country competitiveness in emerging market. It can intervene in the policy-making process; the government can take control the micro- and macro-economic business environment and also human resource. Daniels et al (2004) illustrate that China is a communist country trying to move from centrally planned economy to market, it is important for the enterprises understand the direction and speed of change and how these changes will affect their enterprises.

- **Chinese Culture**

**HOFSTEDE’S CULTURE DIMENSIONS**

![Hofstede's Culture Dimensions](http://www.geert-hofstede.com/)

<table>
<thead>
<tr>
<th>Country</th>
<th>PDI</th>
<th>IDV</th>
<th>MAS</th>
<th>UAI</th>
<th>LTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>80</td>
<td>20</td>
<td>66</td>
<td>30</td>
<td>118</td>
</tr>
</tbody>
</table>

From figure 3 we can see that China is a high Power Distance country, indicative that a high level of imparity of power and riches within the society. The index of Individualism is low. In this part, maybe because of the high level of stress on a
Collectivist society by the Communist rule, as compared to one of Individualism. China is a Masculinity society. The men in China are assertive, tough and focused on material success. For Long-term Orientation, the index is very high. That means overcoming difficulties with time. (Hofstede, G. & Hofstede, J., 2005)

China is a huge market and the people are not homogeneous. In China there is a complex diversity in culture as well as the different kinds of climate and geography. This creates various markets and it is wrong to target them all at the same time. The following concepts are important and to be somewhat familiar in many cases.

**ABOUT MIANZI AND GUANXI**

For foreign investor in China, they should more or less understand the concept of face (mianzi). It is about status, prestige, and how one is perceived in society. Normally, it is hard for foreigners to understand the power of face in China. Most of people think that it is very shameful if you lose your face. Face is very close to the concept of guanxi.

So far, having the right guanxi is still important in China. Guanxi can be a tool for you to help you achieve your target. Guanxi is a kind of network based on mutual trust and an exchange of favors, is based on a long-term method and is very concentrated. Guanxi is also personal, connected to one person, and networking is based on having a wider range of acquaintances.

**ABOUT GIFT**

In the past, munificent gift giving was an important part of Chinese. Today, lavish gift giving will be considered bribery, an illegal action in China, because in the Chinese business culture the official policy forbids giving gifts. Therefore, your gift may be refused. But, in many organizations, the attitudes for giving gifts are become relaxed. In the context of friendship, if you hope to give a gift for an individual, you have to do
it privately. In view of the strict regulations against bribery in Chinese business culture, never present an expensive gift to one person with the presence of other people. It will cause some embarrassment and probably cause some trouble for the recipient.

A gift can be acceptable in Chinese business culture to the whole enterprise, rather than an individual, if you follow the rules as below:

- Before the gifts exchanged, all the business should be done.
- Some special gift is from the enterprise you represent, you should explain the meaning to the receiver.
- Avoid expensive gifts, hence the enterprise will not feel obliged to reciprocate.
- Make sure the gifts given to people are the same level of importance. Otherwise, when they find out will cause some embarrassment.
- Different colors may have different meanings. Be sure you choose the right colors in the right time. For foreign investor, the safest option is put this task of gift-wrapping to a store or a hotel which offers this kind of service.
- Scissors, knives or any kind of sharp objects can be interpreted as the severing of a friendship.
- Clocks. Clock as a gift is associated with funerals.

(Chinese Learning Center, n.d.)

4.1.2 Swedish business environment

**Swedish Politics**

Sweden is a constitutional monarchy country with the King Carl XVI Gustaf as head. In Sweden, after the 2006 election, the twelve years of social democratic government ended. Now, there are four alliance parties—the moderates, liberals, center and Christian democrats which form the government. Sweden is a parliamentary
democracy and general elections are held every four years. The Swedish Parliament then appoints a Prime Minister who is entrusted the task of forming a government. The Swedish Parliament has 349 members. (Urbach Hacker Young International Ltd, 2008. & VINGE, 2009) Sweden has been a member of the European Union since 1 January 1995 but not a member of the European Currency Union. Sweden has the stable politics and is famous for its peace and harmony; it hasn’t been involved wars in recent 200 years.

Swedish Legal system

The Swedish legal system is based on statutory Law and supplemented by case law. Sweden has been a European Union (EU) member since 1 January 1995, thus it also affected by the European community law. Sweden complies with amount of international treaties and conventions, including the United States Convention on the International Sale of Goods (CISG). (Urbach Hacker Young International Ltd, 2008. & VINGE, 2009)

The Swedish legal system is stable and has a good balance among security, reliability, transparency and cost-efficiency. Normally it will only take two to three weeks to establish a foreign business in Sweden, the standardized contracts and documents make the procedures simple (ISA, 2010).

The lowest capital to start a limited liability company is 100,000 SEK. Foreigners are allowed to own 100% of a Swedish enterprise. The income tax rate that applies to both Swedish companies and Swedish branches of foreign companies is 28%.

Regarding employment, the employer could only cancel the contracts with employees for factual reasons. The cancellation could only be done in a certain way and the employees also have the right to a period of 1-6 months. The employer is liable to pay for the employees without factual reasons.
Companies could elect the prescriptive period as their financial year, the accounts need to be kept in Sweden and be saved for at least 10 years. Companies need to produce an annual report to be audited.

- **Swedish economy system**

  The Swedish economy system is a mixed economy, where the land, factories, and other economic resources are equally split between private and government ownership. In a mixed economy, the government tends to control the economic sectors that is considers important to national security and long-term stability. Such sectors usually include iron and steel manufacturing, automobile manufacturing and so on. (Wild, et al, 2010) In Sweden, the main industries are engineering, manufacturing (vehicles, aircraft, and electronic equipment), wood (paper, forest products), mining and steel (iron ore, steel and other metals), IT and new media. The government has the control of these sectors (VINGE, 2009). Many mixed economies maintain generous welfare systems to support the unemployed and provide health care for the general population. So is Sweden, as well know, Sweden is a famous country for its high welfare.

  Swedish official economic policies focus on stable central government finances and the national bank, focus on low inflation and price stability. Lack of corruption and being the 8th least corrupt country in the world is another attractive characteristic of the Swedish economy (ISA, 2010).

- **Swedish Culture**
HOFSTEDE’S CULTURE DIMENSIONS

As we can see from the figure 4, the index of Power Distance of Sweden is low. Low Power Distance leads to more responsibility taken, while high leads to more discipline. And Sweden is an Individualism society, individual expected to take care of him/herself and his/her closest families. As we know, Sweden is a feminine society, in a feminine society the relationship to people, rather than to god is most important. The index of the Long-term Orientation is low for Sweden. The Swedish are respect for tradition and fulfilling social obligations. (Hofstede, G & Hofstede, J., 2005)

MEETING CULTURE

Meetings abound in Swedish business life. The meetings are short but many. In Sweden, they emphasize the consensus process which called “förankringsprocessen” in Swedish. It’s a discussion process, everybody could express their opinion, and it’s a way getting everyone involved in everything. (Moon, 2008)

LAGOM

The Swedish word “lagom” essentially means “just right” or “adequate”, but it is not just a word, it’s a concept or mentality exists in Swedish culture also in the business. For example, Swedes seldom say yes or no. It means that instead of saying “ja” or
“nej” they say “nja” which means “yes but no but”. Because sometimes saying “yes” or “no” will lead to conflict, so Swedes replace them with “maybe”, “it depends,” “I’ll see what I could do.” In the meeting, everyone discussions and then they compromise. Everyone has harvest, not too little and not too much, no one wins and no one loses, but “lagom”. (Moon, 2008)

**WORK AND LIFE BALANCE**

Swedes are dedicated to keeping a healthy work-life balance. When they are at work they are effective, but not before 8:30 and after 16:00, because that’s their flextime, they need time for their own and for family.

