

“If you don’t know anyone nothing will work”
How do Icelandic firms approach doing business with China?

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“If you don’t know anyone nothing will work”.

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Foreword

This thesis was written as a part of a BS-degree in Business Administration at the Department of Business, University of Iceland (Háskóli Íslands) and is considered 12 (ECTS) credits. This thesis was a qualitative study on Icelandic managers doing business with China.

First, I would like to thank my advisor, Auður Hermannsdóttir, for her extraordinary guidance, always answering my questions at short notice and putting time and effort into helping me. Second I would like to thank my research participants for allowing me to get a glimpse of their life, without them this thesis would truly have been impossible. Lastly, I would like to thank my family for their incredible patience and understanding, for giving me advice and motivation.

Abstract

This thesis is about Icelandic managers doing business with China. China has a huge market potential and many Icelandic firms have started having an interest in operating in China. However, the Chinese market is vastly different from the Icelandic one, and therefore the goal of this thesis was to understand how Icelandic managers approach doing business with China and how it has changed their firm's strategy.

In order to answer this question, this thesis focused on a theoretical part and a practical part in which six managers of Icelandic firms were interviewed. In the theoretical section it became clear that there are certain aspects managers need to have in order to do business abroad and specifically in China. Because of this, cultural training is recommended. What came to light through the interviews was that personal relationships and finding a good business partner was deemed the absolute most important aspect of doing business in China. This relationship is referred to as Guanxi and comes in many forms such as giving gifts. Besides fostering these relationships, it was also deemed important to take politics in China seriously and to make use of the embassy, either Icelandic or Chinese. Although most of the firm's strategies remained the same for China, several relied heavily on a trial-error strategy in which one strategy was tested to see what would ultimately work.

The main conclusion that could be drawn from both the qualitative and theoretical research was that Guanxi- or personal relationships in China were the absolute most important aspect. However, the firm's strategies usually did not change drastically except for one firm who had to change their business plan to suit China.

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1 Introduction

The People's Republic of China is located in the east part of Asia and faces the Pacific Ocean towards the east. It is the third largest country in the world and at 1.4 billion inhabitants the world's largest population (CIA, n.d.). China has a long-standing history as a leading civilization yet after the fall of the Qing dynasty in 1912 the country suffered from civil unrest, major famines, military defeats and foreign occupation (CIA, n.d.). After World War II the communist party seized control and established the People's Republic of China with Mao Zedong as their leader. He imposed strict controls, which resulted in millions of deaths. After Mao's death, Deng Xiaoping became his successor and concentrated on loosening governmental control and his open door policy led to a huge growth in western investing which led to China's huge economic growth. The reason for its success was its enormous market potential, its low cost structure as well as the Chinese work ethic of being successful (Leung, 2008).

After restructuring their economy by moving to a market-oriented economy, China's GDP has grown by more than a tenfold since 1978, and is still maintaining a growth rate of 7.7% (CIA, n.d.). In 2010, China had become the world's largest exporter, and in 2013 the second largest economy after the United States (CIA, n.d.). It is to no surprise that an interest in China has grown in many Icelandic companies. However the Chinese culture is vastly different to the Icelandic one, in almost all aspects, and firms are likely to have to change their strategies.

Consequently, how do Icelandic managers approach doing business with China and how has it changed the firm's strategy? The objective of this thesis is to understand how to best approach the Chinese market and whether or how the firm's strategy had to change in order to suit it. The practical value of this will primarily be for Icelandic firms, who can utilize this thesis to understand the best approach and strategy to doing business in China, or simply those that are interested in the subject.

To approach answering this question, this thesis will be twofold. The first part will be theoretical and the second part will be the qualitative research itself. The theoretical part will go into international business as a whole, outlining which factors are important and which qualities managers need in order to successfully do business abroad. The vastly different cultures of China and Iceland will also be included in order to

understand their similarities and differences as well as qualities needed for doing business in China. Icelandic and Chinese business relations in the past including the Bilateral Free trade agreement will also be deliberated. The second part of this research will be the qualitative research in which 6 Icelandic managers operating in China will be interviewed. The methodology, results, as well as the discussion will be covered in order to answer the research question of how Icelandic managers approach doing business with China and how it has changed the firm's strategy.

2 International business

The definition of international business is that it consists of transactions between individuals, companies and organizations that are developed and carried out across national borders (Czinkota, Ronkainen, Moffett, Marinova & Marinov, 2009). The reason why international business has become so important is because those that do not participate in it become economically isolated. Participating holds the premise of a higher quality of life, as well as higher profits for firms (Czinkota et al., 2009). However, interacting with different countries means that you need to have some knowledge of their culture in order to make a successful business transaction.

Culture can be defined in hundreds of different ways, but in general it is an integrated system of learned patterns that are characteristic of the members of any society (Czinkota, et al., 2009). It is constantly evolving and it provides the cognitive maps for people to think, perceive reason, act, react and interact (Fang & Tung, 2007). There are many different ways of looking at a culture and how it is perceived. Hofstede compared a culture to the layers of an onion where the outer layers are easy to change and rather apparent to any observer whereas the inner layers of the onion or culture are deeply ingrained values and attitudes that are not easily observable and difficult to change (Fang & Tung, 2007). Another analogy for culture is the iceberg example, in which the visible portion of the iceberg, which is around 10-15% is easily observable and the rest is submerged. Managers from other cultures would easily be able to view the 10-15%, yet they would ignore the submerged portions, which can result in misunderstandings (Fang & Tung, 2007). There are many elements that contribute to a culture, and being culturally adaptive is crucial for anyone doing business with a different culture.

2.1 Managing across cultures

Cultural diversity should be seen as an opportunity rather than a threat. Managing across cultures can be very challenging and managers must know the differences in what to say and how to say it (Barsoux & Schneider, 2003). No matter how talented a manager is in his or her home country it does not guarantee success abroad (Fernandez & Underwood, 2005). Employees working with other cultures must have excellent interpersonal skills and must be able to easily form relationships in order to integrate

into the host country's society. Building relationships is especially important in some cultures, and should not be ignored. Furthermore, they have to have the ability to cope with uncertainty, because in a foreign country circumstances can change unexpectedly (Barsoux & Schneider, 2003).

Fernandez and Underwood (2006) conducted a study in which they interviewed 20 top executives heading the China operations for Fortune 500 companies with the purpose of finding what it takes to be successful in China. The findings are grouped in two sections; qualities one must have internationally and then specific qualities needed for China, which will be discussed in a later chapter. The global qualities described by the managers were having an open mindset and having a commitment of learning. In regards to having an open mindset, it is important to be willing to learn and to some extent adapt to the other culture, and not somebody clinging to their own culture and identity. Since the business culture, especially in China, is changing quickly, it is also vital to be flexible, open and adaptable. Having some understanding of the local language is extremely helpful, yet not necessarily vital (Fernandez & Underwood, 2006).

2.2 Values and attitudes

Values are the principles that an individual holds regarding what is important in life, whereas attitudes are evaluations based on these values (Czinkota, et al., 2009). These affect business in many ways, such as how decisions are made, what kind of strategy is implemented and how firms view their employees. Furthermore, since these vary among cultures, a manager must understand that success in one culture will not guarantee success in another (Czinkota, et al., 2009).

2.2.1 Religion

The definition of a religion is to believe in and worship a superhuman power (Webster, 1961). However, religion is not only the belief in the supernatural but it also shapes a culture's values and attitudes (Czinkota, et al., 2009). An international manager must be sensitive to these differences, in order to show respect to the other participant's culture. The three main religions in China are Confucianism, Taoism and Buddhism. Buddhism is the most widely practiced one with around 66-100 million followers, whereas Iceland's most dominant religion is the evangelical Lutheran church with

around 236 thousand followers (CIA, n.d.). The Chinese religions can also be referred to as philosophies since they represent a way of life rather than simply a religion (Ip, 2009).

Taoism emphasizes life harmony and is the force behind everything that exists, there is a need for two opposite forces to be able to work together. This principle is represented in probably the most famous Asian symbol, yin yang, which can be seen in figure 1. This symbol represents yin, the female elements such as the moon, night, water, weakness, darkness, etc., and yang male elements, such as the sun, day, fire, strength, brightness, etc. (Fang & Tung, 2008). The principle of yin and yang is that they coexist and that neither is absolute black or white, since a drop of each is found within the other. They also depend on each other, which refers back to the Taoism philosophy of life that it is supposed to be created, maintained and developed in a harmonious way (Fang & Tung, 2008).

