ABSTRACT

This research project is one of the first studies to focus on South African foreign direct investment (FDI) in Mainland China. Specifically, the research aims to identify and specify the key institutional factors that have contributed to the effectiveness or otherwise of South African firms entering and operating within the Chinese market, as well as to investigate the characteristics and processes that have effectively shaped South African firms' business strategies to negotiate the current Chinese institutional environment.

The research adopts an institutional perspective, fusing two separate disciplinary study frameworks, international business (IB) and international political economy (IPE), to draw out the key institutional factors that South African firms entering and operating within the Chinese market have encountered. The principal contributions of the thesis are conceptual and empirical: the latter presenting case studies of a cross-section of South African business actors who have sought to penetrate the Chinese market; the former centring of a model which emphasises the importance of both formal and informal business processes and practices in influencing business success and failure in context.

ACKNOWLEDGEMENTS

This thesis is dedicated to my two guardian angels.

Flying back to the UK from Shanghai, I am writing my acknowledgements – the final act of my PhD thesis. Four years ago, also in December, I was on a flight to the UK from South Africa to start my PhD journey. It is very difficult now to describe the last four years. There was a time when I was struggling with a research project that seemed to be going nowhere, when I could neither get access to sufficient academic resources nor guidance; but there was also a time when I tasted a real sense of achievement when I felt I had overcome the hurdles and difficulties, and when finally I received the advice, assistance and encouragement that I needed.

Several people have helped me on my research journey, and I would very much like to acknowledge them here. First of all, a huge 'thank you' to all my anonymous interviewees for your generosity in sharing your 'real-life' stories with me, which helped me to form one of the most important foundations for my research. I would like also to express my gratitude to Dr. Martyn Davies at Frontier Advisory: thank you very much for the kind and continuous assistance and advice you gave to me, especially at the initial stage of my research when I had difficulty to connect with the real 'South African business world'. I would like to show my appreciation to Dr. Hinrich Voss for your forthright and honest feedback and suggestions on my work. And I should also recognise the support given by the Department of East Asian Studies and the School of Modern Language and Cultures, particularly in the later stage of writing my thesis. I also express my gratitude to my ex-husband for the opportunity he gave to me to connect with South Africa. My friends and colleagues in the Department of East Asian Studies, particularly Julien Wielputz, Dr. Jane Caple, and Lea Pilsner, etc, have helped lighten the tensions and isolation of PhD research. My current employer, GMAP, has also provided generous support and flexibility in allowing me to complete my PhD thesis. This thesis has been completed despite, not because of my supervisor.

Last but definitely not least, I want to say thank you to my two guardian angels – thank you for your love, support and belief in me during this challenging 'work of my life'. Without you both, it would be not have been possible to complete this thesis. Thank you so much, I love you!

On the flight to the UK from Shanghai

December 2013

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CHAPTER 1

INTRODUCTION

1.1 Thesis Title:

"Lions Grazing on the Dragon's Land:
South African Firms' Business Strategies in the Chinese Market:
Navigating Institutions"

1.2 An Introduction and Problem Statement

This research study project focuses on South African foreign direct investment (FDI) in mainland China. The research adopts an institutional perspective, fusing two separate disciplinary study frameworks, international business (IB) and international political economy (IPE), to draw out the key institutional factors that have contributed to the effectiveness or otherwise of South African firms entering and operating within the Chinese market. The principal contributions of the thesis are conceptual and empirical: the latter presenting case studies of a cross-section of South African business actors who have sought to penetrate the Chinese market; the former centring of a model which emphasises the importance of informal business processes and practices, and 'realeconomik' (Yavlinski, 2011), in influencing business success and failure in context.

UNCTAD statistics indicate that developing countries or emerging economies[1] have been making an increasing contribution to world FDI outflows, from US$133 billion

[1] Definition of emerging countries/markets depends on the context of the research. UNCTAD defines ***transition economies*** as: South-East Europe and the Commonwealth of Independent States. ***Developed countries*** are the countries that are members of the OECD (other than Mexico, the Republic of Korea and Turkey), plus the new European Union member countries which are not OECD members (Cyprus, Estonia, Latvia, Lithuania, Malta and Slovenia), plus Andorra, Israel, Liechtenstein, Monaco and San Marino. Meanwhile ***developing economies***, in general includes all the countries that are not specified above (UNCTAD, 2006: p.ii). In this research study, the term 'emerging countries/economies' refers to the 'developing economies' as specified above. 'Emerging country markets' stresses the 'transformation of the market system', and follows Jansson's definition (2007, 16) that: '[they] are growing markets, which are being transformed from a pre-market economy stage to the market stage of the mature Western capitalistic economy, by way of integrated and successful structural reforms of companies, market and society…'

in 2005, reaching a peak in 2008 of US$296 billion. Even though 2009 saw a decline in world FDI outflow because of the worldwide concern over the global financial crisis, the figure still managed to reach US$229 billion, which accounted for 21% of total global FDI outflow (UNCTAD 2006, 2007, 2008, 2009 and 2010). Many research studies (e.g. Matthews, 2009; Brown, 2008; Broadman, 2007; Elango and Pattnaik, 2007; Jain, 2006; Sridhar and Wan 2010) have focused attention on the emerging countries and a great deal of academic literature talks about China's large investment in Asia and now in the West, as well as India becoming an international R&D hub for computing and engineering science, plus Brazilian firms' overseas expansion in natural resource extraction industries. Research on South African FDI flows however, even though the country is responsible for more than 60%[2] of the African continent's outward FDI stock (UNCTAD 2007), has largely been limited to South African foreign investment in other African countries (Alden, 2003 and 2009; Aykut and Goldstein, 2006; Goldstein, 2004), with little research attention directed to financial flows outside the African continent. There has hardly been any research related to South African investment in China. South Africa has invested a total of US$580 million in China, but this investment has generated much less interest from researchers compared with Chinese investments in Africa's natural resource sectors (April, 2009).

Seen against other developing or emerging economies, certain unique features have emerged from South African outward foreign direct investment (OFDI), as well as the international expansion of South African firms (Goldstein, 2004, 2007; Golub, 2003). First of all, South Africa has experienced dual levels of economic 'transition'. The end of the Apartheid regime in the 1990s led to the empowerment of black government, and at the same time fostered changes to the economic policies of the former governments which had encouraged economic activity to be concentrated within a small number of large white-owned conglomerates. Farley et al. (2008, 61) have argued that, compared with most other developing and emerging countries which have sought transformation towards a market-oriented economy (for instance some Asian and East European countries, like China, Russia, etc.), South Africa's transition

'Transition economies/markets' will be included within the same definition of 'emerging markets' in this context, unless specified separately.

2 Figure calculated in 2006.

has placed a particularly strong emphasis on changing the country's political structure. Paradoxically, these authors (ibid.) have also suggested that a dual-level economic structure has become one of the features that makes South Africa quite distinctive compared with other emerging economies. Specifically, on the one hand the new post-apartheid South African government has tried to promote a 'growth, employment and redistribution (GEAR) strategy' which targets its long-term economic development and restructuring (Weeks, 1999; Adelzadeh, 1996). On the other hand, some, if not all, South African institutions are still influenced by the former European colonial powers. For instance, the South African legal system inherited many attributes from the European countries (Joireman, 2001). This was partly the result of the legacy left by European institutions and its adoption by the Apartheid government, which had huge impacts on South Africa, although the institutional framework was adapted to feature various racially discriminating forms of legislation (Feinstein, 2005; Rotberg, 2008).

It was clearly not realistic for the post-Apartheid government to continue with some of the political and economic policies they had inherited. They had to look to short-term macroeconomic policies which, if they maintained good performance, would be consistently beneficial for longer-term economic growth, especially for a country in the process of transition (Montiel, 2003). For the current South African government, transformation of the business sector is perhaps their most achievable political target. Before the 1990s, most South African firms were controlled by the six big conglomerate families (i.e. Rhodes in De Beers, AAC, Rembrandt, Liberty, Anglovaal Sanlam and Old Mutual), but since the 1990s many firms are now in the hands of various financial institutions (e.g. African Bank) (Chabane, Goldstein and Roberts, 2006, 563). Therefore in essence, the general post-apartheid institutional environment has been contradictory and imbalanced, favouring a very particular group of people in the business sector. What appears to be a supportive institutional environment in South Africa, including the segment that operates internationally, should, in theory, have provided equal opportunities and support for all kinds of companies to access both the domestic and international markets. However, as this thesis will show through it sequential investigation and analysis, the formal institutional environment has treated businesses unequally, obliging some businesses to operate through other institutional channels (e.g. micro-level or informal institutions) to get through the hurdles imposed by political influence in the macro-level institutional environment.

The South African government also introduced strict standards to limit South African firms from being listed overseas in order to prevent, or limit, capital flight. But despite this, a good number[3] of South African firms have made or proposed large amounts of investment in China which has also encouraged many small and medium firms to look at the Chinese market. When South African President Zuma paid his first state visit to China in late August 2010, he was accompanied by no less than 300 business people, proof indeed that both countries are keen on their associated business relations as well as their political relationship.

Sino-African relations have drawn considerable attention from various academic disciplines over the last decade. Scholars in the field of international relations (IR) have comprehensively studied issues ranging from resource extraction to military security, and research questions have been raised from foreign aid to impacts on bilateral trade and foreign investment (Alden, 2007; Ampiah and Naidu 2008; Eisenman et al., 2007; Broadman, 2007; Raine, 2009; Rotberg, 2008; Lingle, 1989; Manji and Marks, 2007). But most research has tended to focus at the level of the nation-state and inter-state relations, whereas discussions from a business perspective have been relatively neglected. Some specialists in International Business (IB) studies are now becoming interested in the emerging country markets, especially over the last decade or so. The so-called 'third wave'[4] described by Jansson (2007, 1), has created concerns about business relations *between* emerging country markets, especially from the more mature country markets, particularly the Triad – North America, West Europe and Asia (mainly Japan). Although some research studies have looked at business relations between Asian and African countries (for example China and Africa, or India and Africa), most have tended to concentrate on Chinese business engagement with Africa (Broadman, 2007; Rotberg, 2008) rather than *vice versa*, let alone an individual African country's business relations with China (Raine, 2009), which is the focus of this research.

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3 According to Gelb (2010) this figure was approximately 40 South African firms in 2010 (see also Chapter 3).

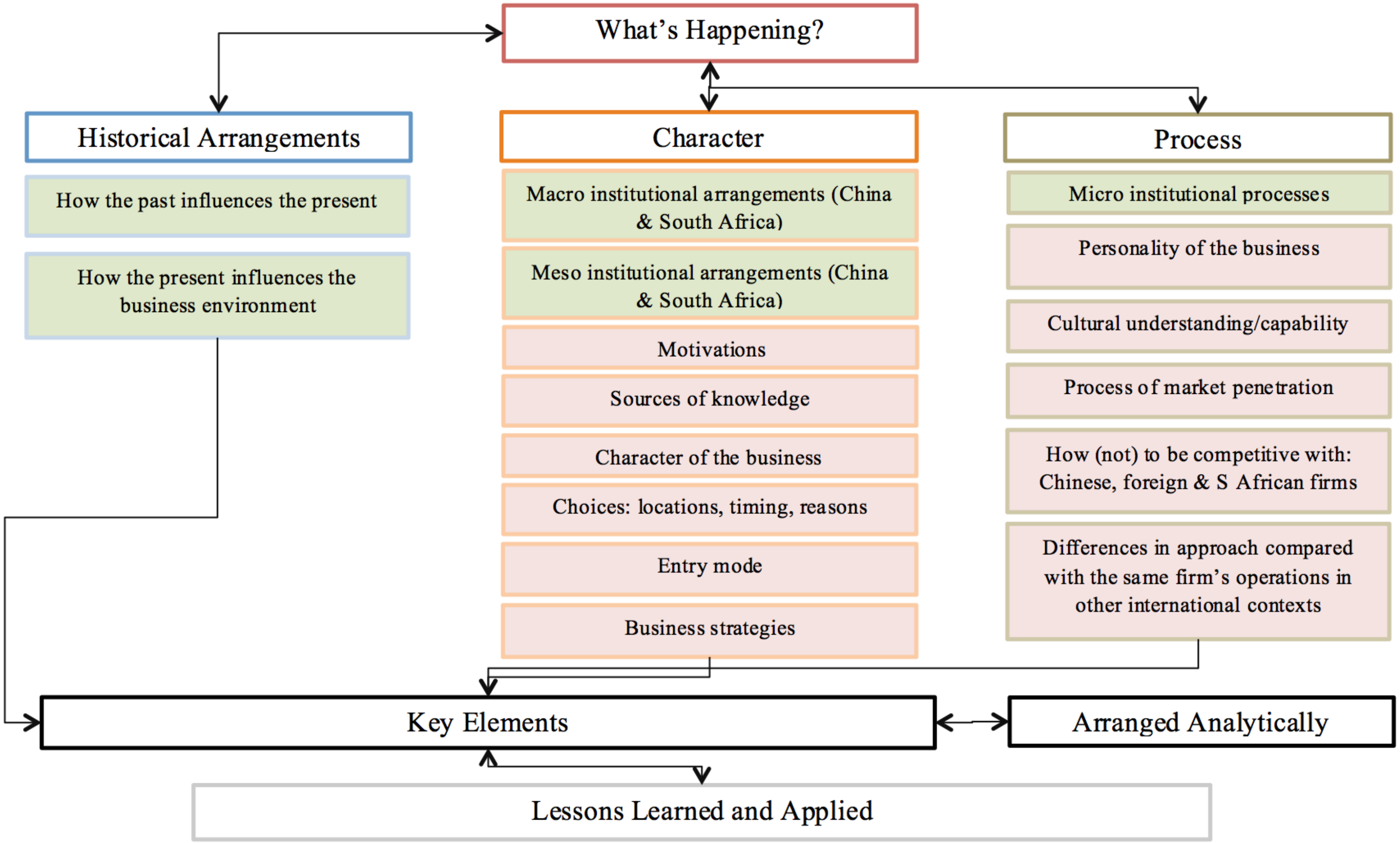
4 According to Jansson's description (2007, 1), a third wave of internationalisation of firms indicates multinational enterprises from mature markets (both Western countries and Japan) largely invest in the emerging county markets (mainly China, Russia, India and Central/East European countries); at the same time firms from emerging country markets are expanding their international operations.

South African firms' investment in China initially grew up to 2007 but afterwards it levelled out and even declined. As stated earlier, it is estimated that the total FDI outflow from South Africa into China was US$580 million by the first half of 2010. The sectors they are investing in are varied, ranging from food and beverages, engineering and manufacturing, to media and financial services. However, despite the ballpark investment figure cited above, it is difficult to obtain exact investment figures, making it hard but eminently worthwhile to find out which kinds of South African firms have invested in China, and how they have developed their businesses in the Chinese market. This thesis therefore aims to make an in-depth investigation into large South African multinational enterprises which have foreign investments in China. Through them we can then discern and identify any important factors which may point to the strengths and weaknesses of South African firms' investment in China, both now and, by learning lessons from current practice, in the short to medium term. The results of the research may also be helpful in determining whether the large firms' trans-continental experiences could provide any guidance for those small and medium South African enterprises which currently focus mainly on national and African markets?

1.3 Research Questions

The proposed research thus aims to fill a gap in our current knowledge about South African business firms' penetration of and consolidation within the Chinese markets. The following research questions have been devised to provide structure and direction for the research investigation that follows. At this point the research questions are phrased in reference to South African foreign direct investment as a whole, although later, once the key themes have been operationalised and the research methodology devised, the research questions will be explored empirically by means of a series of in-depth case studies and broader background discussion. How the research questions relate to the structure of the thesis, and where the answers to the questions will be found in the empirical chapters, will be discussed in Section 1.6 'Organisation of the Thesis'.

Figure 1.1: Organisation of the Research Questions



The research questions are clustered in three segments – historical institutional factors; characteristics of the firms and institutions and business processes, as summarised in the schema below (Figure 1.1). The historical discussion is necessary because it identifies the transitions that have taken place in the South African and Chinese institutional environments, the impacts these have had on the business sector, and how South African firms have responded to changing institutional arrangements in terms of formulating their business strategies for 'going out' into the Chinese market. As particular emphasis is placed in this thesis on the informal and quasi-formal institutional practices that often characterise the 'realeconomy', the majority of the investigation and discussion will concentrate on how South African business actors comprehend, navigate and negotiate the Chinese institutional maze through their business strategies and networking activities.

Main Research Question

What have been the key institutional factors that have contributed to the effectiveness or otherwise of South African firms entering and operating within the Chinese market?

Secondary Research Questions

[A] Historical Institutional Factors

In order to investigate the factors that have effectively shaped South African firms' current business strategies within the Chinese market, it is essential to look back upon the historical factors and processes that have shaped the current institutional environment:

(i) How has the changing institutional environment across time influenced the present business environment in South Africa?

(ii) How does the present business environment influence how South African firms operate internationally?

[B] Characteristics of firms and institutions

(i) What are the macro-level institutional factors in both South Africa and China which influence how South African businesses operate in China, and what is their influence?

(ii) What are the meso-level[5] institutional factors in both South Africa and China which influence how South African businesses operate in China, and what is their influence?

(iii) What are the principal motivations behind entry into and operation within the Chinese market by selected South African firms?

(iv) What were the principal sources of knowledge, information and intelligence that South African firms obtained in order to facilitate their penetration of the Chinese market?

(v) What are the principal characteristics (ownership structure/mode of entry, size, sector, relationship to head office, governance, etc.) of the case study firms that are operating in China, and how did these influence the effectiveness or otherwise of their business operations in that country?

(vi) Why did the case study firms opt for particular locations and timescales for their business activities in China?

(vii) What specific business strategies do South African firms adopt when entering and operating within the Chinese market, and why, and how have these strategies affected the efficiency or otherwise of the company?

[C] Business Processes

(i) What activities specific to the firm, or individuals within the firm, at the interface with the business environment in China (micro-level and informal institutional

[5] Within the context of this research, 'meso-level agents' refers to those agents located in the middle between macro-level agents (the state) and micro-level agents (to a large extent individual firms, individual people). Meso-level agents can be NGOs, or in the case of China they can be semi-governmental/government-linked organisations, e.g. regional/local investment promotion agencies, etc.).

arrangements and cultural processes) have firms followed in order to facilitate their business entry into and operation within the Chinese market?

(ii) Each South African firm might be considered to have its own individual ‘personality’ (corporate governance, firm-level institutions and culture). How has the ‘personality of the firm’ influenced the process of market penetration in China and the effectiveness of the firm’s business operations there?

(iii) How (if) do South African firms apply their cultural understanding (cultural interface) of operating in an international context to their business operations in China, and how effective has this process been?

(iv) What specific strategies did (do) South African firms adopt as they enter the Chinese market?

(v) How have South African firms managed to be and remain competitive in the Chinese market in relation to local Chinese firms, foreign companies and other South African businesses?

(vi) What similarities and differences in business strategies have South African firms operating in China adopted in comparison with the strategies they adopt in other international (and domestic) contexts?

1.4 Study Approach

This study adopts an approach situated at the interface of International Political Economy and International Business. The point of connection between these two study areas, which provides the platform for my research, is an ‘institutional perspective approach’ (we return to this point in Chapter 2: please refer to Figure 2.1 for a schematic representation of how the institutional focus of this research is placed at the interface of these two disciplines, and where the empirical investigation - of South African firms’ business operations in China - dovetails with this framework). The contextual nature of the research subject also necessitates drawing further disciplinary perspectives into the study, including social, cultural and area studies, given the people-centred and informal institutional focus of a large component of this research.

An IPE theoretical framework is a disciplinary fusion of international relations with political science and economics, and IPE studies share some common topics with IB. For instance, on the matter of the motives behind FDI, IB scholars would be concerned with the motives of MNCs investing abroad, such as seeking natural resources, exploring markets, enhancing efficiency and building strategic assets (Dunning and Lundan, 2008a). From an IPE perspective, MNCs may for example conduct foreign investment in order to attain a monopoly position, to tackle trade barriers, or to avoid unstable currency exchange, or capitalising of the changing world order (Balaam and Veseth, 2005). The current study draws selectively on both sets of perspectives, seeking to understand the motivations for South African business firms reaching out to the Chinese market when both countries are in the midst of a thoroughgoing process of transformation, to reveal the business strategies they deploy in order to negotiate the sometimes tricky contextual landscape, and to understand the cross-cultural elements of international business transactions. By drawing upon and incorporating core elements of both fields of study, the research also hopes to help build a platform for future multidisciplinary analysis of international business practice. The core common point of focus for this research is the ***Institution***.

Scholars have addressed the importance of institutions in the study of International Business, their approaches evolving over time as the environments within which MNCs conduct their business activities have changed over the last two or three decades. As we will see in Chapter 2, there has been a growing tendency for institution-related research in the field of business studies to focus on firms in emerging country markets, particularly in Asia (e.g. Peng 2003; Peng et al, 2005; Ozawa, 2005), raising awareness of the importance of institutions in international business activities in these transitional regions. However, much of the research hitherto has tended to emphasise the macro scale and *output* side (concerned with formal institutional relations) rather than the micro scale *input* side (concerned with informal institutional relations and arrangements, such as the everyday practices of business actors *in situ*). There has also been a lack of consistent analysis of the interfaces and interactions between *macro-level* (state level) and *micro-level* (firm level) factors. These are areas that this thesis seeks to engage and contribute to. The discussion is situated in the context of South African investment and business entry into China. The empirical component of the research will, in the main, focus on qualitative case studies of South African firms which mostly entered the Chinese markets as South Africa-to-China FDI flows increased sharply after *circa* 2000. The case studies will both inform inductively and subsequently be tested against a conceptual model – a three-dimensional institutional model – which will be introduced and explained in Chapter 2.

1.5 Significance and Originality of the Study

Despite being one of the important emerging economies in the world and a growing international economic player, as well as the only African G20 member, most international academic attention on South Africa has tended to focus on political issues, which have tended to overshadow critical analysis from an international business perspective. Certainly, from an investment point of view, South Africa has not hitherto received the same level of research interest as FDI flows to and from other emerging economies in Asia, East and Central Europe, and Latin America. The present research project seeks to investigate and provide insight into the business strategies that have been adopted by South African firms that have entered the Chinese market, which has become an important focus of outward FDI from the Republic beyond the African continent. In order to achieve this objective the research will present findings from in-depth investigations of ten South African firms – that is, approximately one-quarter to one-third of all South African firms that have become established in the Chinese markets over the last decade or so (see Chapter 3) - across several economic sectors, and consisting of both successful and less-successful business outcomes. To my knowledge, no existing study has managed to present such an insightful account of the processes and procedures these companies have followed as they have negotiated both the formal and, particularly, the informal institutional landscape in China.

The original contribution of the thesis is conceptual as well as empirical. In addition to rising to the theoretical challenge of combining International Business and International Political Economy epistemologies on an institutional stage, and illuminating these with a multidisciplinary spotlight which draws energy from social, cultural and historical filaments, the study will posit a conceptual model which it is hoped will make a valuable contribution to the existing body of knowledge by combining macro, meso and micro, external and internal, and formal and informal perspectives in a single and, I believe, robust ‘three-dimensional institutional model’. The model is complexly informed by, and is able to accommodate, the diverse, contingent, contextual and sometimes quote idiosyncratic real-life experiences of South African firms navigating simultaneously the Chinese economic terrain and China’s sometimes quite unpredictable institutional landscape, often by reverting to informal institutional practices that some firms are better able to comprehend and mobilise than others. The conceptual model and its practical application are the main contribution I hope to be able to make to the IB and IPE literature upon completion of my PhD.

1.6 Organisation of the Thesis

Chapter 1 has outlined the main theme, focus and context of this research, which is South Africa’s growing economic involvement in the Chinese markets, and some of the institutional factors which both condition and constrain market penetration. I have positioned the research at the interface of International Business and International Political Economy and suggested the study can make a useful contribution to both, empirically and conceptually, by investigating often-overlooked dimensions and perspectives, particularly at the micro-level informed by everyday business practice. South Africa is used as an example of an ‘emerging economy’ experiencing processes of economic and political transition, engaging another emerging and transitional economy, China. The chapter has formulated research questions which will help guide and structure the research.

Chapter 2 explores the existing body of knowledge with regard to the approaches adopted by IB and IPE with regard to explaining and understanding transnational enterprise and international flows of direct investment, with a growing focus on the emerging economies and an increasing willingness to explore some of the institutional factors which influence transnational business dynamics and outcomes. From this I develop what I have called an ‘institutional perspective approach’, based on a definition of ‘institutions’ which looks at both formal and informal aspects. I have placed a particular emphasis on the business strategies that firms adopt, and occasionally adapt, to help them navigate their formal (and to a lesser extent informal) institutional environments within which their business practices are situated. At the end of the chapter I have developed and explained my own ‘three-dimensional institutional model’ which initially is used to show how I will approach my research enquiry, and it then tested for robustness against my empirical case study material which is presented in Chapter 5.

Chapter 3 outlines the methodology that has been used in this research, principally as a means of engaging and finding in-depth answers to the research questions that were posed in Chapter 1. The research employs a multi-methods (mixed methods) approach, with a combination of qualitative and quantitative techniques which is intended to enhance the scope for triangulating data, findings and interpretations, thereby not relying on a single epistemology or a narrow set of techniques. The quantitative data are mainly presented in Chapter 4, whereas Chapter 5 is based solely on qualitative case studies. The chapter discusses some of the challenges and hurdles faced in gathering both primary and secondary data for this research, including not only identifying a sample of respondent firms from at best patchy baseline data, but also gaining access to South African business enterprises with interests in China. Sometimes it felt like I was groping in the dark, trying to find complete, consistent and authoritative secondary data on FDI flows from South Africa to China, and the true extent of South African business interests in that country. I believe the way I have managed to overcome these practical hurdles gives some credence to my suggestion that this is the first study to provide depth and insight into South Africa’s embryonic business association with China, and most particularly the institutional dimensions of this. The chapter goes on to outline the rationale and character of research design for this thesis, the case study approach, primary data collection and the interview process. Finally it ends with a reflexive account of the researcher’s positionality relative to the research field, and some consideration of the ethical challenges this research faced and overcame.

Chapter 4 provides important contextual background to the primary research investigation. It provides a detailed historical account of South Africa’s political economy, business environment and institutional setting, moving sequentially through the late colonial phase, the Apartheid era, and the still unfurling post-Apartheid period. The key political and economic events are outlined in order to draw attention to the evolving institutional setting, which in fact has remained fairly constant even while the country has gone through dramatic and often quite traumatic socio-political upheavals. The complex and occasionally uneasy interface of politics (and political agendas) and economics (and thus the business setting) helps to explain how and why institutions have rather inconsistently served to support and facilitate both domestic and international business activities. This fact, together with something of the pioneering essence of the South African psyche, provides an important historical backdrop to the more recent phase when South African businesses have started to venture further and further into the international market, reaching China in any significant extent only since the early 2000s. A similar account is also presented of China's own political economy since the reform process commenced in the late 1970s, to which we add a detailed description of the institutional setting in China, viewed from the perspective of both formal and informal institutional structures and practices.

Chapter 4 commences with an introduction to foreign direct investment flows from South Africa, initially, and towards China, subsequently, as this provides the key point of articulation between the two countries in the business context and, of course, provides the essential back-drop to this study. Both countries have been through thorough-going processes of transition and reform, and thus their respective experiences of transformation also provides a key setting to the present study. Transition is looked at in comparative perspective throughout this background chapter. One manifestation of transition and change, and again an important theme in the present research, concerns the ways in which institutions have evolved alongside the reform and transition processes. In this chapter we use an analysis of the Global Competitive Index to paint a general picture of institutional change in South Africa and China. Finally, the chapter introduces the respective business systems of these two countries, looking at them individually and comparatively, drawing out key elements which will provide a framework for the development of the empirical case studies in Chapter 5. This is facilitated by a series of propositions with which we conclude this chapter, and which will subsequently be evaluated against each of the case studies.

Chapter 5 presents the main empirical findings of this thesis, in the form of ten in-depth case studies based on South African firms' actual experience of doing business in China and, in the process, negotiating both formal and informal institutional environments, in addition to the standard and sometimes quite idiosyncratic challenges of doing business in this complex economy. The case studies are drawn from a cross-section of economic sectors, and are paired – usually presenting slightly more successful and less successful experiences in broadly comparable political economic situations. Each of the case studies is also examined against the three-dimensional institutional model that was developed in Chapter 2, in part to help provide structure and consistency to the presentation of the empirical material, but also as a means of evaluating the robustness of the model itself.

Finally, Chapter 6 returns to the research questions that have been outlined above, re-visiting each within the structural framework outlined in Figure 1.1 – looking at historical background, the characteristics of firms and processes of market penetration and consolidation. Additionally, the concluding discussion pulls out structural aspects that are specific to the firms' business strategies.

CHAPTER 2

INSTITUTIONS IN INTERNATIONAL BUSINESS

This chapter will attempt to ground this investigation of South African business firms' entry into, operation in and consolidation within the Chinese markets by reference to key literature and theoretical propositions drawn from perspectives in International Business and International Political Economy. It will then develop an institutional approach situated at the interface of these two academic frameworks. Based on this platform I will then go on to formulate my own three-dimensional institutional model which will provide the analytical and interpretive framework for exploring and understanding the empirical data that will be presented in Chapter 5.

2.1 From an International Business (IB) Perspective

This Chapter will review relevant literature, including classical and contemporary theories which I will apply in my thesis. My research study aims, from both an international business (IB) and international political economy (IPE) perspective, to look at South African foreign direct investment in China, and South African MNEs' business strategies. The first part will selectively discuss, from various perspectives, the major FDI, MNE and IB theories, models and paradigms in current IB studies, with regards to major assumptions and different viewpoints on multinational enterprises and their functions in FDI activities (Forsgren, 2008), as well as identify the main theories/paradigms that will be applied and tested in this research, e.g.: Hymer's (1976) Monopolistic Advantage Theory which was the first contribution to the study of FDI; the OLI paradigm developed by Dunning (1980, 2000; Dunning and Lundan, 2008a) provides an analytical framework to explain why a MNE would conduct a particular foreign investment activity in a particular location; Buckley and Casson (1976, 2002 and 2009) have demonstrated that MNEs tend to maximise their profits by internalising foreign markets in their Internalisation Theory; meanwhile the Uppsala Model is more directed at decision-making, the main idea of this model being the internationalisation of firms through gradual learning (Johanson and Vahlne, 1977 and 2009).

Multinational enterprises are the major carriers of FDI, and effective and efficient international business strategies (IBS) applied by MNEs affect every step of any investment progression. Appropriate international business strategies are particularly vital for long-term business success. Although country origin, industry differentiation and firm-specific characteristics may cause MNEs to have different business strategies, some common points should merit attention. Porter's Diamond Model (1980, 1990, 1991) is a classic theoretical framework in international business strategic management. Since 1980, FDI flows from developing countries has emerged as a field of study in its own right, evidenced by a growing literature in this area. In order to launch adequate and contextualised explanations and interpretations of such business phenomena in developing county markets, many scholars have gradually incorporated institutional theories into business studies, which can be found in the works of Peng (various years), Jansson (2007), Dunning (various years), Ozawa (2005) and others. A brief discussion will follow in the second part of this chapter.

2.1.1 Theories on Foreign Direct Investment (FDI), Multinational Enterprise (MNE) and International Business Strategy (IBS)

Since the 1960s when increasing numbers of US firms expanded their business operations by investing overseas, many scholarly research works in the field of International Studies have been undertaken which have built a series of theories and paradigms to explain the phenomenal range of business activities and foreign direct investments which have been carried out by multinational enterprises. It was during this time that the most vigorous FDI and multinational business activities took place in the regions of the so-called Triad, namely North America, European Union and Japan. Some of the more influential IB theories on FDI originated on the basis of the business experience of multinational enterprises from these developed regions. These classic IB theories have thus tended to be adapted and applied to the current trend of developing country involvement in FDI flows and trends within the global capitalist arena, sometimes piecemeal, sometimes adjusted to specific contexts (Dunning and Lundan, 2008a).

Hymer's *Monopolistic Advantage Theory* was considered a seminal contribution to international business studies on MNC and FDI (Buckley, 2006; Goldstein 2007;

Dunning and Lundan, 2008a). Hymer was the first scholar who, from the perspective of the firm (level), explained why companies would invest in foreign countries. In his early, now quite famous PhD dissertation, he asserted for the first time the firms' progression of certain specific ownership advantages and their capability of 'removing conflicts' through imperfect markets. These were the two major determining factors which enabled firms to conduct cross-border activities, as well as to attain profit by exerting their ownership advantages to compensate for the disadvantages of foreignness (Yamin, 1991; Dunning and Rugman, 1985; Dunning, 2001; Buckley, 2006; Forsgren, 2008; Dunning and Lundan, 2008a). Nonetheless, Hymer's work has received a mixed reaction. Dunning and Rugman (1985, 230) and Dunning (2001, 38) pointed out that Hymer did not give enough consideration to strategic management issues, nor to political or social matters. Based on economic theories, Hymer's works concentrated more on power and hierarchy but less on cultural factors (Buckley, 2006). Regarding the sustainable development of multinational corporations, Yamin (1991, 66) said that Hymer, in his dissertation, only showed interest in "explaining the initial act of international operations rather than the growth of the multinational corporations. Meanwhile, Horaguchi and Toyne (1990, 489) argued that Hymer's work, if assessed from a broader perspective, had certainly achieved his intention of "explaining the means by which the MNE continued to exist".

The presence of different views, both positively supportive and negatively critical, is symptomatic of the contrasting theoretical standpoints on FDI flows from MNEs, linked in part to differing disciplinary perspectives. This demonstrates that there are no absolute or uncontested frameworks for the study of such financial flows. Nonetheless, Hymer's research and analytical approach have been highly influential in more recent scholarship and micro-level studies on FDI.

In the late 1970s, Buckley and Casson (1976, 2002) introduced their *internalisation theory*, according to which apparently every stage of MNE activity, from the initial step of raw material input to the final product/service delivered to the consumers, and even through the point of after-sales service, is path-dependent. An imperfect intermediate product/service market causes higher transaction costs and uncertainties for firms. In order to offset such costs and decrease uncertainty, firms have to internalise the external markets to achieve coordination of "diverse (value-added) activities within a single firm" (Dunning and Lundan, 2008a, 94). If the external markets are located overseas, activities to internalise these markets underpin the rationale of multinational enterprise. *Internalisation Theory* was built upon the framework of Ronald Coase (Buckley and Casson, 1976, 2002, 2009), and initially the big story of the theory was to explore the factors that lead to the creation of MNEs and influence their activities. In the past 30 years, the *Theory* has been empirically tested and further progressed by incorporating it with other disciplinary theories, and has resulted in present-day IB studies which includes fields such as culture, theory, international joint venture, and so on (Buckley and Casson, 1991, 2001, 2002, 2007 and 2009).

Quite similar to *Internalisation Theory* in terms of approach (Dunning, 1980; Dunning and Lundan, 2008a), Dunning's *eclectic or OLI paradigm* imports ***O****wnership-specific* advantages besides ***L****ocation-specific* and the ***I****nternalisation-specific* advantages which are derived from Buckley and Casson's theory. The OLI paradigm is largely an analytical framework wherein cross-border activities undertaken by MNEs can best be explained when placed in a specific context. Dunning and Lundan best summarise the essence of the OLI paradigm (2008a: 100):

> *At any given time, the more a country's enterprises - relative to those of another - possess desirable O advantage, the greater the incentive they have to internalise rather than externalise their use, the more they are likely to engage in outbound FDI. By the same token, a country is likely to attract inbound investment by foreign MNEs when the reverse conditions apply.*

The main advantage of the OLI paradigm is that it works like a multi-functioning device. In any context of FDI activity, if analytical explanation requires any sub-paradigm of the three (O, L or I) to change or to add a new element, the other two would be able to adjust accordingly. And thereafter the re-configured device can normally fit the newly contextualised story. Alan Rugman is one who has neatly incorporated the OLI paradigm with management theories. His *FSA (Firm-Specific Advantages) and CSA (Country-Specific Advantage) Competitive Matrix* (1981 and 2006) are useful for my own research investigation. For example (Table 2.1):

Table 2.1: FSA/CSA Matrix

CSAs \ FSAs	Weak	Strong
Strong	1. Firms in this Quadrant Generally resources based and/or mature firms producing a **commodity-type product**. Being at the **last** stage of the product life cycle, weak FSAs (intangible skills) can by complemented by CSAs (location and energy costs). Firms follow "low-cost, price competition strategies".	3. Firms in this Quadrant Firms can follow any strategies (low cost, differentiation) to maintain their position.
Weak	2 Firms in this Quadrant Inefficient, floundering firms with no consistent strategy, nor any intrinsic CSAs or FSAs. They are either preparing to exit production or to restructure. This Quadrant can also represent domestically based small and medium-sized firms with little global exposure.	4. Firms in this Quadrant Firms having strong FSAs in marketing, brand names, and customization. Home country's CSAs are not an essential element to pursue strategic success in the world market.

Source: Rugman, 1981 and 2006
Strategies discussed under FSA/CSA Matrix consider CSAs as 'Home-country' CSAs

CSAs refer to: a. natural resources; b. efficient and skilled, relatively low-cost labour force; c. trade barriers restricting imports.

In more recent work, Dunning and Lundan (2008a, 2008b) absorb institutional elements into the OLI paradigm. Technically some components need to be handled carefully (e.g. O-advantage is the most difficult but vital part to deal with [Dunning and Lundan, 2008a: 131]), while theoretically new problems and propositions are raised. Institutions tend to be multifaceted and embedded. Thus, a marriage of institutional theories with any other disciplinary study theory would require this to be given a specific setting or background. In the last 20 years or so, some IB scholars have tried to inject institutional theories into their research on developing/ emerging/transitional economies, especially in the area of international business strategy. This can be considered to be one appropriate contextual setting for a combination of IB and institutional theories. A detailed discussion on institutions and institutional theories in IB studies will be presented in the next section.

Another model, the Investment Development Path (IDP), initiated by Dunning (1981 and 1988), also deserves some special discussion here. The IDP model, later refined by Dunning and Narula (1996) and Narula (1996), tells us that the process of reconfiguration of a country's FDI pattern mirrored through the OLI paradigm (particularly changes in O and L advantages) would indicate the features of this country's economic development (Dunning and Lundan, 2008a). From a macroeconomics perspective, the IDP model presents a dynamic form of the OLI paradigm by integrating FDI structure into a country's economic development (Goldstein, 2007). This model has also been further tested with data collected in Taiwan and Korea (Dunning, Kim and Lin, 2001). In a further refinement, Dunning *et al* (2001) propose that an amalgamation of the IDP and TDP (Trade Development Path, a model which bears similarities with the IDP model) proves that pattern changes in FDI and trade in a country will affect a country's trajectory of development (Dunning, 2008). Nonetheless, Dunning has admitted that in the context of China, the IDP model has failed to predict Chinese development paths. The reasons being: firstly, as Goldstein (2007: 82) has argued, because of the inconsistency and difficulties in obtaining reliable data on outflow FDI from emerging country markets, and therefore because it is hard to test the IDP empirically in these countries; and second, and perhaps more vitally, because of the Chinese government's political incentives for inward FDI in the late 1970s, and even more so for outward FDI from 2000. From an IPE perspective, it is not difficult to explain such phenomena. The Chinese government (both central and local) create different investment policies which can be considered to be quasi institutions in China, and these institutions act as the key mechanisms to facilitate the Chinese investment environment, and thus investor behaviour. Therefore, the Chinese development path is actually controlled and steered by the state and other related agencies.

In the late 1970s, two Swedish scholars (Johanson and Vahlne, 1977) developed a study model to demonstrate the internationalisation process of firms via the gradual learning of knowledge from existing market networks (ibid.). Based on Cyert and March's behavioural theory of firms (Cyert and March, 1963), as well as empirical research studies on Swedish firms which expanded their overseas business operations, Uppsala's internationalisation process model (the 'Uppsala Model') stresses that firms normally initiate further foreign market expansion after acquiring enough knowledge and experience about the market through existing market or business networks. Such a process of 'gradual learning' enables firms to tackle obstacles caused by 'psychic distance', and it also explains why firms generally choose first to invest in their neighbouring countries where the psychological distance is often less. The Uppsala

Model has however not been without its critics over the years. Some research results claim that the Uppsala Model is only suitable to explain the behaviour of firms from small and wealthy countries, particularly Nordic countries. However, it is possible to find similar processes and characteristics in both East Asia and Africa. FDI also tends to flow into host countries which share cultural and geographical proximities with the home country: such as Taiwanese firms investing in Fujian Province, China; and small South African firms investing within sub-Saharan Africa, etc (Goldstein, 2004 and 2007).

2.1.2 Development of Relevant IB Theories in the Last 30 Years

Since the 1970s, when major International Business theories/paradigms/models were initially developed, the global political, economic and social-cultural environments have undergone dramatic changes, particularly over the last 30 years. International business activities carried out by MNEs have increased and become incrementally more complex, and this has made it necessary for many scholars to revisit their original theories/paradigms/models. Several features are shared in their 'updated' versions, and these features have importance in my research work, which are: 1) a more dynamic form of the original theory; 2) contextualisation in terms of specific business, economic, political as well as social-cultural environments; and 3) importance of market networks. First of all, some scholars (Buckley and Casson, 1998 and 2009) have found it necessary to reinforce the 'dynamic' function of their original models. In order to do so, they have incorporated other disciplinary theories, similar to what Buckley and Casson (2009, 1575) have proposed, in a 'dynamic new agenda' to investigate the development of MNEs in a more flexible form; whilst others (e.g. Dunning and Narula, 1996) have added new elements into the original models: for instance, the Investment Development Path (IDP) theory is considered a dynamic form of the OLI paradigm (Dunning, 1986); whilst the Uppsala Model, a model established on behaviour theories, has always been a dynamically analytical framework.

Secondly, since Hymer's seminal academic work on FDI in the 1960s, the last half-century has witnessed overwhelming changes in the world economy. State leaders have more inclination to liberalise their policies and cooperate with each other to deal with international affairs. Social and cultural exchanges have become unprecedentedly extensive, and regional integration and globalisation certainly fashion the contemporary world. Under such an international background, the original business theoretical models need to be ‘contextually applied’ in terms of specific economic, political as well as social-cultural environments, in order to identify and interpret key contemporary and the most up-to-date business issues. For instance, when Johanson and Vahlne (2009) reviewed their study model, they admitted that some new business phenomena like ‘born global’ firms also raise doubts about the applicability of the Uppsala Model. However, under the specific contexts of most ‘born global’ firms, Johanson and Vahlne counter-contest that the so-called ‘born global’ firms must first be ‘born regional’ (ibid.), and therefore these firms’ internationalisation behaviour does fit into the Uppsala Model framework. Last but definitely not least, most IB scholarly research works have stressed the importance of setting up market or business networks through MNEs’ business activities. This has been particularly favoured by those who are interested in emerging country markets, where utilisation of network-based business relations is a feature of MNEs’ business strategies. Institutionalisation theories are widely used in such research work, and more reviews will be detailed in the following section.

2.2 From an International Political Economy (IPE) Perspective

2.2.1 Thoughts of the Major Schools

International Political Economy (IPE) is a subfield of International Relations (IR) and Economics. Rather than define it as a theoretical method, IPE is best described as a field of collective enquiries with regards to the subjects with which it is concerned. IPE study approaches are not constrained within any individual study area, but are a combination of applications of various theories and methodologies from different disciplinary study fields. Many IPE scholars would rather follow Robert Gilpin’s (1987) classic ‘three categories of IPE approach’, which are liberalism, nationalism and Marxism (Ravenhill, 2005; Balaam and Veseth, 2005). But contemporary IPE mainstream approaches are identified as: neo-realism, neo-liberalism, social constructivism, and Marxism-structuralism (Dent, 2008).

Neo-realism is a set of theoretical thoughts developed from the realists. Initial scholarly works about new-realism can be found in Kenneth Waltz and Joseph Grieco

(1988). Thoughts of neo-realism focus on nation-states as the most important actors in the international system. In order to secure their own independence and survive in the competitive international environment, each nation has to possess relative power and capability to compete and win the maximum advantage over other nations. Cooperation among nations can be achieved, but only when states want to do so, and it is for their own mutual benefits (Lamy, 2008). Neo-liberalism, in contrast to new-realism, promotes individuals (private or organisations) as the most important actors where international cooperation and interdependence are essential to the overall welfare of the international community. Competition does take place during various individual economic exchanges (trade, investments, etc.), but nation-states are not competitors in this context (Dent, 2008; Lamy, 2008).

Social constructivism theory emerged in the 1980s, and is a fairly new stream of IPE theory. Based on Dent's (2008) and Barnett's (2008) description of social constructivism, it consists of ideas, values and beliefs which define and transform the international structure which in turn re-shapes the identity, interests and IPE of states. Marxism-structuralism placed emphasis on 'classes'. In contrast to liberals, Marxists believe a capitalist society is systematically classified, capital (maintained by capitalists) and labour (composed of workers) are the two extremes of the society (Dent, 2008; Hobden and Jones, 2008), and 'distributional questions' are the trigger that induces conflicts between classes (Ravenhill, 2005).