One word that who wants to do business with a Swedish company needs to know is “fika”. “Fika” is a break during the working time, people could drink coffee and chat in “fika”, and there are usually 2-3 times each day.

Someone once said that if Swedes could give up their “fika”, they could retire five years in advance. Coffee and “Fika” is integral in Swedes work and life.

Punctuality is important for Swedes especially in the business. It’s common that Swedish employees work on time and leave on time, and have “fika” on time. (Moon, 2008, Porter, 2006)

**SHORTER CHAIN OF COMMAND**

Swedish companies have less hierarchy than many other countries. This means the manager is more open to the employees and the employees could have their comments and questions directly to the manager. In Sweden, majority workers belong to one of several labor unions. Because of the strong union, employees have the excellent working conditions; the unions are also committed to assure the employees feel secure at their work. (Porter, 2006)
Dos:

- Know the language. Even though English is commonly spoken in Sweden, it’s a good idea to learn some Swedish words and phrases. It is good to make your business getting started and more close to your Swedish colleagues and partners.
- Be on time. Punctuality is very important for the Swedes. Stick to your agenda and be on time. This is the way to show your respect to others and also put the importance to the business.
- Plan ahead. Make sure you give people enough time to prepare the meetings and works in the whole process.
- Give yourself time. When you start the business in Sweden, you need to follow the local custom and working style, be patient and prepare a back-up plan.

Don’ts:

- Use force. Easing the way into a new business relations or company takes time. Swedes are not so receptive to new plans or thought if
- Boast or brag. Swedes are modest and they don’t like to embellish their accomplishments.
- Show disrespect. Understand the Swedish culture and follow it when you do the business with Swedish. It means that you respect to your business partners. Before act, watch and listen to make clear of the situation. (Porter, 2006)
4.2 Business legal structure and entities

4.2.1 Chinese legal structure and entities

Since China’s accession to the WTO and more open attitude, the Chinese market attracts more and more foreign investors invest in China. In this part, the authors will discuss three kinds of Chinese entities; all of these three types of entities are available for foreign investor – Wholly Foreign Owned Enterprises, Cooperative Joint Venture and Equity Joint Ventures. Also, one option of establishing a Representative Office, but it is not an entity of its own. Another entity is the State Owned Entity. This entity is not available for foreign investor.

- Wholly Foreign Owned Enterprises (WFOE) – Waishang Duzi Qiye

The definition of WFOE has been found in article 2 of The WFOE Law – according to the relevant Chinese laws, those enterprises established in China fully owned by foreign investor(s). Those branches established in China by foreign enterprises or other economic organizations. (James, 2003) At the beginning, WFOEs were encouraged manufacturing activities were export orientated or introduced advanced technology.

Since China’s World Trade Organization (WTO) entry and the government of PRC relaxation of investment rules, foreign investors have been choosing to build up more WFOEs. In 2004, in the first three quarters made up about 67% of the value of new FDI projects in China. (Folta, 2005) According to WFOE Law, article 6-7, set up a WFOE must be approved before permitted to start by the State Council department. The Procedure for establishing a WFOE in China as bellows (some different depending on the location of the WFOE): (Kaizen Corporate Services Limited, n.d.)
Step 1: Reservation of the name of the WFOE Company
The investor(s), who come from abroad, should reserve a name for its WFOE with local Administrative Bureau for Industry and commerce. We called “name Pre-registration” in China.

Step 2: Project Proposal and Approval
According to the WFOE law and its Implementing Rules of PRC, before the final exam and approval, the local Administrative Bureau should do a Project Proposal Approval first. Actually, these two steps have been combined as one.

Step 3: Registration for Business License
In this step, the foreign investor should submit analogous documentation to the approval documentation for SAIC filling objectives. If the business license has been issued, under the PRC law the WFOE is deemed to be a legal person duly organized and existing. And have the full rights to do the business within the scope of its business license in China.

Step 4: Registrations with others government authorities
It is also necessary to register with other government authorities, for Example State or Local Tax Bureau, Foreign Exchange Control and so on. Some of the post-established as below:
(1) make the Office Stamp (Office Seal)
(2) open the bank accounts
(3) registration with the State or Local Tax Bureau
(4) application the code of enterprise and card
(5) registration with the Foreign Exchange Control Authority
(6) registration with the Custom

In China, the procedures of approval have been more relaxed in recent years. The relaxed attitude for WFOE could be a result of the WTO accession. There are 47% of
the total foreign investment made was in a WFOE in 2000. There are 66% of the foreign capital invested in a FDI was held by WFOE in 2004. Also, WFOE was the most common form of investment tool for FDI in 2004. In China, there are 70% of all companies with foreign owners were a WFOE. (The US-China Business Council, 2010)

**ADVANTAGES AND DISADVANTAGE OF WFOE**

According to Hill Charles (2007), a main advantage for foreign investor establishes a WFOE is they can absolutely management their enterprise, and nobody shares their benefit. Although some of the foreign investor are short of local knowledge that can be alleviated by employ a consultant and make use of qualified local managers. Now, the foreign investors prefer to undertake all risks by themselves rather than rely on their local partner. The WFOE is a good choice for many companies concerned with their technology transfer and are capable enough to compete on the China market on their own. The law of WFOE allows that the companies (even individuals) establish their enterprise without any local partnership. Also the law protects such of these enterprises.

- **Cooperative Joint Venture (CJV) – Hezuo Qiye**

Another version of joint venture in the Chinese legislation, called Cooperative Joint Venture. Recently, the laws governing the CJV are more like the laws governing the Equity Joint Ventures (EJV). The Law of the PRC on Sino-foreign Cooperative Enterprises (CJV Law) is the primary law. Just like the EJV law has a supplement in The Detailed Rules for Implementation of the Law of the PRC on Sino-foreign Cooperative Enterprises (The CJV Implementation Rules). (Wang, 2007)

In a Sino-Foreign Cooperative Venture (also named as Contractual Joint Venture, CJVs), the parties included may operate as separate legal entities and bear liabilities independently rather than as a single entity. A CJV could be registered as a limited
liability entity resembling an EJV in operation, structure, and status as a Chinese legal entity. (Gold-Tech Services Limited, n.d.)