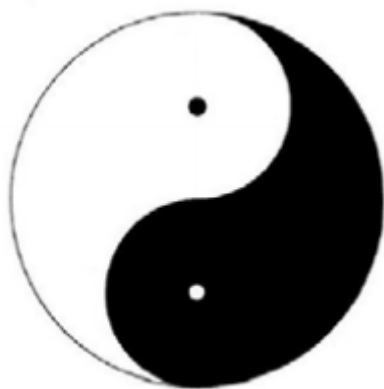


Figure 1. Yin and yang (Fang, T., 2006, p.52)

Confucianism, on the other hand, is a philosophy consisting of several essential values such as the importance of relationships, respecting hierarchy and age and the avoidance of conflict (Fang & Tung, 2008). There are two central philosophies to Confucianism, the first is that a society organized under a certain moral code will be more prosperous and stable than one that isn't. The second guiding principle concerns relationships. There are five central relationships: the ruler and the ruled, husband and wife, parents and their children, older and younger siblings and the friend and friend (Akgunes & Culpepper, 2012).

Confucianism principles are very important in the Chinese culture. For example, those who wish to become part of the Chinese government are required to study Confucian moral teachings before being allowed to take office (Akgunes & Culpepper, 2012). Furthermore, a study of Chinese entrepreneurs found that the Confucian tradition of male-controlled authority to be very persistent in the business environment (Barsoux & Schneider, 2003). In this study, being part of a family was seen as achieving security and social roles between family members were very clear (Barsoux & Schneider, 2003). Moreover, the structure of Chinese organizations, even large ones, is centered on one powerful founder (Barsoux & Schneider, 2003).

2.3 Other things to keep in mind

There are several other aspects that are important to keep in mind when Icelandic companies are doing business with China. Manners are a way a person behaves towards others and how they show being polite. Customs refers to how a culture generally behaves and what society perceives as normal (Webster, 1961). Understanding these is especially important when negotiating cross culturally (Czinkota, et al.). In China respecting elders is seen as extremely important, and direct eye contact with elders or authority figures is seen as disrespectful (Li, 2009). When it comes to greetings, a handshake is common but bowing is used to convey respect to an elder; yet younger generations have started to simply nod (Li, 2009). Touching is uncommon and should be avoided. Iceland's manners and customs are very similar to the other Scandinavian countries. It is considered a norm to give a firm handshake while maintaining eye contact before and after a meeting.

Aesthetic refers to the appreciation of beauty (Webster, 1961). Each culture has different levels of acceptance to what is considered good taste. For example, the color black is considered a color of mourning in Iceland, whereas white is the equivalent to this in China (Russow, 2001). Due to this, firms may have to modify certain aspects of their look to adjust to a foreign market.

Moreover, the form of education can also impact managers later in life. For example, students are not encouraged to ask questions at school in China, which leads Chinese to accept things without questioning them (Akgunes & Culpepper, 2012). In contrast, western schooling encourages asking questions. Furthermore, the extent of the quality

of the education is also important, since it shows the country's emphasis on a given set of skills. This is important for business because it shows the level of local experts if support personnel is needed. Education is valued very highly in China and is considered essential for success. China's literacy rate for the total population is 95,1%, however the male literacy rate (97,5%) is clearly higher than the female (92.7%), which proves that families prefer to educate males rather than females (CIA, n.d.). Iceland's literacy rate is extremely high with 99% , with no difference for both genders(CIA, n.d.).

2.3.1 Negotiations

Negotiations are an important aspect of doing business in any country and although they vary from person to person, they can be extremely different in China compared to Western countries. A reason why the negotiating process in China is so complex can be associated to the governmental and cultural structure. In the West, there has always been a well-established political system where strangers could do business with each other however in China a reliable legal system was not in place until the 1970's (Leung & Kivela, 2005). There are several important things to keep in mind when negotiating in China. A major difference between western negotiations and Chinese negotiations is that it may not be over when you think it's over (Leung & Kivela, 2005). Westerners may think that certain points have already been agreed upon but the Chinese may bring up these points again which is why it may be a good idea to present all issues at the beginning of the negotiating process (Leung & Kivela 2005). Another aspect that may seem strange is that there will also be multiple negotiators and decisions made from middlemen usually have no negotiation power (Hope, 2014).

2.3.2 Politics

The importance of politics applies more to China than in other countries largely because the strategic sectors of the economy are still dominated by state-run companies (Brodsgaard, 2012). Furthermore, leaders of prominent firms are also appointed by the government rather than the company board (Brodsgaard, 2012). Additionally, a goal was set to have at least one party member present for companies with more than 50 employees and a party committee for companies with more than 100 employees (McGregor, 2004). Beyond the negotiating process it has also been very difficult for foreign businesses to receive certain permits or approvals. This is because the

bureaucracy in China works a little differently than in the west, and guidelines are interpreted differently (Leung & Kivela, 2005). This is why it can be beneficial to be on good terms with politicians since they can make certain aspects easier for foreigners. This does not mean giving those politicians bribes but rather exchanging favors (Steidlmeier, 1999).

2.4 Cultural training

Those that share a similar cultural background will be more likely to share certain values and norms, making it easier to find a common ground between each other (Chua, 2012). When this is not the case, managers can have a difficult time, which is why receiving cross-cultural training can be crucial to success. Cross-cultural training refers to a certain type of training that teaches an individual from one culture how to interact with a new culture (Selmer, 2010). Especially for Westerners entering the Chinese market, thorough training is more necessary than in cultures physically close to home (Fernandez & Underwood, 2005). There are many forms of training such as pre-departure training, post-arrival training and sequential training. The best methods of cross-cultural training involves all three.

Pre-departure training will involve training before the arrival in the new country. This can be done a month or more before departure, but research has shown that it is most effective to start the training when the person is most motivated (Grove & Torbjörn, 1985). The biggest problem with this sort of training is that the person is still attached to their home country and it may be difficult to put oneself in the shoes of the new culture (Selmer, 2010). A second form of cross cultural training is named post-arrival training which is conducted around three to six months after the person has arrived in the new country. This is quite effective since the person will already have learned certain aspects of the culture and the training will then help him or her structure and give meaning to the information (Selmer, 2010). Feldman and Bolino (1999) conducted a study with 179 expatriates in 19 countries and found that the amount of post-arrival training received was positively connected with expatriate socialization, job attitudes and their willingness to complete the assignment abroad. A third form of cross cultural training is sequential training in which both pre-arrival and post-arrival methods of training are used (Selmer, 2010). Another aspect of cultural training can also be

language courses. Speaking the language can be a useful tool for navigating through a new culture and many western companies have been spending more and more resources on language training for their executives going abroad (Chua, 2012). However, a very small number of persons going on an assignment abroad have actually had cross-cultural training. A study conducted by Selmer (2010), using the answers from 165 questionnaires, found that the majority (75.8%) had not received any type of cross-cultural training. For those that had received training, pre-departure training was the most common.

Although cross cultural training can be a vital part of being successful in a country abroad, managers should still try to keep some of their foreignness. As the president of Bertelsmann, Ekkehard Rathgeber put it “if you simply adapt yourself to the local habits, then you lose a lot of advantages” (Fang & Tung, 2007). This is because you can bring fresh ideas from your own culture to the table.

3 China and Iceland

Iceland and China are not only located extremely far away from each other but their cultures could almost not be further apart, including different cultural dimensions, language, attitudes, manners and customs. Cultural dimensions are the building blocks of a culture, and have been used by many anthropologists to explain the difference between cultures. Managers grow up in these cultures and therefore these cultural values reflect directly on their attitudes towards business values (Weaver, 2000).

Edward T. Hall was the first anthropologist to propose a distinction between high context and low context cultures (Wang, 2008). The way people across cultures communicate can be extremely different, and therefore Hall argues that in order to understand the actual message one must look at the meaning and context together (Wang, 2008)

High context cultures, such as China, see time as flexible, open and are long-term oriented. They also see bonds between people, especially family, as extremely important (Fan & Zigang, 2004). These bonds are more critical than legal contracts (Akgunes & Culpepper, 2012). Furthermore, these cultures rely heavily on nonverbal communication and one must read between the lines to understand the meaning of the message. An example might be if you ask someone something and they reply with "yes", it would not necessarily mean "yes" and the listener would have to interpret the body language to get the actual message. In contrast, low-context cultures, such as Iceland give clear and simple messages and focus more on verbal communication rather than non-verbal. They also rely more on facial expressions and have low commitment to relationships (Wang, 2008). The implication for business communication is that the low-context speaker may have to ask the high-context speaker to elaborate when the meaning is not clear. Furthermore, the low-context speaker will have to rely less on legal contracts since the relationship bond is seen as more important. The high-context speaker in turn may have to try and convey his or her actual meaning when speaking.