2.2.2. Neo-Neo Debates

Debates between neo-realism and neo-liberalism spread to several issues in terms of the behaviour of 'actors'. Neo-realists believe that international anarchy, on the one hand, has enough force to shape the motives and actions of the states; and on the other hand it places more constraints on foreign policy (Grieco, 1988; Lamy, 2008). Under the anarchic international system, states are required to be preoccupied with relative power and security and are susceptible to conflicts and competition, and thus survival in a competitive international system is the principal goal of each individual state. International cooperation is difficult to achieve and can only be established when states want to make it happen. Generally such cooperation is arranged by and among the hegemonic powers, but it is hard to maintain due to a high reliance on state power.

Neo-liberals on the other hand, see states as atomistic actors (Grieco, 1988), and other key actors are composed of various international agencies, such as political bodies, labour unions, trade organisations, multinational enterprises, and so forth. Neo-liberals believe, with increasing importance, that international interdependence and globalisation, and international regimes/institutions are the essential mechanisms necessary to manage such interactive relationships. Neo-liberals are concerned more about the economic welfare associated with intentional political economy issues and other non-military/security issue areas such as international environmental concerns. Regarding international cooperation, neo-liberals believe this is relatively straightforward to achieve, particularly in areas where mutual interests lie. Therefore, maximising total absolute gains for all parties involved with common interest is what neo-liberals promote, although 'cheating' is always a threat to achieving such common goals. For neo-realists, not only is cheating a concern for each state, but so are worries about their partners who might obtain more gains through cooperation and thereafter become potential competitors urging each state to pursue maximum relative gains and prevent others from gaining more (Grieco, 1988; Lamy, 2008).

2.3 IB and IPE: A Critical Perspective

Both IB theory and the field of IPE have clearly evolved across time, in part as intellectual inputs have become more refined, and in part as the world that both fields describe and explain has changed with increasing intensity and complexity. We have already drawn attention to this process of evolution in the foregoing discussion. For instance, Hymer's (1976) Monopolistic Advantage Theory was criticised for its relative neglect of cultural and strategic management issues, both of which have contextual underpinnings, and, as a relatively static model, its failure to explain the longer-term evolution and operational consolidation of MNEs. Similarly, Buckley and Casson's (1976, 2002) Internalisation Theory has gone through several iterations as a result of its empirical validation which has required the insertion of cultural contextual variables in the internalisation process, as well as its adaptation to suit different frameworks for MNE penetration of international markets. In IPE, the world looks quite different when seen through the eyes of the neo-realists, neo-Marxists, neo-liberals, etc., and as a result of their different empirical, intellectual and ideological perspectives it is difficult to agree a single platform upon which to observe and explain contemporary processes of economic, social and political change. This thesis uses the critique of both fields of study as its point of departure in building a framework which it hopes will stand as an original contribution to knowledge in both disciplinary fields.

Robert Westwood (2006) has criticised the intellectual tendency within International Business and Management Studies (IBMS) towards functionalism (the structures of a complex system shaping the way the global economy works) and universalism (e.g. a global capitalist system in which MNEs all follow standardised practices), both of which provide a macro-level orientation with only limited scope for particularism (where business practices are adapted to local contextual conditions) hitherto. Applying a postcolonial epistemological critique of IBMS, Westwood (ibid., 106) argues for more research that is 'deeply contextualised', challenges Eurocentric intellectual hegemony, and which, methodologically, requires the researcher to be more reflexive about their position *vis à vis* the research field and subjects. Similarly, Roberts and Dörrenbächer (2014, 3) observe that the leading IB journal, the *Journal of International Business Studies*, has only very recently started to encourage the interdisciplinary study of IB and is beginning to recognise the value of a diverse array of methodological approaches, including (only as recently as 2011) qualitative enquiry in international business studies. This critique provides the backdrop to the present study, and identifies a number of challenges and opportunities which I have sought to engage in the present research. In particular I wish to emphasise the need for a dynamic framework for understanding the entry, penetration and consolidation of MNEs' engagement with international markets, the need for rich empirical material to test and advance theoretical propositions concerning international business, and the need to look beyond the developed world (e.g. to the transitional economies and developing countries) for the ingredients of a more comprehensive and inclusive framework for understanding FDI flows and multinational enterprise.

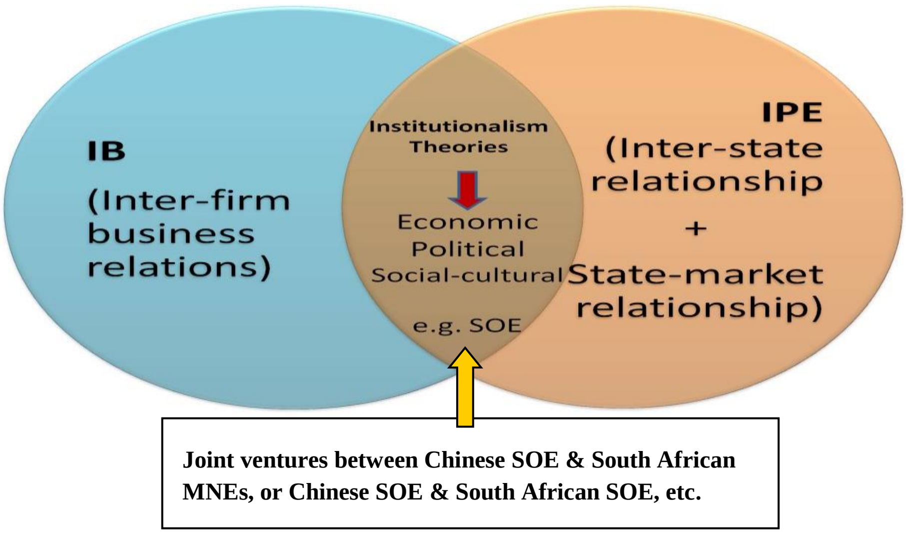
Since IPE evolved as a sub-branch of IR studies from the late 1960s, many IPE scholars (e.g. Strange, 1994) have sought to interpret state-market relations, and within this the influence of institutions in the new world order, by incorporating perspectives from a range of disciplines. The intention has been to integrate more effectively the somewhat separate fields of politics and economics within IR studies in order to be more relevant to the empirical realities of the contemporary world order (Farrands and Worth, 2005). In the current global environment, IPE studies has developed beyond a research domain seeking to explain relations between international politics and international economics, and has – at least within the so-called 'British School' (Murphy and Nelson, 2001): the 'American School' has been criticised for being locked into 'a single theoretical perspective, liberalism; a single ontological position, rationalism; and a single method, quantitative analysis' (McNamara, 2009, 73) - evolved into a field of study that engages critically with a range of contemporary global issues (Balaam and Veseth, 2005). Included in this 'critical turn' are studies of how one nation's or region's economic policies have affected international or even global political agendas (we might use by way of example here the outward foreign investment emanating from China that is reaching out to all corners of the globe, and having a significant influence on local political economies), thereby reversing the orthodox directionality from macro to micro; or how the international business strategies of commercial corporations (especially large MNEs) may act as intermediate institutional conduits connecting domestic and foreign political actors and influencing the global political economy. North-South dialogue has thus increasingly become a focus of debate within IPE. This shifting world order, which has seen the rise of new regional economic spaces and axes (beyond West-East), new sets of political-economic actors, and new challenges to existing structures of power, has provided a significant challenge to orthodox IPE studies, which historically have tended to focus on macro-level institutions and institutional relations, with a heavy emphasis on those found in the developed world. What is needed is a set of intellectual tools which takes IPE beyond its various neo-plus silos (referred to above), and which equips it to handle empirical insight found at the micro-contextual level, for instance concerning micro-institutions, institutional actors and processes, the influence of local socio-cultural variables on business practice, and the role played by micro-level institutional actors in influencing the actions and agendas of macro-level institutions. These, too, are challenges to which the present study seeks to rise, exploring how South African business firms negotiate the shifting and sometimes unpredictable and inconstant institutional landscape which surrounds the Chinese markets.

2.4 Interface of IB and IPE Theories, and an Institutional Approach

2.4.1 Interface of IB and IPE Theories: An Introduction to the Institutional Approach

This study aims to develop an approach that will be an interplay between International Relations/International Political Economy and International Business. The joining point between the two study areas where I will position my research adopts an 'institutional perspective approach'. The graph below (Figure 2.1) is a simple indication of my approach to the proposed research subject - South African firms' business operations in China.

Figure 2.1: The Interface of International Business and International Political Economy



The study subject of South African firms' operations in China concerns issues related to different disciplinary studies, including international business, international relations, politics, and economics and to some extent sociology as well. An IPE theoretical framework is a fusion of international relations with politics and economics, and IPE studies share some common topics with IB. For instance, on the matter of the motives behind FDI: IB scholars would be concerned with the motives of MNCs investing abroad as seeking natural resources, markets, efficiency and strategic assets (Dunning and Lundan, 2008a). From an IPE perspective, MNCs may undertake foreign investment in order to attain a monopoly position, to tackle trade barriers, or to avoid unstable currency exchange, etc. (Balaam and Veseth, 2005). And the latter factors may have more important repercussions for the analysis within the context of this research thesis – between two emerging country markets: the business relations of South Africa and China. Therefore, to identify the core point that both study fields share, and incorporate IB theories into an IPE theoretical framework, the aim of this research is to make future analysis more comprehensive. And this core common point is ***Institutions***.

Scholars have addressed the importance of Institutions in the study of International Business, because people's concepts toward both MNCs and the environment in which MNCs conduct business activities have changed over the last two or three decades. Many institution-related business literary works now can be found on the subject of firms in emerging country markets, mostly in Asian country markets (Peng, 2003, 2006; Jansson, 2007; Ozawa, 2005; Dunning and Lundan, 2008b). Nonetheless, Dunning and Lundan (2008a, 125) have emphasised that, although a great deal of literature has contributed to the issues concerning 'Institutions', most have tended to focus on the *output* side (more about formal institutional relations) rather than the *input* side (more about informal institutional relations). Similarly, some research works contain a lack of consistent analysis between *macro-level* (state-level) factors and *micro-level* (firm-level) factors. The *agents* (such as financial organisations, labour unions) that exist between *state* and *market* develop the *meso-level* institutions and help to maintain the functional interactions between *State* and *Market,* as well as bridge the gap between the *macro-level* and *micro-level* institutions. This was indicated in Jansson's (2007) *Institutional Network Approach* which introduced three basic models: *a basic institutions model, a basic networks model, and a basic rules model*. These models formed a set of theoretical templates to explain the embedded networks between MNCs, *markets* and FDI host/home countries (*states).*

2.4.2 Institutions Defined

Scholars from various study areas have defined *institutions*, with multiple views to analyse and assess how institutions function in the economic, political and social-cultural systems. From an economic perspective, Douglass North (1990a, 1990b, 1991, 1999, and 2005) summarises *Institutions* as the 'rules of the game', which has become a definition that is widely accepted by scholars from different disciplines. By combining behavioural and transaction cost theories in his research work, North (1990a) explained how formal rules, informal constrains and their enforcement mechanisms have provided a set of institutional frameworks that regulate and stabilise the economic, political and social structures of a society. North (1990a) separates *Organisations* from the concept of *Institutions.* According to North, *Organisations* are the participants in the games, whilst *Institutions* stipulate the 'rules of the game'. In any scenario the participating organisations have to compete with each other in pursuit of their own maximum profit or benefit, but they are willing to follow the 'rules' for the sake of 'reducing uncertainties', especially in a foreign environment. At the same time, organisations also evoke changes in institutions, but North has also pointed out that such changes tend to be more evolutionary and path-dependent (North 1990a, 1991, 1999, 2005), and thus they also define the limits for individuals and organisations in terms of constricting their choices in various economic exchanges (North, 2005; Peng and Heath, 1996).

Richard Scott, however, views things somewhat differently from North. He looks at this from the sociological perspective and has conducted research work that draws attention to the institutional theories associated with *Organisations*. As Scott has argued, *organisations* should be considered as '*institutional forms*' (Scott, 1987) and these organisations collectively are influenced by and adapted to the broader institutional arenas (Scott, 2001: 18). Scott (ibid., 48) defines *Institutions* from three components - regulative, normative and cultural-cognitive. Based on his 'three pillars' framework, Scott later in this work introduces another two Institutional concepts – *Carriers* and *Levels* - as complementary to his analytical framework. The institutional carriers (*symbolic systems, relational systems, routines, and artefacts*) perform as medium itinerants among different levels of institutions (*world system, society, organisational field, organisational population, organisation, and organisational subsystem*), each of which can be explained and denoted from the three institutional components, namely Regulative, Normative and Cultural-Cognitive. These elements identified by Scott reflect the nature of Institutions being embedded and multi-level.

2.4.3 Institutions and Institutional Networks in International Business (IB)

Many institutional theorists have applied institutional theories in their research studies of organisations, such as in the educational and service sectors in the 1970s and 1980s (Meyer and Scott, 1983; Scott, 1987). In the last 20 years, some International

Business studies have channelled institutional theories into their study fields (e.g. - Peng and Heath, 1996). Some scholars, for instance Peng (various years), in the field of International Business Strategy have incorporated discussion on institutions and institutional issues in their research, focusing their interest on the institutional factors that affect MNE's business activities, and their findings seem to share certain common points with institutional theories. For example, different institutional arrangements between two countries may result in higher transaction costs for the investing companies in the host country if they are not aware of such difference and thus fail to make appropriate business decisions; network-based relationships induce business cooperation, and hence smooth business operations and increase profits; and so forth. In the context of my current study, which is about two emerging countries' business relationship, I will concentrate on the works concerning transitional/emerging country markets.

Peng and Heath's co-authored paper (1996), drawn from both economic and sociologic viewpoints on institutions and organisations, first incorporates institutional theories into the research into business network strategies to investigate the growth of firms in a number of transitional economies (East Europe, Russia and China). Their research indicated that growth of businesses in these countries, either before or during transition, was very much dependent on 'informal and personalised exchange' and 'inter-organisational relations' because of the immaturity of formal institutional frameworks. They were of the opinion that the capability of managerial roles to access such informal and personalised networks would be a vital source for the survival and growth of firms. In his later research, Peng (2003) built a 'two-phase model of institutional transitions' where he introduced 'Time' as another variable to measure how business organisations in an emerging country markets (e.g. foreign and domestic firms) would react and change strategic choices in response to institutional transitions (from a personalised network-based to an impersonalised network-based) over time (differences).

As one of the IB scholars who initially started infusing institutional theories into IBS studies, Peng and others have gradual formed an institution-based perspective, joining with the other two traditional IB views (resource-based and industry-based) to explore motives behind firms seeking the right strategic choices in the context of transitional economies (Peng, et al., 2008). Similarly, Swedish scholar Hans Jansson shares Peng's emphasis on the study of IBS in the emerging country markets from an institution-based perspective (Jansson, 2007). Rather different from Peng's work, which deals mainly with smaller firms from emerging country markets (Peng, 2006), Jansson presents MNE from developed country markets as a core institution which is environed by sophisticated formal and informal institutions within the emerging country market. By formulating his institutional network approach models, Jansson details how MNEs should 'match' their business strategies in a specific host emerging market through institutional networks. What should be more appreciated about Jansson's work is that he brings the *stakeholder* into the overall consideration, which broadens the discussion on how different institutional elements within the institutional networks affect the MNE and MNE business strategies. This is exactly what Dunning and Lundan (2008a: 144) have stated:

> *"…to clearly separate [sic] the institutional effects from other influences on the activities and strategies of MNEs, is partly to do with an increasing need to accommodate stakeholder consideration in addition to shareholder interest…"*

Dunning has always advocated taking 'institutions' into business theories and especially combining this with his OLI paradigm. His 'institutions plus OLI paradigm' examined how macro-level institutions may affect firms' performance, and also how activities at the firm level will re-affect or re-shape the macro-level institutions (Dunning and Lundan, 2008b).

2.4.4 Institutions and Institutionalism in International Political Economy (IPE)

Institutionalism has a distinguished position in the studies of political science. New Institutionalism emerged in the 1970s after decades of the so-called 'behavioural revolution' during the 1950 and 1960s (Immergut, 1998). New institutionalism offers a large range of theoretical frameworks, but in the field of international relations, linkages between IR theories and institutional theories do not tend to be as strong as other study fields associated with institutionalism. Different schools in the IR field seem to be at loggerheads with each other, for realists (the anarchy believers) simply do not see the necessity of institutions' existence (Jönsson and Tallberg, 2008), and institutions and regimes do not mitigate the constraining effects of anarchy on cooperation (Lamy, 2008). However, since the 1990s many IR scholars have gradually accepted institutional analysis by witnessing the integration of Europe (Aspinwall and Schneider, 2000), and in recent years such inter-disciplinary research approaches have become well correlative in the field of international political economy (IPE) (Jönsson and Tallberg, 2008; Krapohl, 2008). For instance, Hall and Taylor's 'Three New Institutionalisms' is widely accepted as the most conventional classification of new institutionalism, which includes historical institutionalism, rational choice institutionalism and sociological institutionalism (Hall and Taylor, 1996). Historical institutionalists believe institutional development is somewhat path-dependent (in other words, what happened in the past will have some bearing on what will happen in the future) (Pierson and Skocpol, 2002), and their epistemological concern is to try to find a diverse array of explanations for observed political outcomes, thereby challenging the tendency (e.g. from Marxism, Structural-Functionalism) to offer single theoretical explanations for observed political outcomes (Steinmo, 2001). Historical institutionalists are also not content that the concept of 'institution' is the only parameter from which to observe political outcomes, as it is certainly not the exclusive 'casual force in political life' (Hall and Talor, 1996; Steinmo, 2001). Not only relying on the macro-level studies on political outcomes, historical institutionalists have also stepped into micro-level analysis, which is very much related to firm-level affairs, for instance, as Thelen (1999) maintains, institutions facilitate the relationships between employees and other organisations (Hall and Franzese, 1998; Thelen and Kume, 1999). This perhaps also reflects one of the features that the historical institutionalists may hold, which is "[they] tend to conceptualize the relationship between institutions and individual behaviour in relatively broad terms" (Hall and Taylor, 1996, 7).

Rational choice institutionalism has evolved on the foundation of combining rational choice theory and institutional theory. Rational choice institutionalists presume that individuals (either an individual person, commercial firm, or a country state) are the major actors in political life, and institutional systems function as both incentives and constraints for individuals when they pursue maximum utility (Jönsson and Tallberg, 2008, 85-114). In other words, institutions motivate individuals to act statically to fulfil their preference, but their behaviour must be instrumentally limited by institutions (Hall and Taylor, 1996). This is quite different from historical institutionalists who concentrate on rather empirical-oriented analysis, whereas rational choice institutionalists place more emphasis on building and refining theoretical works (Steinmo, 2001; Weingast, 1996). Through their deductive and narrative rational choice theoretical model, rational choice institutionalism scholars "look to the real world to see if their model is right (test the model) rather than look at the real world and then search for plausible explanations for the phenomenon they observe" (Steinmo, 2001, 572). In certain contexts, rational choice institutionalism has limitations to offering complete explanations. For example, as Weyland (2002, 57) has indicated in the study of Latin American politics that rational choice institutionalism cannot sufficiently "explain the complicated, variegated and fluid patterns of Latin American politics", because it mainly focuses on the electoral and legislative arenas and concentrates on formal institutions, but underestimates the importance of political belief and therefore fails to offer a full explanation of institutional creation. However, Mitra has argued the rational choice institutionalism model can well explicate the political stability of South Asia as occurring through institutional arrangements (Mitra, 1999). And one contribution rational choice institutionalists have made is that they have imported some economic theories into their model, for instance *transaction cost theory*, North's *institution change theory,* etc. (Jönsson and Tallberg, 2008). This has enlarged the study scope of rational choice institutionalism, particularly in firm-level organisations.

As presented in Section 2.4.2, discussion of institution definitions from a sociological perspective can cover the third variety of new institutionalism, which is sociological institutionalism. Understandably, sociological institutionalism would provide IR and IPE scholars with essential systematic theoretical frameworks to analyse how norms and culture influence world politics (Finnemore, 1996).

Perhaps the best indication of fusing institutionalism into the field of IPE would be neo-liberal institutionalism. As one of the four varieties in the School of neo-liberalism, [6] neo-liberal institutionalism is considered to have been the most challenging theory to neo-realism (Lamy, 2008). To a certain extent, neo-liberal institutionalism shares certain common points with neo-realism. Neo-liberal institutionalists agree that the international system is anarchic (Grieco, 1988), but institutions perform "as mediator and the means to achieve cooperation among actors

[6] The other three varieties identified by David Baldwin are commercial liberalism, republican liberalism and sociological liberalism (Baldwin, 1993; see also Lamy, 2008).

in the system" (Lamy, 2008, 132). Neo-liberal institutionalists also admit that states are the important actors, but they are not the only important ones in international relations. Interdependent relations created by various actors between State and Market always gain neo-liberal institutionalists' prioritised concerns (Balaam and Vesth, 2005; Goddard, Cronin and Dash, 2003; Strange, 1994; Stoford, Strange and Henley, 1991). To some extent, neo-liberal institutional theory assumes nation-states play major roles but they must cooperate with other equally important actors in the international system. Nations, particularly those sharing common interests, tend to group their resources and co-create the functional institutions which are significant forces they can rely upon for resolutions if problematic issues arise and thus to facilitate cooperation. In short, neo-liberal institutionalists have more positive views regarding international cooperation in contrast to neo-realists' somewhat negative or sceptical attitude (Grieco, 1988).

2.4.5 Discussion and Application of the Institutional Approach to my Research Work

One of the implicit imperatives of countries classified as being at a 'transitional' level is that they undergo institutional changes in order to adjust to the demands of transition, but each transitional economy bears their individual characteristics regarding such changes. China, for instance, is undertaking a fast-paced transformation to a market-driven economy, yet still remains under the overall planning of the central government which politically ensures the country retains its socialist ideology (Child and Tse, 2001; O'Neil, 2005), whilst others, like many East European countries, are trying to pursue both dramatic economic and political reforms (O'Neil, 2005). In the case of South Africa, transformation policies may seem to have given more privileges and emphasis to political rather than economic aspects, as the Black Economic Empowerment (BEE) policy has been promoted to "enhance the economic participation of black people in the South African economy" and to ensure the South African economy is restructured "through equity and empowerment policies and strategic interventions..."

Being an economic historian, Douglass North's institutional theories (1990a, 1990b, 1991, 1999, and 2005) can be employed to the structural dimension, i.e. from macro-level state polities, to micro-level firms' transaction exchanges. Scott's sociological perspective (1987; 2001) views organisations as institutional forms which interact with the broader institutions, therefore the institutional networks are embedded and multifaceted, the 'institutional carriers' are the medium to connect different levels of institutions, and an institutional transaction cost (a cost to overcome the problems in beliefs, formal and informal institutions, in a business environment) would be seen as the more important type of transaction cost (Orr and Scott, 2008).

IB scholars have addressed the importance of institutions in the study of international business, because people's concepts toward both MNCs and the environment where MNCs conduct business activities have changed over the last two or three decades. Peng and Jansson, as well as Dunning have demonstrated how to incorporate institutional theories and an institutional study perspective into IB studies, and many institution-related business literary works now can be found on the subject of firms in emerging country markets, mostly concerning Asian country markets (Peng, 2003, 2006; Jansson, 2007, Ozawa, 2005; Dunning and Lundan, 2008b), but Dunning et al. (2007) also refer to Ozawa's (2005) recent work which indicates how US MNEs have had influential effects on the evolution of Japanese institutions in the business sector.

The core elements of the above discussion enabled me to establish a framework to conduct a multi-dimensional institutional analysis of South African FDI in China, where business, international relations, political and economic as well as sociological and cultural factors have been included. In order to identify the main factors which help South African firms maintain long-term business success, it will be necessary to look at issues of business strategy again, but from an institutional perspective. Jansson's Institutional Network Approach has provided a useful theoretical tool for this.

2.4.6 A Review of Hans Jansson's Institutional Network Model

As indicated in the previous section, an institutional perspective analysis is obviously a fashionable methodology to apply to studies of international business strategies, especially in terms of business activities in the emerging country markets, and more particularly in the current Chinese markets. Jansson's international business strategy models (*the basic institution model, the basic network model* and *the basic rules model*), which were developed based on case studies of MNCs operating in the emerging country markets, have borne fruitful results by applying an institutional network approach on business strategy studies to emerging markets. The merits of Jansson's work must be highlighted in the following aspects.

First of all, Jansson assigns MNCs a position within the institutional structure to make it convenient to overlook the relations between MNCs and other institutional players. The *basic institution model* (Jansson 2007) divides the world of institutions into three layers: MNCs stand in the central field at the micro-level of institutions; national governmental authorities which regulate a country's laws and rules form the macro-level of institutions, whilst the meso-level of institutions includes the organisations that bridge and influence macro- and micro-level institutions, such as labour unions or financial organisations. These three levels of institutions shape the structural business environments for MNCs, and as the inner core of this business structure, MNCs and their international business strategy (IBS) must ensure the stability of the structure so that they can prolong their business operations in a stable environment. From a network perspective, the *basic network model* describes MNC business activities as developing relationships between MNCs and different stakeholders lodged in societal sectors, whilst relationships with stakeholders could be immensely varied due to cultural influences. In such contexts, MNCs belong not only to one single but also multiple networks. Thus, IBS could be considered as responses to enquiries raised from stakeholders embedded in the networks, and as a sense of cultural responsibility.

Jansson's third and final model – the *basic rules model* - includes four basic rules (thought styles, norms, values and enforcement mechanisms), as well as all the factors in his previous two models. The four basic rules that were developed on the foundation of the 'three pillars' framework (Scott 1995 and 2001), penetrate an MNC's internal and external environments, as well as reflecting the inter-relations between formal and informal institutions which are associated with MNC behaviour.

On the basis of the three models, Jansson formulates his 'match strategy' without employing massive amounts of statistical calculation but depends mainly on thorough empirical cases, which is the second contribution of Jansson's work for IBS studies (Pihl, 2008), with which the present study is largely congruent. Jansson's business models give full attention to different stakeholders at all levels of institutions (macro, meso and micro) and they have had an immense influence on MNC business strategy in emerging markets. For instance, corporate versus government relations on the one hand, by which business companies can affect government policies through lobbying, and on the other hand the government could also entirely destroy a company's foreign investment simply by exercising one policy, which is not always a major issue discussed in the mature developed markets. It is also much appreciated that Jansson's model has taken 'environment' as one of the variables, and it has broadened the discussions of relationships between a company's headquarters and its overseas subsidiaries. However, given the concern that Jansson's business models were the results of studies based on MNCs from developed markets (specifically from Scandinavian countries), it is questionable whether they would be fully applicable in interpreting the case of South African companies' business investment and operations in the current Chinese markets, which is something the present study aims to explore.

2.5 Introduction of a 'Three-Dimensional (3D) Institutional Model'

2.5.1. Reason to Introduce a 3D Institutional Model

'Institutions' and 'networks' are two rather abstract titles, but they are the two key elements embroiled in emerging country markets. Many scholars are of the opinion that in these markets, business environments are characterised as being 'institution embedded' and 'network oriented' (Dunning, 2006; Rugman and Verbeke, 2007; Peng, 2006; and Jansson, 2007). MNCs develop their business operations within such environments so that institutions could either encourage or hinder their business behaviour, but networks which are created to connect various institutions could enable MNCs to negotiate their way through the embedded system to achieve their targets providing they have chosen the appropriate approach to interlace the threads and weave the networks that suit them best. Peng and Meyer (2011, 41) proposed "managers and firms rationally pursue their interests and make choices within the formal and informal constraints in a given institutional framework." But two questions are necessarily raised by this statement: 1) one first needs to understand the environmental context within which the firm is placed; and 2) an institution has the nature of being 'path independent', that is, when institutional environments and arrangements change, the institutional framework changes accordingly, but with some residual influence from past manifestations. How, therefore, would firms and managers change their choices (business strategies) rationally to adjust to changes in the institutional environment?

Business investments and operations involve many dynamic activities, and firms should always be aware of the next potential stage of business development with some combination of dynamism, cautiousness and consistency, rather than resting on one single stagnant stage, in order to realise the new business opportunities, as well as to expand their existing operations. Therefore, business strategies should not only offer one or several tools to solve or mitigate the problems associated with change, they should also provide a series of maintenance devices to sustain and develop the tools in order to make sure they are fully functional in any unpredictable situation. To a certain extent, business strategy itself requires long-sighted investment, which can be adjusted and adapted as the conditions of business operations change. At any single stage, the MNC is situated in a position whereby different institutional elements are intrinsically interconnected with each other, and every progressive change requires MNCs and managers to have sharp senses and quick responses, because the business environment (either internal or external) can change dramatically within a short period of time in the emerging markets, and a golden opportunity might be lost. In order to customise their business strategies, it is therefore helpful to understand the underlying institutional factors from multiple perspectives (e.g. structural, environmental and historical-contextual).

Institutions Operationalised

At this point, it is essential further to discuss and operationalise the concept of 'institution' (institutions were defined in Section 2.4.2). As we have seen, North (1990a) has defined an institution as the 'rules of a game' in which organisations participate. According to such a conception, institutions provide a general (macro) structure within which we can analyse the decisions and actions of actors, the relationships between them, and the consequences of these actions in different contextual settings (Kinra and Kotzabunder 2008). This research study investigates business relationships between two developing countries from a multi-dimensional institutional perspective, but given the nature of institutions being multifaceted, embedded and both durable and malleable social structures (Scott, 2001), it is thus first intended to explore and extend the concept of 'institution' in this research context in order to establish a comprehensive setting for the subsequent analysis. In this regard, I have approached this challenge by developing a three-dimensional (3D) institutional perspective.

The first dimension of defining institutions is based on the principle that organisations authorise and exercise different degrees of power over others, often organised hierarchically from the macro, through meso to the micro levels (see Figure 2.1). Firm-level (micro) institutions, including firm managerial and operating systems, corporate governance and corporate culture, as well as everyday business practices, are influenced by and interact with the other two levels of institutions. Macro-level institutions refers to nation/state-level organisations and institutional practices consisting of political, economic and legal systems, the education/training system, all wrapped up in a country's official language, ideology, culture, customs and norms, religion etc. These macro-level institutional arrangements are most typically manifest as national policies and the institutional mechanisms to implement these. In between these two levels, firms (micro) and state (macro) are linked through many intermediary (meso-level) institutions. These are typically made up of provincial and city regulatory systems, which in the main are influenced, directed and overseen from above, but which can – in some contexts more than others - be subject to local interpretation and manipulation. These meso-level institutions may in turn be influenced by local contextual variables, such as local dialect, customs and conventions, as well as structures of power, and define the context within which local firms operate, providing a bridge between the macro and micro levels. However, as we will discuss below, the influence of contextual variables determines that there are a great many institutional factors and processes which do not easily fit within this normative macro/meso/micro framework.

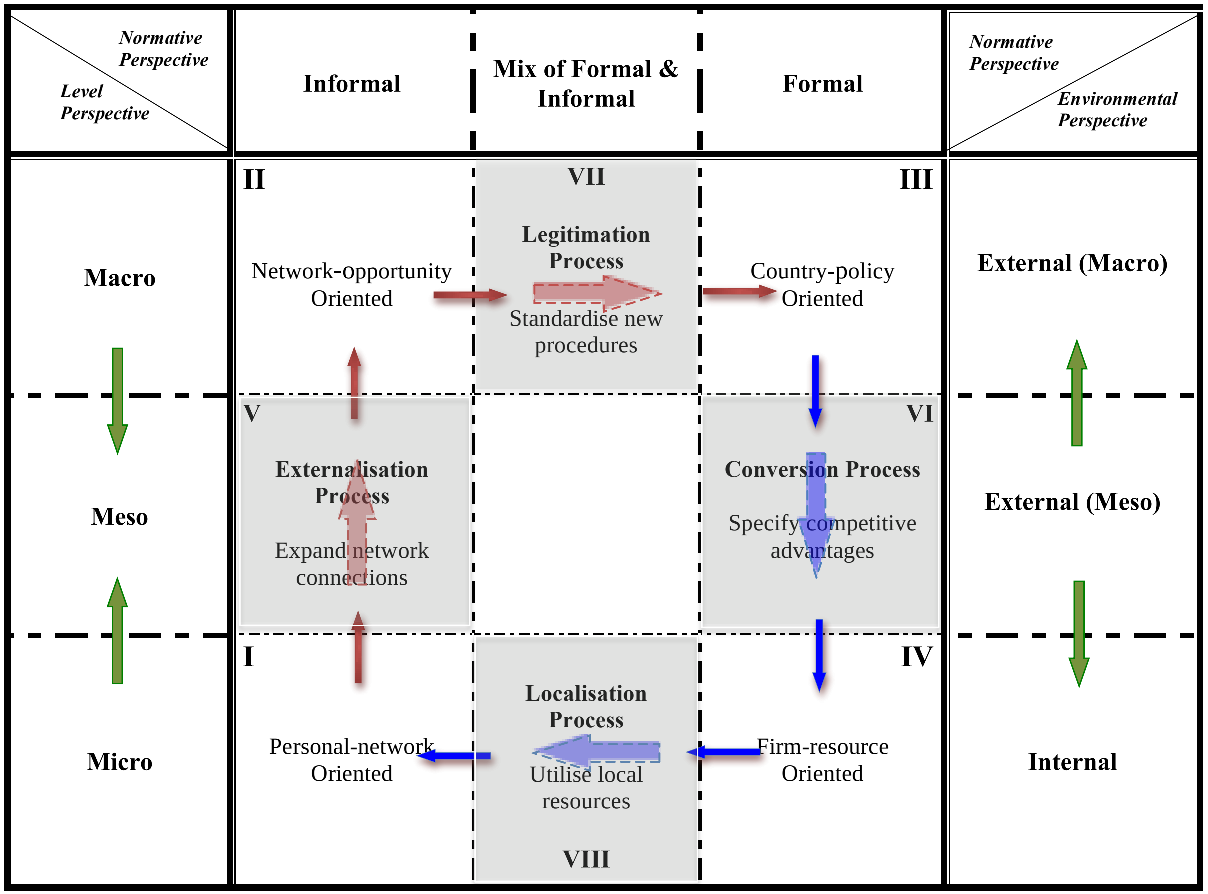
Secondly, institutions from a normative perspective can also be loosely divided into formal institutions and informal institutions. According to Peng (2011: 380), formal institutions are "laws, regulations and rules that are set by the authorised bodies", whilst informal institutions are "not formalised but still exist" in our societies. This phrase at first sight might appear somewhat vague and obvious, but the key point of Peng's statement is that we should not be bound by convention by restricting our enquiry solely to formal or 'conventional' institutions. In developed western countries, societies are ordered and maintained by laws and regulations, but informal institutions (which may function to ease constraints provided by formal institutions, but which in turn may also constrain these same institutions), although on a small scale, can also have an impact on people's daily lives (North, 1999). In the developing world, informal institutions play a more influential role in various societal activities, especially during the business interactions, and to a certain extent informal institutions are not necessarily considered as constraints but may in fact mitigate uncertainties caused by formal institutions (Sautet, 2005).

Institutions have become a trendy topic that is increasingly being applied in business studies, as has been discussed earlier in this chapter. Increasingly, the role played by informal institutions in the wider institutional matrix is also something that both business studies and IPE have recognised as important in business dealings, most particularly in emerging country markets, such as China (Storey, 2010). How might we define and operationalise the term 'informal institutions'? Whereas formal institutions are typically rule-based, informal institutions may be viewed as norm-based. Indeed, Wang (2000, 533) goes as far as to suggest that there are no formal rules (or at best a façade of formal rule-making) in informal institutional practices (see also Williamson, 2009, 374). Instead, business actors operate along very fluid and flexible lines guided, or constrained, mainly by the normative limits imposed by a particular society. One such norm, for instance, might be reciprocity: drawing upon the social capital (Putnam, 2000) that may derive from informal business or social networks, a business actor may call upon some form of assistance in order to progress their business interests, perhaps as a means of fast-tracking a business opportunity or stacking the cards in their favour, or overcoming the inefficiency of formal institutions or the actor's exclusion from them. Personal assistance thus obtained through informal channels is more likely to be reciprocated – by returning a favour at some unspecified but acknowledged point in the future - than compensated – in the shape of a formal financial transaction – by the receiver to the provider of assistance (Williamson, 2000, 534). Reciprocity thus ensures mutual benefit between parties, even though this may be far from even if measured in conventional ways (power and status also come into play here), and returns may not in the least be immediate (Yang, 1994). Indeed, network-building may in many instances be (or appear to the outside observer to be) speculative – a social investment made in the hope rather than the expectation of a longer-term financial (or other) return.

Trust is an important lubricant of informal institutional arrangements, and, again underwritten by prevailing social and cultural norms, may both derive from and provide the basis for developing the social networks which are a key manifestation of informal institutions in developing and transitional countries. Such networks may be extant, in the sense that an actor plugs into pre-existing social/familial/territorial networks, or may be carefully built and nurtured, perhaps with business utility in mind. Trust may in fact be built up through the normal operation of social networks, and may be easily broken where obligations and expectations are not met according to social norms. Serendipity may also play a role in the operational effectiveness of networks and contacts in a business sense: an actor may chance upon a relationship that works very effectively for their purposes; equally, 'investments' (gift-giving, patronage, meals and drinks, clubbing, sexual services, spa treatments, etc.) may be made but the returns may be sub-optimal. It is their fluid, unpredictable and contingent or contextual nature that helps to define 'informal institutions'. Informal institutional practices will be further discussed in the specific context of China in Chapter 4.

Thirdly, an important institutional dimension lies at the interface of internal business structures and the institutional environment within which businesses function (we will call this the environmental perspective). Internal institutions can be simply summarised as the institutional arrangements and practices within the firm, which may be specific to the firm or moulded by convention, or some combination of the two. They are generated within companies and have a direct impact on business, and in general they are controlled by the company although they may follow similar industry-specific patterns. Such institutional factors include the corporate business objective, value system, management structure and nature, internal power relations, human resources and other intangible equities, as well as the tangible assets of the firm. In contrast, external institutions refer to those institutions outside firms which may have an indirect influence on business, and usually these institutions are out of the firm's control. Impacts brought by these institutions could come from either those macro-level external environments (such as a country's political, legal, social-economic systems), or from those narrower levels of institutions which, because of operational proximity, normally have closer relationships and connections with local firms compared to the macro-level external institutions. These can be described as

Figure 2.2: 3D Institutional Model



meso-level external institutions, which may be made up of the institutional structures and practices that over time have been created, *inter alia*, by suppliers and customers, competitors, marketing intermediaries and financiers, etc. (Krapez, Skerlvavaj and Groznik, 2012).

3D Institutional Model

The institutional elements specified above are mapped out below in a three-dimensional institution model (shown in Figure 2.2) which describes four types of business scenarios (Cells I, II, III and IV) and four types of business transforming processes (Cells V, VI, VII and VIII), from which a firm's business strategies take specific advantage of the various institutions arrangements. The left horizontal axis represents the three-level institutional structure, and internal/external institutional interfaces (permutations of micro, meso and macro) are identified on the right horizontal axis, whilst the vertical axis stands for the two kinds of institutions from a normative perspective – the informal and formal institutions.

Cells II and III describe scenarios that businesses normally initiate and realise at higher levels of institutional environments, where firms are strictly regulated by macro-level institutions, and cannot directly control the impacts and constraints these institutions impose on them. However, the difference between the two business scenarios is that Cell II firms can mitigate certain uncertainties through the assistance of informal institutions, but Cell III firms cannot, and hence they can only abide by the rules of formal institutions. In business reality if two firms from Cell II and Cell III are competitors in the same market, the degree of uncertainties for the Cell II firm can be reduced to enable them to be more competitive in the market compared to the Cell III firm. But given the nature of informal institutions being personal and random, the Cell III firm can only realistically expect to be able to reduce (but not eliminate) the uncertainties, but even this may be beyond their reach. Therefore, the Cell II firms are in the business scenario of *opportunity-oriented*, whilst Cell III firms are *policy-oriented*. Compared with Cells II and III, Cell I and Cell IV are two types of business situated at the lower level of institutional environments. Firms themselves have their own array of micro-level institutional arrangements, and thus have direct control over their general business, quickly creating new institutional arrangements and structures to respond to changing business situations. But firms can conduct very different business strategies if they fall into cell I compared to those in Cell IV. Cell I represents the type of business scenario of *personal-network oriented*, where firms generate new business opportunities or expand existing markets through enlarged personal interconnections and networks. Whilst firms in Cell IV are most likely to rely on their own resources, so these are the types of business scenarios that are *firm-resource oriented*.

Several points need to be clarified. Firstly, among the four types of business scenarios, there are no absolute criteria to use to judge whether one type is better than the others, or that firms falling into Type III have a better success rate than firms belonging to Type II. Each type of business scenario is a description of the major business strategy that drives the firms under a certain institutional environment and at one given moment in time. It could be the starting point of some new business, or the mature stage of one particular business operation. And secondly, the four types of business scenarios together form a certain business development cycle but this is largely a closed cycle: any scenario out of the four business types could be the point where firms start new business, but firm do not necessarily follow the order from Type I to IV (as we will see in Chapter 5). However, empirical research results do appear to indicate that there is a particular cyclical pattern that firms usually follow to develop their business. But before going into further detail about this it is essential to introduce the four types of business transforming and development processes.

Firms of each business scenario have their own specific competitive advantages over others, which is also the basic grounding on how firms design and utilise their business strategies. But as their business develops, the institutional environments where firms are based may also change. New business strategies are adopted to meet the firms' needs, and the process of firms adopting new strategies also enables them to transfer from one business scenario to the next. Each transforming process actually corresponds to the business strategies that the firms undertake to develop their business from one stage to the next.

Cell V is a transforming process to allow firms from Cell I to enlarge their existing local networks to higher levels, which could create more opportunities for business, which are enjoyed by firms from Cell III. This network-expanding process is termed the *externalisation process*. Under the lower institutional environments, Cell I firms with limited resources could be assisted through personal networks to span relations with other people, but the people they are interacting with may be clustered under similar environments. The structure of such a network is rather thin and the information and resource provided to firms would be increasingly inadequate as their business grows. Compared to Cell I firms, Cell III firms have a more complicated network structure, which means such multi-layers of relationships and connections enable firms with wider sources to retain more valuable information and resource as well as shorten the paths or eliminate the burdens on the way to attaining their business targets (Scott, 1991; Burt, 1992; Hansen, 1995; Greve and Salaff, 2003). During the externalisation process one major theme of Cell I firms' business strategies is to explore new channels to bridge wider relations and interactions with people who are outside their previous circles. The new relations and interactions will generally come from higher-level institutional environments and have closer connections with contacts associated with Cell III firms. This transforming process is highly driven by personal inter-connections and normally happens under informal contexts, so it is not a process requiring high enforcement to realise.

On the other side, Cell VI presents a transforming process to require Cell III firms to specify their firm-level competitive advantages, so as to adapt themselves from positions where they might enjoy support or be constrained by the macro-level institutions to a situation where they have more self-control and initiative in their business through utilizing their own resources, and this is the *conversion process*. From an institutional perspective, although Cell III firms are usually policy-controlled by higher-level institutions, institutions do not unilaterally restrain their business activities. Business opportunities and initiatives could stem from such an institutional environment for both foreign and domestic companies because of specific government policies made at certain time scales, and these opportunities would favour firms with certain country specific advantages (CSAs). In his early CSA/FSA matrix, Rugman (1981) suggested CSAs benefitting from host country and firms' own FSAs generating from the home country are two major building blocks to decide MNEs' competitiveness in the host country markets. But increasing foreign investments from developing countries have called for the evolution of traditional business frameworks. Rugman and Verbeke (2008) and other recent papers (Rugman 2008) discussing this issue have focused attention on CSAs generating from the home region and their affective relations with FSA (Rugman, Verbeke and Nguyen, 2011). Firms do not generate concrete profits in the Cell III scenario, because the environment only provides the rules of the game (namely the regulations and policies) but not a platform for the game, unless firms could specify their own FSAs which would enable them to utilise fully the home country CSAs and circumvent host country specific disadvantages (CSDs), and to transform through a *conversion process* into Cell IV scenarios where firms can participate in the game with other rivals on the game platform – the market.

On the horizontal axis of Figure 2.2 there occur another two transmission processes. A *legitimation process* stems from the upper-level institutional structure (Cell VII). Theorists have observed that legitimacy has the nature of being normative and cognitive, and defining legitimacy has always been associated with institutions and organisations (Hybels, 1995; Suchman, 1995; Tilling, 2004). Hybels (1995: 241) pointed out that "social systems change over time and consist of multiple institutions. Thus, the institutionalisation of a feature of society derives from a legitimation process that occurs over time, and the legitimation process itself derives largely from institutions other than that being legitimated." In the 3D institutional model, firms in Cell II are proffered new business initiatives and information that generate new business opportunities, which are relatively rare resources for firms in other business scenarios (Cell I, III and IV) to attain. Like any organisation in the institutional structures, business organisations (Cell II firms) have to justify and attain approval from superior organisations (generally from state government level, but often mediated through meso-level institutions) for their relatively novel business behaviour. And only afterwards would such new procedures become standardized and be available for other late-comers. This is echoed by Hybels (1995) when he referred to Maurer's (1971) work, "Legitimation is the process whereby an organisation justifies to a peer or superordinate system its right to exist" (1971, 361); as well as Berger and Luckmann's (1967), "the function of legitimation is to make objectively available and subjectively plausible to 'first order' objectivations that have been institutionalised" (1967, 72).