There is no minimum foreign contribution required to initiate a cooperative venture, a foreign company is allowed to take part in an enterprise where they preferred to keep a minor shareholder. The investors’ contributions are not required to be expressed in a monetary value, include eliminate the equity joint venture process can be contributed like services, labor and resources. Benefits in a cooperative venture are not by investment share, are divided follow the contract of the cooperative venture. (Ibid)

**ADVANTAGES AND DISADVANTAGES OF CJV**

Investing in China in the CJV form has been popular over the years. The main advantage of CJV is the flexibility that the parties write all arrangement into their contract. Even make more flexible give some advantage for foreign investors with a hope to control. (Folta, 2005) The CJV form for foreign investors may not a best way for long term projects. Because after the foreign investors retrieved the investment and the expectant benefit, most of them will leave the venture. (Wang, 2007)

According to the law governing CJV, there is no required the duration of time. But required the time for parties enter a period of duration in the contract. In reality, the time of contract will extend further if applied for. The reasons for an extension must be clear in the application. But normally, if the foreign investors retrieved their investment and benefit, they will reject the application. If the foreign investors hope to increase their investment and other parties agree with the increment. (CJV Law of China, 2001)

- **Equity Joint Ventures (EJV) Hezi Qiye**

Another option for foreign companies to establish an enterprise in China, called Sino-Foreign Equity Joint Venture. It is the second most common way for foreign
companies to enter the Chinese market. The Law of the PRC on Sino-Foreign Joint Equity Enterprises (EJV Law) and the Regulations for the Implementation of the Law of the PRC on Sino-Foreign Equity Joint Venture (The EJV Implementation Regulations) are the two main pieces of legislation govern Equity Joint Ventures. (China Mining Association, 2006)

For the EJV, the law suggests to describe its characteristics as below although there is no clear definition. There must be a venture that a foreign and Chinese party contribution the capital. At least of 25% of the capital must be contributed by the foreign partner of the EJV. No minimum investment for the Chinese partner. Accordance with the law, the EJV mush established in China, and registered as a Chinese legal person and the form of the company is a limited liability company. In the EJV, according to the equity split, the foreign party and Chinese party share the investment, control, risk and benefit. (EJV Law of China, 2001)

After a joint venture has been registered, the entity is considered a Chinese legal entity and must follow all Chinese laws. A joint venture as a Chinese legal entity is free to employ Chinese nationals without the interference from government employment enterprises as long as them follow the Chinese labor law. Also allowed joint ventures buy land and build the buildings for themselves, prevent the privileges to representative offices. （Gold-Tech Services Limited, n.d.）

**ADVANTAGES AND DISADVANTAGES OF EJV**

The Chinese government encouraged foreign investors invest in China into EJV form over the years. The EJVs will have some special received tax incentives and special treatment. So, the main advantage for foreign investors invest into the EJV form can reduce the business risk. Compared to foreign investors, because the Chinese partner know the system, can directly and more easily to consult with the necessary governmental bureaucracy. That will raise the speed of the process of efficiently being able to enter the China market. The foreign investor also can access to the business
and production network of Chinese partner, that is can raise the chance of success. A joint venture with a governmental supported (such as SOE enterprise) that means the foreign investor can take advantages of the governmental assistance. (Wang, 2007)

The foreign investor into EJV in China will cause some conflict of profit when they control management and production issues. And the foreign investors have to transfer the valuable technology and know-how that means their Chinese partner can possess it. Because in China, the government has powerful to control the local companies, invest into EJV also means the foreign investor give some control of the company to the government. (Ibid)

The steps for registering a Joint Venture and Cooperative Enterprise are the same, the procedure are as follow:
1. Enterprise name pre-approval
2. Joint venture project / cooperative enterprise approval
3. Approval of the establishment of joint venture/ cooperative enterprise
4. Acquire the National Organizational Code
5. Acquire the Approval Certificate for Foreign Investment Enterprise
   Submit the copy of the national organizational code assignment notification
6. Industrial and commercial registration (the Industry and Commerce Bureau)
   （Source: National Hefei economic and technological development area）

4.2.2 Swedish Legal structure and entities

The major structures of business organization in Sweden are the limited liability company (aktiebolag-AB), branch (filial), partnership (handelsbolag - HB) and limited partnership (kommanditbolag - KB) (Urbach Hacker Young International Ltd, 2008). Among these, AB, HB, KB are legal entities but a branch is just a divisional office.
The most common and effective form to establish a business in Sweden for a foreign company is limited liability company (aktiebolag-AB). Swedish legislation has long accepted limited liability companies with a sole owner (wholly owned subsidiaries), enabling not only large corporations but also small businesses to utilize this format. AB is a good option for foreign investors pursuing the Swedish market. In addition, the thesis is limited to discuss the small and middle sized enterprise, so here we mainly introduce the aktiebolag-AB legal entity.

**Limited liability Company (aktiebolag-AB)**

Aktiebolag is the legal entity that most foreign enterprises adopt when they start the business in Sweden. The entrepreneurs could establish the company by themselves or purchase an off-the-shelf company. (ISA, 2010)

Limited liability company (aktiebolag-AB) is a legal entity that draws a clear distinction between the company and its owners. The shareholders are not personally liable for the obligations of the company. Limited liability company (aktiebolag-AB) could be divided into two forms: private and public.

**Private aktiebolag**

Private companies cannot offer the shares to the public. They must have a share capital of at least 100,000 SEK. A limited liability company (aktiebolag-AB) must have at least one director and one deputy or alternative director. In private companies, if there are fewer than three directors, at least one alternate director must be appointed. The number of directors and alternate directors must be stated in the articles of association (bolagsordning). A managing director is not mandatory in a private limited liability company. The chairman of the board of a private limited liability company may also serve as managing director. A chairman can only be appointed if the board has more than one member.
PUBLIC AKTIEBOLAG

Public companies can issue shares or other securities to public. They must have a share capital of at least 500,000 SEK. Public companies must have at least three directors and a managing director. In public companies, if there is more than one proprietor, shareholders must hold the meeting annually. The shareholders’ meeting has the highest decisional power. There are no rules concerning the number of proprietors in Sweden and the demand to have a Swedish partner. (ISA, 2010)

There are close to 300,000 aktiebolag in Sweden but only 1100 are registered as public. Most foreign companies choose to set up the private limited liability company in Sweden. There are no special requirements for a foreign companies to set up an aktiebolag in Sweden, the procedure are the same for the foreign and native investors. (ISA, 2010)

BUYING AN OFF-THE-SHELF COMPANY

The most common and easiest way to establish a private limited liability company in Sweden is to purchase an off-the-shelf company from a company agent or law firm. Many business services firms have available off-the-shelf companies which could help a fast start-up process.

Off-the-shelf companies are new businesses and have no previously trades or engaged in commercial activity, and it’s incorporated and registered ready for sale. Purchase an off-the-shelf company means the company could start the business as soon as the buyer signs the purchase agreement and transfer the capital (minimum 50,000 SEK) to the bank account which is specially opened for the company. Then the new shareholders must hold a meeting to change the articles of association, the company name and so on. The changes should be registered to the Swedish companies registration office (Bolagsverket). The cost for purchase an off-the-shelf company is
about 10,000 to 25,000 SEK and depending on the services provide.

A majority of foreign companies choose the “off-the-shelf” company when they set up a limited liability company (aktiebolag).

**Branch**

Branch (*filial*) is another common structure the foreign company will adopt to establish an enterprise in Sweden.