In the late 1960's, Geert Hofstede conducted one of the most important and largest cultural studies ever made. He sent a survey to 116,000 IBM employees in 40 different countries asking questions relating to preferences in management style and the work environment (Barsoux & Schneider, 2003). From this survey four different dimensions

emerged and later another two. The original study had not included Iceland, but Iceland was added in 2001 (Hofstede & McCrae, 2004). The results for China and Iceland can be seen in Figure 2.

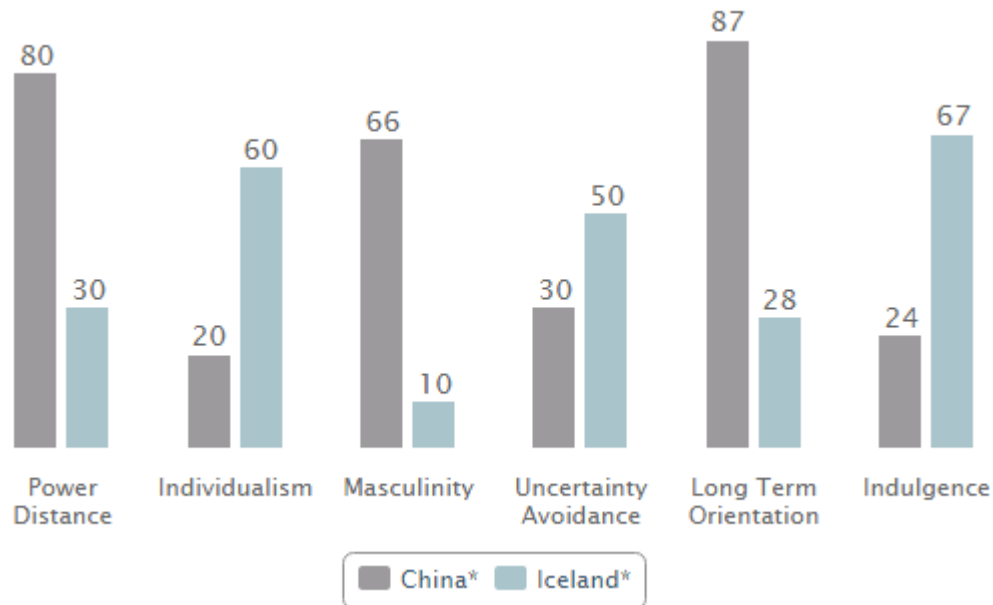


Figure 2. China in comparison with Iceland. (Hofstede, 2001, 2010)

Power distance indicates whether a culture accepts an unequal distribution of power. China ranked high in Power distance with a score of 80 out of 100. This means that people do not have aspirations above their rank and accept that superiors and subordinates do not have the same options (Hofstede, 2001, 2010). In contrast, a low score in power distance such as Iceland's 30, means subordinates and superiors rely equally on each other and both expect to be consulted and for information to be shared. Icelandic managers will be very direct when communicating their concerns; both subordinates and superiors can talk freely with each other, the result is a rather flat hierarchy (Daviðsdóttir, 2006).

Individualism vs Collectivism refers to how people view society, whether they view it in terms of "I" or "We". China ranked low in individualism, which means that it is a collectivistic society, where people act according to the interest of the group rather than themselves (Fan & Zigang, 2004). This affects hiring and promotions since in-groups, such as family and friends, would receive preferential treatment, due to the high level of trust built up. Furthermore, relationships and harmony are highly valued

(Hofstede, 2001, 2010). Iceland has a rather high score in individualism with a score of 60, meaning that people view themselves in terms of “I”. For business this means that people are supposed to show initiative and work well by themselves (Hofstede, 2001, 2010).

Masculinity vs. femininity refers to a culture’s bias towards either masculine attributes such as being assertive, competitive or materialistic or feminine attributes such as nurturing, relationships and quality of life (Barsoux and Schneider, 2003). China scored high in masculinity which means that they are achievement and success oriented, leisure time is not important and businesses run late into the evening (Hofstede, 2001, 2010). In contrast, Iceland scored 10 in Masculinity making it a feminine society; this results in people viewing quality of life as a sign of success. There is a large focus on well-being and in the business world people value equality and consensus, and conflicts are resolved by compromising and negotiating (Fan and Zigang, 2004).

China has a relatively low score in Uncertainty Avoidance whereas Iceland scored in the middle. Uncertainty avoidance refers to how a society deals with not knowing what will happen in the future. China’s score is slightly lower at 30 compared to Iceland’s score of 50. A low score in uncertainty avoidance indicates that rules and laws are relatively flexible and change according to the situation (Hofstede, 2001, 2010). There is a focus on planning yet these plans can easily be altered in a given situation. There is a large acceptance for new ideas, innovative products and a large willingness to try something new. However, Chinese managers usually lack a certain adventurous spirit and are not willing to take risks (Fan & Zigang, 2004). In contrast, Icelandic managers are not afraid of taking risks and risk-taking is encouraged (Daviðsdóttir, 2006).

As indicated by a score of 87, China has a very high score for long-term orientation whereas Iceland with 27 has a relatively low score. China’s long-term orientation indicates that the Chinese plan for the distant future and have an ability to adapt traditions easily and a strong tendency to save and invest. With a short-term orientation, Iceland respects traditions and has little tendency to save for the future and focuses on achieving quick results rather than thinking in long-term results. As a result,

managers make quick decisions and often act on their impulses, without forming definite plans in their minds (Daviðsdóttir, 2006).

Lastly, the indulgence rating refers to the extent to which people will control their desires and urges. A low score of 24, for China means that they are a restrained society in which people feel that it is wrong to indulge themselves (Hofstede, 2001, 2010). On the other hand, Iceland's score of 67 means that people are willing to fulfill their desires and impulses. This also refers to leisure time, where the Chinese prefer to work long hours; Icelanders prefer their free time (Hofstede, 2001, 2010).

3.1 Language

Language can be verbal or non verbal. Non-verbal language refers to the hidden language of cultures (Czinkota, et al., 2009). Non-verbal communication is also noticeable through the amount of eye contact for example, while westerners will tend to make a lot of eye contact, the Chinese will avoid it since it is considered staring (Akgunes & Culpepper, 2012).

In order to communicate effectively inter-culturally, there must be a common language. This is why it is a great advantage if the ones doing the communication between two firms can speak to each other in a language they are both comfortable with. Even though English can commonly be used, speaking the local language can make dramatic differences (Czinkota, et al., 2009). However, in the case of China this becomes relatively difficult due to different languages and dialects in place. Yet mandarin remains the most commonly known and is spoken by 70% of the population and is taught in all schools (C.I.A, n.d.). In Iceland the spoken language is Icelandic, yet most Icelanders are comfortable speaking English.

4 Doing Business with China

China presents a huge opportunity for businesses to expand their operations; almost 80% of the world's major five hundred enterprises have created joint ventures or business partnerships in China (Kivela & Leung, 2005). Overall China is ranked 90 in ease of doing business out of 198 countries. According to this chart, it is extremely difficult to start a business (128), paying taxes (120) and trading across borders (98) (The World Bank, 2014).

4.1 Qualities needed for doing business in China

Since the Chinese culture is so vastly different and diverse there are certain qualities that are important for managers to have in order to be able to do business in China successfully. No matter how accomplished somebody may be in their country, it does not mean they will yield the same success in China. In their study, Fernandez and Underwood (2005) established China-specific qualities that managers should have. The first was humility; this refers to a manager being more of a coach rather than an authoritarian figure. This means not forcing your views. Furthermore, managers should become a part of the team and present themselves as being humble, which according to the managers interviewed would help them establish support for their proposals (Fernandez & Underwood, 2005). The next quality was to hold strong principles, although this contradicts the humility point it refers to the key principles rather than all points. It is important to defend core corporate values and it is important to pick your battles (Fernandez & Underwood, 2005). Another important quality is patience, Jean-Luc Chereau manager of Carrefour states:

When people have just arrived, they want to change things. But to make quick moves in the wrong way is not the right thing to do- you need to have patience, patience, patience. It is one of the clichés you hear in China, but it is true. You need to make a long-term strategy and stick to it (Fernandez & Underwood, 2005, p. 408).