Last but not least, the transition process in the 3D institutional model is a localisation process indicated in Cell VIII. It can be summarised as a series of actions that foreign managers have to take in the foreign markets by fully utilising local resources, in order to compensate for their own liabilities of foreignness (Hymer, 1976). From a traditional macro-level perspective, the host country's policy, infrastructure and resources, as well as market-size are the major locational factors that concern firms on their first entry into the market according to Dunning's OLI paradigm (Dunning 1988).[7] But with firm-specific assets becoming more mobilised and extending beyond physical boundaries over the last two decades, it is necessary to make some modifications to some earlier theoretical explanations (Dunning and Lundan, 2008b). The traditional location business theories might give guidance to MNEs (most from developed economies) to break into new markets, but new issues arriving with emerging country markets have challenged the classical locational choices of MNEs, because markets in these countries (such as China) reflect strong regional differences, which may create hindrances for businesses and managers, especially if they are unaware of the micro-level institutional environment and arrangements (Orr and Scott, 2008). Thus the notion of 'going local' becomes an important business strategy for foreign firms operating in such markets. This thesis will explore the extent to which, and how, South African firms entering the Chinese market have managed to achieve localisation.

During the localisation process firms of Cell IV usually have several choices to guide their approach to local resources. Firstly, firms can step into joint ventures with local firms; secondly, firms could employ more locally experienced personnel but still maintain their identity as a wholly-owned foreign enterprise; and thirdly, firms could combine the first two options. Each choice has its pros and cons, and these will be illuminated in more detail with empirical cases in the subsequent chapters.

2.6 Conclusion

This chapter has drawn from the general literature of international business studies and international political economy in order to lay a foundation for a multidisciplinary investigation of transnational business activities which lies at the interface of these two sets of studies, whilst also drawing from historical economy, sociology and geo-cultural studies. I have placed 'institutions' at the focal point of this interface, and furthermore have set the investigation within the context of countries that are undergoing processes of economic transition. Based on this theoretical platform, I have then developed my own conceptual framework, as a refinement of existing models (the ‘3D Institutional Model’), which incorporates different permutations of external-internal, macro-micro and formal-informal institutional factors that are suggested as the essential elements of transnational business activity in my research context. This model will provide the framework for the analysis and interpretation of my empirical case study material in Chapter 5.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter presents the main research methods that have been applied in this study. Some recent China-related studies particularly in the business arena (where such approaches are not quite so common),[8] have successfully followed Eckhardt's (2004) recommendation to adopt a multi-methods study approach - namely a combination of qualitative and quantitative methods - in order to overcome any shortcomings due to inadequacies in primary data sources and to investigate issues from a more objective perspective. Many international business scholars also advocate this system for an interdisciplinary approach on modern international business studies (Hurmerinta-Peltomäki and Nummela, 2006; Yeung, 1995). Given the diversity of contextual backgrounds within which the business strategies of managers are conducted from one emerging economy to another, an interdisciplinary approach and thereafter the application of mixed research methods have been deemed appropriate for the present study. This chapter will first review some examples of interdisciplinary research in Chinese business studies, which is subsequently used to justify adopting an interdisciplinary research approach for the present study. The discussion then goes on to describe some of the general issues and challenges related to qualitative and quantitative research within the broader contextual setting of 'China/South African business-related studies', followed by an outline of the mixed research methods that have been applied in this study. The third part will detail the entire process of data collection, including the procedures for identifying and later approaching potential interviewees, as well as conducting the interviews. It then continues with a description of the ways in which the data were processed and analysed, and then generalised to form the analytical model which is used throughout the thesis. The next part will describe how secondary data were identified, obtained and used for Chapter 4, in order to set out the general political, economic and socio-institutional background for

[8] For example Voss (20011).

this study. Finally, there will be a brief discussion of research ethics and the positionality of the researcher in this study.

3.2 Identification of Research Methods

The main research question of the thesis is: 'What have been the key institutional factors that have contributed to the effectiveness or otherwise of South African firms entering and operating within the Chinese market?' Beneath the surface of this main research question, and linked subordinately and systematically to it (see Figure 1.1), there are a series of connected elemental areas of enquiry that have been expressed in my secondary research questions (see Chapter 1) in order to investigate the key operational components of the main research question. This follows the 'nested hierarchy of research questions' framework introduced by Professor Michael Parnwell in his postgraduate research methods course at the University of Leeds. In order to operationalise these research questions, the researcher is faced with a bewildering array of investigative and analytical methods. Quantitative methods might be used to identify key 'institutional factors' from existing data sources (this has been attempted in the thesis by using the Global Competitiveness Index [GCI], which will be detailed in Chapter 4), with the aim of 'seeking to confirm hypotheses about business phenomena' or 'quantify the factorial variations and predict casual relationships' (Mack *et al*, 2005: 3). However, in order to achieve the underlying objective of making an original contribution to knowledge, this research aims not simply to show *what* the existing data tell us, but also to *understand how and why* key institutional factors have affected South African firms' business strategies in the Chinese markets, and also to understand *how* historical factors have influenced the current institutional factors and related processes (Secondary Research Questions [A]: see p.7); *how* these factors have manifested during the business processes (Secondary Research Questions [C]: see pp.8-9); and both *how* and *why* these factors have, under different contextual conditions, affected the business effectiveness of South African firms (Secondary Research Questions [B]: see p.8). To investigate questions such as these requires research methods that are sufficiently nimble and nuanced to be able to *explore*, *describe* and *explain* real life business phenomena, and the variations and relationships embedded in these phenomena: qualitative research methods hold the best prospect of meeting such needs (Mack *et al*, 2005).

According to Yin (2011: 7), qualitative research features five key elements, all of which neatly dovetail with the needs of my own research. These five features are: (1) studying the meaning of people's lives, under real-world conditions; (2) representing the views and perspectives of the people in a study; (3) covering the contextual conditions within which people live; (4) contributing insights into existing or emerging concepts that may help to explain human social behaviour; and (5) striving to use multiple sources of evidence rather than relying on a single source alone. Given the multifaceted and contextually defined nature of my main research question, and in order to bring out insightful and comprehensive information as research data in order, ultimately, to build a robust 'analytical model' which is the essential component of my contribution to existing knowledge, qualitative research methods, particularly in the form of the 'case study', have principally been employed in this research.

3.3 An Interdisciplinary Approach to International Business Studies

International business (IB) study experts such as Dunning (1989) and Buckley and Chapman (1996) addressed the importance of an interdisciplinary research approach in modern international business studies more than a decade ago. The growth and maturity of other non-business study disciplines in the last 20 years, in conjunction with the acceleration of the globalisation process, has broadened many academics' research vision to overcome the boundary between their own disciplines and business studies (Boddewyn, 1988; Woods, 2008), and vice-versa. This has also been reflected in some research studies on Chinese business or related subjects, and is quite evident in some fine studies conducted by international political economy (IPE) scholars, such as Story (2010). On the other hand, IB scholars have sensed the urge to consider both exogenous and endogenous factors in business research (Dunning 1989), placing particular attention on developing and emerging countries - such as China -where business environments are often affected not just by the country's economy, but by government policies, social conditions, local and regional culture, and so on. Some IB academics have shifted from traditional monodisciplinary study approaches and have incorporated an extra layer of perspectives, such as an *institutional perspective* by Peng (various years), and an *institutional network approach* by Jansson (2007), to observe and analyse international business phenomena. Their useful and fruitful outcomes must give credit to IPE analysis, although some IB scholars might disagree.

However, it has to be accepted that institutionalism was initially derived and flourished in international relations (IR) studies and later were applied to IPE. A detailed discussion of the interplay between IB and IPE studies was presented in Chapter 2.

This study will examine various business strategies that have been employed by South African companies over the last two decades to develop and operate in the Chinese markets. Focus will be centred on the business and other associated relationships between two emerging economies that have both undergone significant institutional changes. A review of some recent academic contributions on South African business makes it quite evident that such works cannot avoid political, economic and socio-institutional factors throughout the research analysis (Hough and Neuland, 2009; Burgess, 2009; Luiz and Charalambous, 2009; Nkomo and Kriek, 2011; Walumbwa1, Avolio and Aryee, 2011; Krüger, 2012; Luiz and Stephan, 2012). This confirms that an interdisciplinary perspective and approach should be the ideal choice of research method for this study. In addition, to accommodate such broad aspects in one business study as such, it might not be an exaggeration to suggest that it would overstretch any single individual IB theory, model or paradigm. However, this is not the case within the IPE domain, because "IPE is a field of enquiry rather than a particular theory or method [and] contemporary study of IPE is characterised by the application of a wealth of theories and methodologies", a very accurate and precise conclusion reached by Ravenhill (2005:26).

3.4 General Issues and Challenges in Qualitative and Quantitative Research on China/South African Business-Related Studies

As mentioned earlier, although this study was initially conceived from a rather empirical and personal business experience, the research subject has rarely been discussed in current international business studies. Many leading international business (IB) academics have focused on areas where sample country data sources are easily acquired (Yang, Wang and Su, 2006), and such a research tendency has indirectly reflected the challenges faced when conducting and implementing the present study. Chinese business researchers have placed particular emphasis on methodological triangulation, namely mixed qualitative and quantitative research methods (Eckhardt, 2004,), because not only does this help researchers to produce an all-inclusive analysis on plural subjects, but it is also a supportive device for interdisciplinary research (Olsen, 2004). Both qualitative and to lesser extent quantitative research methods will be used in this study; however, approaches have their individual challenges when applied to Chinese business research, which has posed several constraints and limitations on research at both the Chinese and South African sides of the investigation.

3.4.1 Challenges in Quantitative Research

To acquire and use secondary data to conduct quantitative analysis in South African–China business research, it is necessary to take into consideration both country-level and firm-level data. But data resources at each level in both South Africa and China have many shortfalls, and hence the researcher must obtain and use these data with caution.

3.4.1.1 Country-Level Data Resources: China

One issue that has created hurdles for this research has been the scarcity of statistical data sources and the difficulty of acquiring accurate FDI data between the Republic of South Africa and the People's Republic of China. Many Chinese studies researchers have long been aware of the limitations of the statistical data published by Chinese government agencies (such as National Bureau of Statistics of China) (e.g. Shenkar, 2004; Sinton, 2001; Xu, 2004; and Voss, 2007). It has to be admitted that Chinese official statistical systems were less developed by international standards, particularly before China joined the General Data Dissemination System (GDDS)[9] in 2002. The main disparities between Chinese official statistics and international statistics systems include: data collecting range, frequency and timeliness; the quality and integrity of published data; as well as public accessibility of published data results (Wang, 2003; Shenkar, 1994).

3.4.1.2 Country-Level Data Resources: South Africa

Compared to China, South Africa has more than 100 years of official statistics history due to her colonial legacy, although the public accessibility of these statistics spans a

[9] An international statistics standard established by the International Monetary Fund (IMF).

relatively shorted time period. Some specific financial statistics are collated by the South African Reserve Bank (SARB) and the National Treasury (NT), rather than by central governmental statistics agencies (NBSC, 2012). Separate financial statistics released from centralised government sources have sometimes generated much controversy and debate due to their lower standard and utility compared with those sources mentioned above. Due to the lack of capacity and efficiency within the national statistics organisations, South Africa has not seen any obvious improvements in country's general statistics systems for almost a decade since 2000 (NBSC, 2012). Therefore, to a certain extent the rather more independent financial statistical data (collected by the SARB or the NT) hold greater credibility and reliability for researchers, given that South Africa still possesses relatively strong financial institution systems. From a political perspective, compared to China, South Africa has had a longer business investment history with the West or within Africa. But South Africa officially has had diplomatic relations with China for just less than 20 years. New business relationships have only been nurtured since 2000 and even then it has only been on a rather small scale. During such a short but rapid institutional transition period, it is perhaps a challenge to obtain data that trace relatively small outflows of foreign investment (from South Africa) into China.

To offset the above deficiencies of secondary country-level data, international institutions such as UNCTAD and OECD offer a reference point on general FDI flow statistics, but these figures mainly indicate FDI flows of an individual economy (a country/region), or inter-flow between an individual economy (a country/region) and (an) other region(s). As for statistics reflecting inter-flow relations between two individual countries, for instance between South Africa and China, such figures are rare and scattered. Both the South African and Chinese governments seem to place special emphasis on their trade volumes, but very little attention is given to the FDI performance between the two countries. Having said that however, some indicative FDI figures are available from each country's statistics bureaux or central banks, but they normally tend to have been generalised and are inconsistent over time, and the methodologies of calculation employed by each country can be different as well. Some estimated calculations about FDI flows between the two countries have been made, but such figures must be treated with caution.

3.4.1.3 Firm-Level Data Resources

In addition, the lack of 'firm-level' data is another issue that requires extra effort to work out. 'Offshore listing' and 'joint venture' being choice of entry mode have contributed to the difficulty and inaccuracy of FDI calculation within county-level data (Burke et al., 2008). According to a former senior South African diplomat who used to be based in China,[10] "there is no central database for [the South African government to record and list all] South African companies with operations or investments in China", therefore, some secondary data and firm-specific data had to be obtained from other sources, including South African academics, diplomats, business consultancies, etc. The following chart is merely an indication of the major secondary data sources being referred to.

Table 3.1 Sources of Secondary Statistical Data

Data Source	SARB	MOFTEC	NBSC	UNCTAD	OECD	Other Literature
Country-level data (South Africa)	√	√ (limited & vague)		√	√ (partly)	√ (inconsistent)
Country-level data (China)		√	√	√	√ (partly)	√ (inconsistent)
Firm-level data (South Africa)	√ (partly)		√ (limited & vague)			√ (limited & vague)
Firm-level data (China)		√ (limited & vague)	√ (partly)			√ (limited & vague)

3.4.2 Challenges in Qualitative Research

To counterbalance the inadequacy of the amount and reliability of secondary data, the adoption of qualitative research methods by obtaining primary data through fieldwork interviews was anticipated as a means of coping with this problem. Among the panoply of available qualitative research methods, the case study method was chosen as the major approach, given the consideration that the research questions adopted in

[10] Email correspondence 3 May 2010, and interview in Pretoria in May 2012.

this study are mainly focused on 'why' (South African firms would invest in China) and 'how' (they have employed business strategies in the Chinese markets) questions (Yin, 2009). Although the case study as a research method has already been widely used in many social science research works, it used to be mistakenly considered as a methodology that was only specific to individual cases or one type of 'quasi-experimental research design' (Yin, 2009: 25), and could therefore not represent the majority. Hence such method should only be applied as a means of exploring new knowledge but not for furthering existing detailed analysis (Davis, Coates et al., 1991). Some IB scholars have also argued that research methods (such as field-interviews) used by social anthropological studies could have practical problems when deployed in business studies, because the former tend to have 'native category' problems (Buckley and Chapman, 1996). However, other researchers have contended that empirical case studies can help to identify the issues which may be linked to the contextual environment, and therefore which will not be reflected by quantitative data. Through investigation by case studies, 'hidden' issues can be identified and subject to other forms of analysis (Yin, 2009). This was also confirmed by Davis et al. (1991, 11) who concluded that: "[a case study] is seen as a vehicle to discover what is happening in practice and to assist in the development of hypotheses and the generation of information whereby theories may be tested." As already mentioned, difficulties in acquiring firm-level secondary data created an initial barrier for this research, but this is not an exclusive phenomenon in South African business (management and strategy) studies. Quite a few recent such research studies have preferred (or applied as part of a mix-use) the 'case study' as a major research method in order to manage in-depth investigation and obtain holistic results (Nkomo and Kriek, 2011; Luiz and Stephan, 2012; Luiz and Charalambous, 2009; Krüger, 2012; Burgess, 2009; Eitzen and Sartorius, 2012; N'cho-oguie and Blakley et al., 2011).

In addition, language and cultural differences can create issues during fieldwork interviews. Many non-Chinese researchers always find difficulty and inconvenience when conducting research work on China due to language and cultural barriers, and hence they are advised to collaborate with Chinese researcher(s) when they conduct research work about Chinese or inside China (Eckardi, 2004; Voss, 2007). Equally, to China researchers who collect field data in a non-English native spoken country, network (institutional) connections are an essential and universal social technique for conducting social science research. These networks and connections need to be nurtured, which takes considerable time. Last but not least, research can be highly constrained by costs - one rather practical and realistic challenge that researchers have to cope with, particularly in terms of field-based research (Singleton and Straits, 1999; Yang, Wang and Su, 2006). For a non-European researcher to conduct research in the UK, higher costs are required compared to most European countries due to the much higher tuition fees and limited public funding opportunities. This research study is self-funded to the tune of 99% of its total costs, with the exception of funding (GBP 1,000) from the Universities China Committee London. These financial constraints have therefore created certain limitations in relation to research activities.

3.5 Research Design

An international business study as such, with a focus on business strategies in an emerging foreign market, requires an assembly of enquiries in regard to: 1) various institutional organisations associated with the researched firms; 2) different institutional environments within which the researched firms operate; and 3) diverse and dynamic institutional network relationships associated with the researched firms, and into which they are integrated. These three embedded institutional facets are the 'units of analysis' pillars which guide the research design and data collection (Yin, 2009).

The nature of the research questions that were developed in Chapter 1 has suggested that a multiple-cases study (cross-connecting case studies) inductive approach is appropriate for this study, with the aim of supporting later theoretical generalisation (Yin, 2003 and 2009; Graham, 2000). Table 3.2 indicates the process of research design, which has taken into account the following considerations in response to the enquiries raised in the research questions. First of all, the multi-faceted 'units of analysis' defined by the research questions require the multiple-cases to contain two fundamental parts: 1) a 'holistic picture' of each individual researched firm; and 2) the embedded relationships of each individual researched firm associated with others (e.g. other firms, organisation(s), institutions or individual(s), etc.). Secondly, studies on existing institutional theories from different disciplinary perspectives, including sociology (such as Scott, 2001), historical economy (such as North, 2005 etc.), international relations (such as Baylis et al., 2008; Ravenhill, 2005), as well as international business (Peng, 2006 etc.; Jansson, 2007), have provided the 'sub-units of analysis' for the multiple-cases. For instance, institutional organisations can be sub-divided by levels in regard to authorities' administrative power; institutional environments can be defined by physical or even psychological boundaries between entities; and institutional network relationships can be characterised by 'normativeness'. These 'sub-units of analysis' are echoed in the second fundamental part (the embedded relationships of each individual researched firm associated with others) that the multiple-cases studies require, as stated above. Therefore, the multiple-cases study comprises multiple major individual cases that are embedded with complimentary cases offering 'sub-units of analysis'. The major individual cases focus on South African investing firms containing all necessary 'units of analysis', whilst the complimentary embedded cases (other stakeholders which investing firms are associated with) consist of 'sub-units of analysis' which should serve the major ones (Yin, 2009).

Table 3.2 The Research Design Process

Phase	Research Design Process	Fundamental Reference
I	Identify Research Method: **Case Study**	'Why' and 'How' Research Questions
II	Specify Research Method: **Multiple Cases Study**	'Units of Analysis' Defined by Research Questions
III	Solidify Research Method: **Multiple Embedded Cases Study**	'Sub-units of Analysis 'Derived from Existing Theories

Sources: Author, based on and developed from Yin, 2009; Singleton and Straits, 1999.

3.6 Primary Data Collection

Beyond the case study research design, the data collection process is divided into two parts, of which the first part is to obtain the South African investing firms' data, and the second part is centred on data relating to other stakeholders that the firms are associated with. All primary data were collected through semi-structured interviews, with a combination of survey questions and open-end interview questions.

3.6.1 Personal Interviews

Primary data collection was conducted through semi-structured research interviews on a face-to-face basis, with interviewees from business, governments (mostly policy-makers), and other stakeholders (e.g. civil society, research institutes). The main purpose of this part of the research was to capture original and valuable 'insider knowledge' of South African firms' business strategies in the Chinese markets, which cannot easily be acquired from secondary data sources. The interview process lasted a year from April 2011 to April 2012 through a number of fieldwork trips to 8 cities in 4 countries (South Africa, China, Singapore and the UK).

3.6.1.1 Interviewee Identification

<u>Companies</u>

Perhaps similar to other IB studies on Chinese companies, there is no public database or directory to store companies' outbound investment records (Voss, 2011), and this was precisely the case for this research study – the total number of South African outward investing companies into China is unknown, mainly due to 'offshore listing' and 'joint venture being choice of entry mode' (Burke et al., 2008). Therefore, such a 'list' of investing South African firms in China has been generated through the researcher's personal process of identification - which was rather haphazard when the sample's actual population remains unknown (Singleton and Straits, 2001; Voss, 2011). A similar approach to identifying research interviewees has been adopted in research studies such as by Voss (2007) and Gelb (2010, and personal communication [interview], 2011[11]). Public business web-resources provided initial assistance with the identification of large South African investing projects in/with China, mostly involving multinational corporations (MNCs - companies with foreign investments in more than three continents). However, the traceable number of such firms was limited. More companies were identified and added to the 'list' when this study was ably assisted by the researcher's personal contacts in South Africa to help pool the resources from businessmen, academics and diplomats who have been and are still involved with business activities in China. With the further consideration of implementing later comparative case study analysis, some potential company interviewees were identified and approached at this stage through more specific and targeted efforts.

[11] Interview undertaken in June 2011 Johannesburg.

Most potential interviewees from stakeholder groups were identified according to the degree of which South African firm were associated with them, including government policy-makers, lobbying groups and academic/research institutes which focused their studies on Sino-African relations. There were also some company interviewees who were approached at random as a result of networking at conferences and social function events during the fieldwork. Appendix 1 specifies the details of the interviews that were conducted.

Government Organisations

The interviewed government organisations were considered to be among the stakeholders that South African investing firms have been associated with or have been influenced by. These organisations were more representatives of the country (macro) level of policy-making institutions; their functions were mainly to assist and facilitate business activities. Some other foreign (such as UK and Brazilian) government offices were selected to obtain interview opinions for comparative and observation purposes. Interviewed government officials were mainly approached, and interviews organised, through rather formal diplomatic channels, although initial identification relied mostly on personal networks and contacts.

Research Institutions and Think Tanks

Interviewees from this group included researchers from business consultancies and research institutes (e.g. universities). They were outside observers who had been involved with and investigated subjects related to Sino-South African business relations from various perspectives. Different from country-level policy-makers, these think tanks could provide insightful views on the performance of non-state actors (e.g. individual firms) located within the micro-level institutional environment, as well as their interactions with higher (meso- and macro-) level institutional actors.

3.6.1.2 Interview Access

Due to the geographical location of potential interviewees, some of whom might be located in both China and South Africa, potential interviewees were first approached with a research interview invitation letter sent by email two months before the researcher started her first fieldwork trip (Appendix 2 provides an example, although the letters varied according to the specificities of the firms). The letter was prepared in English with a general introduction of the research subject and the purpose of inviting the potential interviewees to participate in the face-to-face, one-hour interview. Out of the total number of conducted interviews, 80% of meetings were set up before the research trip started, which helped to specify the trip itineraries and reduce unnecessary costs. In general, most interviewees accepted interview requests at the first attempt via email exchanges. In terms of companies' responses, there was sharp difference between companies who entered China before and after 1994, which was the year when South Africa was liberated from the Apartheid regime, and formally established a diplomatic relationship with the PRC. Companies which entered China before 1994 showed more reluctance to accept interview enquiries, compared to the ones who entered China after 1994. Interview requests were most likely to be accepted by interviewees who were identified through personal contacts' introductions rather than the ones who were identified via internet web-searching. It was also found out later that most interviewees had shown a personal interest in the author's research subject, as some interviewees had also obtained MBA or PhD degrees in various subjects themselves and were therefore more understanding and willing to offer help to research study as such.

3.6.1.3 Interview Structure and Implementation

Interview Structure

In order to receive insightful knowledge from the interviewees, a semi-structured interview format was chosen and designed for use, with necessary adaptions according to interviewees' affiliated institutional environments (i.e. position level held by interviewees within the organisation, as well as interviewees' own observation perspectives, etc.) (Yin, 2009; Bless et al., 2006). All interview questions were quite naturally linked to the research questions that were detailed in Chapter One. The major themes covered by the research questions and interview questions investigated firms' investment strategies, competition strategies, and institutional impacts on business strategies. The interview questions were arranged into four general sections (see Appendix 3), with the first section designed as a survey questionnaire for the purpose of collecting quantitative data 'as part of case study evidence' (Yin, 2009:108). The remaining three sections of questions were open-ended and centered on the major research themes, which left scope for researching more in-depth details through open conversational questions with interviewees.

Interview Implementation

Once the interviewees agreed to participate in the research interview, the interview meeting time and place was chosen in accordance with the interviewees' own preference. The researcher sent out meeting confirmations one week before the scheduled time, and in most cases also sent an outline of the interview questions, which usually reached the interviewees three days before the final confirmed meeting. In some cases some meetings were scheduled at random and at very short notice, so it was not possible to comply with the normal procedures.

One pilot case study (with one non-South African manager) was tested to make some minor but useful adjustments to the research questions. Preparation before every interview normally concentrated on pre-research work on the individual interviewees and their affiliated organisations through documentary or other sources. This proved to be necessary and extremely valuable because, during one to one interviews, the interviewees sometimes liked to share more personal and thorough details on certain events after they became aware that the researcher had shown interests in their company/organisation and was well equipped with background knowledge about the issues to be discussed during the interview. It was also useful in so much that pre-gained background knowledge prior to the interview taking place could be crosschecked with the information provided by the interviewees, which increased the data reliability (Yin, 2009; Bryman, 2001; Bryman and Bell, 2007). Interviewees maintained anonymity through the entire research study process, which had been made clear to all interviewees beforehand. Some interviewees were happy to allow the researcher to record their interviews, but some preferred not to be recorded during the interview process. It was noticeable that the some interviewees felt less comfortable and were less forthcoming when the recorder was used, which seemed to have restricted some interviewees from being as open and as frank as they could have been in answering the researchers questions. The researcher therefore decided a little later in her fieldwork interviews to discontinue using the recorder, which produced much better results (the researcher has a good memory, and wrote up notes from the interviews immediately after they had ended). Most interviewees in any case had rather busy schedules, and only a very small number of the interviewees had completed all of the survey questionnaire research question on the outline that was sent to the interviewees before the interview meeting. Therefore, the researcher had to match the points on the questionnaire from interviewees' answers and descriptions. Most interviews were completed within one hour, with the exception of those that took place in rather casual locations, such as a restaurant or café – which actually proved to be more conducive and yielded more information. Shortly after each interview had taken place, a 'thank you' letter was always sent out to express the researcher's gratitude for the interviewees' assistance with this study.

3.6.1.4 Limitations of the Interviews

Perhaps one and foremost constraints on this study's interview component was the limited and unknown total number of South African firms with business interests in China. This lack of information was responsible for what may be seen as the relatively small numbers of interviews conducted with companies, although given the lack of baseline data it is impossible to ascertain whether the resultant 'sample' is small or large relative to the total number of South African firms operating in China: intuitively (and see footnote 13), the researcher considers the number to be reasonable and the findings to be sufficiently representative, not least because of the cross-sectional nature of the case studies.[12] This is not uncommon among research studies carried out on companies from emerging economies. And getting high-level executives to give time and support to research students is always a challenge for business studies research. Secondly, the initial intention in selecting comparative case studies was to pair firms having longer business operations (more than 15 years) with the ones newly established in China. However, most of former companies (probably well-established in China by now) either declined or did not respond to the researcher's interview request. This resulted in the researcher having to make

[12] One of my interviewees, who has strong connections with the Johannesburg Stock Exchange, produced a paper in 2010 which attempted to identify the total number of South African firms with a presence in China. His calculation was that there were 40 such firms, of which 25 were operating in the country in 2010, 8 were identified as 'possible entrants', and 7 had already withdrawn from the market. The sectoral focus of the currently present firms included mining (5), infrastructure and construction (5), finance and business services (5), machinery (4), materials (3), IT/media (2) and consumer goods (1) – a sectoral spread that is quite well-matched by that in my own study of 10 case study firms (Stephen Gelb, 2010, 'Foreign Direct Investment Links Between South Africa and China', Paper prepared for the African Economic Research Consortium project on *China-Africa Economic Relations*, Johannesburg: The Edge Institute).

considerable changes and adjustments to the initial case study arrangements. Although the latter selected cases were successful concluded with interviews, the researcher had to demonstrate a different and fresh perspective in the enquiry and analysis. It would have been more beneficial to receive first-hand insight from those long-term operating firms than to use secondary resources, but at the end of the day a refusal is just that. Thirdly, it is fairly common when conducting research in foreign countries that language and cultural differences must be taken into account during the interviews. It must also be remembered that neither the interviewees nor the researcher's mother language was English, and although both side had no significant issues with using English as the medium for the interview, there were instances where the interviewees and researchers had to explain things in greater and more careful detail.

3.6.1.5 Data Analysis

Constant analysis and appraisal were undertaken throughout the whole interview data collection process. Upon the completion of each research interview, review and conclusion work was necessary for the researcher in order to keep familiar with each case and the follow-up information received from other sources. Also, embedding analysis with the interview activities helped the researcher to improve, re-adjust and re-enforce certain questions in later interviews. Further comprehensive and systematic analysis on all collected data was conducted once all the research interviews had been completed. Unlike quantitative statistical analysis, qualitative analysis as utilised in this study involved several stages, each evolving into the next, but the most important thing was that each analytical stage was closely linked to the main themes and structures of the research questions.

Processed Raw Data

Apart from the large volume of interview data, other sources of evidence data were also used, such as company documentation and information gleaned from the internet, in order to give the case studies a broader perspectives by *using multiple sources of evidence* (Ying, 2009: 114). This was one indication of the application of a triangulation approach, as mentioned earlier. To transcribe the interview data (either recorded or not) was rather time and energy consuming, but it provided a large volume of detailed raw data which were used to build a fundamental *case study database* (Yin, 2009: 119). Computer-assisted qualitative analysis software, Nvivo, was employed to help with coding and clustering narrative texts. The entire coding process consisted of two phases. The first phase of the coding process was based on the initial three dimensional framework derived from the three institutional perspectives as defined and specified in Chapter 2, which were (a) macro-meso-micro levels of institutions; (b) formal and informal institutions; and (c) internal and external institutions. A coding list is attached in Appendix 4. Different from most quantitative analysis where the analysis outputs could be used directly once the analytical model had been created, this qualitative analysis tool was mainly used to identify and present categorised 'data clusters' according to researcher's own organised intention with regard to the processing of the raw narrative data, which echoed the three-pillar 'units of analysis' identified earlier in the research design stage. There was a bottleneck stage where I found the 'data clusters' extracted from the analytical software were unable to bring out the essence of the raw narrative data. I therefore shared part of my sample data with Professor Mike Parnwell, who was responsible for PhD training in my home department, in order to discuss and validate the possible ways to tackle the problem. It was pointed out that the organised data clusters lacked the fluidity to connect with each other, as they were too condensed to allow the extraction of the 'sub-units of analysis' to interlink the multiple cases, so I was advised to use the most traditional and conventional approach to refine the computer-processed data – identifying keywords and arranging these in cognate clusters - which was the second phase of data processing. This phase also helped substantially in the building of the analytical model.

Building an Analytical Model

In order to refine the computer-processed data, rather than simply sub-clustering the data the researcher adopted a more traditional approach[13] to 'put information into different arrays', that had been recommended by Yin (2009: 129), based on Miles and

[13] This is a non-technical, pen-and-paper approach. Irving Wladawsky-Berger. 2013. "Traditional Data Analysis and Data Science" (http://blog.irvingwb.com/blog/2013/05/data-science-and-complex-systems.html, accessed 15 August 2014) and; David R. Thomas. 2003. "A General Inductive Approach for Qualitative Data Analysis" (http://frankumstein.com/PDF/Psychology/Inductive%20Content%20Analysis.pdf, accessed 15 August 2014).

Huberman's work (1994). This approach was partially based on existing *theoretical models and propositions*, including Peng (2006, etc.), Jansson (2007), Rugman (2007, etc.), North (2005, etc.), Scott (1987, etc.) and Parnwell (1993), as well as others. Similar to Miles and Huberman's (1994) procedures, the researcher's own approach included: (1) a new matrix model was first created with broader categories, which was combined and developed from various existing business studies models; (2) the computing-processed data were integrated into the matrix and the frequency of different events was tabulated; (3) flowcharts were used to indicate inter-relationships between different events with a higher tabulation frequency; (4) the lower tabulation frequency events were re-examined, which led to modifications to the originally created matrix model; (5) once the majority data could be accommodated within the model, further literature review on existing theories was needed, to consolidate the modified model and increase its validity. The model building was a logical and iterative process, and the final model developed and introduced in this thesis emerged from evolutionary iterations which were repeatedly adjusted over time. Appendix 5 outlines the processes whereby the analytical model evolved from the initial form to the final one.

The matrix was initially created to analyse the massive volume of narrative data. The process of interweaving categorised data illustrated the interconnections among various 'sub-units of analysis', which also resulted in consistent modification to the matrix by adding layers of categories. Once the stage had been reached when the majority of data could settle within the matrix, the matrix had evolved into a functional analytical model which could be used to analyse more complex events. This refined analytical model is the 3D institutional model, which has been given specific introduction and explanation in the literature review chapter (Chapter Two).

Implantation of the Case Studies into the Analytical Model (3D Institutional Model)

The interview data as well as other sources of evidence enable this study to demonstrate ten case studies, which could be sub-divided into five groups with each group including two comparative cases. The arrangement of each individual case would comprise two parts, 'story telling' and case analysis. 'Story telling' would follow the principle of using multiple sources of evidence to present a wider range of historical and behavioral issues from the cases (Yin, 2009: 115). Regarding the analytical part, all the cases' events would be implanted into the 3D institutional model for individual analysis, and to generate the basis for more systematic comparative analysis.

3.6.2 Secondary Data Collection and Quantitative Analysis

This study relied mostly on qualitative methods, however to a lesser and simpler extent quantitative method was used to provide supplementary information for certain parts of the thesis, particularly in Chapter Four. Earlier in this section the challenges of acquiring secondary data were mentioned, but there were certain resources which were used to indicate generic country-level data for economic interconnections between South Africa and China to serve the needs of the research. In addition, these data were used for a more comprehensive understanding of these two countries' situation through comparison with other countries undergoing similar processes of economic change and evincing similar, or in some cases dissimilar, international frameworks, such as other BRICS countries (Brazil, India and Russia) even some selected OECD countries (US, UK and Japan).[14] Therefore, quantitative analysis was utilised in this study mainly as a means of delineating and comparing economic and social-institutional relations concerning the two focal study countries.

Table 3.3 Sources of Secondary and Reference Data

Indicator	**Source**	**Reference Source**
Economic		
GDP	World Bank (2011)	NBSC & SARB (various years)
GDP per capita	World Bank (2011)	NBSC & SARB (various years)
GDP annual growth	World Bank (2011)	NBSC & SARB (various years)
Inward FDI (flow & stock)	UNCTAD (2011)	NBSC & SARB (various years)
Outward FDI (flow & stock)	UNCTAD (2011)	NBSC & SARB (various years)
Trade volume (import & export)	UNCTAD (2011)	NBSC & SARB (various years)
Social-institutional	GCI (various years)	IPD (various years)

[14] I also looked at selected developing or emerging economies (Mexico, Malaysia and Nigeria), but these data have not been included in this thesis

It made sense to use international published statistical data, for instance those provided by UNCTAD and the World Bank, to tabulate FDI flows and trade relations among the compared counties, although some have contested that data reported by international organisations might also tend to rely on mixed data sources (Voss, 2011). Bearing this concern in mind, whilst most indicative economic data were obtained from international organisations, data published from countries' national sources (e.g. NBSC and SARB) were also consulted for comparative references. Table 3.3 indicates the data sources used for economic and social-institutional relations analysis in this study. Data provided by the Global Competitiveness Index (World Economic Forum Global Competitiveness Report) were used to look in particular at institutional change across time for the five BRICS (and other countries for comparative purposes, although not included in this thesis).

3.7 Research Ethics and the Positionality of the Researcher

Positionality

Knowledge about the social and business worlds is not an objective reality, it is constructed both by the people who populate these worlds and by those who analyse them. Thus, the knowledge that is presented in this thesis, and, indeed, the body of knowledge (literature, reasoning, theory, philosophy, experience, etc) upon which its rationale is built, have to be acknowledged as being just one of several potential versions of reality. Who I am as a researcher, and how I position myself in relation to my research field – both content and context – is thus of crucial relevance to any claims I may make about the validity, accuracy and utility of my research findings. It is therefore important that I should at this point reflect on my personal positionality.

Mid-way through Chapter Four I present a personal story about how I had to manoeuvre 'guanxi' as a means to re-enter or re-connect with my previous business field, this time as an academic researcher. This in many senses directly confronts my position as well as my background as an ethnic Chinese, which is how I would have described myself when I entered the field and undertook my research work four years ago. Born and brought up until my early 20s in mainland China, and growing up in a very business-oriented family, I was naturally given the intuitive capacity to sense and use networks as a vital part of my social capital which equipped me to survive in a fiercely competitive environment. With a good educational background, I was fortunate to get my first job in Beijing working in one of the most realistic, materially-driven and even snobbish industries - fashion and retailing. I initially struggled, confused in this unfamiliar world, until ultimately I learned to live in, understand and cope with the real business world in China. Already, then, my position as a Chinese looking at China emerges as a factor that is significant to my research, as is my 'inside' position within the business world. Can I look at China objectively from the inside? Can I detach myself sufficiently from the mechanical workings of the business world to be able to build a holistic and theoretical picture of this field?

The story becomes more complicated. At still a fairly young age I went to the UK for my Master's degree training where I learned business, politics, culture as well as other social science subjects from very fresh and different western academic perspectives. This was the first time ever that I encountered the challenging and questioning of my previous worldviews which I had gradually built up in China in order to make myself comfortable enough in this setting. However, during the years I lived in the UK, I had also sensed and somehow accepted (without being particularly self-conscious) that many of the critical Western values that were implicit in this new knowledge had broadened my mindset to perceive, evaluate and do things differently – certainly in a way that was different from many Chinese. Often I could see myself standing outside my Chinese ethnic background to observe China, Chinese people and the Chinese ways of doing things, and the observation outcomes tended to be more objective and pointed. Paradoxically, the overseas perspective also gave me with an extra layer of understanding and tolerance towards China and Chinese people, which I would not have had if I had never left China. As a 'Chinese ex-pat' I could thus always see myself starting to defend China and explain Chinese phenomena to 'foreigners'. I'm sure that, without being overseas to observe China from the 'outside', I would not have devoted so much attention and appreciation to China, especially to the parts which were heavily influenced by the rich traditional Chinese culture. Hitherto, these things had been 'lived', but rarely analysed.

In addition, my professional business experience in the UK had also given me fresh perspectives on doing business in the western culture. Things are highly regulated but not necessarily efficient due to quite high levels of bureaucracy. However, people are used to following the stipulated rules, and no one would seem to want to challenge the routines or seek short-cuts in order to accelerate the process. The ethical landscape of business is, I feel, quite different from my observation of the business setting in China, as will be discussed shortly. It did not take me too long to adapt myself to this less complicated but more disciplined business environment. The academic and business experience I received in the UK lent me the eyes to look at China more objectively, which has also leveraged my position as a researcher, enabling me to study Chinese business from, I think, an unprejudiced and open-minded standpoint.

I have been questioned by many people about my motivation for doing a piece of research on the subject of South African firms' business investment and business strategies in the Chinese markets. My personal circumstances gave me the opportunity to live and operate a business in South Africa, and through this I thus became a 'member' of the British expatriate community. Also, because of the associated close personal connections I had with wealthy white South African groups, my life started at a relatively privileged point in South Africa, although later this became complex and difficult when the business began to pick up. Setting up my personal business in South Africa was a valuable experience for my later PhD research. The seemly institutionalised and highly regulated business environments left doors open for informal business practices, which actually in many ways enhanced business efficiency, especially for small and medium sized businesses. A simple example could be used here: the normal waiting time for telephone line installation for a new small business in Pretoria was three weeks minimum. But after one week, a friend introduced us to an electronic engineer (who worked for the same company providing the telephone line), and he wrote down my 'installation reference number'. Two days later the lines were ringing and working. And this was not just an exceptional case. Over the years I was in South Africa and dealing with South African business people, networking and close connections are commonly used not only as short-cuts to improve business efficiency, but also to eliminate faults. To a large extent my living and business experience in South Africa not only inspired me with an interesting research subject, but also paved the path for me later to go back to South Africa using my network connections there to channel into a research network, and it allowed me to approach the interviewees who, most likely, I would not possibly have been able to have such access to if I had not had a prior privileged entry position in this country, which I was and still am grateful for.

Given my fairly privileged and, to some degree, serendipitous association with South Africa, I can not substantiate any particular claim to be able to see the South African social and business worlds from much more than a quite narrow experiential perspective. I had limited exposure to black South Africa, and accordingly I was unable to look closely and with any degree of insight into the informal business practices which, according to Lund and Skinner (2005; see also McDade and Spring, 2005), are more prevalent than in the white business cohort (although they are far from being absent here). Nonetheless, whilst my circumstances inevitably led me to be quite selective in those aspects of South African business activity that I was able to research, to my knowledge, the large majority of ‘going-out’ activities have hitherto involved the business cohort with which I was most familiar, and thus I do not believe the selectivity of my research has necessarily weakened my ability to discuss the essentials of the process with which I have been concerned. My prior lack of familiarity with South Africa has at least helped to limit the extent to which my previous experience has pre-programmed my viewpoint on process and outcome, which to a degree may be the case with my perspective on China.

The three core parts of my personal background and experience: my Chinese ethnic and cultural background plus business experience, my British education and professional foundations, as well as my exposure to South African business - these have combined to provide me with a quite distinctive and, I think, strong foundation for this current piece of research. I can use my Chinese background to gain insight into the inner working of business activity in the country, but now sufficiently detached to be objective and balanced, informed by my intellectual understanding of IB and IPE, and intuitively aware of the socioeconomic roots of my key research subjects. I must nonetheless remain mindful that the knowledge and argument that I present in this thesis is inevitably choreographed by my own personal perspective, which is a point I must return to at the end of the discussion when I summarise my core research findings.

Research Ethics

The main ethical principle that any piece of research should adhere to is to 'do no harm'. 'Harm' can manifest itself in many ways, and may derive from any element of the research process, so vigilance – and also common sense – is required at all times.

In order to 'pre-programme' the research into an acceptable ethical groove, the entire research process, as envisaged during its formative stages, was subject to rigorous ethical review by the Research Ethics Committee of the Faculty of Arts, University of Leeds. Ethical approval was received from the Committee before the commencement of field-work in April 2011. Among the areas that were covered by the review process were: the identification of research subjects; consent, coercion and voluntariness; dignity, agency and power in the interview process; risk both to research subjects and the researcher; confidentiality and anonymity; data protection; sensitivity and respect; interviewing; cultural positioning; vulnerable research subjects; verification; value of the research.

Clearly, the undertakings that were made to the Ethics Committee were entirely adequate, as ethical approval was given without any great fuss. I will return shortly to what actually happened in the field, but in the meantime I will present a very brief summary of how I proposed to address certain ethical issues that the University's *pro forma* identified as important. It was perhaps stating the obvious that all research subjects would participate in my research on a voluntary basis. I had neither the intention nor, in effect, the means, and certainly not the personal persuasion, to coerce or deceive people into contributing to my research. I did not consider my research topic to be particularly sensitive, and no practical advantage was to be gained from adopting a 'covert' approach to my investigation. If I needed to record my interviews, I always sought prior approval, and when it seemed that this request had changed the tone of the meeting, I typically decided to dispense with the recorder and carry on as before. My respondents appreciated my openness about what I was doing, what I needed from them, and perhaps also the limited scope I had for giving something back in return, and I believe they were in general supportive of my somewhat pure motivation for acquiring knowledge, both for my own personal needs but also to communicate a deeper, more insightful understanding of the business world in which they operated. As I have mentioned earlier, some of my research subjects had postgraduate qualifications, and one or two also had academic credentials, and these people in particular could identify with my somewhat innocent pursuit of knowledge. There was no need whatsoever to be deceitful in my dealings with these generous people, and indeed I feel my personal reputation (and that of the academic institution to which I was attached) would have been tarnished should they have found out later than I had used underhand devices to extract information from them. Their involvement in my research was based on informed consent.

As I have also discussed above, I took great pains to ensure that my principal respondents were neither inconvenienced nor disadvantaged by the time I took from them in order to obtain the knowledge and insight I needed. I worked hard to ensure that my research fitted their busy schedules, which often meant that I would invite them to lunch and try to complete all the formalities within a relatively informal setting. Appropriate to the thematic focus of my research, I was always business-like in my appearance and behaviour. I sent my research questions in advance so there would be no surprises strung on my interviewees. Although this may have compromised the spontaneous character of their responses, perhaps allowing them to rehearse certain answers, I think there was a reasonable trade-off between this and making them feel comfortable with the orientation of my interviews.

I undertook to respect the anonymity of my respondents and to treat as confidential the information they gave to me. In this thesis I have only identified by name those individuals who expressly indicated that they were willing for me to name them – indeed, a couple of my interviewees actually insisted on this! For the rest, I have provided only sufficient identification information as I believe is necessary to convince my examiners that the research data are my own and have been derived from a sufficient and diverse range of sources. For one or two of my case studies it may be possible for the examiner, or the subsequent reader of the thesis, to identify the firms from the outline information I have provided. I do not think the case studies contain information that is particularly sensitive and personal, or which may compromise the interests of the interviewees and respondent firms, so I hope and believe that I have stayed faithful to my promises with regard to anonymity and confidentiality. The data I have obtained throughout the course of my research will remain on my personal computer until such a time I consider I will no longer need them or they are no longer useful and valid, but I will ensure that they are buried so deeply and complexly within my computer that no-one with a normal degree of hacking competence will be able to access them. I certainly will not share them with any third party.