A foreign company may start the business activities in Sweden without opening a limited liability company by starting a Swedish branch. The branch is not a separate legal entity but is one part of the foreign-based company and organized to conduct business in Sweden. A foreign-based company can only have one branch in Sweden. A branch is independently run in Sweden in compliance with the Foreign Branch Offices Act. Both must be registered at the Swedish Companies Registration Office (*Bolagsverket*) and the Swedish Tax Agency (*Skatteverket*). (ISA.2010)

### 4.3 Interview with Svenska Aerogel AB

As early as in 1931, the first aerogel was made by Samuel S Kistler, and the results were published in the scientific journal Nature. In 2000, the Svenska Aerogel AB was mainly founded by four people, Christer Sjöström, Peter Norberg, Eje Näslund and Lars G Lindahl (*Establish a legal entity*). In order to implement a project aiming to develop a gas filter medium based on so-called aerogel. So far, aerogel is produced in an autoclave following the so-call sol-gel process. Autoclaving is costly, intricate and includes batch-wise production. However, Svenska Aerogel AB has developed a new and significantly simplified method to produce a material similar to aerogel called Airogel. Initially, the purpose was to develop a recyclable gas filter medium. The result became an aerogel very similar to what is still produced today. It was
transparent, had very low density and was very prorous and gave rise to great interest among academic researchers. For this research activity, Aerogel AB received support from NUTEK's effort "Strategic technology development in Sweden" (STRATUS). In May 2007, Aerogel AB was granted a Swedish patent covering the AIROGEL material and manufacturing procedure. The international applications are also filed with the EPO as well as in China, USA and Canada. (Aerogel. 2010)

**Business idea / (Write a business plan) --** At the beginning, a good business ideal is very important for the company. As we know, the issue of environment becomes a serious problem. In order to protect our environment, we need to save our resources and R&D some new products, such as Airogel. After we interview Christer and Peter, we know that Svenska Aerogel AB is a R&D company, their business ideal is commercializes various applications of Airogel, their patented version of an aerogel – like material. And the commercialization is finished in close cooperation with industrial partners representing different kinds of business areas.

**Product / (Initiate marketing) --** Now, their business ideal becomes reality. Svenska Aerogel AB has developed the product Airogel. They can create a lot of different commercial products with the patented Airogel. The product Airogel has many useful technical and commercial properties, such as high insulation properties, cannot burn, environmentally friendly, adaptable to all kinds of pollutants and so on. They launched in the Swedish market already.

**Market--** The product Airogel has very good market prospects, because the molecular filtration market is well established and is growing steadily. Normally, the traffic, fossil-fuelled power plants and other local sources of pollutants will influence the air quality in city areas. Therefore, the uses of filtration products to improve the air in the built environment, such as school and office, will become more and more common. About the future applications for Airogel involve media for liquid filtration and more sophisticated types of insulation, like Vacuum Insulation Panels (VIP), maybe based
on recycled filter media. Although they are in the build-up phase, they already have been planning about going international. The strategy is in close cooperation with industrial partners representing different business areas. They want to focus on their core competitive advantage, and to cooperate with partners with other aspects, such as production and industrial marketing outside Sweden, which they have insufficient competence and resources to do.

Secure intellectual property-- During the interview, they mention that based on Swedish market, and then extend to abroad. They also very interested in the Chinese market. Because China is now a world factory, various kinds of pollution become serious, the product Airogel is suitable for Chinese market, also can help them to open the Chinese market. Now, they consider entering the Chinese market, and will like to choose cooperative strategy with local company. So, Svenska Aerogel AB was granted a Swedish patent covering the Airogel material and manufacturing procedure. Since then applications have been entered also in the whole EPC-area, USA, Canada and China.

Core group expertise-- For a company, the most important thing is the core group expertise. It determines the level of the company's managerial and developmental potential, and also influences the quality and research of the products (Girogel). Svenska Aerogel AB was mainly founded by Christer Sjöström, Peter Norberg, Eje Näslund and Lars G Lindahl. All of them are very professional. Below is their background introduction:

Christer was graduation from The Royal Institute of Technolgoy (KTH), and holds a doctor’s degree in the field of building (material) technology. Now they are doing research in Högskolan i Gävle, department of building environment. He worked with the research and development, primarily focused on material issues, such as research engineers, scientists and research leaders in private industry and institutions.
In 1979, Peter Norberg holds a Master of Science degree in engineering physics with materials science communicators from Uppsala University. In 1999 holds a PhD degree in a technology building materials long-term properties at The Royal Institute of Technolgy (KTH). He is currently a researcher at the University of Gävle, Department of Built Environment. He is also a founding member of Pentiaq AB, which holds a unique method for ventilation measurement with passive ‘sniffer dog technique’.

Eje Näslund was trained to be electrical engineer of ventilation and started Electric & Vent AB. Later started Kemfilter AB to developed products for the purification of air. Now he owns Kemfilter and Pebab and is a partner in EJCOM group consisting of the following companies: EJCOM in Söderhamn, EJCOM in Vasteras, EJCOM Innovation in Vasteras, STORM in Vasteras, EXCAL in Söderhamn and ERRI in Östersund.

Lars G Lindahl was educated in Marine engineering and was Non-commissioned officer in the Navy. He was Certificated Chief Engineer and worked as a sales engineer. He is the author of articles and books dealing with ventilation and air cleaning and has engaged in strong-loop issues. He sits on the board of several companies and is a member of the City Council in Söderhamn.

Core group commitment-- Besides, they cares about corporate social responsibility (CSR) and want to keep their company’s ‘green’ image by not doing something else then being ‘green’. These are their core group’s commitment.

4.4 Interview with Trinh cash AB

Helen, the CEO of Trinh cash AB and is only 24 years old. We had an e-mail interview with her twice. Based on the first e-mail interview, we send another e-mail
to discuss some detailed issues with Helen and she explained very clear and enumerated examples to us by the second e-mail. Trinh cash AB was founded in 2006 and has 10 employees now. *(Establish a legal entity)* It’s a company which mainly imports food from Asia into Sweden. *(Product & Market)* Helen told us it’s a family business, their family start to do business in Sweden since 1984. *(The source of the business idea)* At the beginning they established the enterprise named Asian food AB in Gothenburg, which is run by her father and is still working now. She started learning to do the business from her father when she was 9 years old. Now, she manages the new company Trinh cash AB in Stockholm. Helen explained that aktiebolag (AB) is the most common legal entity of the company in Sweden and their legal structure of the company is private limited liability company (aktiebolag-AB). She spoke half in jest, it’s just the small business, the family business, and they are not going to issue the shares and stocks.

Helen said that it’s very easy to register a company in Sweden. The procedure to establish an enterprise is the same for the foreigners and natives. Just register in bolagsverket—the Swedish companies registration office, and open a bank account deposit with 100,000 SEK, and you will get your VAT number, then you could start your business. VAT number actually is a code of the company, in Sweden there is a website [www.allabolag.se](http://www.allabolag.se), which is openness and transparency with all the registered companies’ detailed information. On this website you could input the VAT number and check companies’ information and the turnover. Helen said it’s convenient to know the customers and the status of the company.