Especially in China a manager must show a sincere effort of learning about the culture in order to establish credibility as a team player. However, managers should not

go too far when adapting to the Chinese culture, it is important to stand to certain key principles and to stick with them. Managers should for example not change the key aspects of their corporate culture. Regardless, the most important aspect outlined by the managers was to be patient in China and to establish good relationships, which in China can be referred to as guanxi (Fernandez & Underwood, 2005).

4.1.1 Guanxi

Guanxi roughly translates to relationships and can take two forms; the first refers to a web of personal connections and second the exchange of favors or the purchase of influence (Abramson & Ai, 1997). These take years to develop and are very important when doing business in China. They are even more important than laws, and a firm with a good guanxi has a competitive advantage (Child & Lu, 1996). Dr. Gary Dirks, the president of BP China states that *"If I had to focus on anything at all, I would emphasize that relationships are very important. It is even more important in China than in Europe or the United States"* (Fernandez & Underwood, 2006). They expressed that a business relationship started from Guanxi, which according to them takes many years to build. *"In the beginning you have to pay a visit there, and you can invite them to your office. And gradually you know who is the decision maker"* (Fernandez & Underwood, 2006). Once Guanxi has been formed both parties will know each other well, know which topics they are interested in, their background and maybe even which food they prefer (Tsang, 1998). There are very few short cuts to this; a firm may choose to hire people with an existing Guanxi yet this will not be sufficient on a long-term basis (Wilson, 2010).

According to Wilson (2010) guanxi has several dimensions, one of which is the degree of closeness (ganqing), which measures the emotional commitment of the relationship. Another aspect is exchanging gifts, which are important when maintaining Guanxi (Wilson, 2010). This is a widespread social custom in China, both in the private and business sector. For westerners this can be a difficult concept to grasp since it may resemble bribes, yet this is not the case, since gift-giving is so deeply ingrained in their culture (Steidlmeier, 1999). It is, however, very difficult to assess when it is appropriate to give a gift, what kind of gift as well as the value of the gift. In general a gift should express good will and gratitude (Steidlmeier, 1999). However, China's business

environment is changing extremely fast and its integration into the world economy is driving China faster to becoming similar to western business practices and some Chinese companies even frown upon gift giving (Chua, 2012). Another dimension of guanxi is face, which is often established through gift giving. What this refers to is honoring someone publicly or also saving face, which refers to not shaming someone in public (Steidlmeier, 1999). This is especially important when negotiating. You should always give a Chinese counter-negotiator a chance to correct their mistake or situation (Fang & Tung, 2007).

Eating and drinking are also important aspects of business transactions and an important factor when establishing guanxi. Generally you should wait to be seated since there is a certain seating etiquette based on hierarchy (Li, 2009). Furthermore, you should never leave a plate empty since that means that you did not receive enough to eat likewise it is also rude to not touch a dish at all (Li, 2009). Besides food, drinking is also an important part. Toasts will be proposed throughout the meal and sometimes the Chinese hosts will test the foreigner's ability to handle alcohol (Li, 2009).

5 Relations between Iceland and China

Iceland is an extremely small nation compared to China and although Iceland has been importing a lot of goods to China, Iceland's exports to China will never be significant. On the other side, Iceland's imports from China can definitely become noteworthy with an ever-increasing trade. Nonetheless, Iceland was the first European nation with which China signed a bilateral free trade agreement (FTA) (Hannibalsson & Jónsson, 2013). FTA agreements vary among different countries, yet their primary goal is to promote trade and investment between both countries by eliminating or reducing tariffs on most goods, removing non-tariff barriers, improving market access for goods and services and by intensifying economic cooperation (Hannibalsson & Jónsson, 2013).

In the beginning of the 1990s, Iceland as a member of the European Free Trade Association (EFTA) began expanding its network of free trade agreements (Ministry of foreign affairs, n.d.). Initially the FTA negotiations started in April 2007 and went into a total of four rounds. However, when Iceland's biggest banks collapsed in October 2008 and an application for a EU membership was signed, China suspended the FTA negotiations. Regardless, in April 2012 the negotiations resumed and were finalized in January 2013 (Ministry of foreign affairs, n.d.). This marked China's first bilateral FTA with a European country, which can be seen as a generous diplomatic gesture on China's behalf (Hannibalsson & Jónsson, 2013). Due to this agreement, there will be zero tariffs on all industrial products from China to Iceland, which accounts for 99% of all total exports from China to Iceland, and China will implement zero tariffs on Icelandic products, accounting for 82% of all current Icelandic exports to China (Hannibalsson & Jónsson, 2013). For Iceland it opens a *"window of opportunity to operate on one of the biggest markets worldwide"* (Hannibalsson & Jónsson, 2013, page 4.).

5.1 Trade in the past

Iceland's main exports to China from the years 2010-2012 can be seen in Table 1. Most exports in the past have been marine exports, agricultural products and manufacturing products. As we can see from Table 1, the total percentage of Iceland's exports have been increasing yet only by a minimal percentage.

Table 1. Iceland's exports to China 2010-2012 in millions ISK. (Hagstofa Íslands, n.d.)

	2010		2011		2012	
	Million ISK	%	Million ISK	%	Million ISK	%
Total exports	3413.9		5430.7		7646.9	
Percent of total exports of goods	0.6		0.9		42036	
Marine products	2964.7	86.8	5121.6	94.3	6579.3	86
Agricultural products	138.3	42008	129.7	42096	42055	0.3
Manufacturing products	297.4	42193	174.5	42038	1044.9	42198
Other products	42137	0.4	42251	0.1	42126	0

Iceland's imports from China from the years 2010-2012 can be seen in Table 2. Iceland has been importing a large variety of goods from China including food & beverages, chemicals, manufactured goods, machinery and more. The percentage of imports has also been growing steadily in the past, yet decreased slightly in 2014, which can be seen in Figure 3. In Figure 3, the trade balance in favor of China is very clear, which is to be expected due to China having a much larger economy.

Table 2. Iceland's imports from China 2010-2012 in million ISK. (Hagstofa Íslands, n.d.)

	2010		2011		2012	
	Million ISK	%	Million ISK	%	Million ISK	%
Total import	28731.3		35121.5		42743.2	
Percent of total imports of goods	6		42069		42042	
0 Food and live animals	462.8	42156	441.2	42064	419	1
1 Beverages and tobacco	42076	0	42248	0	42158	0
2 Crude materials, inedible	101.7	0.4	123	0.4	77.4	0.2
3 Mineral fuels; lubricants	3	0	0.2	0	1	0
4 Animal and vegetable oils, fats	2	0	0.1	0	42219	0
5 Chemicals and related products	1809.1	42069	2858.6	42012	3217.9	42131
6 Manufactured goods	5505.7	42054	5792.7	42140	4788.9	42046
7 Machinery and transp. equipment	9178.5	31.9	13059	37.2	20679.8	48.4
8 Misc. manufactured articles	11654.1	40.6	12844.7	36.6	13551.7	42216
9 Other commodities	42005	0	0.1	0	0.1	0

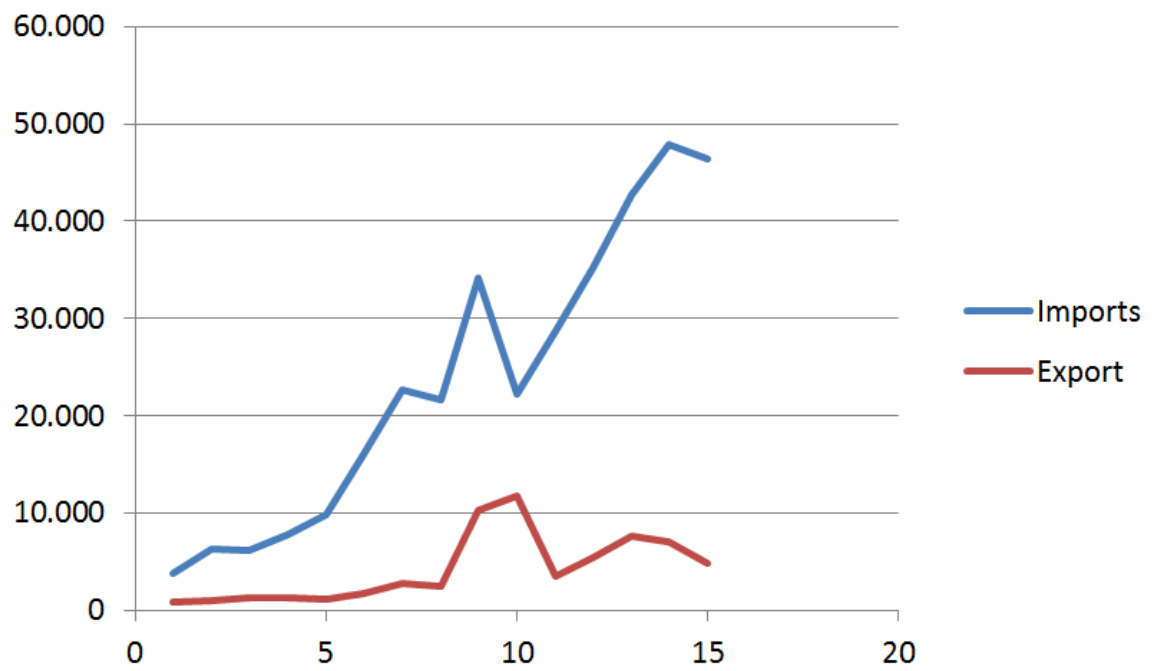


Figure 3. Iceland-China trade 2000-2014 in millions of ISK. Shown: the Icelandic and Chinese trade for the period 2000-2014 according to the Icelandic statistics Bureau. (Hagstofa Íslands, n.d.)