As I indicated earlier, satisfying an ethics approval committee is one thing, but taking principle and putting it into practice is sometimes a little more challenging than ethical review boards may appreciate. During my time conducting the interviews in the field, there were occasional compromises I had no choice to make, which left me faced with a dilemma. I would have either to lose valuable and informative data by adhering rigidly to my stated ethical practices, or compromise my ethical principles in order to obtain good data. If a way could be found of attain the data whilst maintaining my best behaviour ethically and without breaching the fundamental ethical requirements stipulated by the University, then this might be considered a reasonable compromise. The most common situation I faced was the need, according to ethical best-practice, to attain the interviewees' signature on a consent form before the interview commenced. Many interviewees became nervous and cautious after they saw the contents of the consent form – which conveyed a sense of legality and certainly formality - and thereafter gave more guarded responses and more selective information, even though he/she had adopted a much more open manner when we had communicated via email or on the telephone. In many cases, especially in the later stage of my fieldwork, I therefore tended to skip the 'consent form' stage, whilst nonetheless continuing to behave in an ethical manner as I understood this to mean, or I simply sought to attain the interviewee's signature after the interview had been completed.

A particularly sensitive issue, which inevitably raised its head in conversations with some of my South African respondents, was colour and race. I have to say that on several occasions some of my research subjects expressed quite direct and strong views on this topic. Here is not the place to engage with the rights and wrongs of people's opinions, on both sides of the racial 'divide', but from an ethical and personal standpoint I was often placed in a rather uncomfortable position when listening to people's views in this regard. I did not consider my role as a research to be judgemental of people's opinions and viewpoints, so throughout my field-work phase I tried as much as possible to listen and respond to people's words in as diplomatic and neutral a manner as I could manage. To a large extent I have avoided making clear and unequivocal racial statements in this thesis, and as such I have not incorporated the viewpoints of my respondents in this regard, as usually these were proffered in informal situations that were not considered to be part of the formal research context.

3.8 Summary

This chapter has introduced the approach and methods employed throughout the course of this research. It started with discussion of the interdisciplinary approach to modern international business studies and went on to highlight the advantages and challenges of using a triangulated (mixed-methods) approach to conduct research into business dynamics related to the emerging economies. The tailor-made case study research design approach adopted by this study involves systematic and progressive collecting of interview data and other evidence sources. The analytical strategies then revealed the procedures for processing raw data, refining the processed data and the formulation of an analytical model. Last but not least was a brief review of the basic quantitative method and analysis that was used in the background discussion in this study. Figure 3.1 provides an outline of the general methodology upon which this research study has been based.

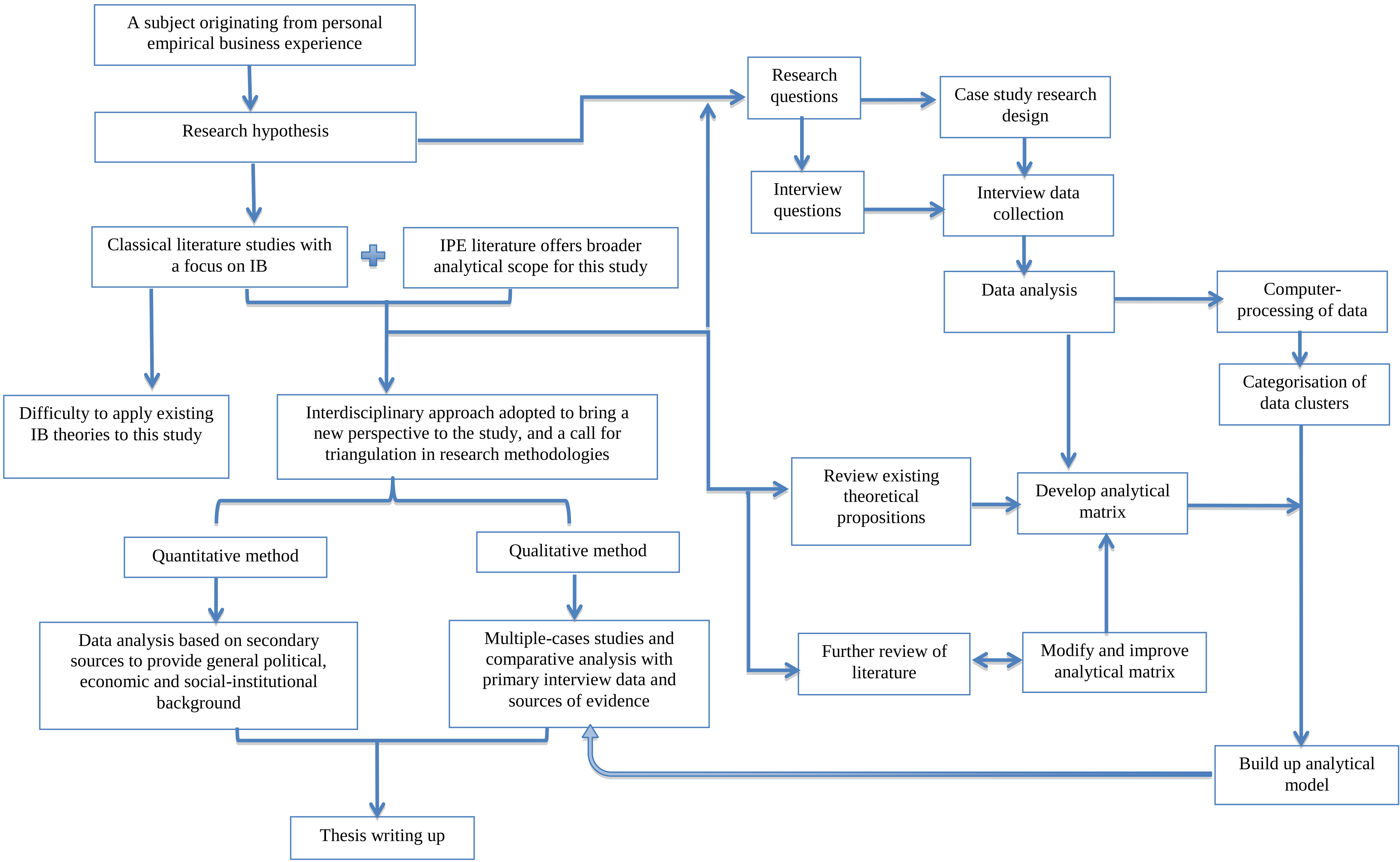


Figure 3.1 Overview of the Study Methodology Process

CHAPTER 4

SOUTH AFRICA AND CHINA'S COMPARATIVE TRANSITIONS

4.1 South Africa and China's Comparative Transitions: An Introduction

4.1.1 Introduction

This chapter will set the scene for the empirical case study that follows. It will present an introductory and comparative discussion of the transition process in South Africa and China, with a particular focus on institutions. The narrative will place the actions of South African business firms in historical context, taking us through the colonial, Apartheid and post-Apartheid eras, showing how the changing political environment created the conditions and institutional arrangements that helped to shape the country's business sector, both domestically and internationally. We will then present some of the background to China's own economic transition, picking the story up from the time of Deng Xiaoping's reforms from the late 1970s, and looking in particular at some of the implications of the shift's in China's political economy for the array of institutions, both formal and informal, which play a key role in the process of economic development.

But before we enter a comparative discussion of the transition processes in South Africa and China, and in order to identify the point when these two countries came together in the international market, I will briefly set the scene more generally by outlining some of the more important manifestations of investment flows from South Africa, showing when and why China became a destination for South African capital and international business. I want to show that there are clear connections between the domestic process of transition, or political-economic evolution, and the character of the Republic's engagement with international markets. Economic sanctions during the Apartheid era severely constrained where and how much South Africa could participate in the emerging new international division of labour (Johnston and Taylor, 1989) which was already well advanced by the time sanctions ended in 1993. Meanwhile, South Africa's position as an important ally of the West during the Cold War, together with its recognition of Taiwan until 1998 significantly constrained the scope of the Republic's engagement with China's emerging market, which itself was the product of a thoroughgoing process of internal reform and transition.

4.1.2 South African Outward Investment

This brief introductory section will attempt to draw together the two countries with which this study is concerned – the Republic of South Africa and the People's Republic of China – by documenting investment flows from the former to the latter, set against historical and geographical trends in outward investment from South Africa in order to identify the point at which China started to appear on the country's capital investment 'radar screen'. We will first look very briefly at South African outbound investment in general, and how it has developed in the global market over the last two decades, since the end of the Apartheid regime in the mid-1990s. We will touch on outbound investment into the developed markets, with a specific focus on the 'Triad' Region – USA, EU (UK) and the developed Asia Pacific region (Japan, Australia) – before settling finally on investment flows to China. I will also add to the discussion some insight gained from fieldwork interviews.

4.1.2.1 South African FDI in the 'Triad' Regions (US, West Europe and Japan)

As mentioned in the Methodology chapter there were challenges encountered in seeking foreign direct investment data on developing countries, because the data sources are scarce, and the quality of the data sets tends to be insufficient and inconsistent compared to the more developed economies. However, it was possible to collect such data at the country level from central State data sources, such as the South African Reserve Bank (SARB), which provided an indication of the general trend of South African FDI outflows into the global markets.

Table 4.1 shows FDI outflow stock in different regional markets since the mid-1990s. Europe has always been the favoured destination of South African capital - understandable because of their historical economic relations – accounting for almost all outward FDI until the turn of the present millennium.[15] North America (mainly the United States) and Africa jostled more or less equally for second place up until 2005,

[15] We need to be a little cautious about seeing all FDI necessarily as 'investment', as some of the outflows of capital from South Africa also consisted of 'capital flight', particularly during the

Table 4.1 South African Outbound FDI Stock (Cumulative) in Global Markets (Million Rand)

	Europe	N. America	Africa	Asia	Oceania	Total	Asia as a % of Total
1993	55,094	1,103	2,778	376	52	59,406	0.63
1994	66,105	4,294	3,752	630	111	74,896	0.84
1995	---	---	---	---	---	85,000	---
1996	103,882	5,351	4,659	710	600	115,210	0.61
1997	119,089	5,551	6,374	1,239	1,405	133,667	0.93
1998	151,721	6,466	9,117	1,553	1,138	169,995	0.91
1999	176,621	10,937	9,971	1,272	4,232	203,036	0.61
2000	208,937	16,474	12,265	1,671	5,241	244,653	0.68
2001	193,323	16,508	14,031	3,698	3,856	231,416	1.60
2002	152,348	24,770	14,234	4,444	7,000	202,826	2.19
2003	137,356	16,966	15,837	3,510	6,807	180,507	1.95
2004	165,503	17,454	23,601	3,174	6.807	216,660	1.47
2005	189,121	16,304	19,083	1,489	6,809	232,925	0.64
2006	238,768	23,655	59,118	25,770	6,810	354,254	7.27
2007	276,406	26,781	84,378	44,330	16,594	448,629	9.88
2008	253,689	34,076	100,892	52,979	21,376	463,143	11.44
2009	222,814	46,181	115,687	128,724	22,115	535,659	24.03
2010	283,363	43,076	121,762	121,630	23,248	593,217	20.50

Source: South African Reserve Bank and UNCTAD (various years)

after which South African investment in Africa really took off as the overall international business focus shifted quite markedly from developed markets to emerging economies, and as the immense business development potential held by Africa has attracted foreign capital from all over the world. It stands to reason that investors from South Africa, as the economic hub of Africa as well as the business leader in the continent, should seize the opportunities given by the relatively close physical and cultural distance to other African countries, enabling them to consolidate

immediate post-Apartheid period, when firms and corporations moved capital away from South Africa to avoid corporate dismantling by the new ANC government immediate after the termination of Apartheid regime. These firms were normally the big conglomerates of the Apartheid era such as SAB, Anglo American, Old Mutual et cetera, firms which were later named by a South African academic as 'émigré' corporations (Gelb, 2010) that have moved their headquarters or primary stock-listing from South Africa to the US or UK or even both (Anonymous, 1994, 'Trouble Brewing for the ANC: South African Industry, *The Economist* 331. 7864 (May 21, 1994): 70,73).

Figure 4.1a South African OFDI Stock in Europe by Selected Countries

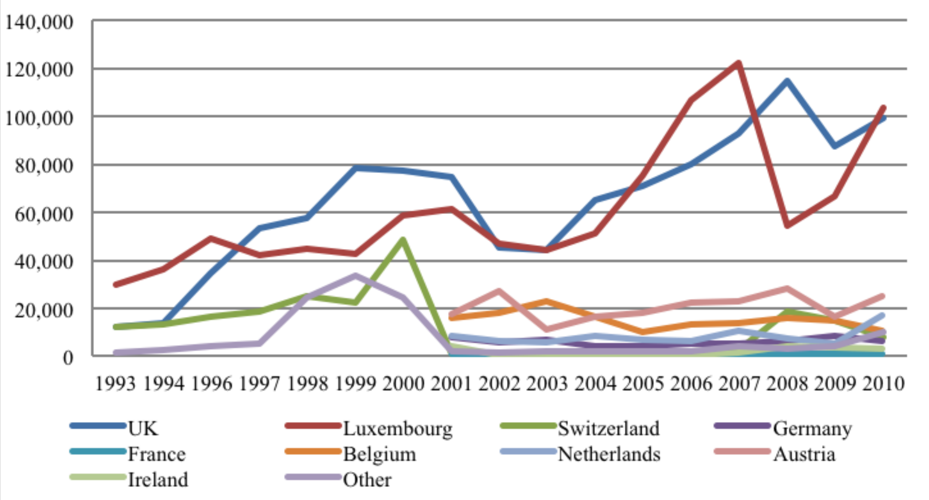


Figure 4.1b South African OFDI Stock in Sub-Saharan Africa by Selected Countries

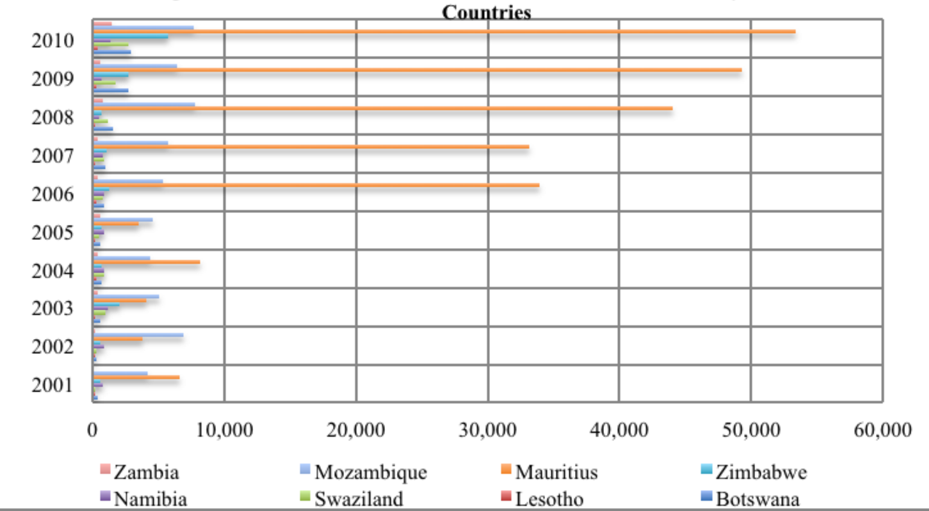
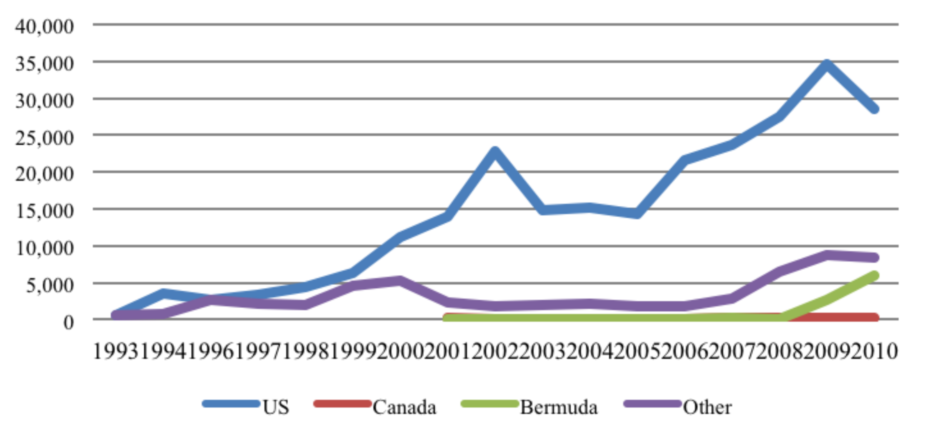


Figure 4.1c South African OFDI Stock in N. America by Selected Countries



their asset position and safeguard the African markets. As we can also see from Table 4.1, South African investment in Asia also increased dramatically from 2006, rising from 0.63% of South Africa's total overseas FDI stock in 1994 to 7.27% in 2006 and 24.03% in 2009. This is significantly attributable to the country's intensifying business interests in the Chinese markets, as we shall see shortly, which has partly been facilitated by high-level political communication and cooperation initiatives between the two countries' state officials. Figures 4.1a-c provide a little more detail on FDI outflows from South Africa to particular countries in Africa, Europe and North America.

An important driver for South African firms investing in the developed markets in North America and West Europe in more recent years has been these firms' need to affirm their international presence in the primary markets and to consolidate their position as global players. But, according to my interviews, some of the lessons learned from these markets by many South African firms were rather bitter. Compared with institutionally less regulated markets like Africa or Asia, the US market is much more straightforward to penetrate and easier to establish a new business entity provided there is sufficient capital, as the institutional environment for investment is less complicated than in many developing countries. However, several South African firms found out quickly after their entrance into the US market that ease of entry did not equate with ease of survival; quite the opposite, in fact, as the fierce competition tended to be very consuming of financial resources and destroyed some smaller size firms within a very short period of time.[16]

In terms of the Asian markets, South African investors did not seem so passionate about this until the turn of 2005/06, when, as can be seen from Table 4.1, large flows of capital from South Africa started to head towards the region. Unfortunately, the South African Reserve Bank data do not specify clearly to which countries the capital was dispersed, but it seems inevitable that it was towards the booming emerging markets. Before that Hong Kong had been the main focal point of South African investment in Asia because of its preferential tax policy, whilst Japan had been politically quite 'distant' towards South Africa during the Apartheid regime and their

[16] Interviews 4 and 26 (Appendix 1).

bilateral economic and business relations did not resume until after 1994. Later, at the turn of the new century, high-level political and diplomatic communication between the two countries helped initiate further economic and cultural dialogue and cooperation, [17] which encouraged albeit quite modest levels of South African investment in the newly-emerging East Asian markets, where advanced technology was one of the major resources that most South African firms were able to offer this young but rapidly expanding market.

4.1.2.2 South African OFDI in the Chinese Markets

South African foreign direct investment has had a relatively short presence in the Chinese markets, which is largely attributable to the historical incompatibility of their respective political systems. As a hot spot of strategic importance during the Cold War era, the West considered South Africa to be a valuable ally, as we saw earlier in this chapter, which as a consequence drew a clear line of demarcation between China and South Africa, which had obvious economic implications. From the early 1990s both countries became relaxed with each other's political standpoints and as they became more were willing to open channels for communication, so economic relations became closer. 1998 marked the two countries' diplomatic relationship advancing to a new stage when South Africa disconnected diplomatically from Taiwan (known as the Republic of China), and thereafter business contacts and dealings expanded rapidly, as we have already discussed (see Table 4.1). Whilst improving bilateral relations may have facilitated a warming of economic ties, what factors lay behind the increase in investment flows into China? Table 4.2 provides South Africa-China FDI data from the Chinese side which, because of the different methodologies employed (the table refers to capital that has actually been utilized, as opposed to simply transferred), differ in scale but not in general substance from those figures presented earlier. There is a clear connection between the prevailing political relationship between the two countries and the scale of FDI actualisation.

During the early 1990s, very little South African capital was invested in the mainland Chinese markets, except for very few large 'émigré' conglomerates. Because firms

[17] http://www.dfa.gov.za/foreign/bilateral/japan.html (accessed on 12 December 2012).

Table 4.2 South African Foreign Investment Actually Utilized in China (US$1,000)

Year	Total	Year	Total
1996	1,120	2004	109,400
1997	1,310	2005	106,350
1998	8,600	2006	94,810
1999	5,900	2007	69,160
2000	9,190	2008	25,600
2001	8,360	2009	41,200
2002	25,930	2010	66,470
2003	32,450	2011	13,230

Source: National Statistics Bureau of China, various years.

had less choice in the global markets due to international sanctions, developing markets were the only real option for them to maintain their capital by investing. Since 1998, when formal diplomatic relations were established between China and South Africa, both countries engaged in higher level dialogue, and each year since 1998 both countries' officials at all levels paid frequent both formal and informal visits to each other to enhance communication and promote potential cooperation (www.china.com.cn). The visit paid by then Chinese Premier Zhu Rongji to South Africa in 2002 whilst he was attending the World Summit on Sustainable Development in Johannesburg caused sensation among the South African business community. Many of the managers that I interviewed, whose own businesses later actually became involved in China, still expressed pride at having been received by the Chinese Premier. Through this process, important new business initiatives in various industries were encouraged, such as in the fields of energy, machinery, et cetera. This can essentially help to explain the sharp increase in South African OFDI into China after 2002, until it reached its peak in 2006. However, many South African investors soon realised the generally welcoming investment environment would not be necessarily guarantee a smooth road for business development once they arrived in China. Many South African companies had to withdraw partly or disinvest completely from the Chinese markets, some even just after very short period of time. Causes of the failures were varied, but it was mainly because these companies lacked local knowledge or were reluctant to cooperate with local Chinese partners, whilst some were incapable of dealing with the lower-level institutional networks, either formally (local government or regulators) or informally (personal contacts). This situation will be exemplified in more detail in the empirical case study chapter (Chapter 5).

4.1.3 South Africa and China's Comparative Transitions

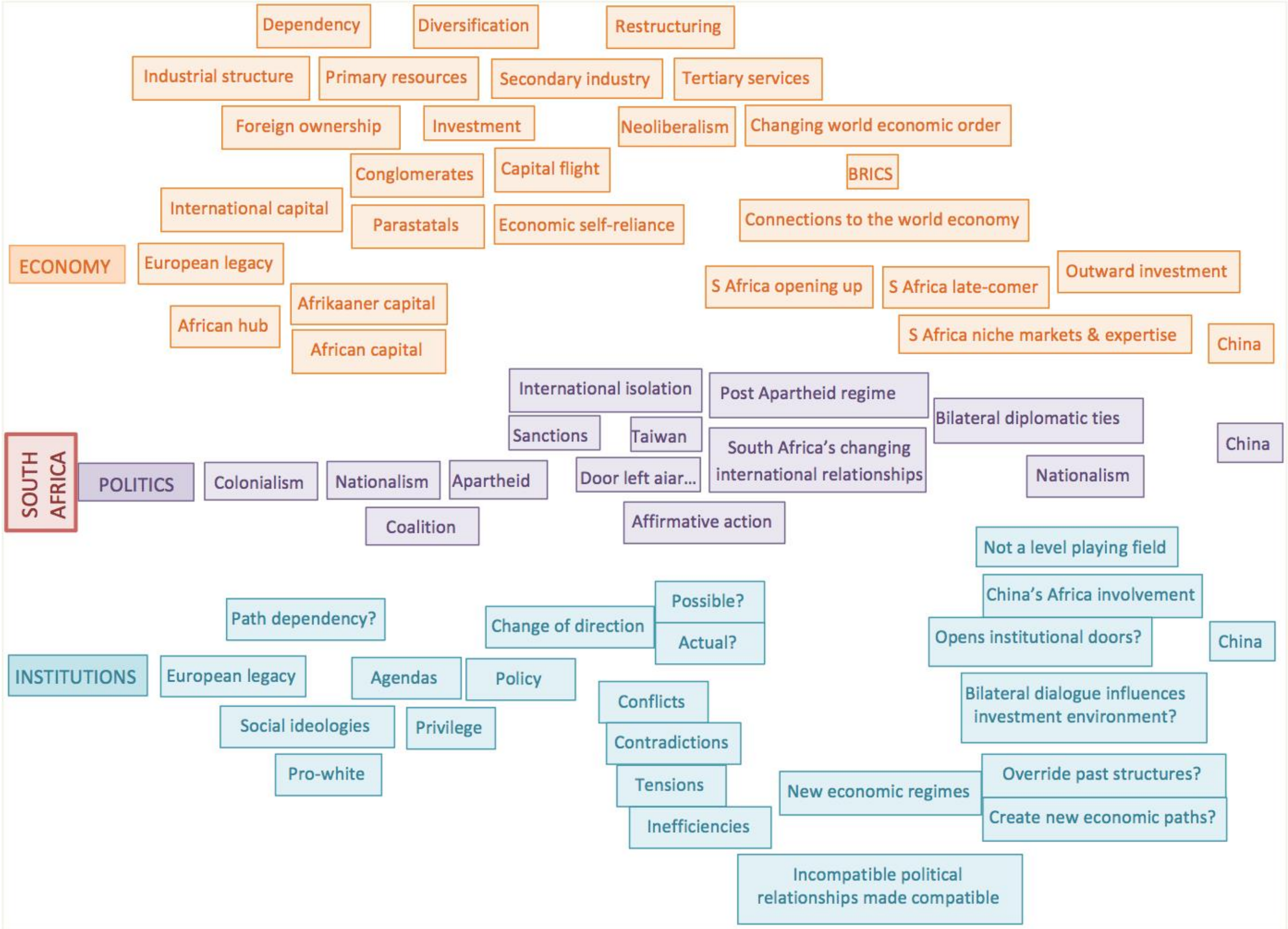
Table 4.3 summarises the key phases of political and economic transition that have taken place in South Africa and China since the beginning of the last century (a more detailed schema of the key elements of South Africa's political, economic and institutional history can also be found in Figure 4.2; see also Story, 2010, pp. 78-79 for a summary of the evolution of China's FDI regime). One of the key observations to draw from this summary is that, although both countries have been through some quite profound changes in both the political and economic spheres, the only real point of convergence between the two processes of transition has occurred since both countries have become more fully integrated into the global economic system (leaving aside their respective, but largely unconnected phases of internationalisation during the imperialist era). It is true that there was some common ground between the two countries before the turn of the century: for instance, the South African Communist Party maintained contact with the Chinese Communist Party even during the Apartheid era.[18] But in general both the regression (by mainstream international standards) and the reform processes that both countries have been through have occurred in parallel rather than in tandem. But there are common elements. Both countries have sought to rid themselves of the shackles of foreign dominance, although in quite different contexts and in starkly different ways. Both have gone through a period of international isolation, and both have had to draw themselves back from the extremes of Apartheid and Totalitarianism, respectively, in order to appear more acceptable to a global economic system which, during the neoliberal era in particular, set very clear political-economic standards to which participants were expected to adhere. Both are relative late-comers to the globalised international market, which has required both to be particularly nimble in the way they negotiate the hurdles of a highly competitive global economic system. As we have seen, South Africa has relied on the quality and desirability of its goods, services and skills array

[18] http://www.safpi.org/news/article/2013/china-south-africa-diplomatic-relations-15-years-pretorias-view (accessed 2 May 2014).

Table 4.3 South Africa and China's Comparative Transitions

Timeline from 1900	South African Political-Economic Transitions	Implications for South African Business	Chinese Political-Economic Transitions	Implications for Business in China
Before 1950	Late British colonial era; extractive industry boom	Early business environments regulated by the British-built institutional system, esp. the 'rule of law'. The mining sector became the primary economic growth engine.	CCP became the ruling party	Central government economic planning to recover from war and civil strife. All business owned and controlled by the State under the command economy. Economic inefficiency, structural inertia.
1950s to Late 1970s	Apartheid era (boom period)	Manufacturing developed fast under State support and protection. Family conglomerates and institutional groups in mining, retailing and financial industries began to play an important role in shaping the business and even political institutional environments of South Africa.	Cultural Revolution & isolationism	Promulgation of communist ideology across the country. Close connections with other communist countries brought extra burden to China's economic development. The 'Great Leap Forward' in the 1950s as well as the Cultural Revolution between 1966 and 1976 caused widespread economic stagnation and structural regression.
1980 to 1993	Apartheid era (international sanctions)	Mining less central to economic growth. Declining outputs & performance of public corporations. Rand appreciation widened the deficit in international trade. Sanctions isolated S. Africa from international markets. Overseas capital flight via large conglomerates.	Open Door policy	First trial of economic reform in the eastern coastal area with the creation of 'Special Economic Zones' where preferential incentive policies were introduced to encourage inward FDI and joint ventures with foreign firms. Tentative commencement of SOE reform.
1994 to 2001	Post-Apartheid era (restructuring, redistribution, reconciliation)	A number of macro-level policies (RDP, GEAR, BEE) introduced by ANC. Partially achieved the aim of rebalancing political power, but many economic objectives have failed to materialise through lack of institutional capacity at all levels, hindering business efficiency.	Consolidation of economic reforms	Spread of the reform process to other coastal provinces. Gradual libe 'socialist market economy', rapid private sector growth. Reform environment, in part to prepare for WTO accession. Rapid economic growt
2001 to Present	Re-connection to the world economy	Rising new middle class, including black business elites, exacerbates internal inequality. Increase in bilateral and multilateral agreements with international institutions (e.g. BRICS). High level South Africa-China economic dialogue encourages business cooperation.	WTO accession	Strengthening of formal institutions and gradual weakening of state-imposed constraints on foreign investment, trade and industrial production. Massive investment in infrastructure. Continued rapid economic growth. Investment incentive policies treat foreign & domestic firms equally.

Figure 4.2: Key Elements of South Africa's Political, Economic and Institutional History



as it has sought to penetrate the lucrative Chinese market; meanwhile China has invested huge sums in the African continent to pave its own way towards urgently needed natural resources. The coalescence of the two countries' respective journeys through transition and reform, to the point where they now constitute two important pillars of the BRICS emerging economies, has increasingly been cemented by the high level bilateral conversations between South Africa and China (e.g. South Africa – China Bi-National Commission which was inaugurated in 2001).

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4.2 South Africa and China's Comparative Transitions: A Political Economy Perspective

4.2.1 South Africa's Political Economy: An Transitional Review

Following the discovery of precious mineral resources, primarily diamonds and gold, in the mid/late 19th century,[20] South Africa became one of the richest resource-endowed countries in the world, and for many decades the South African economy was, and to a degree remains, highly structured around its natural resource advantages. The country's resource richness was an important magnet to the attention of, financial investment from and ultimately political control by external parties, and it was these that had a profound influence on the shaping and definition of South Africa's emerging institutional environment from the mid-19th century onwards. In this sense, there has been a two-way interaction between the business and institutional environments: influential business actors and organisations (conglomerates) have historically dovetailed almost seamlessly with governance practices and agendas, creating an institutional landscape which fundamentally served their best interests; meanwhile, these institutions and, within them, institutional practices have in turn defined the character and, most particularly, the political and ethnic orientation of the business sector. The following discussion will illuminate this interrelationship of business and institutions by looking at South Africa's late colonial history and the so-called 'mineral revolution', which connects with the first part of my historical research question (i): how has the changing institutional environment across time influenced the present business environment in South Africa?

4.2.1.1 Late British Colonial Era and the Mineral Revolution (1866 to 1948)

The British, in competition with other European countries in the later part of the 19th century, had been drawn to and been the most proactive pursuer of South Africa's gold resources. Following the Boer War of 1902, the British settlers managed to seize control from the other white population, known as the Boers – who, drawn from other European descendants (Dutch and French), had been the major owners and controllers

[20] In 1866 diamonds were discovered in Kimberley, and in 1886 some of the world's largest gold deposits were found in the Witwatersrand region of Transvaal.

of South Africa's resources - and established a British dominion (the Union of South Africa) in 1910 by drawing together the Cape and Natal colonies, as well as the republics of Orange Free State and Transvaal.

During the war-torn years of the late 19th century, conflicts between different populations and races intensified due to competition for natural resources and territory (Worden, 2012). Perhaps the only efficient economic growth engine for South Africa at that time was the mining (mainly gold) sector, and thus the country became anchored by the increasing inflows of international capital into the mining sector as well as associated financial industries. In the meantime, South Africa had also entered a period of industrialisation which was initiated by the government in order to promote a manufacturing sector for the purpose of strengthening the country's self-sufficiency through nurturing its own industrial base (Hamilton, Mbenga and Ross, 2010). This strategy was also aimed at reducing the country's economic dependence on foreign-owned mining companies, which largely served foreign business parties and were considered as a threat to domestic economic interests. At the same time, the British colonial government also introduced new institutional systems to South Africa to facilitate trade and industrial production, for example trades unions as well as various customs and tariff arrangements. Among these new policies were some specific tariff acts which were introduced to promote import substitution and protect domestic industries, especially those "infant industries", which was reinforced by the amended Customs Tariff Act of 1925 (Hancock, 2009, 114). To a certain extent the early stages of South African industrialisation reflected some of the features of many other western developed countries' own experience during their early industrialisation period, such as the US and West Germany, but the uniqueness of the South African tariff regulations was an "attempt to link this [tariff] act to policies designed to create employment specially for one group in the labour force, those of European descent" (Feinstein, 2005: 119). We can interpret this institutional intervention as being indicative of a political agenda of nationalism and diversification (see Figure 4.2), using policy measures to encourage the restructuring of the South African economy to suit domestic concerns, albeit linked to the promotion of the interests of a narrow segment of the country's population.

The many stimulus initiatives and protectionist policies made by the government towards the secondary (especially manufacturing) sector in South Africa were not very effective, and contributed little to the country's GDP, largely because the secondary industrial sector was built on weak foundations (Hamilton, Mbenga and Ross, 2010). The first of the basic fundamentals which was not properly taken into account was the size of the South Africa domestic market, which at that time was rather small. Unlike the farming or mining industries which were geared towards the export economy, manufacturing production was primarily intended to supply the domestic market, but at that time most people's wages were too low to allow them to afford manufactured products such as consumer durables. Secondly, the low efficiency of local industry was caused mainly by a shortage of skilled/semi-skilled workers due to limitations in the quality and extent of education and professional training. A colour bar had been created initially by the Boer government in late 19th Century, and later also became one of the main features of the political agenda of the British colonial government. There was no other multi-racial country at that time, apart perhaps from the USA and Australia, which was like South Africa in categorising population by race in the manner of applying formal and legal systems to reinforce discrimination in the society, which was designed purely for the benefits of White people to protect their jobs, land and other resources (Worden, 2012). In a sense, therefore, we can identify an institutional environment which privileges the interests of certain business actors and social groups over those of others. Such privileges clearly influenced the efficiency and competitiveness of those who were protected in such a manner, although not necessarily in a positive or constructive way. We will see later in this thesis that there are still some circumstances where privileged access to important and influential political actors continues to bestow advantages to some business actors in their dealings with the Chinese market (e.g. Case A, Chapter 5).

Whilst sophisticated industrial (employer-employee) relations started to perform an important role in the secondary industrial sector, bestowing certain advantages, they also created some constraints to the enterprises by making it more difficult to achieve desired profit margins when compared with the farming and mining sectors. For instance, mining companies were not required to have trades unions involved in negotiations between employers and employees or to settle industrial disputes such as strikes. In contrast, employers in secondary industry were obliged to accept and promote a coherent and conducive production environment and maintain harmonious relations with their employees as a basis for economic stability, even if this may have been at a cost to productivity and efficiency (Marks and Rathbone, 1982).

Given the reasons explained above, the Pact government that came to power in 1924, based on a coalition between the National Party and the Labour Party, tried to foster secondary industry by using different incentives. On the one hand various tariff barriers were imposed on imported products, but not much was achieved to protect the home market and make it more dominant (Fine and Rustomjee, 1996, 185). South Africa had to continue to rely upon large volumes of imported manufactured products, such as iron and steel, textiles, and electronics materials, et cetera, and hence the state economy continued to have a high balance of trade deficit. Mining, specifically gold mining, was the mainstay of South African economic growth at that time. In the early 1920s the government started to intervene into the industrial sector, and induced the birth of many large state-owned companies: e.g. the Electricity Supply Commission (ESCOM) for electricity supply; the Iron and Steel Industrial Corporation (ISCOR) for steel production, et cetera (ibid.). These companies subsequently came to dominate and control the country's rail networks, infrastructural construction, gas and electricity utilities, and so on. They also started producing the fundamental materials needed to enable South Africa to evolve into a more sophisticated industrialisation process. This resulted in a growth in output in South Africa which started to peak just before the Great Depression of 1929 (Fine and Rustomjee, 1996).

The Great Depression drastically affected the South African economy, particularly in the first 15 months (1929-1930), mainly because of the depreciation of sterling and other foreign currencies (Feinstein, 2005: 121-122). Nonetheless, gold cushioned South Africa to a certain extent, and this enabled her economy to recover from the recession more quickly than many other nations. In order to enhance the efficiency of the manufacturing sector the government introduced further industrial stimulation packages, and accordingly economic growth improved robustly from the beginning of 1933 through to the start of the Second World War (WWII). South Africa was also one of the few countries in the world that materially was only affected by WWII to a limited extent. All the same, South African GDP increased only rather slowly because of the difficulties it experienced in acquiring machinery and equipment from abroad for its labour-intensive industries (ibid., 125). The War affected the South African economy in a different way, however: because of the number of white workers who left to fight in the Second World War, black labourers were given the chance to shift from being farmers into skilled/semi-skilled workers, and this contributed to the acceleration of the urbanisation process in South Africa, albeit with a distinctively South African colour to it, with many black workers restricted residentially to living in townships which lay outside and beyond the main urban centres. (ibid., 152).

Apart from the political changes which have contributed to institutional transitions in South African economic history, the mineral revolution which dated from the second half of the 19th century also contributed to the formation of new institutional systems and mechanisms in the Republic. Many of the institutional foundations built during that time still have a considerable impact on social development in South Africa today, and this is typically manifested in the business sector.

The discovery of mineral resources in the 1860s was a dramatic turning point in South African economic history (Fine and Rustomjee, 1996). After two centuries of relatively lethargic development, mining resources injected fresh ‘economic blood’ to boost the South African economy, and subsequent social-cultural developments transformed the country into a more prosperous place. Obviously, South Africa was not the only country in the world with large precious mineral reserves (albeit with a large percentage made up of gold and diamonds), so why was South Africa in particular able to energize her own economy through gold and other mineral resources? Commodity export alone was not sufficient as a channel to act as the lynchpin for the country’s vigorous growth. To answer this question we must take a look at both sides of the coin. On the one hand, gold acted as a benchmark on international financial markets, which international currencies (including those influential currencies such as the US dollar and British pound sterling) could be based on as a universal standard for stability. During the Great Depression and the two world wars, international currencies depreciated in value in order to favour their own countries’ exports, as did the South African Rand, but in contrast, gold maintained a more stable and rising price and thus provided a more reliable platform for economic developments (Feinstein, 2005: 93-6). Thus many business opportunities and elite human resources were attracted to South Africa, which therefore further accelerated its development process. Commodity banks and insurance companies were among the first foreign financial institutions to pool and circulate foreign capital and cooperate closely with the mining companies. Along with this injection of foreign capital, innovative entrepreneurs and forward-looking managers as well as skilled technicians from all over the world were also attracted to South Africa, which naturally connected South Africa with the rest of the world's economy through business interactions among a wide ranges of industries.

On the other hand, if gold was the engine of the South African economy, then a mechanism had to be built accordingly to match the engine to allow it to function effectively. In this respect, the British deserve a certain amount of credit for establishing South Africa's fundamental institutional frameworks. From the first half of the 19th century, the British had introduced their "rule of law" into South Africa through the early British settlers, manifested particularly in the judiciary and legislative systems. To a certain extent, even today, the South African institutional framework is still associated with British institutions mainly because of the early British settlers' institutional legacies. The study findings of research conducted by Acemoglu et al. (2001), and the summary statement made by Feinstein (2005: 98) depict how early European settlers brought their own traditions to form new institutional foundations in the places they migrated to:

> "These traditions included institutions such as property rights and respect for contracts, the rule of law and an efficient, independent judiciary, and competent, democratic government, subjects to checks on its power and not dominated or corrupted by vested interests. Such institutions are in turn the necessary foundation for transactions to buy and sell goods and property, for lending and borrowing, for the formation of industrial and financial joint stock corporations, for saving and investment, and for the allocation of resources for the expansion of physical and human capital. All of these are prerequisites for modern economic growth and rising incomes."

However even though the institutional framework was built to serve and enhance economic development, the institutional mechanism was not immune from the general social grime: racial discrimination was the 'snake' coiled into all institutions established in South Africa during this period. And this feature, which continued to manifest itself for almost half a century, was deeply rooted into the government's policies during the ascendancy of the National Party (NP) with the introduction and implementation of the Apartheid regime in South Africa.

4.2.1.2 Apartheid Regime (1948 to 1994)

Following their victory in the 1948 elections, the NP seized and retained the nation's ruling power for more than four decades. During this era the South African economy went from dramatic boom to desperate stagnation, and the country's political affairs never ceased to draw international attention and condemnation. The Apartheid regime, perhaps one of the most controversial political policies in the world, was a system of racial segregation dividing ethnic groups in the country, which was implemented and extended by the NP's successors to formalise the existing colour bar into a set of legal regulations. This became the symbolic feature of South African society until 1994 when the first free national elections were held.

In the early Apartheid era, the South African economy saw an unprecedented acceleration, especially during the post-war years (Wolpe, 1972), and reached a peak in the early 1970s. However, the economy began to struggle after this, entering a period of stagnation for more than 10 years from 1980. In 1994 when most developed countries had more or less completed their recovery from the Cold War recession, South Africa's economic performance reached rock bottom, being by this time worse than the situation in 1981 (Fine and Rustomjee, 1996). To a large extent, this was of their own making, and because of the controversial nature of their political, economic and social systems.

From a political perspective, in regard to the ideology and practices of the Apartheid regime under the South Africa National Party, international reaction against this racial regime developed only slowly during the 1950 and 1960s, in part because during the post-WWII period many western countries also applied different levels of racial practice in their own countries (such United States) or in their colonies (such as many West European colonies in Africa). Also, at the peak of the Cold War, the major theme in international politics in the West was anti-communism. South Africa, located in an important geo-strategic position and with wealthy mineral resources, was considered by Western governments as a valuable ally that must not fall into the hands of the Communist bloc (Onslow, 2009). Thus to a degree the West (not in its entirety but to a significant extent) initially turned a blind eye to the Apartheid regime because it was important to maintain good relations with this political ally despite the racial segregation which questioned ethical principles of fundamental human rights (Noer, 1985). Nonetheless, the 1948 South African election result deepened the estrangement between South Africa and Britain, and hence affected their economic relationships in terms of trade and investment.

During the 1960s, opposition to South Africa from the Commonwealth headed by Britain, as well as criticism from the UN, signified the building of the anti-Apartheid movement. Britain was acutely irritated by South Africa's obstinate referendum result, voting to withdraw from the Commonwealth in 1961 and declare itself a republic, whilst the UN was inclined to advocate many African states' calls to exclude South Africa as a UN member state (Hyam, 1998). Through the 1960s to the 1970s, the UN passed many articles calling for international sanctions against South Africa, although such penalties were only applied in a fractional manner, because the major member states on the UN Security Council (namely the US, UK and France) disapproved of such action due to their own concerns about South Africa being an important trading partner. Therefore different international organisations and some countries individually had to apply a range of embargoes on arms, oil and trade against South Africa for the purpose of isolating the country. The Comprehensive Anti-Apartheid Act against South Africa initiative by the US Congress in 1986, overriding President Regan's 1981 veto of economic sanctions, was an important international step towards South Africa's isolation (African National Congress, 1981), and caused the county to lose international support from both its historical political and economic partners. South Africa's international isolation contributed to a period when economic self-reliance became increasingly important, and this was further reflected in the country's evolving institutional matrix.

On the economic side, after 100 years' contribution to the South African economy, the gold mining industry became less of a driving force as the economic engine of the country, and for the following reasons even started to hinder the economic growth (Fine and Rustomjee, 1996): firstly, rising costs of production, and falling quantity yielded by the goldfields; secondly, the appreciation of the Rand, which, combined with the influence of global inflation, was a consequence of and created a decline in the growth rate and international outputs (Feinstein, 2005, 205; 210). The gold price meanwhile remained unchanged, also in combination this contributed to a widening deficit in international trade for South Africa (ibid., 214-216). Finally, the withdrawal of government incentives for public and private investment led to a decline in fixed capital investment (ibid., 223). Public corporations, which had previously been one of the mainstays of the nation's economy, accounting for 16% of national GDP at its peak in the early 1970s, were only able to survive with declining output and poor performance (Schwella, 2001). By 1994 the contribution from the public sector to national GDP was merely 4% (ibid.), although the private sector was not immune from this economic stagnation either.