She showed us Trinh cash AB’s company information on this website. It includes basic information of the company and also the turnover. They established the company with 100,000 SEK in 2006, and the turnover is over 32 million in 2007, over 37 million in 2008 and over 50 million in 2009 respectively.

Helen told us that Sweden is one of the high tax countries. As aktiebolag (AB) they
pay 30% of the net profit. She also mentioned that it’s not cheap to hire people in Sweden. For example, 20,000 SEK is the normal salary per month in Sweden; employers have to reduce 30% tax before they pay to their employees in their accounts, which means 6000 SEK need to hand in to the Swedish Tax Agency (Skatteverket) and 14,000 SEK will be on the accounts. The companies have to pay another income tax which called “inkomstskatt” in Swedish on 30% as well. 30% of 20,000 SEK is 6000 SEK. So actually to hire one person the company needs to pay 26,000 SEK (14,000+6,000+6,000=26,000).

Helen said because their family is Chinese Swedish, they have the background of both Chinese and Swedish; it will be convenient to do business related with two countries and to communicate. So they establish the food import and export company to import the food from Asia and offer to the local restaurants and shops. Now there are more Asian restaurants and immigrants in Sweden, their market is growing and the turnover is increased year by year. (Market) About the customers, she said most of their customers are regular customers, because they have doing business in this industry for a long time, the customers all trust and believe them. She appreciates her father because her father taught her a lot in this industry and offered a good business relation to her. (Customer relations & other relations)

4.5 Interview with Donghailong Environmental Protection and Technology Co., Ltd

Donghailong Environmental Protection and Technology Co., Ltd is the national high-tech manufacturing enterprise, established in 2004. The company with advanced producing equipment and perfect testing condition specializes in the research, development, production and retail of different types of solar lamps, LED application products, special power inverters used in communicating, and high frequency wireless communicating products. And the company also has the designing and installing
capacity of solar & wind hybrid power system. The company is committed to supplying their customers with superior quality solar products. There are about 200 employees in the company now.

**Business idea:** Miss Kuang told us they focus on the whole Asian market at the beginning when they start the business. Because it’s sunny in Asia, the time of sunshine is long, and in many island frontiers, the infrastructure is poor and lack of regular electricity, so additional non-conventional energy is greatly needed. It shows great business opportunities in the solar photovoltaic industry.

**Product:** The scale productions are mainly: LED lighting application products, solar lighting application products, solar traffic application products, solar power products and household products such as wind and solar more than 50 series of products. Miss Kuang told us they emphasize the R&D of the products. In 2006, they hired the Chinese Academy of Sciences and Chinese PV Association more than 20 scientific composed an expert team to offer the technical support for the industrial innovation, technology upgrading and sustainable development.

**Market:** Miss Kuang said when they founded the company and started the project, they started to promote the products to Asia markets. They have another director who is mainly responsible for the local market, and she is responsible for the abroad markets. Firstly, they mainly distributed in Southeast Asia, the Middle East and South Asia markets. Nowadays, the company solar home power products, solar outdoor lighting products and solar traffic series of products are widely used in Thailand, Vietnam, Philippines, Pakistan and other countries in Asia. In order to meet the needs of the Asian market, the company plans to establish two regional operations centers in Singapore and Dubai to enhance the comprehensive integration of the Asian market business.

Miss Kuang said they entered into European market not very long, they became
involved in the European market in June 2005. The company’s photovoltaic applications sales markets are mainly in Italy, Germany and the United Kingdom and other countries. They have cooperated with the local partners to fully explore the European market. They established a subsidiary in Canada with local partner aim to achieve the strategic goal of product localization. Through the R&D design to improve the competitiveness of products and gradually open the American market.

**Customer relations:** Their dedication towards total quality management, innovation and customer service, ensures the satisfaction of their customers. The mission of their company is: developing green energy and benefiting humankind. Over these years, with the spirit of constantly innovating by their perfect, loyal and efficient team, all employees concentrated on the concept of the professional, business sincere service, and won praises from the users. On the globalization of the economy today, their strategy is: catering for the domestic market and adopting an international outlook.

The products and the manage team are their competitiveness, Miss Kuang said, No matter where you start the business, products are the core competitiveness. When you start a business, the preparation work is important, you need to have the competitiveness products and organization, consider about the market, the finance, the customers, the competitors and so on. Miss Kuang said in 2004, they registered the company for 50 million Yuan, and the capital to register a company is different in different industries. About the procedure, you need to register at the Administrative Bureau for Industry and commerce; they have the instructions for register. Also, you need to hand in the project, register for the license and register to other government authorities.

Discussing polices, she said the business polices are not the same for the local companies and foreign companies. Before, in order to attract more foreign investments to come to China, there are many privilege for the foreign companies and the tax is much lower than the local companies. But recently the government has
changed the policies; the tax is approximately the same for the foreign companies and local companies. But there are still some detailed policies for different situations. They have to hand in 25% tax now. As to the entry mode, Miss Kuang said it’s hard to determine one entry mode for the foreign companies; it depends on the company’s property. In China, mostly companies are SMEs and are Wholly Owned Subsidiaries like Limited Liability Company. Foreign companies could choose wholly owned subsidiaries. On the other hand, joint venture and strategic alliance are also good choices, because many of her friends are cooperate with foreign companies, for the foreigners, this mode could reduce the risk, for the local companies, they could get more resources. It’s a win-win situation, very good.

4.6 Interview with Guangzhou Chunwei import & export Co., Ltd

Guangzhou Chunwei import & export Co., Ltd formerly is a snacks chain store, first established on 8th February 1997. Because of the rapid development of the business, they establish Guangzhou Chunwei import & export Co., Ltd in 2007. It’s a food enterprise with a considerable scale. For many years, since its establishment, the company has been consistently introducing advanced production equipment and management modes to enhance its production technology level, employees' quality and establish a modern enterprise management system. It has created its own brand names in the fierce market competition featuring unique flavors and superior sense of taste, which are popular with consumers. They registered the company with 500,000 RMB and there are 20 employees.

Products: They import products from other countries and also export snacks to other countries. The main imports and exports are: cookies, drinks, preserved fruits, chocolate, all kinds of wines, spices, dried meat imports, candy, inflated food and nuts.
Markets: They have developed in Europe and America, Korea, Japan, Singapore, Malaysia, Thailand, Vietnam, Germany, Italy, Switzerland, Philippines, Denmark, Indonesia, Hong Kong, Macao and other countries and regions.

Customer relations: They always abide by the principle of "Quality is the first, customers are the god". Through many years' efforts, their brand has enjoyed a high reputation in Chinese food industry. The company keeps their promise of “our excellent product and service are satisfied by all the client requirements, and insist on the Guideline of “continuing enterprising, the best quality and good service for Customers”. The products are popular among domestic and foreign customers and they have good customer relations.

Core group expertise: They have been engaged in this industry since 1997, and have effective teams and rich experiences.

Mr Li said the services and experiences are the core competitiveness for them. The lowest register capital for an import & export company is 100,000 RMB in China. The register capital will be different in different industries. For the general taxpayer, the value-added tax (VAT) is 17%. In addition to pay the VAT, the general taxpayer also needs to pay corporate income tax and local levies. The income tax is 25% and local levies have a little difference in different areas.