6 Methodology

The subject of this thesis was to understand how Icelandic managers approach doing business with China and how it has changed the firm's strategy. The goal was to be able to comprehend what the best approach for managers entering the Chinese market is. In order to answer this, a qualitative research involving interviews with six Icelandic executives with extensive knowledge in the Chinese market was conducted.

Different scholars have discussed qualitative research extensively and there are many different definitions. Taylor and Bogdan (1975) described it as follows:

Qualitative methodologies refer to research procedures, which produce descriptive data: people's own written or spoken words and observable behavior. It directs itself at settings and the individuals within those settings holistically; that is, the subject of the study, be it an organization or an individual, is not reduced to an isolated variable or to an hypothesis, but is viewed instead as a part of a whole (Taylor & Bogdan, 1974, p. 152)

In general, the goal is to get a better understanding of a smaller sample of a population rather than trying to understand the population as a whole. Furthermore it does not try to find cause and effect but rather to get a firsthand experience from the participants. Qualitative researchers are concerned with understanding the context in which behavior occurs and not just the extent to which it occurs (Martella, Nelson & Marchand-Martella, 1999). The dependent variables in this kind of research are not necessarily defined in observable terms but researchers are primarily concerned with the interaction of multiple variables over a period of time. Some methods include participant observations, questionnaires and interviews which will then be interpreted and analyzed (Graziano & Rauling, 2013). A major benefit of qualitative research is that it allows the researcher to be relatively flexible which can generate additional and more interesting questions, which may produce information that would have been missed otherwise (Martella, et. al., 1999). Additionally, it occurs in a natural setting not in a laboratory or controlled experiment.

The researcher will be a participant observer in this research by conducting the interview and therefore contributing to the research. The reason qualitative research was chosen was because it would allow the researcher to get a deeper understanding of the executives experience with doing business with China.

6.1 Procedure

In total eight participants were chosen for the research and contacted via email. The sample was selected through judgmental sampling, which refers to a sampling method where the researcher distinctively selects the participant based on their experiences (Martella, Nelson, & Marchand-Martella). Of these eight, five agreed to a face-to-face interview and one to a phone interview. The interviews took place between the 10th of July and the 30th of July 2015 and lasted anywhere between 25 minutes and 1.5 hours.

The interviews were semi-structured which refers to a type of interview where the researcher can follow up with other questions outside a preset interview guide. This interview guide can be viewed in Appendix I. This results in each interview going in a slightly different angle than the other. Moreover, the interviewer can focus on certain issues or parts of the conversation when they are deemed important (Leavy, 2014). All the interviews were one-on-one which allowed the interviewer to create an atmosphere of trust and confidentiality. The interviewer met with all the participants at their company's headquarters, three of the interviews were conducted in the participant's personal office and two were conducted in meeting rooms whereas the phone interview occurred while the researcher was at home and the participant at his office. The participants chose the location themselves which ensured the researcher that they would be comfortable in the environment. The interviewer followed the interview framework to some extent but deviated slightly from it when certain points were of more interest to her. Questions were chosen in compliance with the supervisor and with the intent of answering the research question. They were also designed to make the interviewees comfortable and encourage them to explore their experiences and feelings. Furthermore, all interviews were conducted in Icelandic, which was the mother-tongue of all participants ensuring that they were comfortable speaking.

Before the interview each participant was given an introduction letter to sign, in the case of the phone interview the participant was asked to give verbal consent after hearing a summary of the introduction letter. This introduction letter can be found in Appendix II. The participants were told that they had a choice between staying anonymous or not and all agreed that their names and the names of their company could be mentioned in this thesis. The interviews were then recorded with a voice-

recording device and written up word-for-word on the same day to ensure that the memory would still be fresh in the researcher's mind.

6.2 Participants

Of the six participants that were interviewed, five were men and one a woman. Of these, two currently reside in China, one lived in China for two years but currently resides in Iceland and the rest are stationed in Iceland. The list of the participants can be seen below.

- Atli Már Jósafatsson is the general manager of Polar Doors, a company specializing in designing trawler doors in all sizes. These are produced in China and then sold both in China and on the international market. They have been doing business with China since 2007 and Jósafatsson has been with the company since the beginning.
- Árni Alvar Arason is the president of Össur Asia. Össur specializes in developing and producing non-invasive orthopedics. Össur has been operating in China since 2005 and Arason has been stationed there since the beginning.
- Bragi Þór Marinósson has worked for Eimskip since 1993 and is the head of the international business department and has been in this position since 2007. He was the one that set up Eimskip's China operations. Eimskip is a transportation and investment company, which specializes in transporting frozen goods. The office in China started out with 5 people and has grown to 200.
- Helgi Kristjánsson is the sales manager for Naust Marine. They have been doing business with China since 2007 and he has been part of the operations since the start. Naust Marine produces management systems for ships. Their business partners in China are both producing these systems and selling them in China.
- Hjörtur Emilsson is the CEO of Navis, an engineering consulting firm, which specializes in ship designs. They have been doing business with China since 2004; Emilsson resided in China for two years and has been part of the operation since the beginning.
- Stefanía Halldórsdóttir is the director of development in China for CCP. CCP is the producer and publisher of the online game "EVE online" and has been publishing the game in China since 2006. Halldórsdóttir has been stationed in China since August 2014 but has worked for CCP since 2010.

6.3 Analyzing the interviews

Once all the interviews had been conducted and the transcript written, the researcher started to analyze each interview. This was done by reading through all transcripts and highlighting certain aspects that were deemed interesting or important. Certain themes

emerged and were color coordinated and almost right away certain prevalent themes became apparent. The themes that were identified are the following:

- Use locals to start your operations
- Politics matter
- Gift giving
- Food and alcohol consumption
- Who is the person in charge
- Key Challenges
 - Language
 - Distance
 - Trust and cheating

6.4 Limitations

The problem with qualitative research is that it may not be possible to generalize the findings since the participants under study are observed in their context, which does not necessarily match the context of other individuals (Martella, et. al., 1999). Another problem with qualitative data is validity and reliability. Researchers will collect different sets of information because their backgrounds and interests vary which will therefore likely influence the design of the study. Furthermore different researchers will interpret the data differently resulting in different conclusions (Martella, et al., 1999). However, this does not mean that the findings are incomplete or inaccurate (Martella, et al., 1999). Moreover, since judgmental sampling was used, there is a bias in the selection of subjects, meaning that it may be difficult to relate them to other companies doing business with China.

Additionally, although the companies are exporting either goods or services to China, they are rather different in their nature. This can make it difficult to relate each experience respectively. Furthermore, the researcher is not familiar with each company and their business in China, which can make it difficult to understand each circumstance.

7 Results

The themes that will be evaluated in this chapter emerged from the interviews. Several of these applied to all interviewees while others only to some. They mainly consist of the reasons the managers chose to go to China, how they started their operations there, noteworthy proceedings in China and the challenges they faced.

7.1 Why China, and has it worked?

The results of the interviews indicated that the primary motive of entering China was due to its huge market potential. Halldórsdóttir from CCP said that *“there are a lot of games that were established around 05-06 and there just wasn’t that big of a market in China at the time. We wanted to go into such a huge market”* (Halldórsdóttir). Another manager again highlighted this huge market potential.