However one must also acknowledge that because of the state support, protection and preferential policies given by the government, the manufacturing sectors developed rapidly during the early Apartheid era (Feinstein, 2005, 172-173), which contrasted sharply with the situation in the general world economy that had been badly affected during the height of the Cold War period. Large numbers of parastatal (the state-owned and -controlled) enterprises were established in continuity with the ones that had been set up in the early 20th century, among which the first such enterprises were the Electricity Supply Commission (Eskom) and the South African Iron and Steel Corporation (Iscor), which were both established in the 1920s, and the Industrial Development Corporation (IDC) which was founded in 1940 to support other new industries (Fine and Rustomjee, 1996). Through IDC's business assistance function (in a sense IDC was an institution designed to support and facilitate new start-ups in the industrial sector), many other state companies were established such as the South African Coal, Oil and Gas Corporation (SASOL), the Southern Oil Exploration Corporation (Soekor), the Phosphate Development Corporation (Foskor), and so on (ibid.). During this time, particularly from the early 1950s until the mid-1970s, the state government had actively intervened in many large home-grown companies that were created, fostered and developed with generous support for the purpose of making the manufacturing sector the new catalyst for the country's economy to enable it to achieve self-sufficiency. Along with these parastatal enterprises, it was also a time that saw the expansion of Afrikaaner capitalism (Figure 4.2) as well as the development of the financial sector. Many family conglomerates and institutional groups in mining, retail and the financial industries, in addition to contributing to the country's economic growth, also played an important role in shaping the business and even the political institutional environments of South Africa at the time (Seidman and Makgetla, 1980). Between them, these major business enterprises (namely Anglo American Corporation - founded by Sir Ernest Oppenheimer, who also acquired De Beers founded by Cecil Rhodes; Sanlam, Barlow Rand, Anglovaal, Rembrandt - founded by Dr. Anthony Rupert who also owned the luxury brand group Richemont; Liberty Life - founded by Sir Donald Gordon; and Old Mutual - founded by John Fairbairn), accumulatively accounted for approximately 80% of the total value of the Johannesburg Stock Exchange (JSE) (Hanlon, 1986, 67), of which Sanlam and Rembrandt were the representatives of Afrikaner capital whilst the others were originally built upon British investment. Quite clearly, therefore, a small number of very large and monopolistic family-based conglomerates came to dominate the South African business landscape during the Apartheid era. To illustrate the institutional heritage of the Apartheid era, and in particular to highlight the very close connections that developed between business and the state which, we will see later in this thesis, in South Africa helped to strengthen the country's institutional landscape but at a cost to wider concerns about social and distributive justice, I will present below a short boxed case study of one of the most important and influential family conglomerates in South Africa.

Boxed Case Study 4.1

Anglo American Corporation (AAC):
An Example of a Family-Based Mining Conglomerate

In 1917, Englishman Sir Ernest Oppenheimer founded the Anglo American Corporation of South Africa with some assistance from rubber tycoon J.P. Morgan and his family (Innes, 1984). Since its establishment, AAC had been able to build its empire through strong overseas financial resources (e.g. from the US), as well as their intensive business involvement in the extraction of a diversity of natural resources, in which they focused on five core business areas (base metals, coal, diamonds,[21] iron ore and platinum) with international footprints in diversified country markets. Whilst some may see AAC as a successful global conglomerate, its history has been full of

[21] In 1926, AAC became the majority stakeholder in the De Beers Company which was initially founded and owned by the Rhodes family.

controversy.[22] On the one hand, AAC has promoted itself as a responsible enterprise taking full social and environmental responsibilities, but on the other hand AAC has stirred a lot of criticism because of its politically-oriented business strategies which have run though the whole history of the company's development.

In the early stages of AAC's establishment, the initial idea was to protect German investors from losing their gold mining interests in the northern part of South Africa during WWI, and hence AAC received German investors' holdings which also helped AAC to maintain a significant stake in De Beers, in order to control and influence business decision-making in the latter company. By the time in the 1940s when the South African National Party became the ruling party, the AAC, acting as the major leader of the English-speaking business community, had become proactive in supporting the opposition political party, the United Party, that was financially supported by the United South African Trust Fund to which AAC had been a generous sponsor and donor (Innes, 1984). During the 1950s most English business leaders started to accept the reality that the major interest of the ruling party (NP) in the state government was to promote Afrikaner business, and they therefore started to work with the government. AAC thus had to secure their financial margins not through political patronage but through economic efficiency, mainly by further reducing labour costs. By playing such a game, although AAC had acknowledged the Apartheid regime was perilous to the business, it recognised it could at the same time be a beneficiary under the Apartheid regime. For instance, AAC on the one hand made minor improvements to black workers' living conditions, and made a proposal to the government in the 1950s about changing black workers' housing standards, but this was rejected in 1958 by the then Prime Minister Hendrik Verwoerd (a former Minister for Native Affairs). On the other hand the salary of black labourers working in the mines was retained at the tuppenny level, even though the gold price had risen disproportionately to wage levels.[23]

AAC was able to foresee that the ANC would be the future ruling party, and again they tailored their business strategies around a double-game. For one thing they continued enjoying benefits from a faulty social system and defective ruling government, but for another AAC organised deals with the ANC in a rather secretive manner, courting more business confidence on the one hand and future political support on the other. And like others in South Africa, during the late era of the Apartheid regime, AAC was one of the first giant conglomerates to move their assets overseas (capital flight), becoming listed on the London Stock Exchange or the New York Exchange, in order to avoid being nationalised or bundled with the new South African government's business policies centred on affirmative action, to which we now turn our attention.

[22] 2007 report by the international NGO, War on Want. Their report is entitled, 'Anglo American: The Alternative Report' (http://www.waronwant.org/attachments/Anglo%20American%20-%20The%20Alternative%20Report.pdf, accessed 4 October 2013).

[23] Statistics shows the wages of black labour working in the mines only increased 6% between 1946 and 1969 (Feinstein 2006, 167).

The final and, in the context of transition, the most significant phase in South Africa's modern political history is the post-Apartheid era. For the purposes of this thesis, this period is best looked at in the context of emerging and evolving institutional structures in South Africa, and as such we will return to this discussion in Section 4.3.

4.2.2 China's Political Economy: A Brief Overview

As can be seen from Table 4.3, China has undergone a thoroughgoing process of transition which more or less runs parallel to the timeline just described for South Africa. However, that is where any similarities largely end. The key episode in the transition process, as far as this thesis is concerned, commences with the reforms initiated by Deng Xiaoping in 1978 (although with a history and trajectory that preceded this by several years). One of the biggest differences between the two countries lies in the extent to which economic transformation in China has proceeded apace, but - unlike in South Africa during the post-Apartheid period, as we shall see - without any parallel substantive reform of the political system: the Communist Party of China (CPC) has proven to be remarkably durable throughout the process of transformation (Naughton, 2008, 91). Barry Naughton (2008) in fact argues that, far from being a passive bystander as the economic transition took on its own shape, logic and momentum, the CPC actually shaped the economic reform process is such a way as to underpin, rather than undermine, the position and power of key political actors within the system. Political patronage became the key means of achieving this end, whereby newly influential economic actors became tied to the existing regime and system, in exchange for financial reward and smooth progress through political and bureaucratic minefields laid by the regime itself (ibid., 91). Whilst this agenda may have helped to hold the Chinese political economy together, there have been significant costs and compromises which have over time come to serve as significant impediments to the smooth and efficient running of the economy, and which foreign firms in particular have often found it difficult to negotiate.

Deng's reforms were stimulated, arguably necessitated, by growing problems of economic stagnation, unemployment and income inequality, and commenced with an incremental and subsequently thoroughgoing overhaul of the agrarian sector (Story, 2004, 127), with market-based financial incentives used to counter and rectify the stifling impact of the command economy on growth, diversification and innovation. Market rationality also gradually, but only patchily and often quite half-heartedly, became applied to the SOE (state-owned enterprise) sector. Whilst the state, under the guise of the CPC, pushed with increasing fervour the opening-up of the national economy after 1993, simultaneous pressure for and movement towards political reform was brutally suppressed, not least in Tiananmen Square on 4 June 1989. Democratisation and the development of civil society have hardly progressed in China since then, with the party-state at the apex of a very sharply pointed socio-political pyramid (ibid., 130), whilst the country has nonetheless grown to be one of the largest and fastest-growing economies in the world. SOE reform became a policy priority in 1997, in part because 'parts of its economy were "in chaos", with rampant corruption, counterfeiting, fraud and embezzlement' (BBC News, 11 December 2001), and partly in anticipation of China's accession to the World Trade Organisation in 2001, which obliged further reforms in the financial sector and opened up market access to foreign goods .[24]

Foreign companies entering the Chinese markets have to run the gauntlet of an economy which is tightly controlled by the party-state, which regulates markets and has a controlling interest in the financial system (banks, insurance and securities) (Storey, 2004, 132), as well as strategic policy direction and the arbitration of conflicts and disputes. The monopoly position that the CPC has maintained since 1949, and the way that the Party has frequently used its power to underpin its own strategic and institutional interests, has resulted in very low levels of trust being shown by private businesses and public citizens towards officials and the institutional organs of the state (ibid.). Thus the picture that emerges is one of a rapid transition of China's economy from central planning to market liberalism, paralleled by a rigid perpetuation of the political regime with little more than lip-service being paid to the need for political reform. Inasmuch as the political system maps out the shape, form and function of the formal institutions which facilitate and regulate economic activity, this political inertia has significant consequences for, in the present context, companies entering the Chinese markets from the international arena: 'managers in foreign corporations cannot take institutions for granted' (Story, 2004, 136). The

[24] 'China joins the WTO - at last', BBC News, 11 December 2001, http://news.bbc.co.uk/1/hi/business/1702241.stm [accessed 17 July 2014].

government retains for itself considerable scope for making decisions, granting privileges, taking actions and enforcing restrictions which suit its own interests, or its self-portrait picture of the strategic ‘national interest’, and this has, *inter alia*, created an environment within which corruption and nepotism has become rife among public officials. As we shall see a little later in this chapter, this simultaneously creates an atmosphere of uncertainty and insecurity for foreign businesses, large and small, whilst at the same time encouraging or obliging the deployment of informal institutional practices in order to smooth the operation of the socialist market economy. Domestic firms, especially those operating in the private sector, face similar hurdles and impediments, but in general are more inured to operating in the prevailing environment and, through experience and a more intimate familiarity with the prevailing socio-cultural situation, seem to possess the requisite knowledge and contact networks to enable them to function and survive, aided of course by a hitherto buoyant economy.

Three decades or so on from the reforms initiated by Deng Xiaoping, China is hardly recognisable from the economic behemoth it was at the end of the Cultural Revolution in 1976. The country joined the World Trade Organisation in 2001, and since then has at least on paper been obliged to play the economic game according to international rules. In practice, there continue to be a number of ‘distortions’ which often frustrate or infuriate foreign firms seeking to enter and operate within the Chinese markets. As we shall see later in this chapter, one such contentious issue is China’s lack of respect for and compliance with international standards on intellectual property protection. On a slightly more legitimate tack, but still serving the same ends, the Chinese government has also used joint ventures with foreign firms as a mechanism for gaining access to much-needed external technology (Redding and Witt, 2008, 6). Another gripe is the perceived lack of a level business ‘playing field’, with anecdotes rife among the *ex-patriate* business community in China concerning seemingly arbitrary decisions by officials to revoke business licences or sequester land and property – a situation which clearly does little to engender trust in the system and a sense of investment and operational security. To a significant degree, foreign firms quickly learn to put up with such uncertainties and institutionalised distortions because of the sheer size and potential of the Chinese domestic market, their sense (if not understanding) of the idiosyncrasies of the Chinese system, and their weighing up of the benefits of being on the inside despite the headaches experienced as opposed to missing out entirely on the China bonanza.

4.3 South Africa and China's Comparative Transitions: An Institutional Perspective

4.3.1 South Africa: The Post-Apartheid Era (1994 to Present)

The victory of the ANC in 1994 and the successful election of Nelson Mandela as South African president turned South African history to a new page. It was a gargantuan task for the new government to restore the 'broken' country to order. Nonetheless, almost 20 years since the inauguration of the ANC, many questions remain over its record of achievement in re-establishing the country's social, political and economic status. The ANC has indeed done an excellent job of dealing with the social problems of racial segmentation by dismantling the colour bar that had haunted the majority black South Africans for centuries. The formerly exiled ANC party gained political popularity and support through its proposal to establish a democratic country for all South African people, creating a new country 'that is unified, open, non-racial, non-sexist, democratic and free', and a new constitution that should meet the principles of 'equality, mutual respect, dignity and promotion of basic human rights' (African National Congress official website).[25] Such socio-political principles are reflected in South African domestic policies that have applied to the whole nation including all races of citizens, and these policies have included: i) a right to possess and access land as well as maintaining sustainable development; ii) improving the general standards for the whole nation in terms of housing, health care and social welfare; iii) strategies of developing human resources and advancing overall standards of science and technology knowledge within the nation by providing education and training opportunities to all age groups, by affirmative action if need be; iv) advocacy of an open and free media, and rights of access to information; v) promotion of national culture and improvement of sport and recreation infrastructure (facilities, training and regulation body, etc.); and vi) reducing the unemployment rate especially

[25] African National Congress official website, Policy Documents (http://www.anc.org.za/show.php?id=227, accessed 27 October 2013).

among the youth, thereby nurturing the young generation for the future of South Africa.[26]

In terms of foreign policy, the ANC realised the new world order required new permutations in their political stand, especially after centuries of international sanction and isolation during the apartheid era. The end of the Cold War disconnected the ANC from their historical international communist allies, and the emergence of the new Triad economic blocs (North America, the European Union and Japan-led East Asia) provided the ANC with new challenges within the global political order – to follow the principle of being non-aligned, nor associated with any international military blocs, but meanwhile actively pursuing international economic cooperation; transforming South Africa from its apartheid era isolation into full membership of the international community; performing the role of regional leader in a peaceful and cooperative manner, and fostering multilateral economic relationships with other African countries within the region.

In the economic dimension, which provides the institutional backdrop against which recent South African outward investment should be viewed, the general economic policy of the ANC has been to pursue a growth and development path in order to create a robust, balanced and dynamic economic environment within which poverty and inequality could be eliminated, through two fundamental strategies: redistribution of resources to improve living standards for the majority South African population; and restructuring the South African economy in both the public and private sectors. This also became the guiding principle for other ANC economic policies, especially those affecting the domestic economy. Internationally, the ANC proposed to adopt an 'open' policy in order to rebuild foreign investors' confidence towards South Africa, granting foreign investors the same level of facilitation that domestic firms enjoyed. One notion that emerged from the ANC's new economic policies that reflected an important feature of an economy undergoing institutional transition was 'flexibility', as stated in the ANC policy guidelines as it prepared for government in the mid-1990s:

> "In the context of the growth and development strategy, the role of the state should be adjusted to the needs of the national economy in a flexible way. The

[26] African National Congress official website, Policy Documents (http://www.anc.org.za/show.php?id=227, accessed 27 October 2013).

> primary question in this regard is not the legal form that state involvement in economic activity might take at any point, but whether such actions will strengthen the ability of the economy to respond to the massive inequalities in the country, relieve the material hardship of the majority of the people, and stimulate economic growth and competitiveness." [27]

Now, almost two decades later, what has been achieved under the ANC's government in regard to economic restructuring, the elimination of poverty and inequality, and increasing employment? To address these questions, to provide background to this study, and to draw out some institutional themes relevant to the business sector, the following discussion will look selectively at certain of the ANC's 'economic related' policies that have been introduced to the 'new' South Africa over the last 20 years.

Reconstruction and Development Programme (RDP): the RDP is a policy initiative introduced by the head of the ANC government, Nelson Mandela, in 1994 after consultation and negotiation with institutions at all levels of the country (Nelson Mandela Centre of Memory, 1994). The purpose of releasing the associated 'white paper' was to establish a new policy platform for South Africa, to address the socio-economic issues the country was facing, and to integrate growth, development, reconstruction, redistribution and reconciliation under a unified macroeconomic framework (Corder, 1997). Consisting of six key principles and five major programmes, the RDP policy framework adopted a Keynesian approach with socialist undertones in an attempt to redress the political, economic and social legacy of the Apartheid regime (Adelzadeh, 1996). Although the RDP was a comprehensive programme for implementation across South Africa in a manner similar to the Marshall Plan in West Europe after WWII, the RDP has largely failed to meet the majority of South Africans' expectations. A principal contributing factor has been the lack of capacity in institutions at all levels to implement and manage such a programme, not helped by insufficient funding and inefficient measures for spending these funds (see also the discussion on wastefulness in Chapter 4) (Cameron, 1996).

Growth, Employment and Redistribution (GEAR): GEAR is a strategic macro-economic policy introduced by the then Minister of Finance Trevor Manuel in 1996. Although the implementation of GEAR policies used RDP as continuous point of

[27] ANC Today. 2001. Tell No Lies, Claim No Easy Victories. *ANC Today (Online Voice of the African National Congress), 1(31), 24-30 August 2001.* [Press release]. [Accessed 28 October 2013]. Available from: (http://www.anc.org.za/docs/anctoday/2001/at31.htm

reference, it was in many senses considered to be a somewhat 'orthodox' policy framework, and as such departed from the more radical objectives of the original RDP (Weeks, 1999; Adelzadeh, 1996). The GEAR policy framework adopted a more neo-liberal approach focus to fiscal and monetary policy which mainly involved government deficit reduction, exchange rate control and trade liberalisation as a means of creating a macroeconomic environment that was conducive to alleviate poverty and unemployment (Nelson Mandela Centre of Memory, 1996). The initial design of the GEAR policy was intended to encourage a substantial increase in FDI capital inflow into the country in order to boost socio-economic development, therefore investment incentives represented one of the central pillars of the policy program under GEAR, including capital control deregulation and tax-rate stabilisation (Barbour, 2005). In addition, the reforms aimed to stimulate 'labour-intensive manufacturing investment' (Gelb, 2003; Gelb and Black, 2004), because the export-oriented manufacturing played a crucial role in the South African government's strategy for boosting growth and increasing employment (Barbour, 2005; Edwards and Golub, 2004). However, the outcomes of GEAR have been largely disappointing. South Africa's economy has not performed as had been desired and anticipated. Although the fiscal deficit and inflation rate were brought under control and almost reached the government's targets between 1996 and 2000, a slow-down in national GDP growth, a sharp rise of bank interest rates and a continuing increase in unemployment have returned a rather embarrassing set of outcomes from the GEAR policy (Weeks, 1999). For instance, even though investment-incentive policies were introduced through the GEAR programme, the South African small and medium business sector did not prosper to the extent that the unemployment problem could be eased. The 1997 Asian Financial Crisis may also have contributed to the underperformance of GEAR, but fundamentally the policy was not sufficient by itself to confront South Africa's domestic political, economic and socio-cultural problems. Adelzadeh (1996) has pointed out that, during the early stages of GEAR, the policy failed to integrate the key objectives of redistribution, growth and employment with other government strategies (e.g. monetary policy), and thus neglected to appreciate that the impacts of one national issue would act as a constraint on the others.

Affirmative Action (AA): AA was a policy introduced and implemented by the ANC government through the Employment Equality Act (Act No. 55 of 1998), four years after the ANC party took office. This act was designed and launched, in conjunction with other constitutional policies (the Public Services Act, the Skills Development Act and the Skills Development Levy Act) to promote people's rights to equality. The aim of AA was to 'achieve quality in the workplace' by eliminating the discrimination against black and coloured people which had caused gross unfairness in employment during the Apartheid regime; to redress the disadvantageous effects that such discrimination had imposed on the designated group of people (black/coloured people, women and people with disabilities); to redistribute the political, economic and socio-cultural power and resources among all groups of people in South Africa; and to achieve a genuine democracy (African National Congress official website). [28] However, the AA policy brought about many unintended consequences for the new South African society. The implementation of the AA policy produced another layer of imbalance within the nation among the black people, because the policy has fundamentally benefited only a small segment of the black population, mainly in the small rising black middle class (Alexander, 2007), and these 'elites' tended to shut the door to other black people once they had reached their positions of privilege (Bopela, 2008). This not only meant that AA failed to adhere to the originally designed principles of the policy, but also left it far from achieving its objectives. In addition, the AA policies also brought inefficiency to many business operations. In the large companies, particularly the SOEs, many senior management roles were required by law to shift from white managers to black managers who may have possessed knowledge but not necessarily the requisite experience. Accordingly, junior roles were often filled by black people even though they were not yet fully trained. To a certain extent the AA policy also created constraints on the implementation of other domestic policies. Cameron (1996) suggests that one of the reasons for the shortcoming of the RDP programme was the institutional deficiencies which had resulted from the lack of skillful people at higher institutional levels to manage and implement the programme, in part because of the AA policy.

Black Economic Empowerment (BEE): BEE emerged as a political strategy initiative in 1998 when the then South African Vice President Thabo Mbeki made his famous

[28] African National Congress official website, Affirmative Action and the New Constitution, (http://www.anc.org.za/show.php?id=283, [accessed 4th October 2013]).

‘two nations speech’,[29] and it became a mainstream development policy after the BEE commission submitted to President Mbeki a long report - the Integrated National BEE Strategy – which emphasized the importance of state intervention in the implementation of BEE in order to enhance the nation’s socio-economic development (Ponte, Roberts and van Sittert, 2006). Different from any other government policy and development programme (for instance the GEAR programme, which emphasised macro-economic policy), the BEE strategy focus primarily on promoting black ownership and management control in the business sectors, again with the aim of creating more job opportunities, eliminating poverty and minimising the imbalance of power, wealth and resources between black and white people. With the evident ineffectiveness of GEAR programme in achieving the objectives of redistribution and job creation, the BEE strategy, as a form of state intervention, was expected to ‘reshape and direct the course of economic development to suit local conditions’ (Black Economic Empowerment Commission, 2001:6; du Toit and Neves, 2007). However, critical voices were heard not long after the implementation of the BEE strategy. Among many, the most universal criticism has been that the BEE policy had only benefited the small group of ‘high-profile and politically well-connected (black) individuals rather than the majority of the previously disadvantaged (black people)’ (Tangri and Southall, 2008: 700). Questions were raised to the government as to whether the empowerment policy had functioned adequately to deliver a better life for all South African people, including the majority black population in the rural areas (Southall, 2007). The principal flaw of the BEE policy was that it had adopted a ‘top-down’ approach, which tended to nurture and benefit the top layer of the minority group of a rising black middle class who would know how to seize and take advantage of the opportunities BEE bestowed. This was also part of Thabo Mbeki’s rationale for introducing BEE policy, which was partly influenced by his late father’s

[29] Speech made by Thabo Mbeki at the opening of a debate in the National Assembly on ‘Reconciliation and Nation Building’ in May 1998. The notion was presented that South Africa consists of two economies, of which “One of these nations is white, relatively prosperous, regardless of gender or geographic dispersal. It has ready access to a developed economic, physical, educational, communication and other infrastructure… The second and larger nation of South Africa is black and poor… This nation lives under conditions of a grossly underdeveloped economic, physical, educational, communication and other infrastructure.” (http://www.unisa.ac.za/contents/colleges/docs/1998/tm1998/sp980529.pdf, accessed on 24th October 2013).

thoughts on white Afrikaner's business experience in the 1920s (Herbst, 2005).[30] In part, the BEE policy was also influenced by Malaysia's pro-Bumiputra New Economic Policy (NEP) which was quite successfully implemented between 1971 and 1991 (Ponte, Roberts and van Sittert, 2007). Unfortunately, unlike in Malaysia, the South African government was unable to look after the majority mass of the population who stood on the bottom rung of the ladder, but instead simply created small numbers of black business entrepreneur elites, which only worsened the imbalanced conditions not only between the whites and blacks people, but also within the black population itself (Herbst, 2005).

In 2010 the speech[31] delivered by President Jacob Zuma to the inaugural meeting of the President's Broad-Based Black Economic Empowerment Council admitted the failure of BEE policy implementation as a tool to redress the imbalance of power and resource between the 'two nations in South Africa',[32] because the BEE policy had been too much focused on ownership and managerial control, which was a rather narrow based dimension. Therefore, a broader-based policy has been added to form the new Broad-Based Black Economic Empowerment (BB-BEE), with the hope of making the black empowerment policy more effective across the board in black South Africa.

The foregoing discussion has sketched out some of the more important policy initiatives that have been presented and implemented during the post-Apartheid era. Along with a quite significant shift in the balance of political power in post-Apartheid South Africa, there have been several hitherto largely unsuccessful attempts to bring about restructuring and redistribution, principally along racial lines. Many of the underlying economic objectives have failed to materialize to the extent originally envisioned by the country's new political leaders. There is also both an institutional background and a set of institutional consequences to this, as we will see in Chapter 4,

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30 Mbebi's father Govan Mbeki had studied and believed strategies taken by the white Afrikaners in the 1920s to turn the underdeveloped economy into a wealthy nation was through creating the elite white Afrikaner business elites who would help to boost the nation's overall economic development.

31 'Opening Address by President Jacob Zuma to the inaugural meeting of the President's Broad-Based Black Economic Empowerment Council', *SANews.gov.za* (http://www.sanews.gov.za/south-africa/opening-address-president-jacob-zuma-inaugural-meeting-presidents-broad-based-black, accessed 2nd October 2013).

32 'South Africa's Black Empowerment: The President Says it has Failed', *The Economist,* 31 March 2010 (http://www.economist.com/node/15824024, accessed 2nd October 2013).

which shows quite clearly how the formal institutional environment in South Africa has regressed more or less across the board from the quite high standards that were a feature of the country before and during the Apartheid era, albeit due – as we have seen earlier in this chapter - to monopolistic business practices, and the powerful influence of the business sector on political policy-making processes.

4.3.2 The Chinese Institutional Environment for South African Investment

Since the initiation of the 'open-door' policy in 1979, the investment environment in China has evolved and improved as a means to attract and accommodate foreign capital, which in turn has been one of the factors contributing to the development of the local economy. A large volume of academic work (see below) has unpicked foreign direct investment (FDI) into the Chinese markets on a range of scales and from a variety of perspectives. Discussions have ranged from the macro political economy to micro-level social, cultural and distributional issues: for instance, FDI in relation to China's economic growth (Wu, 1999), political-economic transformations (Mantzopoulos and Shen, 2011) and regional development (OECE, 2002); impacts of FDI inflow on China's formal institutional policies and systems (Corne, 1997), for instance on monetary policy (Huang, 1999); business strategies on entry mode and venture-ship of MNEs in China (Pearson, 1991; Shapiro *et al*, 1991); overseas Chinese FDI into China (Thoburn et al, 1990); the influence of informal institutional networks as a vital constituent of business strategies in the Chinese markets (La Croix, Plummer and Lee, 1995); and the implications for China's continued economic growth based on the trajectory of inward FDI over the past thirty years and looking forward to a rapidly changing business environment (Story, 2010; Hale and Long, 2012; Zhang and Pearce 2012).

The 'Open-Door' policy saw the gradual 'opening up' and progressive development of China from the coastal provinces to the interior, from east to west, and from key local areas to country as a whole, although despite China's dramatic economic transformation this process is still far from complete. China has gone through four stages during the process of economic reform, and each stage has established significant milestones in the country's development achievements, each supported by key institutional structures which we will turn to shortly. The first stage (1978-1983) was a trial phase of the 'open-door' policy, with the creation of four 'Special Economic Zones' (SEZ) in four eastern coastal cities in Guangzhou and Fujian provinces. Preferential economic policies were given to these special zones where foreign investment was encouraged and thereafter mushroomed. From the mid-1980s, the central government started to extend such preferential incentive policies from the eastern coastline to interior areas and North China, which endorsed the second phase (1984–1991) of economic reform. This was when joint ventures with foreign firms and using foreign capital were actively encouraged by the Chinese government, following the Resolution on Reforming the Economic System, which was passed by the Third Plenary Meeting of the Twelfth National Congress of the Chinese Communist party in seeking to stimulate a 'planned commodity economy' (Tan, 2004, 376). There was a short period of back-tracking between 1989 and 1991, when the conservatives held sway over the reformists, but Deng Xiaoping's tour of the south in 1992 quickly swung the pendulum back in favour of change (Sigley, 2006, 498).

The third phase commenced in 1992 when the 14^{th} Party Congress formally and firmly pushed towards what became known as the 'socialist market economy', which Gary Sigley (2006, 489) has described as being based upon 'a hybrid socialist-neoliberal … form of political rationality that is at once authoritarian … yet, at the same time, seeks to govern certain subjects, but not all, through their own autonomy'. It is during this phase that China's institutional environment started to evolve in order to try to catch up with the reformists' political-economic ideals, as we shall see shortly. This 'catching-up' process of institutional evolution continued into the fourth phase of China's economic reforms, which commenced with the country's accession to the World Trade Organisation in 2001, after which China had (as much as it was able and willing) increasingly to measure itself against and comply with international institutional standards and practices. As the reform process has unfolded, therefore, foreign companies that have been drawn to the Chinese market have had to negotiate an ever-changing landscape of institutional structures and procedures. The following discussion will introduce certain key aspects of the formal institutional environment that South African firms have faced as they have entered the Chinese market. The discussion will follow the basic structure of the 3D model that was introduced in Chapter 2, adopting three perspectives: the structural level perspective, the normative perspective and the business environment perspective. The chapter will then round off with an exploration of Chinese informal institutions, which the 3D model suggests to be crucial particularly at the entry and consolidation stages of South African firms' engagement with the Chinese market.

4.3.2.1 Formal Institutions in China

Macro-Level Institutions

Compared with foreign firms from advanced western countries, South African firms were relatively late-comers to the Chinese markets, since most did not arrive in China until the late 1990s. According to one of my interviewees, South African investors had had found the 'big [i.e. state-level] environment' of China to be generally welcoming to their late involvement, but they complained that practical operations tended to be quite complex at lower administrative levels.[33] Whilst the literature tends to view the Chinese market – at least that with which foreign firms and capital engage - as somewhat uniform and amorphous, the reality is that there are multiple layers, not least of regulatory administration, with which more or less all firms have to contend (Voss, 2011). At the macro level, the principal actors that command direct authority to foreign inward investment include the State Council, the National Development and Reform Commission (NDRC), the Ministry of Commerce (MOFCOM), the State Administration for Industry and Commerce (SAIC), the People's Bank of China (PBC), the State Administration for Foreign Exchange (SAFE), the State Administration of Taxation (SAT) and the General Administration of Customs of the PRC (GACC). There are other institution which must be navigated by investment projects which involve specific industries, although the State Council exercises overall regulatory power over all these.

State Council

The State Council of China, also known as the Central People's Government, is the highest executive organ of state power and administration. The State Council, led by the Premier, is granted supreme power by the National People's Congress (NPC) and its Standing Committee, and is responsible for "carrying out the principles and policies of the Communist Party of China as well as the regulations and laws adopted

[33] Interview with the General Manager of one of my respondent firms (Beijing, April 2011).

by the NPC" (www.gov.cn). The State Council performs as the highest administrative leadership unit, and exercises the supreme executor of administrative legislation, evaluating proposals, managing and monitoring the economic, diplomatic and social affairs of the State. All other state actors are subject to the State Council's oversight.

National Development and Reform Commission (NDRC)

The NDRC is a newly created successor to the State Development Planning Commission (SDPC), which was merged with the State Council Office for Restructuring the Economic System (SCORES) and part of the State Economic and Trade Commission (SETC) in 2003 (http://en.ndrc.gov.cn/mfndrc/). As one vital component of the government system, the major function of the NDRC is to macro-control the overall economic reform process, to provide guidance to economic restructuring by formulating and carrying out the state's economic and social development policies, and to monitor the macroeconomic development trend. The responsibility that the NDRC takes in regard to inbound foreign investment is to conduct and review feasibility studies, grant approval to foreign investment projects, and to guide and supervise the utilisation of foreign capital. Historically, the NDRC gave priority to projects that helped China secure much-needed natural resources, technology-transfer, improving in-firm management capacity and enhancing scope for export trade (Voss, 2007, 59). Decisions were also often prioritised according to the amount of inward investment, thereby giving greater to larger corporations than smaller SMEs.

Ministry of Commerce (MOFCOM)

MOFCOM is a more recent manifestation of the former Ministry of Foreign Trade and Economic Co-operation (MOFTEC), following restructuring in 2003, and shares a similar function to the NDRC with regard to foreign investment matters. In terms of inbound foreign investment, the major mission of MOFCOM is: 1) to draft and enforce laws and regulations governing foreign investment activities nationwide in China, as well as to establish guidance for the drafting of lower level administrative rules and regulations for foreign investment management; 2) to examine and approve, usually in conjunction with the NDRC, inward foreign direct investment, as well as to monitor large-scale foreign invested projects, in terms both of their stated objectives and feasibility and also their compliance and success; and 3) to provide regulatory guidance to investment promotion agencies (IPA) at all levels, as well as supervising the work of state-level special economic development zones (www.mofcom.gov.cn).

State Administration for Industry and Commerce (SAIC)

SAIC, comprised of fifteen departments, is a state institution at ministerial level and under the direct supervision of the State Council. The major function of SAIC is to maintain market order and protect business and consumers' interests, while eliminating illegal economic activities by drawing up and implementing laws and regulations through administrative means. SAIC is also responsible for setting up regulatory guidance to the local Administrations for Industry and Commerce (AIC) and other affiliated institutions, and to coordinate collaborations on certain projects (www.saic.gov.cn). In most cases, foreign invested enterprises must by law be registered with both SAIC and a local AIC, and in theory this applies equally to domestic foreign enterprises, although the registration procedures and scrutinising efforts required often differ materially.

General Administration of Customs (GACC), State Administration of Taxation (SAT), State Administration of Foreign Exchange (SAFE)

These three offices are the highest level of state administration managing customs, tax and foreign exchange affairs in China. In terms of the supervision of national monetary issues the three administrations have different functions: GACC exercise customs control and revenue collection; SAT is responsible for tax collection; and SAFE is in charge of monitoring and supervising the foreign flow and exchange of the RMB, as well as providing guidance and strategy suggestions for the People's Bank of China on foreign exchange policies. Regarding inbound FDI in the Chinese markets, the foreign enterprises have to carry out registrations at the beginning of their business establishment at all levels (state, provincial and even city) with these administrative offices, by law. These administrative requirements may happen simultaneously, although because of a frequent lack of clarification on administrative procedures at every administrative level, the registration process tend to operated sequentially and not necessarily in the most logical order, which can be time-consuming for newly-established foreign enterprises, and may compromise their financial efficiency.

Others

People's Bank of China (PBC), China Securities Regulatory Commission (CSRC), China Insurance Regulatory Commission (CIRC)

The PBC functions as China's central bank and is responsible for overall monetary policy-making and maintaining order in China's financial market. In the past 30 years of dealing with inward foreign direct investment, the PBC has formulated and advanced a policy to control and manage capital utilisation by foreign enterprises. The newly promulgated operational rules of RMB account settlement for foreign investment,[34] introduced in 2012, was an important clarification by the PBC of the procedures regulating capital flows across mainland Chin's borders. The CSRC and CIRC are two typical monetary agencies that are directly authorised by the State Council to be in charge of the security market and the insurance industry respectively. Foreign invested enterprises that are involved in such industries – as with two of my case study firms - have to abide by the rules and regulations stipulated by the CSRC or the CIRC, on top of the administrative procedures specified above. The formal, state-level institutional environment in China is therefore quite complex, but the position of the State Council at the apex of this formal institutional pyramid illustrates the extent to which the central government asserts political control over the operations of each and every one of these formal financial institutions.

Beyond listing the main macro-level formal institutions that have relevance and importance for South African firms entering the Chinese markets, we need also to gain a feel for how they function and whether, on balance, they help to facilitate or complicate market entry. Whilst the array and layers of formal institutions in China is impressive verging on intimidating, their principal function – at least in relation to inward foreign direct investment, which is a typical channel for foreign firms entering the Chinese markets – is strategic more than it is facilitatory. The Chinese government uses four Catalogues for Guidance on Foreign Investment Projects (CGFIP) to

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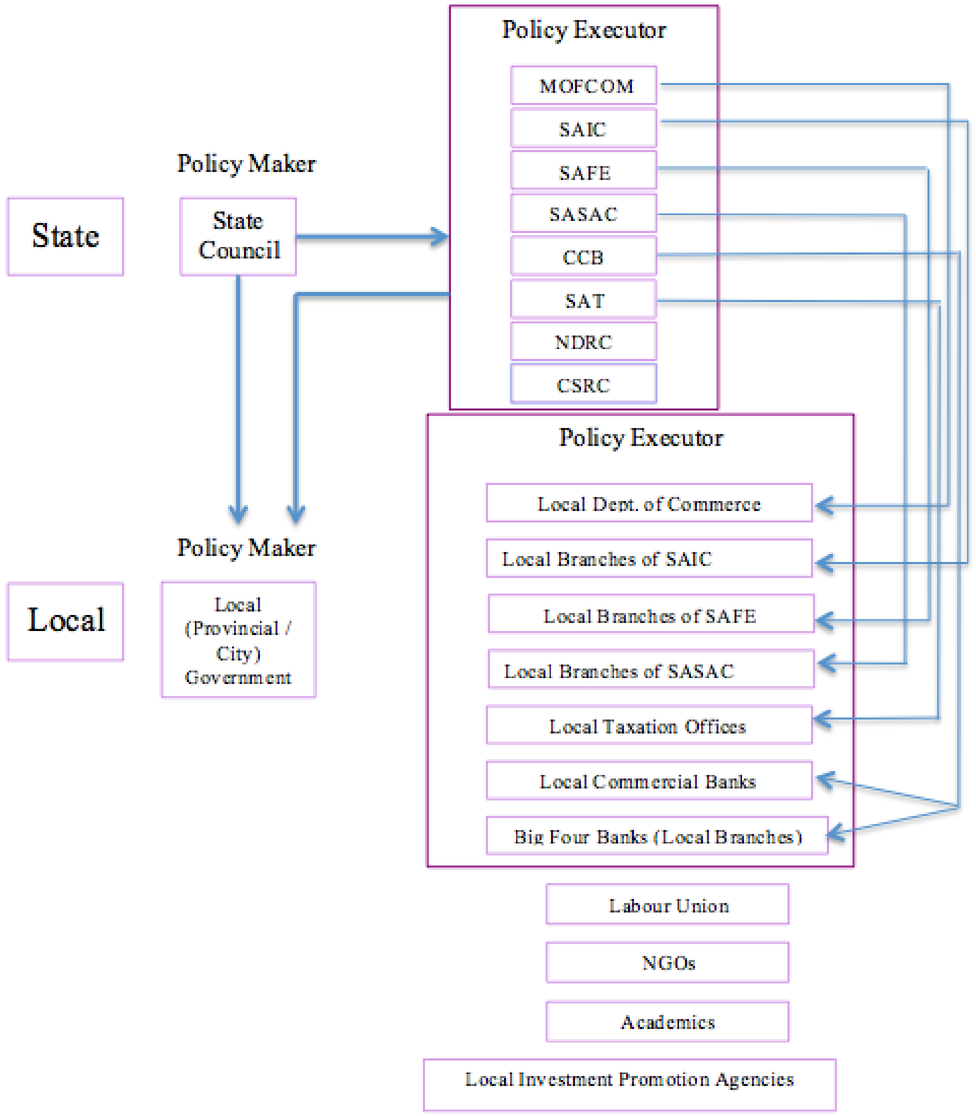
34 http://www.lexology.com/library/detail.aspx?g=8af07740-dde3-4770-9eeb-599b10055f18 (accessed 10 June 2013).

determine where inward investment should be encouraged and discouraged, and this influences the priorities set by the highly influential State Council which are then mirrored in other formal institutions (Davies, 2012, 5). The ‘prohibited’ catalogue (category) specifies those economic sectors and spatial locations where foreign investment is not allowed (OECD, 2008). The ‘restricted’ catalogue allows investment but under a quite strict and often time-consuming regime of scrutiny, approvals and evaluations (ibid.). Included in this category are several economic sectors which China was obliged to open up following its accession to the WTO in 2001, but which it has managed to retain some control over through its CGFIP system (Davies, 2012, 5). Reflecting, therefore, the political orchestration of formal economic institutions, there is also mounting pressure from domestic firms to place more restrictions on foreign invested firms in order to ease the competition that they currently experience in the home and international markets from foreign firms that have become established in China. In contrast, the ‘permitted’ and ‘encouraged’ categories promise (but don’t always deliver) increasingly higher levels of support and facilitation by Chinese formal institutions as the country seeks to steer investment away from the overheating coastal provinces into the interior, and towards key economic sectors where China still lags in terms of international competitiveness, including high technology and greener production processes (ibid.).

Meso Level Institutions

Meso-level institutions which, naturally, stand between those at the macro and micro levels function to coordinate and lubricate the relationship between state-level and local-level institutions, and, at least in theory, to mitigate disconnections or conflicts between the two (see below). In the context of inward foreign investment, meso level institutions provide a platform and mechanism for foreign enterprises to facilitate, enlarge and bridge their existing (and, as the case studies show, often quite limited) institutional networks at the local level, whilst also channelling feedback on business practices and needs to higher levels institutions in order to help refine and advance business and economic policy.

Figure 4.3 Chart Showing Structure of Chinese Institutions



Micro level institutions

Apart from the State Council, NDRC and PBC, the rest of the state administrations and agencies all have affiliates at the local level, i.e. at provincial and city level. Although the local affiliates abide by the guidance given by the state administrations, the local authorities are allowed and obliged to introduce their own sub-regulations and rules according to the need of the local development context. This accordingly has led to deeply embedded and often quite complicated (layers of) institutional mechanisms for foreign invested enterprises to follow in the Chinese markets. The following chart (Figure 4.3) is a simplified indication of the connections and supervisory relationships between the state and local level administrations within the Chinese investment institutional environments governing investment.

Whilst the chart suggests a structured and seamless functional integration of institutions at all levels, the reality in China is often quite different, a fact that has quite significant implications for foreign-invested firms that venture beyond the main centres of economic activity and outside the realm of formal state-level institutions. An interesting article by Krug and Hendrischke (2008) and a journalistic piece by Wu (2006) provide some useful insight in this regard. A by-product of the reform process has been a relative weakening of central government control over local-level decision-making and action-taking. Gone are the days of 'strongman politics' (e.g. Mao Zedong taking the country in one direction, Deng Xiaoping steering it towards its present situation) under the centralised command economy (Wu, 2006),[35] which in the post-reform era has been replaced by a decentralised politics in which local officials defy diktats from Beijing with increasing levels of confidence. Wu gives the example of how one of the formal institutions introduced above, the NDRC, has since 2004 sought to close down large numbers of iron and steel works and coal mines at the local level because of fears of overproduction, pollution and worker safety, only to have its orders ignored by local governments who do not wish to lose important revenue streams and who fear local political ramifications:

> "[s]ince economic activities take place at localities, they are directly linked to local interests. Local officials are eager to boost the local economy to show their performance in hope for promotion. They do not need and do not want to view

35 Wu Zhong, 2006, 'How Regionalism is Holding Back China', *Asia Times*, 25 July 2006 (http://www.atimes.com/atimes/China_Business/HG25Cb01.html, accessed 15 July 2014).

> things from the point of view of national interests. Thus it is natural that they would try to defend local interests when such interests are in conflict with national ones" (Wu, 2006, n.p.).

What this means from an institutional perspective is that the seemingly neat arrangement of layers of regulatory competence – a uniform institutional architecture (Krug and Hendrischke, 2008, 82) - masks a much more complex, contradictory and dysfunctional reality which, in turn, suggests a far-from-integrated market and anything but a single business system (ibid.). As we will see later in this chapter, the interface of business, politics and administration at the local level opens up huge scope for the functioning of informal institutional practices which, we argue, and as the 3D institutional model suggests, are in many instances more important and influential than the formal institutional environment that is being described here.

The first introduction of the 3D institutional model in Chapter 2 elaborated the functionality of informal institutions affecting foreign enterprises' business strategies. As we have seen above, the complicated institutional environment within which foreign invested enterprises are embedded in China is sometimes quite cumbersome and confusing – each administrative body and layer has regulatory responsibility on paper, but the permutations and manifestations of power for executing these responsibilities are complex and far from uniform. In such circumstances, it is perhaps unavoidable that these firms encounter and experience hindrances and impediments when they enter, operate and seek to consolidate their position within the Chinese markets due to the ambiguity of the institutional landscape that confronts them and their own lack of local knowledge as to how to negotiate this landscape. In order to compensate for their shortcomings in this regard, many foreign enterprises engage local actors and agents to help them steer a path through this institutional minefield, and it is here that informal channels often open up to these foreign firms as the most effective means to overcome obstacles and both accelerate and smooth their business development path.

4.3.2.2 Informal Institutions in China

I will finish this section by looking at informal institutional practices in China which, almost inevitably, centre on the phenomenon of *guanxi*. I commence this discussion with a highly personalised series of observations which not only help to introduce the important of networks and connections in Chinese business practice (and also navigating the formal institutional landscape), but also add to the discussion of positionality in research which I touched on in Chapter 3. The discussion also helps to translate the 'situation on the ground' into one that is relevant to the context of foreign firms gaining entry to the Chinese market for the first time.