Discussing the entry mode, Mr Li said they choose to stay in domestic markets and import and export the products directly, they do not have companies in foreign markets. He explained this way could reduce the costs, risks and uncertainties. Most companies in China are registered in limited liability company this legal structure. Because there are many private companies and family companies in China, the management is flexible and the cost is lower. For the private companies and family companies, the Sole proprietorship is a good choice, the enterpriser could determine all the business in the company and don’t need to share the profit.
About the entry mode for foreign companies, he said many foreign companies chose wholly owned subsidiaries and joint ventures in China. These two are good for foreign investors. The wholly owned subsidiary offer managers the highest level of control and the possibility to make their decisions. It could keep the same brand image over the world. The joint venture could share the useful resources and reduce the risks. Mr. Li said the policies are different for the local companies and foreign companies, foreign companies have more privilege. But in recent years, the policies have been changed somewhat and are in a transition phase.

When talking about the steps to establish enterprise, Mr. Li said the core products or services are important. You have to get the resources to start and operate the enterprise, like: products, services, organization, the market, customer networks and so on. The resources will have little difference for different companies and different industries, but the key factors are essential for every enterprise. To register one company many procedures need to be followed, such as reserving the name at the Administrative Bureau for Industry and commerce, and then propose the projects, register for the license and register to other government authorities. At the Administrative Bureau for Industry and commerce, you could get some information.
5. Analysis

In this part, we will combine the theoretical framework and findings to compare the business environment and legal structure between China and Sweden, and connected with the interview to analyze how to start the business in China and Sweden.

5.1 Business environment comparison

Political China is a communist state and reigned by communist party. The communist party is the only ruling party in China, the National Congress and the Central Committee is the highest leading body of the Party. Sweden is a constitutional monarchy with four alliance parties—the moderates, liberals, center and Christian democrats which formed the government. Chinese government intervention is more severe than in Sweden, the political risk would be a major influence for the international investors invest in China. Comparatively, Swedish political is more stable and democracy.

Legal system China’s legal foundation is based on constitution. The legal system is comparatively week and is increasing improving in China. The political, social, historical and culture factors affect the implementation and enforcement of the laws. Swedish legal system is based on statutory law and supplemented by case law and is also affected by the European community law. The Swedish legal system is stable and has a good balance among security, reliability, transparency and cost-efficiency.
**Economy system** China is a centrally planned economy system where the land of the nation, factories, and other economic resources are owned by the government. The government plays an important role in the economy and makes decisions related to almost all aspects, including who produces what and the price for the products, labor and capital. Sweden is a mixed economy system where the land, factories, and other economic resources are equally split between private and government ownership. Government controls some main industries. It maintains generous welfare systems to support the unemployed and provide health care for the general population.

**Culture**

As shown in figure 5, In Hofstede (2005) five culture dimensions, China is a country with high power distance while Sweden with low power distance, which indicates that China has a high level of imparity of power and riches within the society while Sweden is a equality society and with less hierarchy. The index of Individualism is low in China but high in Sweden. Individual expected to take care of him/herself and his/her closest families. China is a typical collectivism country. The masculinity in China is high while very low in Sweden, which indicates that Sweden is a feminine society and the relationship is most important to the people and opposite in China. The long-term orientation is high in China but low in

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*Figure 5* (www.geert-hofstede.com Accessed 2010-5-15)
Sweden, which shows that the Chinese respect long term objectives and overcome the difficulties over time and Swedish respect tradition and fulfilling social obligations.

In China, “mianzi” and “guanxi” are common cultures existing in society; they pay attention to the people’s status, prestige and the network in society. In Sweden, they have the tradition culture “lagom” which means just right or adequate and custom of “fika”, coffee break, they are dedicated to keeping a healthy work-life balance and have less hierarchy.

### 5.2 Legal structure comparison

The foreign investment entry mode includes “Wholly Owned Subsidiaries, joint ventures and strategic alliances”. Based on the entry modes, when enter into a foreign country the entrepreneur should choose a suitable legal structure. In China and Sweden, the legal structures have different forms. The different forms of legal structure in China and Sweden are shown as followings (see figure 6):

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<th>China</th>
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<tr>
<td><strong>Wholly owned subsidiaries</strong></td>
<td>Wholly Foreign Owned Enterprises (WFOE) – Waishang Duzi Qiye</td>
<td>Limited liability company--Aktiebolag (AB)</td>
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<td><strong>Joint ventures</strong></td>
<td>Equity Joint Ventures (EJV)-Hezi Qiye</td>
<td>Partnership</td>
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<td><strong>Strategic alliances</strong></td>
<td>Cooperative Joint Venture</td>
<td>(handelsbolag - HB)</td>
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<td>Limited partnership</td>
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</table>
A foreign company may establish the enterprise in various legal entities in China. Wholly Foreign Owned Enterprises (WFOE) – Waishang Duzi Qiye, Equity Joint Ventures (EJV)-Hezi Qiye, Cooperative Joint Venture (CJV) – Hezuo Qiye are all common forms for the entrepreneurs. WFOE can absolutely management their enterprise but need enough capital and abroad manage experience. Since China is large and with different local cultures, the business environment is comparatively complex, so EJV and CJV are good legal structure for entrepreneurs and to choose to lower risk.

In Sweden, the most common and effective forms are a subsidiary in the form of limited liability company (aktiebolag-AB) and branch (filial). Limited liability Company (aktiebolag-AB) is a legal entity that draws a clear distinction between the company and its owners. Most foreigners who establish an enterprise in Sweden choose aktiebolag-AB. It’s especially suitable for small and medium sized companies. Entrepreneurs could choose establish private or public aktiebolag (AB), or even choose a quicker way to buy an off the shelf company. Branch (filial) is suitable for the foreign-based company and organized to conduct business in Sweden.

In a word, entrepreneurs should according the own resources to choose a suitable legal structure.
5.3 Enterprise register comparison

China

The enterprise register procedure is relatively complex in China. The general procedure to register Wholly Foreign Owned Enterprises (WFOE) – Waishang Duzi Qiye, Equity Joint Ventures (EJV)-Hezi Qiye, Cooperative Joint Venture (CJV) – Hezuo Qiye are roughly same.

The first step is to reservation the name of the company with local administrative bureau for industry and commerce. We called “name Pre-registration” in China. The second step is hand in the related documents to the local administrative bureau to approval the project proposal. Then investors should register and apply for business license. After that, register with other government authorities, like state or local tax bureau, foreign exchange control authority, custom. Finally, make the office stamp and open the bank accounts. In China, the capital to register a company is different according different industries. The minimum registered capital of foreign companies is 100,000 RMB.

Sweden

The Procedures to establish enterprise in Sweden is simple. Register in Swedish company’s registration office (Bolagsverket) and Swedish national tax board (Skatteverket). The minimum share capital of a Limited liability company (Akitebolag-AB) is 100,000 SEK, and for the private company the share capital is lowered to 50,000 SEK from 2010-04-01. For the public companies the minimum share capital is 500,000 SEK. In order to protect the intellectual properties the enterprise also need to contact with the Swedish Patent and Registration Office (PRV).