The amount of ships in China is crazy. They are fishing a lot and all their ships are obsolete. And that is why we saw a large opportunity. The problem is, is that they keep on using these old ships and they are even building ships with ancient designs. [...] China is such a huge market- if we just get 1% of it then we can really accomplish something good (Kristjánsson).

Össur and Eimskip were able to enter the market with no problem and business started right away.

We had an opening party and over 100 people came. Many Europeans. Everyone was so happy to have someone in China that they could use. So operations started right away and everything went well. [...] Eimskip is well known in the reefer transportation segment, they knew what they would get with us, so we got good business right away (Marínósson).

Eimskip sets three-year goals and once that time has ended they reevaluate those goals and set new ones. Initially, they only transported frozen fish but have since expanded their operations to fruits, vegetables and meats. They did not anticipate this huge increase from the beginning. CCP and Polar Doors have also seen a constant increase over the years but started out slower. Polar Doors had set a 10-year goal, in which they wanted to have around 3-4% of the market, and so far it has worked fairly well for them, and they have been seeing a constant increase in sales.

However, Navis and Naust Marine are still waiting for big assignments in China. Emilsson from Navis knows that the Chinese international fishing cooperation which is a

state-run company is looking to upgrade their fishing vessels *“we know that they will come to us”* (Emilsson), and he explains that patience has been very important *“Men try to go into the Chinese market and try to finish things quickly, and that is simply not the way it works. There is no point in going in if you do not have the time. It is a marathon not a sprint”* (Emilsson). Naust Marine finds itself in a similar situation.

We have gone to China several times you know and we don't know at what point of time this will all start. We know it will start but the question is just when. But we know that if they do want something then they will come to us [...] they won't just look in the phone book and just call anyone so I know for a fact that they will come to us (Kristjánsson).

Both companies are very optimistic about the future because they know that these Chinese companies are looking to modernize their boats in the future, but this process can be very slow.

7.2 Use locals to start your operations

When asked what was the most important aspect of doing business in China all companies agreed that having local support was of paramount importance. Finding this person can be rather difficult however. One manager particularly highlights this importance by saying:

The number one most important thing is to get a good connection in China- if you don't know anyone nothing will work. You need to have someone with you that has knowledge who can arrange meetings and so on. Men need to find a good business partner who you can trust who wants to work with you [...] the problem is getting the right person in China who has the connections you need. They also need to know something about the industry and be able to speak and write English (Kristjánsson).

Choosing the right partner who you can trust is especially important as well: *“Know that you need help finding a good business partner and know that you have to visit China often. And do not jump to an agreement with a business partner with whom you do not have a good gut feeling”* (Jósafatsson).

Eimskip, Össur and Navis were able to use contacts that they had already established from past connections. Marinósson from Eimskip had lived in Holland where he had met a Chinese man working in the marine industry who was planning on moving back to China. He had asked this man for help in finding candidates in China, and he in turn said

that he would be interested in doing it himself. Emilsson from Navis used the same contacts in China as he had used working for his previous company while Össur used their partner in Hong Kong. This partner had a contract expiring with a firm in Shanghai and specifically asked Össur to work with them in China.

To find contacts in China, Polar Doors made use of the Icelandic embassy in China. Yet Jósafatsson highlights that it was extremely difficult finding a good one. He explains that it took several tries to find the right one with many trips to China and says that he knew they could never enter the Chinese market by themselves.

The Chinese company that we work with now produces the trawlers for us and then sells them in the Chinese market. We knew that we could never enter the Chinese market ourselves and this is why they are selling it for us. We attend meetings with them as their advisors (Jósafatsson).

For CCP particularly they had no other choice but to use a local to start their operations. This is because foreign firms are not allowed to publish games on Chinese Internet servers, which is why CCP had to publish their game, EVE online, through a Chinese server. Halldórsdóttir says that they had many difficulties finding the right publishers.

Initially we had a publisher that did not work so well- there just wasn't enough understanding between us. With the next publisher we had some operational problems- we just weren't getting any money. In the end we did get paid but then we started working with another publisher for three years and the contract is about to run out and we are renegotiating (Halldórsdóttir).

Although CCP had to use a publisher they also mention that it is very important to have this business relationship with them „*The publisher's role is to be an expert on the market. And that is how it works in China. They know the market and they are doing a good job because they know what we should do to get to the customer*“ (Halldórsdóttir). She said that these contacts are often much more important than any legal contracts as well and that working well together is much more important. Another manager also mentions this “*We have only been using pretty basic contracts, maybe 1-2 pages- we're not using any books. Either you trust them or you don't, these books [legal contracts] are too complicated*” (Kristjánsson).

7.3 How have they kept business intact?

Once operations have been set up it is crucial to maintain working operations in the country and the firms differed somewhat in their approaches. While Össur, CCP and Eimskip have offices in China, Naust Marine, Polar Doors and Navis manage the Chinese operations from Iceland with regular visits to the country.

Eimskip solely employs locals at their office in China. Marinósson said that this has worked rather well largely due to a very structured system at hand. The Icelandic office handles support and receives monthly reports; they also rely heavily on phone and videoconferences. Although they only employ Chinese at their offices they will still regularly send employees there to assist and support operations. They have worked this way right from the beginning although they once employed a European at the Chinese office, yet he was rather responsible for non-Chinese operations.

In contrast, CCP and Össur employ several Europeans at the Chinese office. CCP currently employs two Icelanders in China, including Halldórsdóttir. The rest of the employees are Chinese. But in contrast to the other firms CCP has had to change their whole business model to suit the Chinese market. By having to publish Eve online through a Chinese publisher they have had to make a lot of changes. Moreover, they have changed the game itself slightly to suit the Chinese market and make their customers happy.

In China they want something dramatic. They always want something dramatic. Sometimes this is not in line with our core values. But for example, there will be golden week in China soon. This is a national holiday in October and in China these national holidays are a big deal. The publishers have been pressuring us to do something in line with that national holiday. So now for golden week we took four spaceships and made very beautiful golden ones. What our challenge with this is- is if it is truly Eve. Is it okay to do things differently in China than the other servers? We also did something like this for Chinese New Year. And it sold incredibly well. Our players were so happy that we were doing something just for China (Halldórsdóttir).

Polar Doors explains that they have also had to change their regular operations with further monitoring.

In the beginning we did not have a perfect system yet. The company had made the trawlers that weren't according to our quality and we lost

business to a partner in New Zealand because of this. Now we regularly check on their progress by letting another Chinese company send pictures to us of the production process. One time they had done something wrong- and we saw that on the pictures so we had to tell them to fix it (Jósafatsson).

7.4 Politics matter

Another theme that emerged from the interviews was that politics, more so than in other countries, are especially important in China. One manager especially highlighted the importance.

A Key aspect in China is politics. Nothing happens unless you work with it. Chinese chairmen have come to visit us. [...] Icelandic presidential visits to China have helped us a lot. It opens doors. These things help a lot. You do not need this in Europe – but in China politics and business are interrelated (Marinósson).

The president of Iceland also helped CCP greatly when a high-ranking Chinese reporter was visiting the EVE online fan fest in Iceland. Halldórsdóttir explains

During fan fest a reporter came to visit and we were able to set up a meeting for them and the president in Iceland. The Chinese loved this. It was reported all over in China- and for a long time. This was very beneficial to us and we even got new subscribers just because of this (Halldórsdóttir).

Another important aspect of politics is laws, which in China can change from one day to the next. “All of a sudden they put a VAT in place- that was for 1,5 years and then they just suddenly put it away. We had to change everything just to change it back again right away” (Marinósson). Halldórsdóttir also mentions that in China it is common for changes to happen very quickly and often with no warning. In order to avoid certain changes that may only apply to your business it might be better to share your profits with a local firm since the Chinese government prefers for Chinese companies to be earning revenues in China rather than a foreign firm, Halldórsdóttir comments. She adds that CCP has had it quite easy in China which may largely be because their Chinese publisher is earning revenue because of their presence in China.

7.4.1 Embassy

A part of this political process is using the embassies to your advantage. Both the Chinese embassy in Iceland and the Icelandic one in China have been an important aspect of their operations.

Jósafatsson from Polar Doors highlighted this importance specifically since the Icelandic embassy in China helped them find their contacts. They have been in contact with one man at the embassy in particular, a Chinese named Peter Yang. He will accompany them to business meetings and Jósafatsson says that it has truly paid off to have his help. Peter Yang has helped them tremendously in terms of understanding the market, helping them find contacts and using the embassy to their advantage. One business meeting went particularly well thanks to Peter Yang's guidance.