Boxed Case Study 4.2:

Personal Friends and Business Contacts: A Blurred Distinction

Three years into my PhD studies in Chinese business, fuelled by a combination of classic business theories and past empirical Chinese business experience, I was encouraged and motivated to take the role to establish a business for a UK company entering the Chinese market. I had heard many stories, through interviews with many South African business development managers, about their personal experience of developing new business horizons for their own South African HQs in China. The painful lessons those South African managers had learned as well as their insightful knowledge accumulated in the Chinese markets had helped prepare me to confront all the possible challenges that China presented. However, I was also caught in a dilemma: on the one hand I believed, by default, that I must be familiar with the Chinese business environment where '*guanxi'* – a centrally important informal institutional component in China – is the predominant mechanism that drives business transactions. On the other hand, after living and being educated and trained in the UK for many years, I had gradually programmed myself to tune into the business environment where formal institutions are the major apparatus for regulating the rules of the business game. However, the China call suddenly woke up all my 'intuitive *guanxi* genes' that naturally led me to function in conventional Chinese business ways, but set against the principles that my western background had required me to adopt.

Ever since being in China, it is not an exaggeration to say that almost every individual person I have met and spoken to I have employed an internal analytical model to group these people according to very realistic *'guanxi'* criteria. For instance, before I landed in China, I gathered a list of contact people who included my old university friends, old colleagues/business friends, previous business partners, current immediate clients, or even new contacts introduced by the existing contacts, etc. This list was my initial stock of capital that I could deploy when I first made contact with the Chinese market. After I met all these people in the first round, I could then without too much difficulty cautiously categorise these people into different groups within my social network to nurture and maintain these relationships by applying different 'sub-rules' which allowed me to continue with a healthy distance from these contacts. For example, relationships with immediate clients would require me to make extra efforts to shorten the personal distance created by the formal contractual relationship, which would help to ease the tension of formality with the clients, and at the same time create opportunities for me to understand exactly the clients' requirements so as to enhance the business efficiency by means of more flexible and casual arrangements. For instance, my company had agreed a huge project with a client, but during the course of the project's progress we were continually asked to take on extra work for the client, which increased our own costs and was very time-consuming. After initial discussion, the client agreed to pay a small extra fee to support the additional work that my company was doing for them, but we needed to submit a separate proposal to the client who could then apply for funds from their own company for this purpose. The head of the client company as well as his left-hand staff had become friendly and very close to me and our company director, therefore before we submitted the proposal, the head of the client company had asked his left-hand person to talk to me privately and gave us guidance on preparing an appropriate and convincing business proposal for the funding application. But just a few months before this, because of a lack of personal social connections with the client company, we had encountered many hassles on even small issues, sometimes even sending long formal emails to make arguments on the spread-sheet format. The social maturation of the relationship between myself and my clients, which actually started with a box of chocolates brought from England, had helped considerably to ease and informalise our working interactions, and now I would call my main contact with this company a friend.

How about dealing with the old friends? First of all, within the context of the Chinese business environment, 'friend' needs a specific definition. 'Friends' as we normally use and refer to them in the West are the ones we have sentimental and emotional connections with, and which are not designed or nurtured for use as tools for attaining personal benefits. However, 'friends' in China, or most commonly in the Chinese business setting, often refers to the most useful contacts who can directly steer towards or bridge networks through informal channels to accelerate the process of building new relationships for formal business use. Friends, their friends and family, or even new 'friends' (new contacts) can be all included within this definition.

The 'friends' contacts and their connections' are most likely used in informal ways, and people using each other to break through and connect to new networks and to make use of the new contacts is not seen as morally unacceptable but is actually quite ordinary practice. However, there are rules that such game players must understand and obey in order not to be eliminated by 'half-time'. A couple of stories help to explain this.

Friend L was my old business contact from many years ago in Beijing, and during that time I had helped her with introductions to my other contacts and offered assistance to help her set up her initial business foundation in Beijing. At a relatively young age, I was not particularly cautious about building networks and I was not expecting that this contact would return anything to me, simply I had a good impression about this new contact and appreciated her personality, and the help I offered was not beyond my capacity so I was happy to make a new friend through our initial business relationship. Years later, I came to Shanghai which is the city that friend L comes from (she is from a fairly wealthy family), where she has accumulated a solid social foundation, good business contacts and common knowledge whilst I was largely fresh to this city, so it was natural that I went to her for help. In many senses I was asking for a return of the favours from years ago in Beijing. But there are boundaries between us that I must respect. Over the years even though we did not have close business contact, we maintained our relationship as friends and meanwhile we both became more powerful in our respective business positions. This has made both of us become more cautious about using each other's contacts, because neither of us can offer help to each other purely in our own name, but also defined by the business background, positions and responsibilities that we now carry. Friend L has kindly introduced her friends and business contacts to me, but at the same time she had to make sure that these contacts could equally find potential business interests from myself and my business. The reason for this is because if her friends/contacts could offer help but could not get something at least equally back from me, then she would become a debtee through bridging such a business connection for me and thus she would have to return the favour to her friend/contacts on my behalf.

On the other hand I knew I could be valuable to Friend L, indeed perhaps in the longer term I would be more useful for her, so I must also be cautious that I would not stretch my capacity too far to meet her needs. In order to maintain the balance of social assets (social capital) between her and me, I have to leverage the 'offer and counter-offer' by applying reciprocal rules. She bought me a lovely birthday gift, but the gift gestures a couple of meanings: a) although I am busy, I remembered your birthday so I consider you highly as my friend; b) I bought a quite reasonable gift for you, and this is the standard that you must follow and apply for my birthday; c) whether you like it or not, I have shown that this is my current capacity and I can afford it. Equally, I am making a statement about your own capability: I would not purchase a gift that I know you would struggle to reciprocate, which could cause you embarrassment and loss of face. When these rules have been delivered through a simple birthday gift, I must naturally receive it and pay it back.

The reciprocal rules can also apply to a third party. For instance, Friend L always tips me about nice places for food, drinks and clothes shopping, but that also indicates to me that I should take her sometimes to these places and on my account. And very commonly we can have extra people join us who are likely to be Friend L's friends/contacts who could be helpful contacts to me too, who I must also include on my account. By doing things this way, first of all Friend L must calculate the possible interest relationship between me and her friends/contacts, and the current position I hold, as the China representative of a British firm, would make them feel comfortable to acquire useful information for their future use if they could offer me immediate help.

The art of using friends as an entry point for new networks is like playing with a double-bladed sword. On the one hand friends have good knowledge about each other's personalities and most importantly their functionalities within the networks, so it is not difficult for friends to introduce new contacts to you to suit your needs. On the other hand it is dangerous to over-consume the friendship until you reach the point that you would not be able to use it any more. There seems to be a hyper-calculating formula in this friend/contact relationship, but in the Chinese business context such a situation is hardly seen as unusual or unethical, indeed it is quite typically the norm.

The point of this personalised introduction is to raise a number of important themes and issues as we turn to look at the informal business environment, which this study suggests to be an important, integral and sometimes underplayed component of doing business, not least in China. Whilst the above is quite naturally person-specific, and could be attributed just as easily to my own individual personality and circumstances as to a generic set of principles and practices at play in China today, we can nonetheless draw several important points from the introduction above:

- Informal connections and procedures are valuable – some would say essential - in lubricating the wheels of business, especially in the case of business entry, but certainly with business consolidation too.
- Informal connections may be drawn from many walks of life, and created under diverse circumstances, but friends, family, classmates and business contacts appear to be the main bedrock of most people's *guanxi* networks.
- There can be a very fine line – if indeed there is a line at all in the Chinese business context – separating friendships and other social structures from some kind of utilitarian function, and thus the social world and the workplace may not easily be distinguished.
- Time does not appear to play a major role in the strengthening or weakening of informal networks, which may lay dormant but latent for several years; of greater importance is how the relationships which underlie these networks are nurtured, used and maintained.
- Informal networks may be highly personal, but they are also institutions in their own right, with a complex set of norms of behaviour regulating how they function for business and other purposes.
- A person or organisation which has only limited extant networks – e.g. a foreign business actor coming to China for the first time – must either find some way to function outside this network-oriented world, or must somehow construct their own networks or plug into those already established by others.

These and other themes will provide the basis for the following exploration of informal institutions in the business context in China. The discussion that follows will focus in particular on *guanxi* as it is the most central and most commonly discussed informal institution in China,[36] and will touch on the following questions: what is *guanxi*? Where does it come from? How does it work? How important is it? How is it institutionalised? And, how can foreign firms create and use *guanxi* if they do not already possess it?

What is guanxi*?*

Lucian Pye (1992, 101) has described *guanxi* as 'friendship with implications of continued exchange of favors', which is quite close to how I have described it in the boxed case study above. It is thus a social relationship which carries reciprocal obligations once the relationship has been deployed in a way that bestows favours or advantages to one or more parties (Tsang, 1998, 65). The word *guanxi* literally means 'relationship' or 'connection' in Chinese, which implies both that it is built upon people's personal connections which are structured as social networks, but also that there is a social dynamic or 'relationship' component which holds these networks together. Because of its instrumental value, *guanxi* can be likened to social capital (Putnam, 1993a; 1993b; 1995), being simultaneously a 'social glue' which binds networks together and a 'business lubricant' which eases transactions within them.

While to some (e.g. Gold, Guthrie and Wank, 2002) *guanxi* may be little more than the Chinese word for the personal networks and gift economies which can be found throughout the world, to others (e.g. Hwang et al., 2008) *guanxi* in China [and throughout the Chinese diaspora] has deep cultural and historical underpinnings which can be traced back to the time of Confucius (550-487 BC) (Carlisle and Flynn, 2005, 84). Deeply embedded in Confucian philosophy is the execution of an individual's responsibilities as determined by five fundamental sets of dyadic relationships (*wu lun*) which are hierarchically arranged: ruler-subject, father-son,

[36] Because of the centrality of *guanxi* to any academic discussion of informal institutions in China, the original intention for this section was to start on a slightly different tack, exploring Chinese informal institutions *per se*, before finally settling on an examination of *guanxi*. However, it soon became clear that *guanxi* penetrates so deeply and universally into the informal social system in China – and also the literature which describes it - that it is more or less impossible to deny its centrality and importance to this background discussion. Research by Yeung and Tung (1996) sought to identify empirically the crucial factors in undertaking business in China, and of the 11 key factors that they identified for their analysis, *guanxi* was always placed at the top by all their business respondents.

brother-brother, husband-wife, and friend-friend (Hwang et al., 2008, 236). The fulfilment of an individual's responsibilities within this structured system ensures the smooth functioning of society. Over time the social and political environments in China have shifted and evolved, and with them the nature and identity of *guanxi*. It may originally have been centred on the clan-like structure of Chinese society, but clans have gradually been replace by other social entities, and more recently the market economy has risen to prominence as an important social focus in China, into which *guanxi*-like practices have been drawn and defined.

It is quite common to see *guanxi* in China described as a universal and homogeneous entity, but I think this is unhelpful (a point that has some significance when shortly we turn to consider how foreign firms negotiate China's socio-cultural landscape). First, it is important to emphasise that China itself is a remarkably diverse nation, made up of a myriad of ethnic groups, a heterogeneous landscape, a fragmented and far from untroubled history, and quite extreme differences in the level of economic development and transformation, thus even to consider that there may be uniform cultural practices across this diverse human landscape must be problematic. Second, *guanxi* is better seen as a generic 'umbrella' under which a heterogeneous variety of social, cultural, political and economic practices takes place (Zhang and Zhang, 2006, 379): 'a conglomerate of very diverse practices which may be structured in sub-groups' (Dunfee and Warren, 2001, 197), such as, in business, gift-giving, entertaining, inviting people on trips, using intermediaries to establish contacts, in addition to its more traditional familial functions (ibid.).

Another set of historical and structural factors is also argued to lie behind the imperatives – or the 'why' - of the *guanxi* system. According to Tsang (1998), the hierarchical nature of Chinese society across time has typically determined that resources, and decision-making over the allocation of resources, have not been fairly and evenly distributed, but have remained in the hands of powerful individuals and, more latterly, state institutions. *Guanxi* has been used by people to gain access to these resources, to influence allocations decisions, and to gain information which may give them an advantage (or reduce their disadvantage) in this regard (ibid., 65). Meanwhile, while the influential members of society could use their power over allocation decisions to enhance their own social standing, the socio-cultural 'rules of the game' (to which we will return shortly) set limits between the use and the abuse of power in this regard. As such, parallels can be drawn between *guanxi* and patron-clientship as social systems: neither is a one-way street.[37] Across time, it has been the shortcomings of formal institutional arrangements in distributing resources and opportunities fairly, evenly and efficiency which has created functional and instrumental space for informal social practices to achieve the same ends, although, as we shall see shortly, *guanxi* networks can be exclusionary as well as inclusionary, serving the interests of those within but sometimes to the detriment of those outwith.

Where Does guanxi *Come From?*

The crucial building-blocks of *guanxi* are people and their social relationships. But interactions between people have many facets, and relationships may take many forms. Thus it is important to signal different types of *guanxi* according to the actors who are involved in the associated networks. We can, for instance, identify what is called 'artefactual *guanxi*' (Dunfee and Warren, 2001, 196), which may consist of pre-existing *guanxi* relationships into which one is born ('ascribed' or 'inherited' *guanxi*: ibid., 192), and in a sense about which one has no choice or agency, which would be typical of that which exists within nuclear and extended families, and clans. Other *guanxi* is 'acquired' or 'achieved' through social interaction and social investment (Tsang, 1998, 65; Dunfee and Warren, 2001, 192). Friendships, for instance, are established through the course of life, usually through choice but often also through circumstances. In China, some of the most influential friends in *guanxi* networks are former school and particularly university classmates, and also workmates. This explains why parents often invest so much financial and emotional energy in getting their children into the best educational establishments, through which they are more likely to meet the next generation of influential citizens. But simply meeting someone at university or being an alumnus of the same university as someone who is later encountered in the business setting is not, in itself, a sufficient ingredient of *guanxi*. According to Tsang (1998, 66), a very important additional factor is *ganqing* or 'affection'. In other words, a relationship must have a degree of closeness and

[37] Paradoxically, it is sometimes the case that an influential or high-ranking individual (patron) will be generous or supportive to others (clients) without expectation of a reciprocal return of some kind. In such circumstances it is the pursuit of social prestige or acceptance, or an overt display of social position, rather than material benefit that motivates the act of giving (Zhang and Zhang, 2006, 382).

emotional commitment to be able to function as *guanxi*, and to allow the parties to make reciprocal demands upon one another. Thus *ganqing* might be seen as the social lubricant of *guanxi* networks, goodwill underwritten by sincerity, which takes time to be nurtured. It also helps to explain why not all Chinese can deploy *guanxi* to the same extent in all instances: personality is an important ingredient of *ganqing*, and personalities either 'gel' (*yijian rugu*) or they do not (ibid., 66). Having said this, coming from the 'right' family or business background perhaps helps some relationships to gel more readily than others.

But there are other essential ingredients to *guanxi* that also serve to underwrite the social networks and the functions they play. Trust, integrity and reputational credibility are simultaneously indispensable components and vital products of *guanxi*, (Fan, 2007, 502-503), particularly in formal institutional, political, legal and social settings which – perhaps because of corruption or rent-seeking, bureaucratic inefficiency, or social exclusion – fail to engender confidence, trust and accessibility from everyday citizens (Lovett, Simmons and Kali, 1999; Dunfee and Warren, 2001, 197). Informal and interpersonal social mechanisms substitute for formal institutional failures. Trust may be primordial within the family setting (Tsang, 1998, 65), but needs to be built and maintained in other social situations. Typically, in China and the Chinese diaspora, trust must be built up before a business relationship can be cemented (Hwang et al., 2008, 236), and thus there is often considerable investment in socialising – meals, drinks, entertainment, trips – before the topic of business is formally addressed (Peng, Wang & Jiang, 2008). Social interaction will also continue throughout the business relationship, not just occur at its outset. Gifts will periodically be exchanged as part of this process – a form of etiquette (Carlisle and Flynn, 2005, 83): as I write this we are approaching the mid-Autumn festival, and I am regularly being given mooncakes from my various Chinese clients. Time is an important factor in *guanxi* relationships, allowing *ganqing* to mature: the Chinese have a saying that 'an old friend is better than just a friend' (Tsang, 1998, 68). Once the parties feel that they have a foundation of trust, confidence and credibility – where simply one's word rather than a written contract can become the basis of a business transaction - the business partnership itself becomes part of the process of building and maintaining trust. Partners will be reluctant to default on loans, or fail to deliver materials on time, or create other problems and impediments as these will erode the trust and confidence that is felt between the two parties.[38] At the same time, this trust-based business relationship will help to reduce transaction costs and uncertainty, thereby yielding mutually beneficial advantages to both parties in the business relationship.

Guanxi may also be transferable (Tsang, 1998, 65), hence the notion of 'bridging social capital' (Larsen et al., 2004) whereby a third party may plug into an existing network, although usually only if this is carefully mediated by one party or another, and follows clear protocols, as the boxed case study has already suggested. This aspect is also relevant to the case of foreign firms doing business in China, and thus will be returned to later in this section.

How Important is guanxi*?*

The instrumental value of *guanxi* is perhaps best gauged not so much in absolute terms but relative to the context within which it functions. Thus, if the rule of law is clear, trusted, efficient and fair, the use of *guanxi* to underwrite business agreements (or contracts) may appear to be superfluous, or perhaps even counterproductive. If government exists to serve the interests of the business community, as opposed to the interests of the state, as is often the case in China, with strong and efficient formal institutions designed to assist every stage of the business process, then the use of *guanxi* networks to seek out information and to clear bureaucratic hurdles would again appear to be redundant or even pointless. The importance of context to the character and utility of *guanxi* is one reason why the nature and importance of *guanxi* is not the same in mainland China as in many overseas Chinese communities, Singapore for instance, where formal institutions function well and the continued reliance on *guanxi* in China is frowned upon: former Singapore Prime Minister Lee Kwan Yew is reported to have said that the Chinese use *guanxi* 'to make up for the lack of the rule of law and transparency in rules and regulations' (Dunfee and Warren, 2001, 197).

But in China, where there are still substantial acknowledged weaknesses in the formal institutional environment, as we have discussed earlier in this chapter, *guanxi*

38 Such an outcome risks either or both parties in the business relationship losing 'face' (*diu mianzi*) or social prestige – their public image, which also fundamentally underpins their reputation – and thus 'face' too is an important component of *guanxi* (Tsang, 1998, 66; Zhang and Zhang, 2006, 382).

continues, and will continue, to play a vital role. In the business context, *guanxi* is typically important in the pursuit of new customers and the maintenance of a company's customer base; in smoothing business operations and ensuring the timely delivery of resources and materials; in obtaining investment capital; and charting a path through government bureaucracy (Dunfee and Warren, 2001, 193) and the sometimes seemingly arbitrary decisions or interventions of government (Carlisle and Flynn, 2005, 84). *Guanxi* is particularly important for business firms which do not already have a direct link to government officials, given the number of bureaucratic procedures and hurdles that a business will typically encounter during its establishment and routine functioning – approvals, licencing, inspections, taxation, compliance with regulations, etc. (Arias, 1998; Peng, Wang & Jiang, 2008; Tsang, 1998, 67; Davies et al., 1995).[39] With decentralisation in China, nurturing relationships with top officials and government departments may be of less significance today than in the past – except perhaps for some of the largest multinational corporations – but this has been replaced by an imperative to cultivate *guanxi* with local government actors (Yang, 2011, 167).

It is important to emphasise that *guanxi* has both negative as well as positive connotations. A respondent to a survey by Tung and Worm (1997, 11) indicated that the best form of *guanxi* 'is where I've got something on you' – in other words, the *guanxi* relationship was asymmetrical (as with a patron and client situation), where one party for some reason or other was obligated to the other, who could then use this fact to their strategic advantage, or, in a more sinister sense, in a situation which was not far removed from blackmail. There has also been considerable debate (e.g. Dunfee and Warren, 2001; Su and Littlefield, 2001; Hwang et al., 2008) about the ethics of *guanxi*. Given the fact that it is typically deployed in a secretive, tacit and verbal manner to find a route around bureaucratic procedures or through regulatory minefields, to secure competitive advantages in the business field, and to fast-track personal interests ahead of those of others, added to the prominence of gift-giving and other forms of 'lubrication' as a key *modus operandi*, it is understandable why it is

[39] In a study in the 1990s, admittedly before the more recent round of formal institutional reforms that were discussed earlier in this chapter, Tan and Litschert (1994) found that of the eight key environmental factors that affected business performance in China, the state regulatory system was identified as being the most important and influential, and also the most complex and the most unpredictable.

often difficult to draw a clear distinction between *guanxi* and corruption. However, the link between *guanxi* and corruption might possibly be spurious: ‘it is the deficiency in China’s institutional framework that not only leads to the negative effect of Guanxi practice but also introduces bribery and corruption into it’ (Zhang and Zhang, 2006, 378).

How is guanxi *Institutionalised?*

We have seen earlier in this thesis that institutions are defined as the rules by which people play, in this instance on the transnational business playing field. But one thing that distinguishes formal institutions from informal institutions is the clear organizational structure and clearly defined rules and regulations of the former, and the seemingly chaotic, almost anarchic character of the latter. This section suggests this to be an inaccurate characterization. The weakness of this caricature lies in the tendency to see the formal and the informal as diametric opposites: the latter lacks everything that the former possesses. In reality, as the above discussion has already intimated, both sets of institutions have their own rules, norms, values and boundaries (and both have their rule-breakers, unethical actors, norms-ignorers and boundary-transgressors). The following section will attempt to pull out from the earlier discussion those elements that serve to ‘institutionalise’ informal business practices.

One reason for commencing this section with a highly personalized account of the writer’s experience of *guanxi* in China was to emphasise how circumstances, combinations, needs, temporality and, most certainly, personality create seemingly unique permutations in the character and functionality of *guanxi*. But at the same time, everyone who is building and using *guanxi* in China knows what it is, knows how it works, knows where the limits are set, and is aware of the risks associated with ignoring its tacit rules. We have seen that trust is an essential ingredient of *guanxi*. I would add, from a personal viewpoint, that entering into a *guanxi* relationship arms one with the trust (or confidence) that the system will ensure that the other party will act according to the established rules and norms of *guanxi*. It is quite possible to have only limited faith in the other party – the sense that they will try to take advantage of you if given the opportunity: this is a competitive world after all – but to feel confident that they will behave in an even-handed and reciprocal manner because of the unwritten rules of *guanxi*. This is a slightly different twist on the conventional association between *guanxi* and trust, but I believe it is valid particularly in the era of the market economy in China because of the competitive environment it has engendered, and the acquisitive culture it has spawned. As such, we could argue that it is the institutional elements of *guanxi* that help to hold society together, defining the values and limits of individual action, rather than *guanxi* simply existing as a means of helping people to chart a path through a dysfunctional society against an anarchic failure of formal institutions. I think there is an important distinction between these two perspectives.

Could it be, perhaps, that the complex interfacing of the social and business worlds – their virtual inseparability in the Chinese context – in fact signals that business is a convenient point of entry into the social world, rather than *vice versa,* and that having an enjoyable time is just as much a motivation as using social networks to advance one's business interests? I think one of the institutions that may mitigate against this perspective – although I am sure it pertains in many circumstances – is the sense of obligation (*renqing*) that accompanies *guanxi* relationships. The institutionalized rules, set against the Chinese cultural context, dictate that there are many things that parties have to do, even if ideally they would not want to do them. Returning to the present temporal context: the mid-Autumn festival. At least three times each year (New Year, Spring Festival, Mid-Autumn Festival) employers, clients, business partners and senior family members are expected to demonstrate generosity through bestowing gifts (e.g. mooncakes during the Mid-Autumn Festival) on other people in their social and business networks. The larger the organization the more complex and time-consuming a task this is. For some of the larger companies, the entire Human Resources department will spend weeks, perhaps even months, ensuring that the right gifts are sent to the right clients. Failure to remember and acknowledge a client or partner in this way will risk causing offence, which in turn will risk jeopardizing the business relationship. Against the backdrop of the market economy, with more and more wealth available and visible, gift-giving as the currency of *guanxi* has almost become out of control, with partners either seeking to outdo each other with ever more lavish gifts, or fearing that a lesser level of extravagance will send the wrong signals to the other party. The tacit rules of *guanxi*, which form part of its institutionalization, risk running out of control when wrapped up in an evolving Chinese consumerist culture.

This brings us to a wider question of how the institution of *guanxi*, the primordial informal institution in China, has changed with the country's evolving economic, social and political context. If we accept the deep historical and cultural roots of *guanxi*, and the purpose it served in the past, how and why is it still valid today, not least since the market reforms of 1979? As we saw at the beginning of this chapter, China has made steady progress in the reform of its formal institutions, not least since its accession to the World Trade Organisation in 2001 and its associated acceptance of the need to operate according to international business standards (Guthrie, 1998). The private sector has steadily increased in size relative to the public sector, including many state-owned enterprises that have switched to private ownership. Business operation according to the logic of the market, with price competition and efficiency the main drivers of enhanced productivity, would logically leave less room for non-commercial actions and actors in the business environment. As business moves forward, Guthrie (ibid.) claims that social obligations start to become a liability rather than an asset. Spatial mobility interferes with *guanxi* networks, and requires the establishment of new relationships in new locations, which takes time. And yet the institution of *guanxi* shows little sign of weakening as a consequence: it is still argued to be the primordial institutional practice in modern China.[40] This is in part because formal institutional reform is only partial and incomplete: Nikkel (1995, 515) argues that *guanxi* continues to provide the main means of dispute arbitration, mediation and resolution because legal reforms have not yet delivered the certainty, fairness and efficiency that both Chinese and foreign business managers require. Lovett et al. (1999) go so far as to suggest that reliance on *guanxi* is in fact increasing as the country's economic transition has greatly outpaced and outstripped the capacity of formal institutions to perform efficiently and effectively. Business people still have more trust is *guanxi* than in formal legal contracts (Dunfee and Warren, 2001, 193).

The preceding discussion has attempted to map out the informal institutional landscape in China, inevitably paying particular attention to the institution of *guanxi*. It has shown that *guanxi* is so deeply-embedded in Chinese society and culture that, in effect, people are born into the *guanxi* system and from an early stage in life learn its rules, craft, necessity and value. Given its importance to the establishment of a client

[40] However, Carlisle and Flynn (2005, 83) remind us that businesses can not operate on the basis of *guanxi* alone: more orthodox business practices are also essential, and thus *guanxi* should better be seen as part of the institutional mix facing business firms.

and customer base, the navigation of bureaucratic and administrative channels, and the day-to-day running of a business, how can foreign firms manage in the Chinese market if and when they come ‘cold’ to the Chinese institutional environment? This is a question that is best addressed by means of empirical case studies, and as such will provide one of the core research questions that will be addressed in the following chapter. But first I will raise a few pertinent questions in this regard.

The first question is whether different sets of rules might apply to Chinese and foreign-owned firms. Despite the apparently universal character and cultural-embeddedness of *guanxi*, perhaps there are niches where business practice is truly internationalized and operates according to acknowledged international standards and practices? It is here that foreign firms find an initial foothold in the Chinese marketplace? It is better to accept one’s identity as a foreign firm than pretend too hard to be Chinese (Tsang, 1998, 70). Or perhaps allowances are made by Chinese counterparts for the fact that newcomers can hardly be expected to have initiated and matured *guanxi* networks at the point of entry into the market? There is a concept called ‘*shen-ren guanxi*’ which is the *guanxi* formed in the relationship between strangers (Su and Littlefield, 2001).

Perhaps too much emphasis is given the *guanxi* as a uniquely Chinese socio-cultural phenomenon, with insufficient allowance being made for the possibility that social networking and socializing for the purpose of enhancing business prospects are global universals which just have different names, natures and niches. Thus, on entering the Chinese market, business actors simply need to adjust and fine-tune their normal informal business practices.

Perhaps insufficient recognition is given to the possibility that foreign business actors from some regions of the world – developing countries in particular – are already deeply familiar with the need to navigate and negotiate the impediments and inefficiencies of the formal institutional environment by means of informal institutional practices. This is a question we will address in the following chapter by looking at case studies of South African business actors operating in China.

Finally, perhaps the mode of entry into the Chinese market is the most important determinant of a company’s awareness of and ability to handle the informal institutional channels along which much business activity operates. Joint ventures and joint capital arrangements, for instance, involve both foreign and Chinese counterparts, and one thing that the latter can contribute to the partnership is an existing array of *guanxi* networks plus a cultural understanding of the best ways to operate a business in the Chinese setting. Foreign firms may deploy or employ ethnic Chinese members of their own staff in order to deal with the cultural challenges of doing business in China, or may employ local Chinese staff for the same purpose. Or, quite typically, they may operate via agents who offer their own *guanxi* as an asset to help a foreign firm enter the market or find appropriate local partners for their business ventures. Once a foothold has become established, firms can then start to invest in building their own *guanxi* in order to consolidate their position in the Chinese market. They can even use *guanxi* to build their corporate reputation by using personal networks to promote the company or the firm's products (e.g. through TV features and publicity) (Yang, 2011, 165). This will give them a competitive edge over other foreign firms. Indeed, it is not uncommon for foreign firms to enter China – in the form of a Representative Office - many months or years before they inaugurate their business in that country, simply to allow them to build *guanxi* and cultural familiarity (Tsang, 1998, 70).

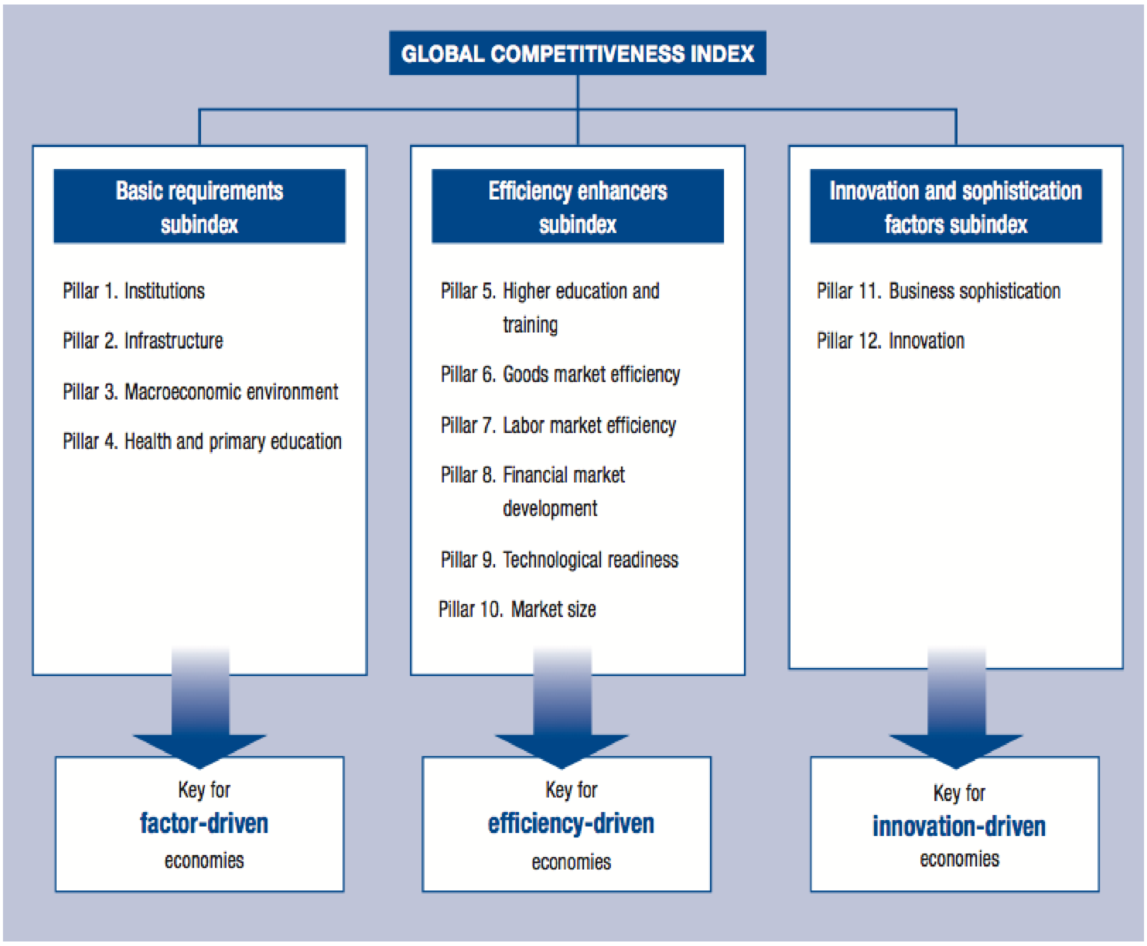
4.3.3 The Changing State of Formal Institutions – South Africa and China in Comparative Perspective

The following discussion will look at the changing state of institutions in China and South Africa, and will explore how these countries compare in terms of institutional maturity and associated aspects of competitiveness in the global market place. The latter is important as background to our understanding of the institutional foundations that South African business actors can depend on as they seek to enter the Chinese market. For this purpose, this section will interrogate country profile data obtained from the *Global Competitiveness Report* (GCR), published by the World Economic Forum (WEF) in order to paint a comparative institutional backdrop against which to view some of the in-depth empirical findings that will be presented in later chapters.

4.3.3.1 Brief Introduction to the Global Competitiveness Report (GCR) and Index (GCI)

The Global Competitiveness Report (GCR) is an annual report that has been published by the World Economic Forum (WEF) since 1979. The latest report (2012–2013) includes data for 144 economies and provides comprehensive country rankings for more than 110 variables specified according to the Global Competitiveness Index (GCI). The GCI was introduced in 2004 as a single integrative measuring index taking into consideration both macroeconomic and microeconomic factors as fundamental indicators of nations' competitiveness (Porter et al., 2007, 3). Before 2004 the macroeconomic country rankings were based on Jeffrey Sachs's Growth Development Index and Michael Porter's Business Competitiveness Index (1990) (which is based on his concept of Stages of Development) as the basis for ranking countries' microeconomic positions. The macroeconomic and microeconomic factors that are included in the Index are divided into three groups covering 12 pillars of competitiveness. The groups and their associated pillars are as identified in Table 4.4. Clearly, there are multiple factors in different permutations that influence a country's economic competitiveness and productivity. *Institutions* are identified within the Index as 'Basic Requirements' – in other words, they are one of four essential underpinnings to the economic health of a nation, especially for countries at a relatively early stage of development, which are 'factor driven'. Countries at more mature stages of development rely on other factors (pillars 5 to 10) to enhance their economic efficiency, whilst at the other end of the spectrum innovation and sophistication help to maintain a country's competitive position at the cutting edge of economic progress. Countries at different stages of development may expect to rely on different pillars to maintain and enhance their economic position. The pillars are not intended to be read as 'silos' in that they are all correlated with one another, although certain pillars are more important and influential for some countries than others (and there are clearly also non-economic factors at play here too, as we shall see later in this chapter). Considerable emphasis is given in the Index to microeconomic factors, which are clearly seen as influential to a country's economic competitiveness. The Index confirms the importance of institutions for the competitiveness of developing and emerging economies such as South Africa and China. Accordingly, the following discussion will look a little more closely these countries' institutional dynamics in comparison with key global competitors. According to the WEF's definition, it is "the set of institutions, policies, and factors that determine the level of productivity of a country" (Porter et al., 2007, 3). Stable macroeconomic policies, well structured and functioning institutional mechanisms, low inflation and unemployment rates, sound foreign capital investment inflows and trade relations, and so on are clearly essential for a country to generate high levels of productivity, but they are not the only determinants. For many countries, such as in the emerging economies, microeconomic factors cast a more significant and continuous influence on economic competiveness and prosperity, and such factors are centred at the level of individual markets, companies or even specific groups of people. Different countries will opt to change different elements (pillars) in different ways for different reasons, leading to different outcomes in relationships to the market (Porter et al., 2007, 52).

Table 4.4: Core Groups and Pillars of the Global Competitiveness Index



Source: Global Competitiveness Index

Before we investigate South Africa and China's institutional profile relative to the country's key competitors, we should briefly introduce the Index and the associated methodology. GCI has established a dynamic quantitative tool to help policy-makers benchmark and measure the competitiveness of a given country's economy. To collect such a large volume of consistent and reliable data to serve robust quantitative analysis requires triangular methods involving surveys for primary data and the sourcing of secondary data. The World Economic Forum's annual Executive Opinion Survey is the major source contributor of qualitative data for this Index that would otherwise be very hard for the business and academic communities to obtain. The survey is conducted via a questionnaire, with 12 topical sections, which is sent and responded to by more than 11,000 top business executives with geographic dispersion in more than 130 countries.[41,42] The surveyed executives are selected according to both their domestic and international business experience in order to capture their in-depth perceptions of doing business in difference business environments. For each of the survey topics the respondents are required to allocate a value score on a scale from one to seven, with seven as the best score. It is worthwhile noting, therefore, that although the GCI is treated in the industry as an authoritative source of data on global competitiveness, much of the information that is included in the Index is based on individuals' perceptions, and thus is somewhat subjective. Nonetheless, how businesspeople perceive the external economy is in many instances just as important as their factual and objective knowledge of the business environment, and thus these data, and the Index, have some value and validity as a tool for institutional analysis. My own empirical material, presented in Chapter 5, adopts a loosely similar approach to that used by the GCI, in that my interviews with key South African business actors who have operated in the Chinese market have yielded qualitative data which are based essentially on these business actors' first-hand experience of and perceptions about operating in China.

[41] Depending on the numbers of countries each year in which the report is conducted.

[42] WEF also collaborates with local Partner Institutes from each of the surveyed countries, in order to ensure the data contained in the survey are of a consistently high quality. These Partner Institutes consist of reputable economics departments of national universities and independent research institutes or commercial organisations, providing local support to the WEF network. Besides the survey data (soft data), secondary data (hard data) are collected by WEF from various publicly available sources, providing timely and consistent background data for each surveyed economy.

In terms of the data that I have used for this preliminary cross-country investigation into institutional settings and institutional change, which compares South Africa and China, I have opted to restrict the analysis to the period 2007 to 2012, in part because this time period is relevant to that over which my South African case study firms have been operating in China, and as we have seen elsewhere in Chapter 4 broadly coincides with the period of rapid growth in South African FDI to China. I accept nonetheless that this compresses the time period over which it is possible to assess institutional change, but the GCI data have only been suitable for this purpose over this period. The geographical coverage of the GCI improved after 2007, and the WEF also introduced a new approach for computing the country scores – what it calls a 'moving average approach' – which takes a weighted average of the most recent years' survey results calculated together with the previous years (Porter et al., 2007, 92). This technique represents the country's economic and other performance over a longer period of time and offers a wider range of information. The new computing technique gave the 2007 survey data more weight than those for 2006, and thus there would have been too much inconsistency in the baseline data to have allowed me to use the figures before 2007 for my country comparisons. In addition, a new model was launched in 2006 for measuring the microeconomic indicators that provide a crucial reflection of practical business environments. Last but not least, most companies presented in the case studies entered or became established in the Chinese markets around or after 2007, which makes it sensible to use this year as the starting point to assess institutional change over a time period that is relevant to my study.

Figure 4.4 depicts the formal institutional dynamics of China and South Africa (together with their three BRICS competitors Brazil, India and Russia) in the form of a 'radar chart', allowing their relative position in 2012/13 compared with their starting position in 2007/08 to be readily compared. The threshold between improvement and deterioration in the chart is point 0.0: negative figures signify a relative improvement; positive figures a relative deterioration. The chart shows that the readings for China are all more or less clustered in the 'improved' segment of the chart, signifying a steady improvement in the provision and functioning of formal institutions, albeit from a relatively low starting point. Brazil has also performed reasonably well over this period, with most indicators showing a relative improvement in the country's global position. In comparison, South Africa, Russia and India, in descending order, have tended not to perform particularly well, with an average 50-100% deterioration in their global position over the reference period. South Africa lies between these two competitor countries, with a steady performance in some areas but also with less impressive spikes for ‘diversion of public funds’, ‘public trust of politicians’, ‘favouritism in government decisions’ and ‘wastefulness of government spending’. We will now look at China and South Africa in a little more detail against a backdrop of their comparative transitions.

4.3.3.2 China and South Africa: Institutional Change in Comparative Perspective

The aim of this section is to use the GCI as a point of entry into a basic profiling of institutions and economic competitiveness in South Africa and China, with greater emphasis being given to the latter because this provides the main focal point of the thesis. Nonetheless, as we have seen in the previous chapter, the institutional experience of the foreign-investing firms from South Africa that have ventured into the Chinese market is argued also to be relevant to the present discussion. As such, the analysis and interpretation presented here is intended as a bridge between the background sections on South Africa and China in the present chapter.

I think the first observation to make is that, in relation specifically to the institutional data (1.01-1.22), looking at South Africa and China, we could not say that there is a consistent profile across the board. China has progressed very well over the reference period, albeit from a much weaker starting point: the country’s crude average global position for the 18 formal institutional variables that are included in Table 4.5 in 2007 was 80th, but it had improved to 58th by 2012.[43] In contrast, South Africa’s crude global position dropped from 46th to 56th during the same period, although it remained ahead of China despite the trajectory of the two countries’ formal institutional change. China has improved quite dramatically in certain institutional functions: rising (-)46 places in the global hierarchy for ‘protection of minority shareholders’ interests’, ‘ethical behaviour of firms’ (-43), ‘favouritism in government decision making’ (-37)

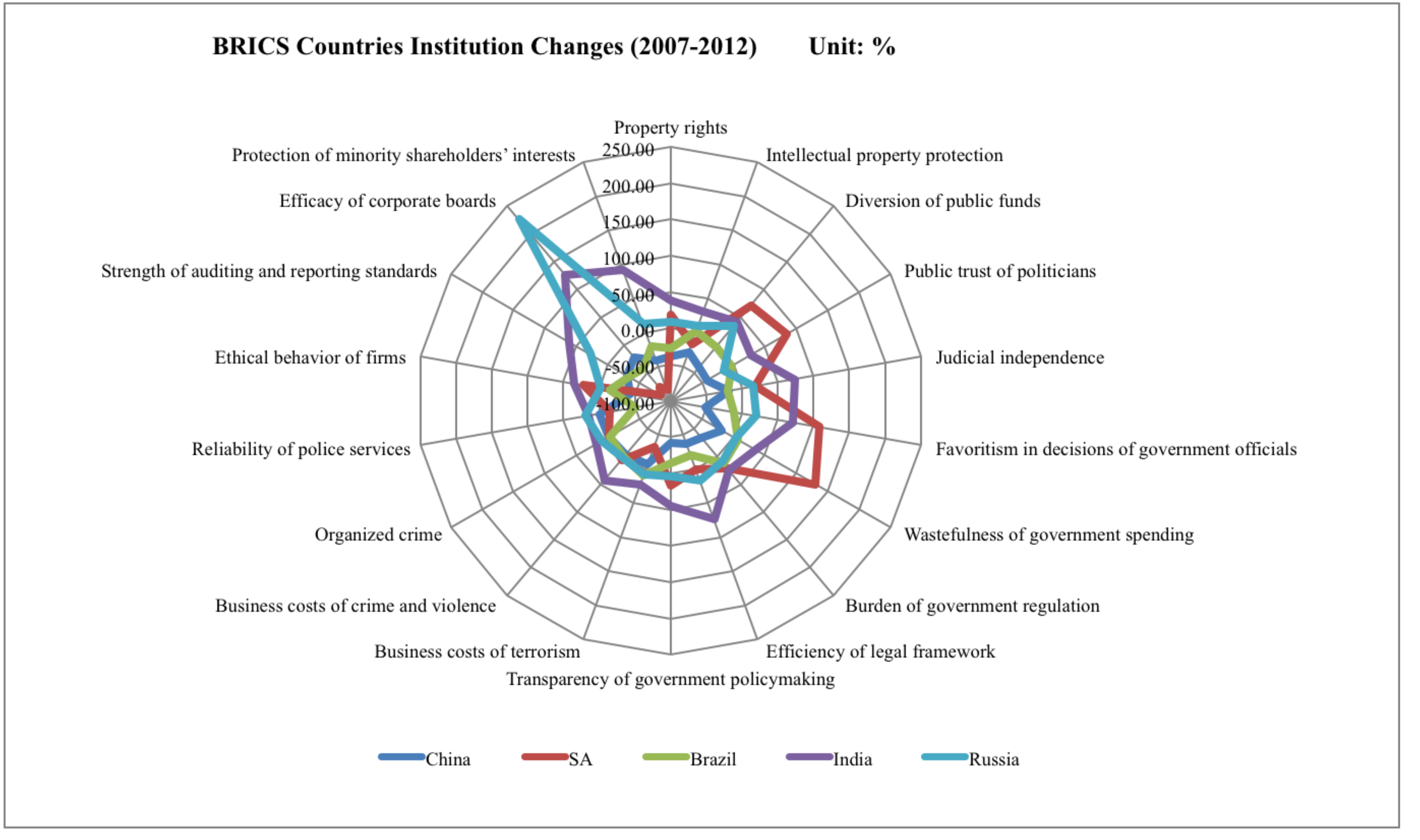
43 It is worthwhile noting that China’s international position was in fact better in 2010 (50.6) than in 2012 (58.4), partly explained by growing uncertainty following terrorist and internal strife, and a growth in organised crime.