In general, no licenses are required to start a business in Sweden. But foreign banks
and other financial institutions require licenses issued by the Swedish Financial Supervisory Authority (FI).

5.4 Entrepreneurial process

In Klofsten’s (1994) cornerstones theory, he emphasizes the importance of eight critical dimensions in the entrepreneurial process: “business idea; products; market; organization; core group expertise; core group commitment; customer relations and other relations. On the other hand, Delmar and Shane (2003) suggested ten certain sequence of activities which will lead to better results in the entrepreneurial process, which are “write business plan; gather customer’s information; talk to customers; make financial projections; establish a legal entity; obtain permits and licenses; secure intellectual property; seek financing; initiate marketing and acquire inputs. Both of the steps they emphasized could be identified to two items: discovery and exploitation. Discovery is with emphasis on the ideas side of business development while exploitation is more focus on the realization side. No entrepreneurial process is complete without discovery and exploitation.

We could compare and verify from the entrepreneurial process of Swedish companies Svenska Aerogel AB, Trinh cash AB and Chinese companies Donghailong Environmental Protection and Technology Co., Ltd, Guangzhou Chunwei import & export Co., Ltd.

Aerogel AB established the company based on their business idea --develop a gas filter medium based on so-called aerogel. Through research and develop, they owned their product—aigroel, the recyclable gas filter medium, which could filter the pollutions and liquids. Pollution is a serious global problem; the product aigroel could improve the air and build the environment, it has a big market potential. Aerogel AB is organized by four experts in technology and engineering; they have core group
expertise and other relations—they research and develop based on the mature market, the raw material could be found in here and Aerogel AB also received support from Strategic technology development in Sweden”. They established a legal entity—private limited liability company (aktiebolag-AB); and granted the patent in Sweden and other 31 countries to secure the intellectual property. The whole entrepreneurial process contains both steps Klofsten (1994) and Delmar and Shane (2003) mentioned and Aerogel AB experienced almost all the steps they emphasized but not all. We could not simply classify its entrepreneurial process belongs to Klofsten (1994) corstones or Delmar and Shane (2003) process steps. Aerogel AB’s entrepreneurial process experienced basic entrepreneurial steps and at the same time it has its own characteristics. It’s a complete process with discovery and exploitation.

When Aerogel AB plans to enter into Chinese market, actually it’s a process of expanding from domestic markets to foreign markets. Since they already start the business in Sweden, they have the core products, expertise and organization. The most important for them is to consider what kind of entry mode and legal structure should be conducted and which order of steps should be followed. According to their own resource and the nature of company, they want to focus on the product research and develop, so they are going to choose strategic alliances or Cooperative Joint Venture (CJV) – Hezuo Qiye, which could help them to develop the Chinese market.

Trinh cash AB established the enterprise in Stockholm in 2006 and mainly in the food import and export business. Actually they started their own business in Gothenburg in 1986 and Trinh cash AB is a new branch company. They devoted in this industry for a long time so they have fixed organization and core group expertise. They have built up the company’s reputation in this industry, so they have strong customer relations. They choose the most common legal entity in Sweden “aktiebolag-AB” to register and initiate marketing and acquire inputs. The entrepreneurial process of Trinh cash AB is also combined with discovery and exploitation. The business idea is from the family business, supported with the core services about import and export,
and has the experienced organization and fixed customer groups. Since Trinh cash AB is different from Svenska Aerogel AB, so the entrepreneurial process is different, but Trinh cash AB is also experience the basic steps of Klofsten (1994) core stones and Delmar and Shane (2003) sequence activities of entrepreneurial process.

Donghailong Environmental Protection and Technology Co., Ltd is a high-tech manufacturing enterprise of solar lamps, LED application products, special power inverter used in communicating, and high frequency wireless communicating products. They established the enterprise from one business idea: the sunshine is long in Asia and the infrastructure is poor and, and there is a lack of regular electricity. They gathered information from the market and customers and founded opportunities in solar photovoltaic industry. They emphasize the research and development of the products and have 50 series of products. Products are core competitiveness for the company. Firstly Donghailong initiate marketing in Asia markets, and chose to cooperate with local partners to expand into the European and American markets. The company has the core group experts who engage in different departs and have hired experts for the company’s technology upgrading and sustainable development. They aim to make sure the satisfaction of customers to keep the customer relations. From the entrepreneurial process in the company, we could see that they started from one business idea, formed the organization, develop the products to establish the company, from domestic market to international market, it’s involved Klofsten’s (1994) cornerstones of 8 steps and Shane & Delmar’s (2000) process steps, included the discovery process and exploitation process. The steps to establish an enterprise of Donghailong didn’t follow all the steps of “Klofsten’s cornerstones” or “Shane & Delmar’s process steps”, but it experienced the basic steps and has the own characteristics according to the company’s nature.

Guangzhou Chunwei import & export Co., Ltd formerly is a snacks chain store, but then developed into an import & export Co., Ltd. Import & export service is the core competitiveness. It established a modern enterprise management system and has the
core group experts. They have developed markets in Europe and America, Korea, Japan and many other countries and regions. The products are popular in domestic and foreign customers and they have good customer relations. Chunwei import & export company started the business from snacks chain store to have international markets import & export company, they experienced the process of form the business idea, have the products or services, organization, core group expertise, establish the legal entity, acquire the sources and develop maintain the customer relationships. The whole process involved with discovery and exploitation and key steps of both Klofsten’s (1994) and Shane & Delmar’s (2000) entrepreneurial steps, but not every step is same.

From the four interviews, we could see that the entrepreneurial process of each enterprise both in Sweden and China is different but also similar, and all can’t live without the basic steps of discovery and exploitation. The four enterprise establishments do not all follow one or the same process, but all involved with Klofsten’s (1994) and Shane & Delmar’s (2000) entrepreneurial steps: business idea, product, market, organization, customer information and relations, core group experts, legal entity, obtain permits and license and so on. The differentiation in entrepreneurial process is not the country, but the industry and characteristics of the enterprise.

The biggest difference in the entrepreneurial process is the procedure to register the enterprise. In China, the general procedure is reservation the name of the Company, proposal and approval the project, then register for business license, later register to other government authorities, like state or local tax bureau, foreign exchange control authority, customs. Finally, make the office stamp and open the bank accounts. Equity Joint Ventures (EJV)-Hezi Qiye, Cooperative Joint Venture (CJV) and Hezuo Qiye have some more register steps: acquire the National Organizational Code and approval certificate for Foreign Investment Enterprise, submit the copy of the national organizational code assignment notification. Enterprises could go to local
Administrative Bureau for Industry and commerce gets information and help.

In Sweden, register at the company’s registration office (Bolagsverket) and Swedish national tax board (Skatteverket). In order to protect the intellectual properties the enterprise also need to contact with the Swedish Patent and Registration Office (PRV). In general, no licenses are required to start the business in Sweden. But foreign banks and other financial institutions require licenses issued by Swedish Financial Supervisory Authority. Enterprises could go to invest in Sweden agency (ISA) get more information and help.
6. Conclusion

This chapter will present the general conclusion of the research study and recommendations on start the business in China and Sweden. Limitations and further research is put forward as well.