I once wanted to meet a business man and I asked him to come with me. Diplomats are well regarded in China. I once had a business meeting planned and they wanted to send the driver to get me. I wanted to meet Peter Yang beforehand and I asked him if we shouldn't pick him up on the way there. He said that I should explain to my clients that I had a meeting at the embassy with him and to let the driver pick me up there. All of a sudden four important men from the company came to pick me up so that they could visit the embassy as well. They came inside and met the ambassador. It was great advice from him (Jósafatsson).

Eimskip in contrast makes little use of the Icelandic embassy in China but has been in contact with the Chinese embassy in Iceland.

7.5 Important proceedings

In China more so than in many other countries it is important to become a part of the business culture in order to be successful. Through the interviews several important proceedings emerged which westerners should try to integrate into their business practices.

7.5.1 Gift giving

Gift giving is an important aspect of Guanxi and giving gifts in China is seen as an important courtesy. Both offices from Emilsson at Navis and Marinósson at Eimskip were decorated with several Chinese artifacts, which they explained had been given to them from Chinese businessmen. Halldórsdóttir explains that these gifts are not a bribe but rather a sign of good faith, and they do not need to be expensive *"But these gifts*

aren't a big deal. It is not a bribe as some say; it's just a part of their culture. It does not have to be big or expensive" (CCP). Marinósson also mentions this and adds that they are rather symbolic. Pictures are a good present but it is important to wrap them, "Then there is always a sort of give away ceremony" (Marinósson).

There are several rules which should be followed since the Chinese can be superstitious. *„It is not allowed to be anything with a 4- or black. That would not be good. You have to watch out for that. Not allowed to give knives for example since that is a symbol for cutting ties" (Marinósson).* Another manager adds that the number 8 is considered lucky because it resembles infinity, and that giving a present connecting to an 8 is always a good idea. It is often well appreciated to give something from Iceland, several add *„We often give something Icelandic- it can be blue and red. Just something interesting that's connected to Iceland" (Marinósson).* Halldórsdóttir also highlights this; *"When Hilmar, the CEO, came to China to meet some businessmen, I told him to bring some Icelandic schnapps. I heard later at work that the Chinese had been so extremely happy with the gift especially the fact that it had been from Iceland."* CCP will also often give presents related to their products. When CCP published a book with pictures of their spaceships Halldórsdóttir made sure to order several extra *„I often try to connect it to our products. But it is difficult to always remember to get something and it can sometimes be hard to choose what to give. (CCP)*

7.5.2 Food and drinking

Another theme that emerged was that food and alcohol consumption are an important part of doing business in China. As one manager mentioned *"I always try to meet the most important client around 10 because then they will take you to lunch. This strengthens your relationship with them" (Jósafatsson).* The food itself can sometimes seem a little strange as well which is why one should simply wait for the Chinese to start and see what they do *"just wait for the others to start eating so that you know which sauce to eat with what. And when people are toasting then you wait for the other one to do it first. Do not start eating or drinking before they do" (Jósafatsson).* Besides food, alcohol is also openly consumed and often in big amounts, which is why it is important to drink right. Jósafatsson says the following:

You have to be careful to drink right. Put little in your glass because they want to toast and then someone else will want to toast again. Always take small sips. It is an art to drink right there. Very interesting. Especially during the nights, there will be more than one asleep (Jósafatsson).

Another manager also mentioned the alcohol consumption and advised to try and spit into another glass casually instead of actually consuming it in order to avoid getting too drunk.

7.5.3 Who is the person in charge- get their blessing

Unlike Iceland, China has a strong sense of hierarchy and several executives mentioned this. One mentioned that Elder's and superiors are highly regarded.

You have to get the blessing from the CEO or vice president- the one on top. All subordinates listen to that. Proceedings are sometimes time consuming but when the superior gives an OK then it can be pretty quick. His subordinates want to show him that they can do what he wanted them to do (Marinósson).

Getting the blessing from the ones above you is very important in China but can lead to operations becoming slower which two managers mentioned specifically. *"The middle men have come to visit us in Iceland. They were all very impressed but then they still have to talk to their superiors. So the process is very slow"* (Jósafatsson). This hierarchy also takes another form since high-ranking employees will expect to speak to similarly high-ranking employees. When the high-ranking reporter visited Iceland for the CCP Eve online fan fest, Halldórsdóttir explains that they made sure that he would be able to sit down and have lunch with the CEO of CCP.

7.6 Challenges

When doing business with another country many challenges can arise. Since the Chinese culture is so vastly different to our own the managers noticed some definite challenges.

7.6.1 Language - yes yes does not mean yes

Language is a vital part of business transactions and being able to communicate with your business partners is especially important. Every single executive interviewed said the following sentence, *"Yes, yes does not mean yes!"*. Kristjánsson from Naust Marine says that the biggest problem with China is the language which would not be so much a

problem in other scandinavian countries. *“The company salesmen that we have been in contact with do not speak English well. It often happens that a lot of emails are exchanged for very basic things”* (Jósafatsson). Several others also mentioned the slow progress due to the language barrier, having to ask three times to make sure they understand.

This is why many have had to use translators, which can also slow down communication and be rather tricky. Usually these translators will be girls who may not be experts in the field meaning that a lot of the more specific terms are difficult to translate. Furthermore they might not want to translate everything exactly the way it has been said. Others also mention that sometimes it’s difficult to trust everything that they are translating if they have been hired by the company directly which is why they advise to get your own independant translator. Emilsson from Navis mentions *„First I got a translator from the fishing company, but that didn’t really work so well. I wasn’t sure if she was translating correctly, so I hired my own because it was necessary”* (Emilsson).

Kristjánsson however mentions that he sees a difference in their language from the past two years and that he notices that they have been learning English. Emilsson mentions that in the beginning it had been much more difficult than now, and that he noticed a change especially after the Olympic games in Beijing.

7.6.2 Distance

There were different opinions regarding the distance. Some mentioned that the distance and time difference was one of their main challenges, while another mentioned that it wasn’t so difficult getting there since it was just an overnight flight. Marinósson said that it took around 27 hours for him to get there and that you couldn’t just hop on a plane and be there. Others also specifically mentioned that the cost of travelling was rather large. In order to use his time wisely Jósafatsson mentions that he will often meet as many business partners as he possibly can, sometimes 3-4 a day.

7.6.3 Trust and Cheating

Another challenge that several managers faced was cheating and not being able to trust their Chinese counterparts. Arason from Össur gave this advice *“In China you start with*

0% trust and build up. In Europe you would start with 100% trust and if they do something then you lose that trust” (Össur). Another recommends “If anybody is going to China I would just tone down the trust we have for other people. Nobody will protect your interests except you yourself and if somebody or a company goes to China they really have to nail down their interests” (Halldórsdóttir).

As an example of cheating, Emilsson from Navis tells of a certain project where a bar was supposed to be screwed to a measuring device. However, the Chinese did not follow the instructions previously given to them and instead glued it on, which was completely unacceptable. They had failed to understand why it was important to screw on instead of gluing it on, and instead of losing face and admitting that they did not know how to do it right they wanted to cheat. Moreover, a supervisor asked Emilsson *“this is only a fishing vessel, why does it have to be so nice?”* (Emilsson) not understanding the importance of doing it right. Halldórsdóttir from CCP spoke of another instance where her publisher went behind her back even though she had given very clear guidelines.

It has happened that we were stabbed in the back by our publisher. Even though we have a good relationship with them it has happened. We made a concept- a sketch of a space ship. And it was quite ridiculous with tiger stripes- it would have never seen the market but we showed it to them and all of a sudden it was on Chinese forums. And we just immediately asked them to take it down. They made it excuses which was a little childish. Now I just implemented a rule that they have to come to me every single time they post something and let me review it. And ever since then it has worked (Halldórsdóttir).

The other companies do mention cheating although they have never had any problems with it. One manager mentions that he truly has no idea if they are cheating but that it is not something he is concerned with.

I am not afraid that they are selling something that they are not supposed to or something like that. I don’t have a clue if they are actually selling something past me that they aren’t supposed to. But they do not have the connections outside of China and they need clear guidances from us. They have no clue how to use the trawlers. My principle is that if we make our money and see an increase in sales then I believe that we are friends (Jósafatasson).