Table 4.5: Profiles of Institutions and Institutional Change, 2007-2012: China and South Africa

	China	China	China	China	South Africa	South Africa	South Africa	South Africa
	2007	2012	Difference 2012-2007	Difference as a % of 2007	2007	2012	Difference 2012-2007	Difference as a % of 2007
Property rights	76	47	-29	-38.16	22	26	4	18.18
Intellectual property protection	71	51	-20	-28.17	24	20	-4	-16.67
Diversion of public funds	83	51	-32	-38.55	49	84	35	71.43
Public trust of politicians	45	26	-19	-42.22	48	88	40	83.33
Judicial independence	82	66	-16	-19.51	23	27	4	17.39
Favouritism in decisions of government officials	71	34	-37	-52.11	53	110	57	107.55
Wastefulness of government spending	48	39	-9	-18.75	27	62	35	129.63
Burden of government regulation	35	23	-12	-34.29	101	123	22	21.78
Efficiency of legal framework	71	44	-27	-38.03	17	17	0	0.00
Transparency of government policymaking	88	51	-37	-42.05	30	35	5	16.67
Business costs of terrorism	109	102	-7	-6.42	43	29	-14	-32.56
Business costs of crime and violence	73	70	-3	-4.11	126	134	8	6.35
Organized crime	99	98	-1	-1.01	112	111	-1	-0.89
Reliability of police services	59	59	0	0.00	104	90	-14	-13.46
Ethical behaviour of firms	101	58	-43	-42.57	39	48	9	23.08
Strength of auditing and reporting standards	102	72	-30	-29.41	6	1	-5	-83.33
Efficacy of corporate boards	115	91	-24	-20.87	4	1	-3	-75.00
Protection of minority shareholders' interests	114	68	-46	-40.35	13	2	-11	-84.62

Source: Global Competitive Index (various years)

Figure 4.4: Institutional Changes in the BRICS Countries, 2007-2012



places in the global hierarchy for ‘protection of minority shareholders’ interests’, ‘ethical behaviour of firms’ (-43), ‘favouritism in government decision making’ (-37) and ‘transparency in government policy making’ (-37), with no slippage in any of the variables. Meanwhile, South African institutions have generally deteriorated by [generally improving] global standards: ‘favouritism in decisions of government officials’ worsened the most (+57 positions), followed by ‘public trust of politicians’ (+40), ‘diversion of public funds’ (+35) and ‘wastefulness of government spending’ (+35), while the ‘reliability of police services’ improved (-14 positions), as did ‘business costs of terrorism’ (-14) and ‘protection of minority shareholders’ interests’ (-11). But it is important to note that some of the formal institutions in South Africa are exemplary by international standards, and have continued to improve (South Africa topped the global chart for ‘strength of auditing and reporting standards’ and ‘efficacy of corporate boards’ in 2012).

In general we could say that South Africa, in part for the reasons that were discussed earlier in this chapter, has a more mature institutional environment than China, although the latter is quickly catching up as the former slips by international comparison (China’s crude average percentage improvement from 2007-2012 was +20%, whereas South Africa deteriorated by 27% over the same period). In the following discussion, because of constraints of space, we will look a little more closely at just a couple of the formal institutions that are featured in Table 4.5 which have relevance to the later empirical discussion in Chapter 5.

<u>Intellectual Property Protection</u>

Starting in 2007, we can see that South Africa had a better reputation for the protection of intellectual property rights (IPR) (ranked 22nd internationally compared with 76th for China). By 2012 both countries had improved their international position, but the gap between the two countries had narrowed. We will look briefly at why this was the case.

China has long been an international pariah with respect to intellectual property rights protection. Stevenson-Yang and DeWoskin’s 2005 article ‘China Destroys the IP Paradigm’ in the *Far Eastern Economic Review* provides detailed evidence of the kinds of state-tolerated or even state-sponsored IP copying and acquisition that accompanied the country's entry into the global market after 1979. Cast in a non-lucrative role of utilising cheap labour to produce cheap goods at the lower end of the global value chain, the Chinese government embarked on a conscious strategy to attract FDI and entice MNCs to its shores through joint ventures which would also provide a conduit to access technological and other forms of knowledge which were needed to engage more up-market economic segments. The article (2005, 11) mentions the government's conscious strategy of channelling technology from these joint ventures to domestic competitor firms via supervising departments, technology valuation committees and government research institutes. A history of strong central control of the economy and key assets, married to poorly-defined private property rights under a command economy, has also hardly been conducive to respect for IPR that matches international standards, to the extent that ninety per cent of software in China is pirated, and seventy-five per cent of counterfeit goods intercepted in the USA originate in Greater China (ibid.).

If we had GCI figures for the period before 2007 we would expect China's international position to have been even lower than that referred to above,[44] this in spite of China being a signatory to several international treaties and protocols (and thus formal institutional arrangements) concerning IPR protection since 1980,[45] and the Chinese Supreme Court establishing an intellectual property division in 1992 (Zhang, 1997). But clearly there has been an improvement since 2007. Intellectual property became the focus of a large government initiative in 2008 with the launch of the National Intellectual Property Strategy and followed by a National Patent Development Strategy in 2010 (Suttmeier and Yao, 2011, 3). This was not so much because of the need to comply with international IPR protection standards but in order to lend stability and support to the country's domestic knowledge economy and

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[44] Looking at property rights (another of the GCI indicators), China ranked 24th in Asia, alongside Bangladesh, according to the 2013 Index of Economic Freedom produced by the Heritage Foundation. South Africa ranked joint fourth in the African continent (www.globalpropertyguide.com/Asia/China/property-rights-index and www.globalpropertyguide.com/Africa/South-Africa/property-rights-index, accessed 13 October 2013)

[45] China became a member of the World Intellectual Property Organization (WIPO) in 1980, and also signed the Paris Convention for the Protection of Industrial Property in 1985 (http://www.wipo.int/treaties/en/notifications/paris/treaty_paris_114.html) and the Berne Convention for the Protection of Literary and Artistic Works in 1992 (http://www.wipo.int/treaties/en/notifications/berne/treaty_berne_140.html) (accessed 13 October 2013).

stimulate indigenous innovation (ibid., 2), as part of the country's fifteen year Medium- to Long-Term Plan for Scientific and Technological Development which was launched in 2006 (ibid., 3). Nonetheless, China's accession to the World Trade Organisation in 2001 was a very important factor behind the shift in focus towards a more proactive IPR regime:

> "Despite the numerous international treaties and agreements on intellectual property rights that exist and to which China acceded in the early days of the Open Door Policy period, it was the need to become a member of the WTO and with that the expectation of compliance with the prescriptive requirements found in the WTO Agreement on Trade Related Aspects of Intellectual Property Rights ('the TRIPS Agreement') that provided the greatest influence on the shaping of China's intellectual property regime today." (Stoianoff, 2012, 65).

China is now expected to comply with international standards for IP protection, whilst at the same time the country might expect to gain access to more foreign technology if foreign investing firms can be convinced that more effective legal, institutional and implementation measures will be put in place to protect their intellectual products and property. It is these recent changes that principally lie behind the shift in perception that has been picked up by the respondents to the GCI survey.

In stark contrast, South Africa has had in place a strong institutional framework for the protection of intellectual property since the introduction of the Patents, Designs, Trade Mark and Copyright Act of 1916 (Kaplan, 2009, 1), which was reinforced in 1978 by the Patents Act 57 (Pechacek, 2012, 200), and intellectual property protection is now overseen by an Intellectual Property Commission. As with many of the legal and institutional instruments that were introduced in South Africa around this time, it was modelled on the British regulatory system. As such, the South African framework was already close to the exemplary international norm by the time that South Africa joined the WTO as a founder member in 1995 (having previously been a founder member of the General Agreement on Tariffs and Trade, GATT) (ibid., 2), by which time the country had already moved into the post-Apartheid era. Fundamentally, despite significant political shifts in the country as a whole since 1994, little has changed with regard to the IP protection regime. While former ANC activists became inserted into the government bureaucracy, their initial attention was focused on macro-economic policy, with less effort and competency available to deal with specific sub-issues such as IP protection (Klug, 2009, 4). So, to a large extent the scenario was 'business as usual' in this regard: the argument being that, as a founding member of both GATT and the WTO, South Africa already featured international best practice in IP protection. As a WTO member, the post-Apartheid regime was nonetheless expected to implement the provisions of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs), introduced at the end of 1994, with immediate effect (i.e. by the end of 1995) because South Africa wished to retain its developed country status within the WTO, whereas developing countries were allowed until 2005: the ANC had been pushing for a change to developing nation status (Klug, 2009, 3).

Paradoxically, one very interesting aspect of TRIPs which takes us away from the issue of compliance with international standards, and which has particular relevance to South Africa's AIDS crisis, concerns the way that the Agreement has been used to protect the interests of vulnerable members of society, which is an institutional aspect which is not often picked up in IB studies. Developing countries have quite successfully used the provisions of TRIPs to assert their rights of ownership over aspects of traditional knowledge and indigenous genetic materials,[46] on the one hand, and on the other hand claims for fairness of access to, for instance, patented drugs which are vital for public health but, partly through IP protection, are prohibitively expensive for people living in poverty. Indeed, activists and NGOs from South Africa were at the forefront of moves to oppose the pharmaceutical industry's [in this case the Pharmaceutical Manufacturers' Association of South Africa] challenge to legislation – in the form of the ANC-inspired Medicines Act – that would have allowed access to generic anti-retroviral drugs by poor people living with HIV/AIDS (Pechacek, 2012, 205). This action led to the DOHA Declaration on the TRIPs Agreement and Public Health in 2001, with South Africa leading the way towards institutional change in this regard. Whether this aspect of IP protection has been taken into account in the GCI indicator for South Africa it is difficult to tell, but Table 4.5 shows that this institutional indicator has nonetheless continued to improve during the post-Apartheid era.

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[46] This has successfully been achieved in southern Africa through the granting of an Access and Benefit Sharing Agreement, where the San people have claimed moral ownership of the succulent *Hoodia gordonii*, an appetite suppressant, which the San people have used for generations: Matthews, 2011, 92.

Wastefulness in Government Spending

Government, as the principal formal domestic institution, makes fiscal and budgetary decisions on behalf of the people, but the allocation and utilisation of funds is not always fair, transparent and efficient. Wastefulness may be taken as an indicator of institutional inefficiency, as might the irregular or unauthorised use of public funds, which may also have regulatory or political undertones. Both, in turn, may affect a country's development efficiency and both global competitiveness and attractiveness to inward investment. The GCI wastefulness indicator for South Africa suggests an alarming deterioration in the efficiency and discipline of government spending, having dropped from 53 to 110 over a period of just five years. It is difficult to identify, both from statistical sources and the literature, a precise downward trend in this regard, but anecdotally there appears to have been some considerable slippage under the present (post-Apartheid) political regime. My main sources in this regard are some journalistic articles (which often evidence a certain amount of political bias) and reports by the Auditor-General of South Africa, which I will turn to shortly. In trying to obtain some form of time-series comparison, I looked at the Auditor-General's report for 1994 in search of the level of unauthorised, irregular, fruitless and wasteful (UIFW) spending in the year of transition from one regime to another.[47] Whilst the report does not necessarily reveal the full extent of inefficiency in this regard (reporting standards and principles of transparency have doubtlessly improved over the last couple of decades), the total reported unauthorised expenditure in 1994 was 26.9 million Rand, which was mostly attributed to accumulated unauthorised spending by the National Defence Force amounting to 24.8 million Rand. The present-day comparisons are mind-boggling.

According to the Auditor-General's *Consolidated Analysis of the Audit Outcomes of National and Provincial Government 2011-12* (published in 2013), UIFW expenditure totalled 24.8 billion Rand – 4 billion Rand worse than the previous year, despite the fact that 29 fewer departments and entities were audited in 2011-12 (Nicholson, 2013). Only 22 per cent of national and provincial public sector entities received a clean bill of health, whilst two-thirds of all entities evidenced UIF or W

[47] Government of South Africa, Office of the Auditor-General, 1995, *Auditor-General Report for 1994/95* (http://www.info.gov.za/otherdocs/1995/auditgen.htm, accessed 13 October 2013).

infringements and 74% were found not to have adhered to compliance laws and regulations (Auditor-General South Africa, 2013, 35; 33). Whilst the bulk of transgressions were in the fields of unauthorised or irregular expenditure, some 1,793 million Rand in fruitless and wasteful expenditure was detected by 44% of auditees, an increase of 13% in the number of deficient auditees compared with the previous year (and a 410% rise since 2009-10), and a rise of 16% in the amount of wasteful expenditure (ibid., 35; 98). The Auditor-General, Terence Nombembe, pointed to a systematic culture of 'weak internal controls, poor political leadership […] a disregard for procurement rules [and] unlawful practices in supply chain management with 85 per cent of provincial departments not meeting [government] guidelines' (Reynolds, 2013). The Auditor-General suggested that the misuse of public funds has 'become the norm' and added that this presumably continues 'because of the lack of consequences. If people continue to think they have done it before and nothing has happened to them, I guess the temptation is to continue to do it because nothing is done about it anyway.' (City Press, 17 March 2013).

In very sharp contrast, China has been moving in quite the opposite direction, albeit with a less dramatic shift over the five-year reference period, from 48 to 39. It is difficult from the data available, and the general lack of transparency that characterises China, to suggest how high the figure before 2007 might have been, but there is a general sense that wasteful expenditure is something that has accompanied the dramatic increase in administrative and other forms of expenditure that has occurred over the last two decades or so. Fan et al. (2010) provide some interesting insight into the nature and some of the causes of this problem. Administrative expenditure in China has increased 45-fold between 1986 and 2008, far out-stripping growth of GDP (29-fold), revenue (29-fold) and government expenditure as a whole (28-fold) (ibid., 686). One of the important factors which the authors claim is influential in allowing wastefulness in administrative expenditure is the prevalence of extrabudgetary and off-budgetary revenue (which put together can equal or exceed revenue from more conventional and transparent budgetary sources) as a source of this expenditure. One of the most significant such sources is the transfer of access rights to state-owned land (ibid., 691). The regulatory control of, and accountability for, expenditure from extrabudgetary and off-budgetary sources are generally quite weak. As income from these sources has risen dramatically, so administrative expenditure has soared, and much of this has been wasteful and inefficient. One frequently-cited example of this was the construction of a government building modelled on, but eight times the size of, the White House in Washington, by one of the poorest counties of Anhui province, at a cost to the public purse of US$45 million in 2007 (Demick, 2013). In addition,

> "Influenced by traditional cultural norms of face-saving and of dining-and-drinking, as well as bureaucratic hierarchy and political structure … officials … spend large amounts of money on cars, dining, buildings, meetings, and major construction, among other items" (Fan et al., 2013, 693).

The situation has begun to change, however, with a number of high-profile extravagences being picked up by the media and internet, apparently with government forbearance as it seeks to rein in wasteful expenditure and ward off growing public resentment over the way public monies are being spent. In 2011 all 98 government agencies were ordered to release for government scrutiny their budgets for official banquets, overseas travel and the cost of government vehicles, or what is known as '*san song*' spending (Phillips, 2011). It was found that the Poverty Alleviation office had an average *san song* spend per employee of US$1,680 (ibid.). The new President, Xi Jinping, has made cutting wastefulness one of his policy priorities, along with tackling corruption, misconduct, formalism, bureaucracy and hedonism (Demick, 2013). One of the first aspects to be tackled was the construction of lavish public buildings, which 'has been a source of outrage, especially in the provinces where officials have tried to immortalize themselves with absurdly disproportionate edifices' (ibid.). Some government officials have been surprised not only by the level of public resentment of their extravagance, but also the government's willingness to see them hung out to dry in public in order to lend credence to its claims to be tacking the problem (Huston, 2013). More recent initiatives include publishing strict regulations concerning spending on conferences and meetings for public officials, requiring higher levels of transparency and public accountability, clear and meaningful budgets for such gatherings, limiting lavishness and opulence, and the public posting of details concerning costs, participants and topics (Zhou, 2013).

These two brief illustrations highlight not only the importance of formal institutions to the economic health and competitiveness of transition countries such as South Africa and China, but also, to some extent, challenge the suggestion that institutional change is path dependent, which was one of the research questions I posed earlier in this thesis. The global economic and political context within which these two countries are placed is changing quite quickly, and this is leading to evolution in institutional standards and practices. But at the same time there have also been quite sweeping shifts in the domestic political economy of these two countries, which, as we have seen, have not always contributed to institutional practices moving in what might be considered to be the ‘right’ direction.

4.4 South Africa and China’s Comparative Transitions: A Business Systems Perspective

4.4.1 Introduction

The last section of this chapter will look at the structural context within which business systems operate in South Africa and China, and the ways in which this has changed during the course of the countries’ respective periods of transition. This is in order to complete the background to the case studies that follow in Chapter 5. Firms investing and doing business in China do not do so in a vacuum, but are to a greater or lesser extent influenced or controlled by the prevailing business context. Similarly, and also to a greater or lesser extent, where firms from one country seek to do business in another, their experience of the business system in their home country may have some influence on their ability (or otherwise) to do business in the host country. Thus the following discussion will outline some of the key characteristics of the business system in the two countries, before tying them together in the final section of this chapter. The key question that we are seeking to engage here and in Chapter 5 is: what is the significance of the South African and Chinese business systems to the experience of South African managers in the Chinese market place and in their relations with companies?

4.4.2 South Africa

The review of the South African political economy presented in Section 4.2, and continued in the context of the post-Apartheid era in Section 4.3, leads us to the following conclusion in relation to the South African business system: whilst South African 'capitalism', on the surface, holds many characteristics of orthodox 'Anglo-Saxon' capitalism, due in no small measure to its colonial heritage, the predominant role of business parastatals in the key economic sectors together with the heavy intervention of the state in the business sector and the persistently high (and ethnically defined) unemployment rate suggest a distinctively South African context for capitalist production, classified by Schneider (2008: 15) as a 'hierarchical' variant of capitalism. Under such a system, the co-ordination or orchestration of various actors is essential for smooth business-state relations. The principal characteristics of the business system in post-Apartheid South Africa can be summarised as follows:

1. The concentrated nature of large business conglomerates still presents itself as the predominant feature of the post-Apartheid South Africa business landscape. Up until 1994 the top five business groups (most in the mining sector) accounted for more than eighty per cent of capitalisation on the Johannesburg Stock Exchange (JSE). Although most large conglomerates have reduced their share of the JSE during the post-Apartheid period, the main cause of this was the partial intervention of the state in support of its BEE policies, and in part it was also incentivised by the desire to attract more foreign investors to the country by unbundling non-core assets and encouraging key businesses to list on overseas stock exchanges (Jordan, 2012). During the Apartheid era, the state structured the business environment through large South African corporates (parastatals) which subsequently formed their own internal structure, each within their own sector or region, and also their own external networks. In the post-Apartheid period, this inherited structure inevitably created co-ordination and coherence challenges for the state because firms still tended to solve their problems within their own vertical intra- and inter-firm relations rather than through the market or through state institutions (Nattrass and Seekings, 2010).

2. Newly-emerged black business elites have emerged, or been created, under the state's BEE policy, which was initially introduced to South African by the ANC political party, as detailed in the previous section. Massive deals under the aegis of the BEE not only aggressively increased the black stake in the JSE, but also created a small number of black business elites who have become extremely wealthy and

influential. Many of these are well-connected with state departments or state officials (Freund, 2007). The downside of BEE policy in this regard is that it has not eased tensions between the white business group and the majority black population, whilst at the same time it has aggravated disparities and thus tensions within the black community. Nonetheless, there is layer of subtleness to BEE deals that might help smoothen the relations between the state and business. Whilst most large business corporates (normally dominated by white ownership) have to transfer a portion of ownership into black hands, in return they can potentially increase their connections with influential ANC cadres who can thus provide a bridge between the government and business, and can also open up more (ANC-controlled) business opportunities.

3. Organised labour (typically represented by NEDLAC, the National Economic Development and Labour Council) has tended to perform as the formal institutional mechanism to mediate or balance state-business relations, but sometimes, paradoxically, it can complicate the state-business dynamic when the triangular structure becomes competitive to each party's interests: "industrial relations in the Apartheid era were characterised by high levels of racial discrimination, conflict, union repression, cheap labour policies and authoritarian management style" (Adcorp, 2011: 2). Post-Apartheid labour legislation has been transforming labour relations since 1994 and has achieved some progressive results, even though labour-based conflict, again principally in the mining sector, is a continuing problem. NEDLAC was the principal formal institutional mechanism established to meet the need for legal guidance on labour-related issues and procedures to settle disputes between the government, labour and employers in order to ensure fairness in the workplace, and to nurture sound, co-operative industrial relations. However, reality does not appear to have matched intention in this regard. To balance and promote harmonious relations within a context of 'tripartism' (the state, business and labour) has caused trouble for the post-Apartheid regime in South Africa, especially with the high level of unemployment and associated persistent social-economic problems within the country. I will explain this in more detail in the following section in connection with the challenges facing the current South African business system.

<u>The following are the principal</u> challenges <u>that the South African business system currently faces:</u>

1. There is a challenge to foster co-ordination of relations between the tripartite parties (state, business and labour). To start first with business: during the Apartheid period, the business sector was highly concentrated, being dominated by the big five corporates, but beneath this dominant 'layer', consisting mainly of small and medium enterprises, there was a high degree of fragmentation (in the sense of a lack of cohesion and coordination between them). "The fragmented nature of South African business has its roots in the dominance of key sectors (notably mining), in the industrial bargaining system which reinforced sectorial divisions by regulating wages on sectorial and regional levels, in the concentrated nature of ownership which incentivised the large conglomerates to deal directly with the government, and in political divisions. The result was a plethora of business organisations split by race, region, sector and size of firm" (Nattrass and Seekings, 2010: 37; Nattrass, 1997; 1998). As this thesis mentioned earlier in the section on the Apartheid era, even within the same business sectors, English and Afrikaans capital could not reach a unified political platform, because the business environments they faced were differentiated by the preferential business policies that Afrikaan leaders implemented. And of course white and black business hardly had any interest in joining forces before the 1990s, except when politically motivated or triggered. Only with the dawn of the reforms in 1994 did the business community for the first time in centuries become seemingly united regardless of race, sector, region or even political standpoint, because the priority then became to 'co-operate' with each other in order to steer the country in a new direction in order to re-engage with the international economy to give business the prospect of future prosperity. And secondly, after 1994 the ANC-led state did not effectively change the nature of white business capital. The fundamental structure of the big corporates kept businesses following their own self-determined approach, thus they did not tend to solve problems outside their own 'comfort zone' where their hierarchical relations had been built up over generations. Even though the politically imposed policies of the ANC led to the redistribution of a portion of business capital, it was neither necessary nor effective to modify the fundamental foundations of business in post-Apartheid South Africa. Ultimately the state relies on the business sector to strive for economic growth, and business needs the state to facilitate a seemingly stable business environment to enable them play effectively on both the domestic and international stages, as long as they learn to be reactive and responsive to the demands of the state. This, again, has reinforced the

overall political context within South Africa, in which the state has committed to a 'dual economy', wherein the state enjoys its own political autonomy and does enough to remain an effective player in the markets while business maintains considerable power over the allocation of capital; somehow the two parties have reached a balance of co-existence, at least superficially at the macro level (Nattrass and Seekings, 2010). Thirdly, organised labour has not been able to function as a smoothing mechanism between the state and business, but instead has increasingly created extra layers of problematic issues which again reflect the lack of co-ordination of the post-Apartheid business system. One of the most acute co-ordination problems in current South Africa is the contradictory policies pursued by the Treasury and the Ministry of Labour, with the former promoting an orthodox neoliberal fiscal policy but the latter focusing on pro-poor growth-with-redistribution. The markedly different orientation of the two policies has split business and organised labour into pursuing different directions and left them with little intention or means to reconcile this contradiction or narrow the gap between them.

2. The fragmented nature of South African business and lack of co-ordination and coherence within and between the current formal South African institutions have left firms with a challenging environment within which to employ their business strategies for growth and development. The heavy state intervention on the one hand has generally hindered businesses, which seek to operate according to their own targets but at the same time have to comply with state policy (e.g. BEE deals), otherwise they may lose the 'right qualifications' to their domestic competitors. Privatisation has progressed steadily in South Africa since 1994 as the country has moved towards democracy, but the newly-built economic structure is still not competitive enough (Competition Commission and Competition Tribunal South Africa, 2009). On the other hand, some of the economic policies introduced by the state have created a layer of protection to the business sector (e.g. foreign exchange rate control, and taxation policies). However, on the other hand, over-protectionism in the post-Apartheid period has become acutely aggressive with anti-Apartheid policies implemented in the business sector to promote and protect a small number of black elites, which has ironically mirrored the racial segmentation that was in force during the Apartheid era. Inequality and unfairness broadly exist in the current South African business

environment, which leaves scope for informal state-business relations to intervene and negotiate in order to ease the constraints and distortions generated by the formal institutions. But this should not be seen as surprising in the current South African business system, because "informal relationships are of crucial importance in (ANC-led South African) state and business relations… Nelson Mandela, both before and after his election as president in 1994, cultivated close relationships with top local business men, and met regularly with leading businessmen…" (Nattrass and Seekings, 2010: 8).

4.4.3 China

The following discussion will adopt the same basic format as the sub-section above, outlining the principal characteristics of the Chinese business system and structure, before touching on some of the key challenges which face the business sector in this country. The framework for this discussion draws in the main from the work of Gordon Redding and Michael Witt (Redding and Witt, 2008; Witt and Redding, 2012).

There are three principal *components* to the business system in China, the dynamics and relative balance of which have changed quite significantly as the country has progressed through the economic transition process. At the forefront in political economy terms is the SOE (state-owned enterprise) sector. Although its size and predominance has been much reduced over the last decade or so, not least as the economic reforms have put some of the more inefficient SOEs to the sword, it still constitutes a significant component of the overall business system in China, and it is the sector which, quite naturally, is most directly under the political influence of the party-state. According to a World Bank report in 2010, of the 208 trillion RMB total assets held by the secondary and tertiary sectors in China in 2008, 63 trillion RMB was held by SOEs (Gao, 2010).[48] This accounts for approximately 30 per cent of total assets, although SOEs account for only 3.1 per cent of the total number of enterprises in China (ibid.), meaning that their average size is far greater (a factor of 13.4 on

[48] Gao Xu, 2010, 'State-Owned Enterprises in China: How Big Are They?', http://blogs.worldbank.org/eastasiapacific/state-owned-enterprises-in-china-how-big-are-they (accessed 27 July 2014).

average) than their private sector counterparts. Their political-economic weight also far exceeds their numerical presence alone. Nonetheless, their economic predominance has shrunk significantly as the SOE reforms referred to earlier in this chapter have started to take effect: as recently as 1999 SOEs accounted for 37 per cent of all enterprises and 68% of total assets (ibid.). Their relative presence in the market has also shifted as the other two segments of the business system have grown with the partial liberalization of the Chinese economy.

The second component of Redding and Witt's (2008) characterization of the business system constitutes China's 'local corporates', which now account for some 20 per cent of the economy (ibid.: 5). These have largely emerged since the SOE reforms of the 1990s, as local entrepreneurs have gained access to the assets of former state-owned and collective enterprises. This might be seen as a somewhat more localized version of the situation in Russia, where entrepreneurs with strong political connections gained access to former state-controlled sectors and assets, in the process becoming the 'oligarchs' who are now highly influential in the country's political economy. In the Chinese context, the beneficiaries of the country's 'reform largesse' were often people and families who were well connected to the local tentacles of the CPC. Their willingness to take over inefficient, loss-making and cumbersome public enterprises, together with the social responsibilities they also carried, was incentivized by the knock-down prices they had to pay, the soft loans they were given access to (ibid., 5), and the political infrastructure which would allow for downsizing, restructuring, lay-offs and other essential elements of reform designed to make the enterprises more efficient and productive. Political decentralization during the 1990s gave local political regimes considerable autonomy in decision-making and action with regard to the dismantling of state enterprises and the reallocation of state assets, and whilst the CPC managed to retain for itself a controlling stake in these emerging local corporates, they have also come to epitomize the system that was referred to in Section 4.2.2 in relation to Naughton's (2008) depiction of the means by which the political system has managed to insinuate itself into the business system in China through mechanisms of political patronage and co-optation.

Thirdly, there is the rapidly growing private sector, which now accounts for some two-thirds of the Chinese economy (Redding and Witt, 2008: 6). The corollary of

SOEs being relatively few in number but generally large is size, is a private sector consisting of very large numbers of mainly small- and medium-sized enterprises. Redding and Witt (ibid.) describe this component of the business system as constituting a return to earlier (i.e. pre-communist) manifestations of small and large family-based enterprises, operating a form of 'network capitalism' which also draws heavily upon capital, technological and intellectual inputs from Greater China (especially Hong Kong and Taiwan). It is these channels which appear to afford the private sector the access to markets, ideas, information, managerial and technological advances and so on which have allowed it to become considerably more nimble than the state-controlled and –influenced business sectors. Despite its rapid recent growth and relative flexibility and adaptability, the private sector in particular faces considerable impediments and challenges which threaten to constrain its continued growth and both domestic and international competitiveness. The discussion will now turn to outline the *challenges* facing the Chinese business system.

One of the biggest challenges facing the business system in China, which is again squarely linked to the country's political economy, is the fundamental lack of institutionalized trust in the wider system within which business functions (Witt and Redding, 2012: 3; 12). The lack of clear, predictable and fairly enforced rules creates a widespread environment of risk and insecurity which stands in the path of investment decisions, workforce training, the sharing of information and in general the creation of an integrated business system (Redding and Witt, 2008; Witt and Redding, 2012). Decision-making within private firms and local corporates is rigidly top-down and autocratic, in large part because business owners do not trust line managers sufficiently to entrust them with delegated responsibilities. Instead, a typical business system model may be one where ownership and responsibility rests with extended family members in family-owned firms, or circulates narrowly within personalistic social structures, cemented fundamentally by *guanxi*, which are used not so much as a progressive means to innovate in the business field but as a conservative defensive mechanism to minimize risk (Redding and Witt, 2008, 11). The prevailing political situation is largely responsible for this state of affairs: 'the exercise of political power is pragmatic in the sense that the contravention of existing formal institutions is tolerated as long as it serves the accepted ends and does not challenge or jeopardise the rule of the CPC' (Witt and Redding, 2012: 14). As we have seen earlier in this chapter, where we have examined the implications of economic reform without political change, the maintenance of the political status quo appears paramount to the CPC, in the process perpetuating risk and uncertainty in the business system. ‘The CPC is effectively above the law’ (ibid.: 3).

This problem is manifest in other ways. Labour turnover is a major concern for many industrial firms, reaching as much as 30 per cent annually (ibid.: 10). Hiring and firing is easy and commonplace, and this does little to engender employee loyalty: workers will readily move from firm to firm, seeking the best deal for themselves. Even more sinister is the widespread practice of poaching workers from other firms in order to take advantage of their previous training, or as a means of gaining access to insight into and knowledge about their competitors’ business situations by inducing their workers to ‘jump ship’ (ibid., 11). A high workforce turnover rate acts as a strong disincentive to invest heavily in workforce training, which is one factor in the continuing low skills-input level which characterizes the majority of industrial firms in China today (Redding and Witt, 2008: 10).

‘Poaching’ of another kind also characterizes the Chinese business system, and is a further consequence of weaknesses in political governance. The lack of respect for and protection of intellectual property is a major problem in China, as we discussed in the previous section. Witt and Redding (2012: 4) even suggest this is a deliberate ploy on behalf of the party-state, rather than an accidental manifestation of bureaucratic inefficiency: ‘arguably, the state facilitates diffusion of technology through relatively lax enforcement of intellectual property rights’. Foreign private firms have flocked to China in order to gain access to the huge and potentially lucrative market, but joint ventures between Chinese and foreign firms have often provided the most accessible conduit to China of technology, ideas, information and management practices. This is a double-edged sword: the trade-off is that it makes foreign businesses very reluctant to expose themselves fully to the Chinese markets, and arguably the tendency to copy also stifles indigenous innovation capacity and capability (Redding and Witt, 2008: 8).

Redding and Witt (2008: 25) are not particularly optimistic about the ability of the business system in China to rise above the challenges mentioned above any time soon. The fundamental contradiction of heavy state intervention (or interference) in an erstwhile ‘free’ market will continue to impede innovation, efficiency, quality enhancement and the adoption of more open and democratic business practices. But it is not just politics which impedes (or, depending on one's standpoint, facilitates in a non-orthodox manner) economic evolution towards maturity: as we have seen and will see extensively in this thesis, social and cultural factors are also paramount to the Chinese business system, leaving immense scope and need to rely on informal business practices and institutions to make China's political economy serve effectively one's business interests. As the case studies that are presented in the following chapter make clear, some foreign firms are better equipped to negotiate this idiosyncratic business landscape than others. But the underlying message seems clear: do business the Chinese way, rather than waiting for the Chinese business system to come to you.

4.4.4 China and South Africa in Comparative Perspective

The foregoing discussion reveals many similarities, and some important differences, in the process and experience of transformation in China and South Africa over the last thirty years. Both counties, to a greater or lesser extent and for quite different reasons, were isolated from the international markets, either because of international sanctions (South Africa during the Apartheid era) or because of Cold War divisions and domestic political chaos (China). Partly as a reaction to this situation, both countries have experienced dramatic institutional transitions, and these have tended to be reflected in their respective business systems. According to Richard Whitley (1992:10) business systems are "particular arrangements of hierarchy-market relations which become institutionalized and relatively successful in particular contexts." These contexts are the (formal and informal) institutional frameworks within which the business systems are embedded (Foss, 1997). The preceding paragraphs have detailed the dramatically changing political economy and institutional environments that South Africa and China have experienced over the last 30 years. A crucial question to emerge from these changes in relation to this thesis is: how have the transitions that have taken place in the respective business systems of South Africa and China impinged on the experience of South African firms as they have entered the Chinese markets, and upon associated management decisions? To address this question, I will first draw out some key conclusions, based on our comparative evaluation of the business systems of South African and China.

First of all, in both countries SOEs constitute major institutional components of their respective business systems. The large South African parastatals (state-owned corporates) were mostly established during the Apartheid era but were envisioned as the major engines to drive economic growth in the post-Apartheid South Africa. Sadly, the post-1994 restructuring of the public sector has not generated the anticipated and much-needed growth of the economy, and paradoxically many SOEs have faced problems due to their lack of efficient leadership skills and experience and failings in financial management, which has led to publicly-expressed concern about these parastatals' future stability (Moodley, 2011). Similarly in China, reform of the SOE sector started in the 1990s and has significantly reduced the number (but not the entirety) of under-performing SOEs, but the remaining SOEs still account for more than 65% of total assets, and many of them have become the local indigenous firms injected with non-public capital. However, the SOEs' efficiency is still constrained due to both shortages and loss (to the private sector) of managerial skills and highly-qualified human resources, a lack of competitiveness of the products they produce, as well as their highly bureaucratic management systems and organizational structures (Zhou and Xia, 2008). In both the South African parastatals and the Chinese SOEs, the state parties not only represent the majority of the economic stakeholders in these public entities, but they also wield a heavy political hand in intervening (and often interfering) in commercial business decisions. In a sense, this is where socio-political agendas clash with naked business rationality. In the case of China, because the CPC is the only substantive political entity in the nation, many business executives actually sit in high positions within the CPC (or put another way the CPC has insinuated itself into key positions within important business entities), therefore SOEs normally perform as conduits for the Party's policies and agendas, and as such SOEs continue to be at the beck and call of the Party. Somewhat different in the case of the South African parastatals, the ANC has only started to engage with their assets during the twenty years that have elapsed since the end of Apartheid, and their key purpose/agenda for restructuring the public sector has been driven by important social objectives (the elimination of inequality and poverty, and the generation of employment), but this has tended to neglect policies which support the commercial environment, which is what the firms really need to help accelerate economic growth.

Therefore, whilst the political system clearly has an influence over the direction and functioning of the state-owned sector of the economy in both countries, the factors and circumstances which motivate this intervention appear to be quite different, and clearly because it is subject to rival political interests and is more directly accountable to the population it serves, the ANC has less direct power to control the SOE sector compared with the CPC.

Unlike the public sector, South Africa and China have displayed rather different pictures in the private sector. The 30-year economic reform in China brought the emergence of a Chinese private sector which now accounts for two-thirds of the Chinese economy. However, China's development path has created a number of challenges and contradictions for the private sector in its post-reform guise. There is a natural tension between the free market requirements of a private sector operating within the global capitalist system, on the one hand, and the tenets of state socialism on the other, the latter furthermore creating a number of constraints and hurdles for private business to negotiate as the state exercises its self-appointed right to intervene in the business sector. And yet despite this the growth and size of the private sector in China stands as one of the country's most remarkable achievements over the last thirty years or so. Despite the general rhetoric, the state has not been static or idle in improving and optimizing governance and industrial structures in support of the growth and efficient functioning of the private sector (Zheng and Yang, 2009). Business owners in the private sector have simultaneously negotiated a steep learning curve in order to become more competitive both in domestic and international markets and in the light of bureaucratic intrusion into the business environment.

Compared with China, the private sector in South Africa has a much longer history, traced back to the British colonial era. But before 1994, the private sector in South Africa was highly concentrated in ownership terms, being dominated by the big five families as well as the Afrikaan conglomerates which were strongly supported by the pro-Apartheid National Party. But at the same time South Africa has also partially benefited from its European colonial legacy in the shape of a mature institutional mechanism to both regulate and support the private sector. Private firms, meanwhile, had also typically formed their own vertical relations within their own business communities, although these were typically organized principally according to region of location, religion and political orientation. In post-Apartheid South Africa, the private sector was confronted with several challenges as the government sought to introduce different socio-economic priorities to its political agenda (most notably the BEE), and was particularly hindered by the only fairly loose co-ordination of public policies in this regard, rapidly increasing levels of state intervention (interference), and much higher levels of fragmentation within the business communities than had been a feature of the earlier era. Nonetheless, the private sector in South Africa still functions as the country's principal economic engine, accounting for 70% of GDP and an almost equal contribution to employment (Gordhan, 2014).[49] In 2014 the Finance Minister Pravin Gordhan re-emphasised the view that the private sector in South Africa should remain the major force driving the economy and, in contrast to the situation in China, should engage much more directly with the political machine, which hitherto it had been quite reluctant to do (Kane-Berman, 2014).[50]

We can identify significant differences between South Africa and China in respect of the labour market. The consistent high level of unemployment is South Africa's Achilles' Heel. Once again we can identify a tension between economic and social policy. On the surface, the strength of organised labour in the post-Apartheid period has helped to minimise discrimination in the workplace, and has brought all parties to the same conversation with each other. But fundamentally, organised labour has not been able to co-ordinate with either the government or business in such a way as to increase the rate of employment. Many business firms and organisations are facing the problems of a brain drain, which is even more of a problem given shortages of skilled labour. Although some training and educational programmes have been introduced by the government, few of these have realized their objectives and several have been discontinued. In sharp contrast, China has a much higher proportion of educated and skilled labour in the markets, but as we saw earlier the high labour turnover rate has become a serious concern to firms in the private sector as well as to foreign investors, and has served to discourage employers from provide in-house professional training. The shortage and loss of higher skilled and managerial-level

[49] Gordhan, P. 2014. *2014 Budget Speech*, 26 February 2014, Pretoria.

[50] Kane-Berman, K. 2014. *What South Africa Owes the Private Sector.* [Online]. [Accessed 8 August 2014]. Available from: http://www.politicsweb.co.za/politicsweb/view/politicsweb/en/page71639?oid=603205&sn=Detail&pid=71639

human resources is thus also a major constraint for the majority of industrial firms in China today (Zheng and Yang, 2009).

Another contrast in the business environment can be found in foreign investment. Most outward investment from China originates in the public sector, whereas in South Africa most outward foreign direct investment comes from the private sector (UNCTAD, 2005). As we saw earlier in this chapter, the majority of the South African OFDI flow went to the developed economies in the 1990s upon until the mid-2000s, when more OFDI started flowing to Africa and Asia. This was the result of the relaxation and liberation of foreign exchange and tax controls in South Africa. In Chapter 5 there will be further discussion of the differences between the early South African outbound investors and the later ones.

4.4.5 Challenges Facing the Respective Business Systems of China and South Africa

According to Redding and Witt's (2008: 4) view on business systems, there are "three challenges any mature, successful business system needs to meet: adaptability, innovation, and efficiency." Applying these three aspects to South African firms and managers, on the basis of the previous discussion of the South African and Chinese business systems during the transition period, we can now return to the question raised earlier: 'what is the significance of the South African and Chinese business systems to the experience of South African managers in the Chinese market place and in their relations with companies', to which we can also add 'how have the transitions in the respective business systems of South Africa and China impinged on the experience of South African corporations and management in China?'

1. *Adaptability*: South African firms and business managers have shown themselves to be more adaptive than the state in respect to the transition. The relatively peaceful political transition, from a nation characterised by extreme racial segmentation to a democratic state with justice and equality among all races of the population, has given South Africa tremendous credit in joining the global stage after decades of international sanctions. But after 20 years of post-Apartheid transition, several economic initiatives have been introduced

which do not appear to have been effective enough to serve the country's needs, and the newly-built economic structure is still not competitive enough (Competition Commission and Competition Tribunal South Africa, 2009). The ANC party on the one hand has to accept the fact of a dual-economy where (white) business holds a certain degree of power in the allocation of captial; whilst on the other hand the ANC seeks to maintain control over the business sector in order to implement its BEE agenda. Against such a political-economy backdrop, South African companies and South African business managers have had to learn to be flexible and adaptable enough to co-exist with the new political regime and agenda. There seems to be little alternative, so adaptability in this sense may be seen as something of a survival strategy. Compared with the home country market environment, the Chinese market is not necessarily any easier to adapt to, but this thesis argues that because of their past 'surviving experience' during the international sanction period, and their adaptive approach in the emerging post-Apartheid economy, as well as their exposure to and lessons learned from other foreign markets including the difficult sub-Saharan African markets, these experiences have equipped the South African firms and their managers with the capability to explore, penetrate and operate effectively in the Chinese markets.

2. *Innovation***:** One must accept the fact that South Africa is the Research and Development hub of Sub-Saharan Africa. During the international sanctions period, South African firms had to rely on themselves to innovate and create new technology and products to satisfy their own domestic needs and to engender organic growth. During the post-Apartheid time South African firms have exploded onto international markets, and, as relative late-comers, South African firms have had to continue with product and service innovation in order to increase their competitive capacity on these foreign markets. Many South African firms still maintain their own innovation centres at home even though they have set up solid footprints in Europe and North America (Klein and Wöcke, 2007). With an emerging and growing middle class in South Africa, the domestic market also requires the firms to continue to innovate in product and service design in order to meet these new consumers' needs and demands. Similarly, in the Chinese market there is also a growing middle class who can be expected to need and demand certain services and products (e.g.

insurance products) which are similar in many respects to those in demand by the middle classes in South Africa (as we shall see in two of the case studies presented in Chapter 5). This gives South African firms some confidence that there will be continuing strong demand for their products and services in the Chinese markets. However, one of the major challenges that most foreign firms have to accept in the Chinese market is the weak institutional mechanism to protect intellectual property. Facing such an issue, some South African firms have focused on strengthening their innovative capacity – continuously bringing newly innovative products and services to the market to stay ahead of the counterfeiting competition, whilst those firms and managers who instead have chosen to fight against it through legal channels have usually 'gone home' with unsatisfactory results.

3. *Efficiency*: in the domestic market, because of the lack of co-ordination between the tripartite parties (state, business and labour), the efficiency of South African firms can be compromised. Affirmative action policies have resulted in the loss of senior managerial human resource and a general brain drain. Engaging with BEE deals is a business decision that many South African private firms have no option but to choose in order to stabilise their business efficiency, in order to build channels for them to connect with the upper-level institutional players and in order to offset the constraints imposed on the business sector through state social policy. This sounds similar to the situation in China. The Chinese institutional system can also slow down the business process through excessive bureaucratic constraints. Many private firms seek to find themselves 'red-caps' (SOEs) to attach and relate to, in order to use '*guanxi*' as a conservative defensive mechanism to minimize risk (Redding and Witt, 2008, 11) and thereafter to increase efficiency. Many South African companies have not been able to receive any assistance from their own government to help them facilitate their investment in and penetration of the Chinese markets, and many firms and managers have found entering the Chinese market to be an unfamiliar and challenging experience. Comparing with their experience Europe and North America, or even in Africa, where South African firms and managers could find certain familiarities in terms of language and culture, these are precisely the initial barriers that they have to face up to when entering the Chinese market. In my case study chapter

I will demonstrate how South African firms use joint ventures as a means of counterbalance the inefficiency associated with foreignness. The experience that South African firms have gained in nurturing their connections with the new South African government, especially through BEE deals, has also prepared these firms to be more flexible in the Chinese markets and has shown them the importance of building (informal) relations with higher-level institutional players in order to get on.

4.5 Conclusion and Propositions

This chapter has provided essential background information as a platform for the presentation of primary empirical material in the case study chapter that follows. We have traced the institutional history and evolution of both South Africa and China, and set this against a back-drop of the countries' respective political economies, and most particularly the processes of transition that both countries have been through since the late-1970s in the case of China, and the early 1990s in the case of South Africa. We have emphasized that the institutional environment consists of both formal and informal institutional structures and practices. We have also mapped out the essential characteristics of the business systems of South Africa and China, and again considered some of the implications of economic transition (with its political and social agendas) for the business environment in these two countries, and for international business managers operating in the Chinese markets.