6.1 General conclusion

The purpose of this thesis is to research how to establish the enterprise in China and Sweden, and compare the similarities and differences of entrepreneurial establishment. Based on the theoretical framework and findings along with 4 interviews, and through research and analyze, we get the conclusion: The entrepreneurial process could be different for different industries and enterprise, but all can’t without the basic steps in discovery and exploitation. Klofsten (1994) and Delmar and Shane (2003) s’ theory of entrepreneurial steps are good reference. In general, the entrepreneurial establishment needs efforts to 1. Legitimize the start-up, such as creating a legal entity and obtaining permits and licenses; 2. Acquire the resources: core group expertise, financial capital and other inputs; 3. Combine and coordinate all the resources through creating a functional organization; 4. Marketing and develop the customer relations. These processes are same in China and Sweden.

The biggest difference is the business environment, legal structure and steps to register the enterprise in China and Sweden. Sweden is a developed country with mature market conditions and legal system, while China is a developing country and the market conditions and legal systems are comparatively weak and increasingly improving. Comparatively, the business environment and the procedure to establish an
enterprise are simple in Sweden. The market develop space is bigger and tax is lower in China.

In sum, establish the enterprise in China and Sweden both have the advantages and disadvantages. Before starting the business in China and Sweden, the most important is to understand the local business environment and choose a suitable legal structure, and follow the local provision and procedure to establish the enterprise.

6.2 Recommendations

Entering into foreign countries is a challenge for all enterprises. It’s essential to understand the business environment, know the laws and regulations of the foreign country. Entrepreneurs must be attentive to such nuances, adapting their products and practices as needed. Sweden is a developed country with mature market conditions and legal system while China is a developing country and improving the legal and administrative systems step by step, concern about the changes of the legal and regulations especially in China. And according to the own resources and choose a suitable legal structure to enter into the new market.

**Recommendations to establish an enterprise in China:**

(1) **Pay attention to the business environment**

Even though China is a country with lower tax, the market conditions and legal system are comparatively weak. Government intervention is still more severe than in developed countries, the political risk would be a major influence for the international investors. Entrepreneurs need to be vigilant as to changes of policies and laws. The entrepreneurs also need to establish good relationship with the local government. Chinese law was influenced by many factors, in premise of compliance with the law; entrepreneurs need to put other factors such as socialism background and social impact into consideration. Also, it’s important to understand and follow the local
(2) Look for the right partner in China
In order to reduce the risk, joint venture is a good choice for enterprise entering into foreign country. So it is really important that the enterprise choose the right partner when doing business in China. The status of your partner will directly affect the attitude of the Chinese organization toward your company, affect the marketing performance and word of mouth among customers. Choosing a trusted partner is the basis to develop the enterprise.

(3) Use a people-oriented method
When doing business with the Chinese, never expecting one-off legal agreements to take the resulted, entrepreneurs need to take a people-oriented approach. The way of Chinese business is distinctive people-oriented, and before making judgments, discuss even prepare negotiation frequent prove that more important than formal face to face meetings. In China, the social relations and networks are important. It is develop from guanxi (relationship) through social activities, and further develop deep to xinren (trust). In China, trust is a kind of intangible social capital, even before formal face to face interaction commences.

(4) Remember be patient
As we know, China is a huge emerging country, now is on the developing, the conditions are not mature, various types of problems can occur in every second. In the process of establish the enterprise; entrepreneurs will meet many difficulties and troubles, so patient is required. And the Chinese need to take some time to build trust between different people. Swedish must have patience to deal with Chinese. You will finally win the Chinese heart and trust through by patient, tolerant, calm, persistent, and honest in deal with Chinese.
Recommendations to establish enterprise in Sweden:

(1) Consider about the tax and cost
Even though the market conditions is mature and advantaged in Sweden, the total tax pressure is very high, the corporate tax is 28%, the VAT is as high as up to 25% and the social fee for personnel is more than 30%. When saying that Sweden is easy to establish the enterprise, one must take the tax and responsibility into consideration. On the other hand, hiring Swedish citizens brings security costs and the responsibility of being an employer. So it’s important to put tax and other cost into consideration.

(2) Control the steps of your business
When doing business with Swedish, they expect negotiations to be slow. So, entrepreneurs should remain patient, control your emotions and accept some inevitable delays. Most of Swedish work down a list of targets in sequential order, and bargaining each part separately, sometimes they are unwillingness go back to discuss what have been done during the negotiation. If some counterpart challenges this method a lot, Swedish may show their tolerance when they view as effective. For most Chinese may view this rigid system as too restrictive. So, when Chinese business people meet this case, do not show your anger, and instead willing to discuss some issues separately.

(3) Bargain
The Swedish does not like haggling. During the step of negotiation, Swedish may take more time and need some more meetings. For Swedish the fairness was quite important, so when Chinese bargaining with Swedish if the result become too over one-sided, it is negatively. The negotiation style of Swedish is honest. It is hard to see them use some deceptive negotiation skills. So, those business people who very good at negotiation skills should know that such strategies, no matter you are lies or not, send some fake messages and make some fake demands, could hurt each other.
6.3. Limitations and further research

There are several limitations in this thesis. First of all, entrepreneurial establishment is a wide topic to research, the information and research in this thesis only analyze from business environment, legal structure and steps of entrepreneurial process, the research perspective and information collection is not comprehensive enough. On the other hand, because the thesis has a limited focus on the starting up state of entrepreneurial establishment, the research is not thorough enough. Also, the small number of interviews will affect the repleteness and the result of the research.

Bases on these, in further study, we could research the entrepreneurial establishment from a more comprehensive perspective and doing a more thoroughly research. For example, there are different tax rules in various industries in China, we could present it more detailed in the future, also, because China is a developing country, the government will update the policies constantly, we should related the latest policies to analyze the entrepreneurial establishment. Moreover, since this thesis has a limited focus on the staring up stage, there is still a huge space to make a deeper research related the developing stage and management of the enterprise, to research how to manage the enterprise in local and abroad market. In addition, increasing more enterprise focus on corporate social responsibility (CSR) when establish the enterprise, it’s also a good direction to study.
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Appendix

Interview questions

1. What is your position in the company?
2. When was the company established?
3. At that time, why will you think to establish the company?
4. How many employees in your company?
5. What is the type of your company? (Wholly owned subsidiaries/ Joint ventures/ strategic alliances/ cooperation?)
6. Could you introduce more about your company?
7. Could you introduce your product to us?
8. What is your company’s target market?
9. What is the core competitiveness of your company?
10. Which steps are required to start a business in Sweden/ China? (For example: the apply process? Business license? Registered capital? What relevant departments need to register and so on?)
11. How much capital is needed to register the company in Sweden/ China?
12. What is the enterprise tax in Sweden/ China?
13. Do you have any markets abroad or any plan to entry into abroad markets? If yes, what kind of entry mode did you choose or you will choose?
14. What kind of entry mode/ legal structure is suitable to establish enterprise in Sweden/ China? What about for the foreign companies?
15. Are the policies same for the local people and foreigners to establish the enterprise in Sweden/ China?
16. What kind of institutions could ask for help in Sweden/ China?