Kristjánsson from Naust Marine says that he has been warned many times of cheating but that he is not concerned. He still gives advice to be careful: *“but you still*

have to be careful- men have to be careful. You need to insure that they are not selling your designs past you” (Kristjánsson). Similarly Eimskip has never encountered any sort of cheating yet Marinósson mentions that China is changing and that it may become a problem in the future.

We have never had any sort of cheating in the past. But it is something we have to watch out for- it is increasing. Men always paid back their debts- but today we have to watch out for this more. Sometimes these men just disappear. China is changing a lot. They are changing into us (Marinósson).

7.7 Cultural training

When it came to cultural training none of the managers interviewed had had any sort of explicit training. One mentioned that he had read some things but knew that he would never learn mandarin. Halldórsdóttir from CCP was the one that put most effort into learning, as soon as she arrived she started learning mandarin and has a private teacher with whom she meets with about once a week to learn mandarin. She had already visited China several times and got great advice from her colleague who had worked in her position in China but was going back to Iceland. Her advice is to simply have an open attitude: *„But what was best for me in terms of preparation was just to have an open attitude. It is not possible to have anything else” (Halldórsdóttir).*

Although Emilsson from Navis never had any cultural training himself, he will sit down with his employees before going to China and give an introduction on business practices. Furthermore, he keeps a book in his office at hand with common Chinese business practices, which he has lent out on several occasions to his employees. Emilsson lived in China for two years and says that he learned most during his stay. This previous experience also helped Kristjánsson from Naust Marine but he does mention that he thinks some cultural training would be a good idea. Another manager adds to this that having some cultural training maybe three months prior to going to China would probably be a good idea.

7.8 Free trade agreement

When asked about the free trade agreement, all managers said that it had not had any impact on them. *“Iceland is so small- we see interest, we have been asked about it but we have not seen a lot” (Marinósson).* Another adds: *“I’m not sure if we will ever get*

anything out of this” (Jósafatsson). One manager however mentioned an Icelandic friend in China who had been trying to import fish from Iceland to China and said that they simply weren’t able to. This friend was not able to import the fish, which they should have been able to according to the FTA. This friend had been complaining that there were certain forces in China who prevented this import, which effectively goes against the FTA.

8 Discussion

The goal of this thesis was to understand how Icelandic managers approached doing business with China and to see how it had changed the firm's strategy. The results discussed in the previous chapter gave us an insight into the executive's experiences and highlighted their approaches to doing business in China. In this chapter, the main results will be discussed in line with the theoretical chapter in order to attempt to answer the research question.

8.1 Approach

The manager's approaches were both similar and different. In the theoretical part the importance of Guanxi had been discussed clearly and the managers again highlighted the importance of relationships as well as gift giving although none of them specifically mentioned the word "Guanxi". The managers were in agreement that finding the right business partner was by far the most important aspect of doing business in China. The importance of adapting, at least to some extent, to the Chinese culture became apparent as well. This was seen both through the form of gift giving and consumption of food and alcohol. As discussed in the theoretical part, these relationships can take years to develop and gift giving is an important part. Steidlmeier (1999) and Halldórsdóttir both spoke of gift giving and said that it should not be seen as bribes and that gifts were simply part of the culture. The managers had clearly adapted themselves to the Chinese customs and tried to be respectful of their beliefs such as not giving inappropriate gifts. This is in line with Fernandez and Underwood's (2006) study in which the managers interviewed had highlighted the importance of business relations. Furthermore, their research showed that having an open mindset and being willing to adapt to the other culture was deemed important which was also in line with the interviews conducted in this research. As described by Akgunes and Culpepper (2012) these bonds were more important than legal contracts, which was also mentioned by one of the managers interviewed.

Furthermore, the interviews brought to light that hierarchy was especially important in China and that respecting elders was vital. This is in line with China's Confucian philosophy of respecting hierarchy and age as well as their cultural dimension of power distance (Fang & Tung, 2008). Furthermore, the structure of Chinese organizations is

usually structured around one powerful founder, which is also an attribute of their strong sense of hierarchy (Barsoux & Schneider, 2003). The strong sense of hierarchy was also referred to by Hope (2014) when it came to negotiations since middlemen have no negotiation power. This was one of the challenges that Jósafatsson faced, since it slowed down their negotiation process.

Another key was that politics matter, this is in line with the theoretical part in which the importance of being on good terms with the politicians was outlined (Steidlmeier, 1999). The reason why politics may be so important was also outlined in the theoretical section because of how many companies are state-owned (Brodsgaard, 2012). Furthermore, their huge enthusiasm towards meeting ambassadors or meeting the president of Iceland, which was outlined in the interviews, may be attributed to their strong sense of hierarchy, which was outlined in the Confucianism philosophy and can also be attributed to their high score in power distance. The president is seen as a father and therefore meeting him is seen as a great honor.

One of the key findings in Fernandez and Underwood (2006) study was that managers should have an open mindset and a strong willingness to learn and adapt to a culture. This was in line with the findings for the interviews. Furthermore, Fernandez and Underwood (2006) found that patience was very important in China which is line with the interviews.

When it came to maintaining business in China, it took several tries for the managers to find the right system. This included implementing new and better systems and learning from their mistakes. The main problems the managers faced were with the language, the distance and building trust with the Chinese. Trust is built through relationships and, as some of the managers discussed, should be toned down in China compared to Europe. The language being a big problem was also in line with the theoretical findings and that speaking the local language can make dramatic differences (Czinkota, et al., 2009) This could also explain why Halldórsdóttir, who had been learning Mandarin had least problems with Language.

Most of the managers had not had any form of cultural training this could be in line with them having problems regarding language. This was not a surprising result since Selmer (2010) study had found that the majority of managers going abroad had not

received any form of cultural training. Although the managers had not received any formal training, they did realize its importance. Arason agreed and stated that some training 3 months previous to going to China would be useful.

These are the key points:

- Find the right business partner
- Use the embassy- and have good relationships with Chinese politics
- Respect the hierarchy
- Give gifts as a sign of good faith
- Watch out for cheating- and tone down your trust for others
- Cultural training is probably a good idea

8.2 Strategy

Overall none of the managers had set a specific strategy for China and all of them just went head first into the water (so to speak). This is in line with Icelandic managers making quick decisions and not forming definite plans in their minds (Daviðsdóttir, 2006). They used different strategies to get into the market but overall the number one most important strategy was simply to get good business partners and to maintain that relationship. What was also noticeable through the interviews was that partners were replaced if the relationship wasn't working well. Several of the managers have had to switch partners because things weren't working right the first time. Therefore, the most common strategy used by the managers was a trial-error strategy in which one was tested after the other until they had found an effective one. But it seems that the firm's strategy in particular never truly had to change. Some of the companies had to change their strategy to suit the Chinese market, such as CCP who had to change some of game features to suit the Chinese market.

The topic of doing business with China has been researched by many, yet the specific Icelandic-Chinese trade has not, although there have been a handful of papers published. Therefore, there can be several ways of researching this topic further. It would for example be interesting to research how Chinese managers approach doing

business with China or seeing how other types of companies, such as importing companies, approach doing business with China in comparison to exporting companies.

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Appendix I – Interview questions

For how long has *company name* been doing business with China?

What kind of business are you doing with the Chinese exactly?

When did you become a part of these operations? Right from the start?

How did *your company* start doing business in China? How did they enter the market?

What was your goal by starting business with China?

Has that goal changed?

Have you been able to reach your goal?

How did you prepare for doing business with China? Were you sufficiently prepared? What could you have done differently or what would be your advice for preparation?

What was your game plan (business strategy) for China? Did negotiations start right away or did you start making connections?

Have you had to change that business strategy?

Have you had to change your business to suit doing business with China?

What has been the most difficult aspect of doing business with China? Positive?

Has the Bilateral Free Trade agreement changed anything?

Appendix II – Introduction letter

Reykjavik, July 2015

Dear participant,

I would kindly ask you to participate in this study, which focuses on how Icelandic managers approach doing business with China. By participating, the participant will allow me to interview him/her for around 30-60 minutes in length, while a recording is being taken.

The purpose of the study is to examine the experience Icelandic managers have had with China and how it has changed the firm's business strategy. Participants were selected based on their knowledge and experience regarding business with China in the eyes of an Icelandic firm. The study is conducted for a Bachelor Thesis in the Business Administration curriculum of the University of Iceland. If the participant so wishes his or her name will not be included as well as the name of the company. Information gathered through the interview will be treated according to the strictest rules of confidentiality and anonymity.

Contestants are free to cancel the participation and can stop participating at any stage of the interview. The interviews will be taken during the period July 1st to July 30th.

Participant signature