The following empirical discussion will look at how the South African case study firms have negotiated the business environment in China, which itself is a product of the prevailing political-economic and socio-cultural contexts, and the institutional landscape both have given rise to. Essentially, South African business managers are tasked with the challenge of learning about, adjusting to and making decisions appertaining to the business situation and system in China. Although some may be better placed to accomplish this than others, the size of the challenge they face in terms of adaptability, efficiency and innovation – the core elements of the business system – may to some extent be conditioned by the contextual and operational distance that separates the South African and Chinese business environments. Thus, in the last part of this chapter, and in order to link the background and empirical segments of the thesis, some loose propositions based on the discussions in Section 4.4 will be developed here which will subsequently be evaluated for each of the case studies that follow in Chapter 5.

Proposition 1: South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up).

Proposition 2: previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter.

Proposition 3: previous exposure to state bureaucratic intrusion into business decisions and operations in South Africa will have prepared managers for the situation they will face in China, where similar conditions prevail.

Proposition 4: the lack of formal institutional support from South Africa for their entry into the Chinese market has engendered self-reliance and flexibility in their approach in China.

Proposition 5: prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP Protection) and institutionalized trust in China.

Proposition 6: state intervention in the 'free' market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour.

Proposition 7: South Africa's relatively late arrival into the Chinese market (in part due to its historical isolation) has resulted in a steep learning curve and a competitive disadvantage relative to longer-established firms and nations.

CHAPTER 5

CASE STUDIES

5.1 Introduction

This chapter will present ten case studies which provide the main empirical contribution of this thesis. The firms were selected to represent a cross-section of business sectors in China and types of foreign-investing firms from South Africa, and are presented as pairs, largely to highlight the contrasting and contextual experience of such firms as they enter and seek to consolidate their position within the Chinese markets. In order to highlight and systematise the business strategies each case study firm has undertaken at each stage of their business development process, they are each viewed against the 3D institutional model, which is thus used as the analytical framework for helping to understand how firms navigate institutional arrangements and negotiate with institutional actors as they try to establish a foothold in the Chinese markets.

5.2 Case Studies

Case I: A Fine Line Between Success and Failure

The first case study will compare two South African companies that operate in the same retail (food and beverage) industry in China but adopted different business strategies in terms of the Chinese markets, which resulted in them having completely different outcomes. Because it is a well-known fact that South Africa is one of those countries with some of the best food and beverage products in the world, many South African companies have therefore taken calculated risks by expanding their business operations into the developing and potentially lucrative Chinese market. In this case study I will compare Company A (as a positive case) and Company B (as a negative case).

Company A is one of the leading South African wineries based in Western Cape, under the guidance of “BIG FAMILY” - one of the most influential and well-known families in South Africa, and had been one of the major economic contributors during the Apartheid era, and still today have important political connections, as we shall see shortly. Although it was started at the turn of the century, and initially established for the UK market, the company had expanded business to 40 countries worldwide within one decade. In mid-2011 the company set up a joint venture (JV) with one overseas-Chinese company which specializes in direct sales in the retail industry, and in just under one year the company had shipped 2.9 million bottles of wine to China – a dramatic rate of increase bearing in mind the total 3.9 million bottles that were shipped from the whole of South Africa to China in 2010/2011 (Republic of South Africa, Department of Agriculture, Forestry and Fisheries, 2011).

Company A has a global vision and a business strategy of positioning itself to supply their global customers with affordable, quality wine. They found that in the Chinese markets, it was necessary for their business strategies to pass through several phases due to the complexity of the markets. To a certain extent, Company A's Chinese market expansion was triggered by a very personal connection through the international marketing manager, who has almost 20 years exporting experience in Asia. With the consent of his CEO, the marketing manager introduced his Asian contact, who he has known and cooperated with for more than one and half decades, to the CEO and bravely suggested that the CEO place this Asian contact on the company payroll. This was a ploy to nurture relationship and networks, effectively establishing *guanxi*, because the Asian contact not only had vast experience of Asia but he also held an influential position in the Northern Cape.

In 2007/2008 Company A first approached the Chinese market, but it was not easy. Not only was there a problem because of the language differences but also, and most importantly, because of the different wine drinking culture between the Chinese and their western counterparts who are familiar with this lifestyle. It was only later when Company A was introduced by their Asian contact to the current JV partner – an overseas Chinese company which has been operating in the Chinese retail industry for 20 years - that they eventually managed to get over all the problems. The marketing manager recalls that "The first year was hard and we did not do anything to develop the business apart from playing golf, drinking and socializing. For western companies it might be hard to accept but it is very necessary in China to build networks and trust with your potential partner!"[51] One year later, just as the marketing manager had hoped and predicted, the business issues were formally put on the table and both companies started the first phase of their cooperation. With the existing retail networks that the overseas Chinese company had already established in the Chinese market, Company A saw their wine sales increase steadily. By mid-2011 the two companies finally reaped the benefits of their joint venture (Company A owned 49% of the shares) and now promote new wine products to Chinese customers.

Back in South Africa, Company A also tried to create more business opportunities in China by developing higher-levels of contacts and networks to connect with China. The BIG FAMILY behind Company A had a long-term family friendship and business connection with an ex-president of South Africa. This family connection later became one of the company's main assets in expanding their operation in the Chinese markets. The involvement of this ex-president of South Africa in the business enabled Company A to create a new product with his signature, which was specially designed for their Chinese costumers, as a limited edition of Company A's signature wine, with only 3,000 to 5,000 bottles being released to the Chinese market. The first batch of 3,000 sold out almost overnight, and the new release was also sold out even before the wine was bottled. This high-profile marketing strategy adopted by Company A of using a legendary and famous figure (who was well-known to the Chinese through previous state visits) to represent their product in China achieved fantastic results and also indirectly aided the promotion of their other products in the market as well.

In addition to their strategic marketing and promotions in the Chinese markets, Company A clearly understood that the product itself was their vital asset which would attract and maintain the Chinese customers' interests. At their prestigious location, Company A can source the best quality grapes within a relatively short distance and make affordable quality wine. The wine they introduced to the Chinese markets was given a French-like brand name to deliver the message that the origin of South African wine was historically connected to France and that they also enjoyed the same history of winemaking. A French-sounding name would give the product an advantage in the Chinese markets, because the Chinese customers have long

[51] Interview No.12 conducted in March 2012, Cape Town.

considered French wine to be the best quality wine in the world. This perception has given French-made wine a competitive edge in the Chinese wine market for the last 20 years. But things are beginning to change now.

Analysis of Company A's Chinese Business Strategies Within the 3D Institutional Model

Figure 5.1: Company A's Business Strategies Within the 3D Institutional Model

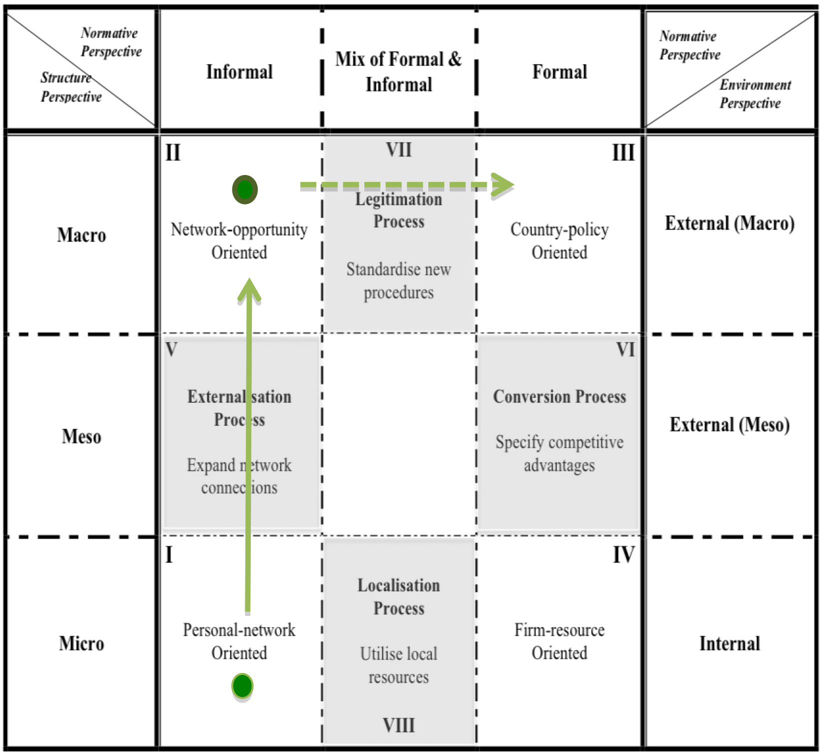


Figure 5.1 outlines the business scenarios and business transition strategies undertaken by Company A. Company A took the business initiative through a personal-network (Cell I), and then was rather proactive in pursuing wider and higher-level network connections (Cell V). Whilst they nurtured the relationship with high-profile contacts through their privileged family background and connections, they also secured more business opportunities through other channels (Cell III). And in order to achieve a bigger margin from the Chinese market, they are now (at the time the interview was conducted) hoping that the South African government will be able to finalise a better trade agreement with China on wine taxation, from which many South African wine companies would benefit. Company A has strategically cooperated with some government-related actors working on this initiative, although

with certain limitations, although the new policy legitimation process is expected to take a while (Cell VII).

1. Business Scenario (1): Personal-Network Oriented

It is not difficult to perceive that Company A's 'China exploration' was oriented from personal networks. Prior to their involvement in the Chinese markets, Company A's major target market was the UK as well as those that shared a similar Western wine-drinking culture. It was only because of the arrival in the company of the new marketing manager, who had been travelling and doing business in Asian markets for 20 years, that they were able to enter the Chinese market. This was achieved as a result of him introducing his long-standing personal Asian friend to the company and for the CEO agreeing to place his Asian friend on the company payroll. Although the business strategy was made within the company and was completely under company control, informal personal connections played an important part in the initial success of the venture.

2. Business Transforming Processes (1): Externalisation

When Company A had first approached the Chinese markets, they could not avoid the difficulties that any new business investor in China is confronted with. It was only with the assistance of the Asian contact (who was later put on to Company A's pay roll), that they were introduced to the JV partner – the private overseas Chinese company (the Chinese company for short). Business dealings did not happen immediately, because "friendship and trust comes first before business [in China]." The CEOs of the two companies later met each other and visited each other in China and South Africa, and through socializing they found that they shared mutually similar family values and business philosophies and this created a good basis for their friendship. They were both aware through past experience that they should also have some relationship with their embassy in the foreign countries where they did business. This should be the rule rather than the exception and is necessary to build up networks in China. As the marketing manager said, "every time we [the company] are holding a social/functional event, we always make sure to invite the "right" people [from the embassy]".

Perhaps one of the most crucial reasons for Company A's progress in the developing Chinese markets was when the opportunity was presented to invite the South African ex-president – also a long-term family friend – to be involved in the business. This achievement added valuable assets to the Company, in the eyes of the Chinese, and raised their business networks in China to a higher level. This was an inspired decision by the company, but without their previous basic network expansions in the Chinese markets Company A would not have been able to reach their target even though they had the opportunity to cooperate with the ex-president.

3. Business Scenario (2): Network-Opportunity Oriented

There can be little doubt that the current business achievement in China of Company A was inspired by a significant business opportunity – to have the ex-President of South Africa involved in the business and to create a new product or brand bearing his name. This stroke of good fortune might not be expected by many companies. In order to take full advantage of such an opportunity, Company A set up a joint venture with their Chinese partner to promote and distribute their wine products which they specifically designed for the Chinese markets. Their JV partner's experience and their mature sales and distribution channels ensured that their products would have easier and closer access to their Chinese customers. Their special president signature product is only available for release in the Chinese markets in limited amounts annually in order to keep the prestige value of the product. "We don't want to make too many, because we don't want to spoil or cheapen the label" said the marketing manager, "this is only for our marketing use!"

4. New Business Transforming Process: Legitimation

Although the business opportunity has enabled Company A to increase the volume of their products which are shipped to China, in general they are still less competitive in terms of price than their competitors from New Zealand and Chile, due to the fact that China has a Free Trade Agreement (FTA) with both countries, but not with South Africa (negotiations for an FTA between the two countries took place in 2010, but no agreement was reached). "The Chinese government has already reduced the duty payable on South African products by 50%, but South African products can still not compete with the prices of Chilean and New Zealand products. They pay almost 0%

duty. The playing field is not level" complained the marketing manager. "Of course it's up to the government. The South African government is not as active as the Chilean government when it comes to negotiating trade agreements. We're trying to do something here…" [52] They are now trying to influence the South African government by using their own family and industry influence to deliver the message to the government that they should seek a trade agreement with China similar to that which New Zealand and Chile have negotiated. This would not only reap benefits for Company A's business development future in China, but also other similar businesses from South Africa.

Having analysed Case Study Company A against the 3D model, we will now return to look at this case from a wider perspective, seeing how it is placed within the broader context of the respective business systems of China and South Africa. In order to do so, we return to the propositions that were presented on pages 163-164, which were drawn from the earlier thematic discussions in Chapter 4. In order to set a template, we will evaluate Case Study Company A against each proposition in turn in order to examine how the firm has deployed business and managerial strategies to adjust to the contrast in contexts between the home and host markets, and the inherent challenges this has given rise to. Having done this in detail for Company A, the subsequent case studies will be similarly examined, but in a more streamlined manner. The 'fit' of the case studies to the propositions is summarized in Table 5.1, and at the end of the chapter we will return to draw broader interpretations about the extent to which individual firms comply with generic statements about political economy and business systems.

Proposition 1: South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up).

[52] New Zealand and Chilean wine enjoys tax-free status in China, whereas although South Africa has Most Favoured Nation status, the Chinese government still levies an 8% tariff on South African wine imports.

Quite clearly, this proposition is strongly supported by the experience of Company A. The international marketing manager of the company had two decades' experience of doing business with Asian markets where informal institutional channels were essential to help facilitate business opportunities. In this sense, there are sufficient similarities between 'Asia' and 'China' for this to have been an advantage rather than an impediment. Also, back in South Africa, the 'BIG FAMILY' background gave Company A privileged status which allowed it to maintain good connections with political officials, albeit in a somewhat informal manner. This is why the company's CEO was receptive to adding the 'friend' of the marketing manager to the company's payroll for the purpose of nurturing 'relationships' for the company using both his 'Asian' and 'political official' connections in Northern Cape. By the time Company A entered the Chinese markets, the informal ways of dealing with business partners and penetrating the markets had become quite natural and acceptable.

<u>Proposition 2</u>*: previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter.*

This proposition partially applies to Company A. The company had extensive international business experience in the global markets prior to its venture into China, although most of this was in Europe where there was a longer-established wine drinking culture than in the case of China. As a rule, its previous internationalisation experience in overseas markets would have prepared Company A with the right mindset needed to deal with the challenges and risks the new market held. However, the uniqueness of the Chinese market (discussed in Chapter 4), as well as the barriers created by language and cultural differences, inevitably provided challenges for the managers and their business strategies as they sough to penetrate and operate in the Chinese market. These challenges were largely overcome, but more by the nature of the company's China strategy than by it historical international exposure.

<u>Proposition 3</u>*: previous exposure to state bureaucratic intrusion into business decisions and operations in South Africa will have prepared managers for the situation they will face in China, where similar conditions prevail.*

This proposition seems rather neutral for Case Study Company A. Clearly, Company A would have had to accept BEE deals as with most other South African private companies, even though Company A was under the protection of the BIG FAMILY. Given that the connections between the BIG FAMILY and ANC party members could be quite complicated due to the mutual interests they would like to receive from each other (as described in Chapter 4), it is hard to estimate to what extent state bureaucratic intrusion would have affected Company A's business decisions. This is not something that came up in the interviews. But Company A definitely bore 'government relations' in their business mind when they came to operate in China, and indeed this was an important ingredient in their success, so they were not completely unaware of the possibility that state intervention could become a business hindrance in the Chinese market. Therefore this proposition can neither be fully approved nor disapproved by the case of Company A.

<u>Proposition 4</u>*: the lack of formal institutional support from South Africa for their entry into the Chinese market has engendered self-reliance and flexibility in their approach in China.*

This proposition is absolutely true for Company A. The South African government gave hardly any financial or political support from the formal institutional perspective. The success of Company A's penetration into the Chinese market was entirely reliant on the company's own human and financial resources, channeled largely through informal and personal channels. The lack of a FTA between South Africa and China left Company A (and other South African wine companies) relatively uncompetitive in the Chinese wine market. In order to market their own products more effectively, Company A used their own higher-level connections in the home country to build a high-profile product (a signature wine) designed specifically for the Chinese markets. In the end this proved to be a very effective way of marketing the company's wine products, which were both acceptable to and welcomed by Chinese consumers.

<u>Proposition 5</u>*: prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP Protection) and institutionalized trust in China.*

This is not a scenario for Company A. Company A and their managers were not unaware of the shortcomings of the formal institutional environment in the Chinese markets. Quite the opposite: they had anticipated the risks they might have to deal with, and the marketing manager (who had 20 years' Asian business experience) became a good educator for the company, helping to prepare them for a unique country market where institutionalised trust could be weak and unreliable, and could hinder the company's efficiency. Strong informal personalised trust was able to help compensate or counterbalance this.

<u>Proposition 6</u>*: state intervention in the 'free' market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour.*

Although this proposition may apply to some of other South African firms, it gets neither strong support nor a clear denial from Company A. This could be because the business strategies that Company A employed were somewhat personal relations oriented. Some of the more important of these personal relations were built on quite a high-level institutional platform, and thus the formal policies in both the home and host countries were less of a barrier to the implementation of the company's business decisions. However, as we shall see, this does not mean that other firms would share the same story, experience and strategy as Company A around the time that the interviews were completed in 2012.

<u>Proposition 7</u>*: South Africa's relatively late arrival into the Chinese market (in part due to its historical isolation) has resulted in a steep learning curve and a competitive disadvantage relative to longer-established firms and nations.*

The case of Company A showed weak support to this proposition. Most of the South African firms were relative late-comers when compared with companies from the developed economies (e.g. US and Europe). Many product and service standards were established by these earlier arrivals, which had come to be accepted by the Chinese consumer. This provided a challenge to South African firms which offered similar products and services. In the case of Company A, South Africa's wine making history, to a certain extent, could be argued to rival that of the French, but far fewer Chinese consumers would choose South African produce, mainly because they were still unfamiliar with the country and its brands. So, while it was not necessary for Company A to take a longer time to learn about the Chinese market and the Chinese consumer, in contrast it took the Chinese consumer a while to learn about and become familiar with and accepting of Company A's brands and products.

Company B is a restaurant chain which was also established in 2000 by two South African restaurateurs who both had sound and successful track records in the South African food and beverage industry. They both shared the same vision to provide a quality dining experience to domestic and international customers. Within five years of opening their first store in South Africa, they had managed to introduce their brand name to Australia, the Middle East, Israel and the UK with 12 successful restaurants altogether. 2009 saw the grand opening of their first outlet in Beijing, but after just 12 months the restaurant had to close down and they pulled out of China after making a loss of several millions US dollars. This closure was almost incomprehensible, given that they had received many top food awards and had been highly recommended by local media during the time they were open. So what had happened to cause the closure of their first boutique restaurant in China?

In the beginning, the China restaurant venture was not particularly well thought out because the company's general intention at that time had been to establish a presence in Asia, but not necessarily in China. They were looking for some possible restaurant premises in Singapore when they heard of a newly-finished retail project in Beijing which seemed to be the perfect location for a restaurant of their calibre. They decided therefore that Beijing should be the place where they would open their first new restaurant in Asia.

As an internationally experienced businessman, the regional director of their company for Asia Pacific market development (the director for short) was ambitious and very positive about the future business in China. He had a strong track record over the past 15 years of doing successful business in South Africa, Australia, Singapore as well as the Middle East. The director was introduced to the project promoter, an American-Chinese businessman, and was attracted by the retail project being "unique and special" as well as the conditions that the project landlord would offer. Because of his previous business connections in the Middle East, the director decided to create a partnership with a large Middle East retailer group to enter the China market. Perhaps because of their strong financial support, the director chose to establish his first China business as a wholly owned foreign enterprise (WOFE) so that he would be able to control the business completely on his own without any involvement from any other party. It was not long however, before he realised the large number of difficulties and constraints he faced in operating a business in China.

Establishing a WOFE (in Beijing) requires foreign investors to make a greater commitment compared to that of other business ventures such as a JV. The complicated procedures of initial company registration made the manager realise how difficult the Chinese institutional environment and requirements could be for first-time investors. From opening a bank account to employing staff, every step seemed to move at a snail's pace, with the inevitable frustrations which followed as a result of this delay. Not only had the manager to deal with various government offices at metropolitan level, there were also those at district level and even some at smaller administrative levels. Language was another massive barrier for the new venture, "Chinese are not willing to accept any other language other than Mandarin to do business," the manager complained, "and the only reliable people we found were Western companies operating in China – attorneys, accountants [because they could understand English]." Because of the hurdles they had to overcome, setting up a new restaurant was extremely time-consuming. The time it took to wade through all the legislative and documentary procedures for opening their restaurant meant that months had gone by and they had still not opened their doors to customers. Just as the manager had admitted during the interview: "it probably takes twice as long to get permission to open a restaurant in China compared to anywhere else in the world. The amount of red tape we had to go through in China to get the restaurant open was incredibly time-consuming and very frustrating."

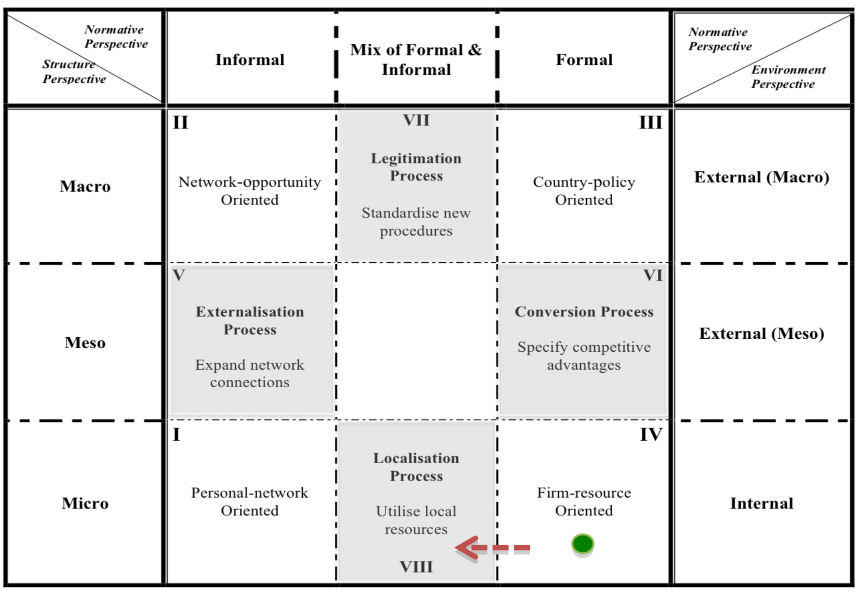
When the time came to prepare the restaurant for opening, another wave of problems became apparent. Various inspections by lots of different local government departments had to be carried out before work on the interior decorations could begin. This caused the whole opening process to fall behind schedule and the manager's patience was severely tested. Some of his local (Chinese) staff were also worried about the delay in opening and suggested to him that he should be slightly more flexible in his approach to some of the more bureaucratic Chinese business practices to make things go more smoothly. Unfortunately the manager refused to adopt such suggestions, because they wanted to do things on their own and in their own way. Eventually after months of frustrations the restaurant was finally opened and the company set about using their strong capabilities of marketing to start promoting their splendid products and service. Even after the restaurant had closed down for a while the manager was still proud of what they had achieved:

> "We did a very good job in making sure that we marketed ourselves to the Chinese community – when we started, our clientele was made up of 90% foreigners and 10% Chinese. By the time we closed the restaurant we were already at 70% Chinese and 30% foreigners – we did a great job – we had the right media coverage and the right PR – we got the right people there, we got it right you know. We know even now that if we had stayed in China with the right relationship with the landlord of that [retail project] we would have made it work…"

And just as the manager had said, after one year they had no other choice but to terminate their operation and they pulled out of China with a total loss of five million US dollars. The reason for their failure was not complicated according to the manger: "The project landlord just wasn't helpful in negotiating [a new lease contract] and didn't deliver what he agreed to deliver so we decided to close down!" And perhaps there was another indirect reason - the Middle East partner they had at that time also withdrew their business from China.

Analysis of Company B's Chinese Business Strategies Within the 3D Institutional Model

Figure 5.2: Company B's Business Strategies Within the 3D Institutional Model



Company B's business life-span was rather short. The business started with the confidence that it would do well because of its prime-quality products, as well as its past successful business record in other countries (including some countries with difficult institutional environments) (Cell IV). However, the Chinese story had told them that without a reliable local helping hand, the business could hardly continue (Cell VIII).

1. Business Scenario (1): Firm-Resource Oriented

Unlike Company A described in previous paragraphs, Company B relied on their own firm's resources when they first entered China. Because China was not their first choice they decided that they would only enter the Chinese market if conditions allowed. The chance of opening a restaurant in the new retail project in Beijing seemed to be an ideal location for a new Asian restaurant, so they went for it lock, stock and barrel. They thought it would be successful because they already had successful international business experience. As the market development manager explained "we thought we had a proven model which worked in most countries that we had been to, we had tried different cultures!"

2. Business Transforming Processes were not Adopted

Although the manager of Company B blamed a lot of their problems on the project landlord for not being cooperative, which finally led to the premature closure of their business operation in China, there could be other factors which contributed to the termination of their business. Under the 3D institutional model to analyse the business strategies Company B had conducted, it is not difficult to answer the question why Company B was not successful:

(1) Reluctance to Undertake a "Localisation Process" to Reduce Business Costs

From the aspect of the company's resources, it is undeniable that Company B had great potential to penetrate the Chinese markets because they had quality products, advanced marketing and promotion ideas, as well as strong implementation abilities. Their previous successful business experience in other countries had made them somewhat blasé when it came to the Chinese markets, however. They should have known that their successful business experience in the Middle East market was just because they had cooperated with a local partner who helped them to build up their sales channels. Ironically, this partner was also the one Company B worked together with to enter China, but this time they decided to "go foreign!"

Because Company B already had a successful business relationship with their Middle Eastern partner, they decided to continue with the relationship when they set up a company venture as a wholly-owned foreign enterprise, and dismissed the option of setting up a joint venture with a local Chinese company. To a first-time foreign investor it was a brave but risky decision. On the plus side the company could receive strong financial support from such a giant overseas company, but on the minus side, the company must confront all the challenges of setting up a business on their own in a completely different institutional environment. Because of the language barriers, Company B had to employ western companies and staff, such as accountants and attorneys, to assist them with all the complicated legal procedures, which resulted in additional costs to the company. In fact, there are many professional local commercial companies that provide special services at a reasonable cost to foreign enterprises who wish to set up business in China. It is simply a matter of finding the correct channels of approaching such middle agents, and obviously they should have "gone local"! Quoting the manager in his own words: "we should have taken those lessons [from the Middle East] to China, but they [the Middle East partner company] said they wanted to do it on their own with us as a WOFE…" Sadly, after this giant Middle East company decided to withdraw all its business operations from China, Company B was not strong enough to survive.

(2) Inactive in Adopting an "Externalisation Process" to Expand their Networks

Setting up a WOFE does not mean isolating the company from outsiders, but people inside the company should actively explore new local connections to link the company with outside environments. In the case of Company B, the manager just happened to meet the promoter of the Beijing retail project, who could have been the key person with whom Company B should have secured and developed good relationships, which would have assisted them with their China business.

This promoter was an American-Chinese lawyer who had achieved his notoriety by transforming historical landmarks into up-scale and luxury commercial developments. Every project he had been involved with in the past had received glowing admiration from local or even central governments. This particular project in Beijing was even more influential because the promoter 'rented' from the government's hands. It was not difficult to feel the subtle connections that had built up behind the project before any tenant moved in. The manager of Company B should have shifted his cooperation from his Middle East partner to a Chinese partner when he decided to enter the Chinese market. Because they refused to localise the business, they found it very hard to upgrade their networks in the markets, and the networks they had were just not strong enough to handle the complicated institutional environments. The manager conceded that: "they [the local Chinese they knew] tried, but they were not powerful enough to make anything happen in China… you need to have the right level of connections and pay the right people to get things to happen on the ground."

Conclusions of the Case Study:

Whilst the manager of Company B complained about the business environment being "hostile" and that they did not feel welcome, he was also advised by the promoter to set up a joint venture with a local partner. Whilst it is all very well arguing that the project landlord was not helpful with contract negotiations, he should clearly have been aware of the truth – one of the shareholders of 'the landlord' was the promoter he had known initially. Using the 3D institutional model to investigate the complete business strategies of Company B, the manager had simply not moved his business scenario from firm-resource oriented (Cell IV) to the next stage personal-network oriented (Cell I), and therefore it was impossible for him to upgrade to the business opportunity oriented (Cell II) stage. Company A in comparison had never stopped pushing the company to move from one stage to the next by adopting appropriate business strategies, to keep the business dynamics within the institutional framework as indicated of 3D institutional model.

We will now briefly evaluate the case of Company B against the propositions that were developed in Chapter 4. For Company A these were examined sequentially and systematically in order to set the analysis framework, but because of constraints of space and to avoid being overly repetitive, these will be looked at in a more streamlined manner for Company B and subsequently. In the case of Company B, *Proposition 6*[53] seems to be the only one receiving strong support (see Table 5.1), whilst *Propositions 5 & 7*[54] are only weakly supported. It was not difficult to see the arduous journey that Company B had been through in setting-up the WOFE entity and negotiating a forest of 'red tape' during their 12 months 'China experience'. The moment Company B and their Middle-East partner chose to do business 'their own way' and dismissed the option of a joint venture with an influential local Chinese partner, they had also decided that the fate of their own business would be fully tested by interference and impediments set by the formal and bureaucratic Chinese institutional systems, which almost inevitably affected the business' efficiency and in the end shortened its prosperity. The company management might have overestimated the extent to which the formal institutional environment would support the operation of a foreign business, hence they were not fully prepared to apply a more flexible business strategy adopting the more informal mechanisms that seem to be so important in the Chinese markets. Although Company B used their PR strategies effectively to market their products and services, the short life-span of the business was left as a reminder of their failure to negotiate the painful learning curve presented by entry into the Chinese market. The case of Company B provides a strong denial of *Proposition 1 & 2*.[55] Company B had a successful track record of penetrating and operating in other foreign markets, some of which had also provided cultural and institutional challenges. But Company B was not able fully to transfer the business experience accumulated in those 'challenging' markets to the Chinese market, but instead rigidly applied the business standards their foreign (non-Chinese) partner required of them. This was one of the major factors in the failure of their business

[53] *Proposition 6:* state intervention in the 'free' market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour.

[54] *Proposition 5:* prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP protection) and institutionalized trust in China; *Proposition 7:* South Africa's relatively late arrival into the Chinese market (in part due to its historical isolation) has resulted in a steep learning curve and a competitive disadvantage relative to longer-established firms and nations.

[55] *Proposition 1:* South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up); *Proposition 2:* previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter.

venture in China. In terms of *Proposition 3 & 4*,[56] Company B does not have any particular facts that would support or deny these propositions, and hence they are deemed not to be applicable to this case.

Case II: Same Market, Different Targets, Let the Strategies Play!

When compared with the companies (above) operating in the retail industry in the Chinese markets, the ones that embraced the Chinese financial markets reflected South African investors' different business mind-sets regarding their business strategies. The companies described in the following case study are two different types of financial organizations which entered the Chinese markets, namely insurance companies and banks. In each type there are two companies of different sizes, ownership structures, as well as operation and management systems.

Insurance Companies

Company C, which is a leading financial services institution in South Africa, established their first office in South Africa in the early 1990s and became listed on the Johannesburg Stock Exchange (JSE) in 1999. To date, Company C employs 7,100 people and serves 7 million customers worldwide. One of Company C's fully-owned subsidiaries ranks as the largest health insurance company in South Africa. In the last ten years they've also managed to set up joint ventures in the US and the UK, with local partners, to develop the Western markets. In August 2010, nearly two years since their first contact with a Chinese insurance company, Company C have now successfully closed a deal with the second largest (to date) Chinese insurance company to launch a joint venture, with a 20% share of the new venture. In their first year Company C reached 30,000 clients in the Chinese markets and the company is very ambitious to develop further their business in China.

Company C is featured as a customer-engagement company, and delivers differentiated products and services at competitive price on the principle of consumers' well-being. Such business values and attitudes have enabled them to

[56] *Proposition 3:* previous exposure to state bureaucratic intrusion into business decisions and operations in South Africa will have prepared managers for the situation they will face in China, where similar conditions prevail; *Proposition 4:* the lack of formal institutional support from South Africa for their entry into the Chinese market has engendered self-reliance and flexibility in their approach in China.

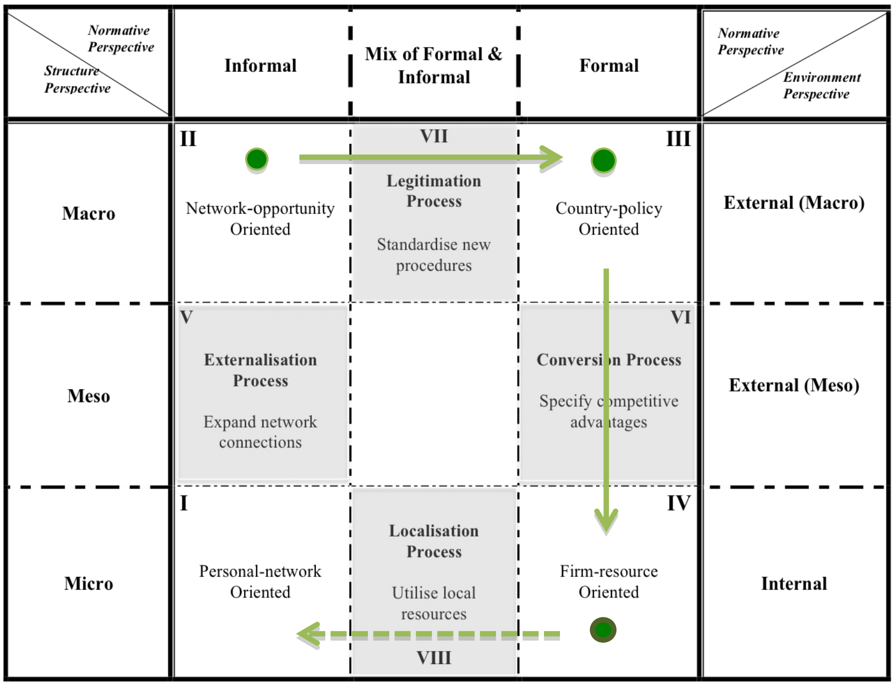
penetrate the UK and US markets, although entering the Chinese markets happened opportunistically. Nonetheless, their usual business strategies for potential new markets seemed to suit China well. Initially they were approached by an international investment bank, which acted as a middleman to potentially link them up with the Chinese company. Company C did not show any particular intention immediately because this was not their normal approach to entering a new market. “We did not specifically say ‘we are going to China’, that wasn’t our approach”, explained one market director from Company C. “Our approach was the same as the approaches in the US and the UK - going to the markets where we’ve got good partners, otherwise there is no point to go to that market!” It was only once they had studied the figures from their intensive market research that they realized the Chinese markets held enormous potential for the kind of products and services which they had been specialising in and leading the market in South Africa for a decade. China then became the company’s next target overseas.

The Chinese company which later set up a joint venture with Company C was one of the biggest organizations in the Chinese insurance industry with more than two decades of market experience in China. Their new wholly-owned subsidiary – a health insurance company - was looking for a potential foreign partner to set up a JV to improve their own intellectual property on health insurance products and management. They had previously negotiated with several US and German companies, but little was achieved due to the Chinese company’s reluctance to give up half ownership of the JV. In 2009 the Chinese company was introduced to Company C, and the two firms came to a proposal whereby Company C would purchase shares in the Chinese company to form a business partnership. Although China’s changing policies on foreign insurance companies[57] had slowed down the progress of their cooperation, the two companies were at last able to open their joint venture after eight months’ documentary procedures. To date, Company C is the only foreign health insurance company to own a 20% joint venture share in China.

Analysis of Company C’s Chinese Business Strategies Within the 3D Institutional Model

[57] Company C proposed to purchase 24.99% of the Chinese company’s shares at the end of 2009, but was not allowed to own more than 20% according to the new policy issued in early 2010 by CIRC.

Figure 5.3: Company C's Business Strategies Within the 3D Institutional Model



Business opportunity can be initiated through high-profile network connections, just as Company C encountered (Cell II). But to be able to take a business idea and convert it into real business deal, especially in China, requires a long legitimation process which normally involves an investment of time, finance and even emotion. As we saw in Chapter 4, the policy environment can change almost overnight, and may appear to outsider and insider alike to be almost arbitrary. Such was the case here, with Company C among the first large insurance companies to seek a large shareholding in a joint venture with a Chinese firm. Nervous about the implications, the Chinese government quickly introduced a limit to the equity shareholding, creating a challenge for Company C to overcome. But having established a JV model, Company C can be considered to have charted a path which made it much easier of latecomers to follow (Cell VII). The conversion process (Cell VI) asks the firm to take a vital step from the position where they are 'comfortably' guided and controlled by the country's policy (Cell III), to where the firm must work out for themselves with clear mind-set what products and services they can offer to the new market, and what business strategies they must adopt in order fully to utilise their own firm's resources (Cell IV). And of course, as a JV partner with a local Chinese company, Company C must learn to source and make full use of the local resources, which ultimately brings benefits to Company C, but it has to bear in mind that this process requires a lot of understanding and tolerance from a foreign investor like Company C (Cell VIII).

1. Business Scenario (1): Network-Opportunity Oriented

It appears that Company C was relying on its own firm's resources to enter the Chinese market, but we must take into consideration other influences from outside environments. If the Chinese company had not been keen on searching for a foreign partner, and an international bank had not acted as a middleman to introduce the Chinese company to Company C, the chances for company C entering the Chinese market would have been very slim indeed. In another words, it was the needs of the Chinese company to have a foreign partner to improve its IP that was the driving force behind the deal rather than the hopes and aspirations of Company C to participate in the Chinese markets. As one of the earliest insurers in China, the Chinese company had built up solid (formal and informal) business connections over the last 20 years with all levels of industry-related institutions such as the China Insurance Regulatory Commission (CIRC), the Bank of China (BOC), and others. In addition, the business opportunity was delivered to Company C from a higher level, not through personal connections, with an informal proposal, which left Company C flexibility in making its final decision on becoming established in China.

2. Business Transforming Process: (1): Legitimation

After undertaking vigorous market research, Company C took the business initiative of joining with a Chinese company to enter the Chinese market. Then came the issues of how the two companies would implement and legitimize their cooperation. Compared to other industries, insurance is still a highly controlled and regulated industry in China, and thus the major institutions which Company C had to deal with were at the country-level, but the related regulatory institutions in China were not yet experienced with processing such transactions. Company C was one of the very few foreign insurance companies that had the opportunity to establish a JV with a Chinese company and also hold a relatively high ownership stake.

To a certain extent the immature institutional system in the Chinese insurance industry was a double-bladed sword for Company C: on the one hand, Company C could set up new standards and procedures for this type of foreign transition, and become a benchmark for late-comers; but on the other hand, Company C had to take risks and bear the cross of low efficiency which resulted as a consequence of the lack of established regulations and standardised legal procedures. Company C's managers who were involved in the transaction soon realised that their institutional environments, although frustrating at times, were still prepared to adjust and give enough understanding and patience during the progress, just as one manager said, "…[it's] a point about experience, and the more CIRC deal with this type of thing the more efficient their systems and processes will become. And the stronger and more robust your (Chinese) regulators are, actually the better it will be for their industries in the long term."

3. Business Scenario (2): Country-Policy Oriented

After signing the contract with their Chinese JV partner, Company C clearly understood that the institutional environments where they were to operate their business would not get easier because the Chinese company, as a listed shareholding company (not state-owned), had responsibilities to its shareholders, some of which were state-owned entities. Company C had closer relations with direct policy makers than those foreign investors who were operating as a WOFE or JV with private Chinese partners, and thus were obliged to abide and in some cases be constrained by various policies in their future business operations. However, on the other side Company C had also gained a distinct advantage by being one of the early comers in the industry. Its 20 years of growth and operational experience in South Africa and other African markets enabled Company C to adapt comfortably within the imperfect institutional environments they found in China, and encouraged them to endeavour to convert such imperfect institutional country-specific advantages to their own benefit in this industry and in the Chinese markets generally.

4. Business Transforming Process: (2): Conversion

Company C had always been confident in themselves, especially in their advanced IP, which enabled them to innovate and build new products to offer their domestic and international clients. But such firm-specific advantages had to be delivered through certain carriers to the new-born JV before it could further develop. This carrier was their Chinese JV partner who had strong inter-connections with higher-level institutions. The Chinese partner's institutional connections, which to a certain extent offered country-specific advantages to the new JV, could help steer them through the bureaucratic systems and guide the JV to follow formal policies in more appropriate and effective ways. This allowed Company C to deliver their innovative products and services to the customers with greater efficiency. As the Company C manager had concluded: "We look to them [the Chinese partner] for some real insight into the Chinese market, and they, as a Chinese company, have a much better understanding about the Chinese market than we do… We bring the expertise and experience about the product and they bring their local knowledge and insights to tell us what is proper for the market. It is absolutely essential that you don't go to a market which you don't fully understand."

5. Further Business Transforming Process (3): Localization

20 years of business operation experience in developing markets (in South Africa and Africa) has given Company C fundamental knowledge on how to cooperate with their local partners. However, both the health care industry and Chinese markets are too diverse to adopt a single unified approach to penetrate and manage, and thus to employ local personnel and build up inter-connections with local institutions were absolutely vital for Company C. At the moment, Company C is in no rush to expand their operation to the whole of the Chinese markets, but are instead taking their time to "find out whether there is a market in which [they] could operate and make sense of." At the same time, Company C should be patient and help its local personnel accumulate more knowledge and experience in this new industry. "Health insurance is a new industry, so it will be very difficult in China to find people who have got years of experience. But our partner has a lot of skilled people, hundreds of very smart, very skilled people."

With regard to the propositions: strong state intervention in the financial market in China gave Company C a challenging experience in establishing a joint venture, which can be very consuming of time, finance and emotion, and was something they had never previously experienced in other overseas markets. Thus they were not fully prepared to enter a market like China. The bureaucratic procedures stipulated by the state inevitably slowed down the efficiency of implementing new business initiatives. Accordingly, this case shows strong support for *Proposition 6*[58] and a strong denial of *Proposition 2*.[59] Compared with China, South Africa has relatively strong institutional mechanisms to regulate and protect financial services companies' key assets, intellectual property being among the most important of these. Given the weakness of formal institutions in China in this regard, it would be natural for South African firms and their managers to be concerned about IP protection. However, Company C seems to have thought about these issues, and one of the solutions that kept it ahead of the 'game' in the Chinese market was the continuous innovation of their products and service to these markets. So *Propositions 3 & 5*[60] are weakly denied by Company C's experience. In brief, the insurance industry is highly differentiated across various country markets, due to contrasts in regulatory environments and to people's cultural understanding of commercial insurance products. In the Chinese markets, Company C might not have been the earliest arrival when compared with other foreign insurance companies, but they were the first to be allowed to sell life insurance products in China, under a joint venture with their Chinese partner. Therefore they had a competitive advantage in this niche market, provided they kept providing innovative products. In this sense, *Proposition 7*[61] is not supported by the case of Company C. Company C had sensed success potential in the market and had decided to give it try, but they had to proceed hand-in-hand with a Chinese partner. The manager of Company C pointed out that the informal approach was indeed sometimes necessary, especially in their dealing with the Chinese partner. But in terms of dealing with the state bureaucracies, they were more comfortable to let their Chinese partner 'look

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[58] Proposition 6: state intervention in the 'free' market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour.

[59] Proposition 2: previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter.

[60] Proposition 3: previous exposure to state bureaucratic intrusion into business decisions and operations in South Africa will have prepared managers for the situation they will face in China, where similar conditions prevail; Proposition 5: prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP protection) and institutionalized trust in China.

[61] Proposition 7: South Africa's relatively late arrival into the Chinese market (in part due to its historical isolation) has resulted in a steep learning curve and a competitive disadvantage relative to longer-established firms and nations.

after' this using Chinese informal ways. So *Proposition 1*[62] is not particularly applicable to Company C, but *Proposition 4*[63] is partially supported.

Although **Company D** also operates in the insurance industry, it had a very different experience compared to Company C. Company D, which was established in 1980, offers a wide range of insurance solutions to more than 6.5 million domestic and international policy-holders. It does not have bank or institutional shareholders but operates as the largest privately-owned insurance company in South Africa, with more than 1,600 employees worldwide. In the last 30 years, Company D has managed to expand its footprints in SADC, Australia, and Asia. In mid-2007 Company D set up a Representative Office in Beijing for their insurance and brokerage business, and three years later they paired with a local retail franchise chain company to establish a joint ventured consultation business for retailing insurance products in the Chinese markets. From 2012 they said they planned to be able to start their full insurance and brokerage business under a WOFE after fulfilling the "five-year rep office" term required by CIRC and other China financial regulators.[64]

Previously known as an insurance brokerage back in the 1960s, Company D had set up good relationships with business partners from various industries, which convinced them that sound partnerships were vital for business development. When Company D became an insurance company in 1980, they had maintained that "business goes with partnership" as their key business strategy. Although in the developed western markets (such as the US and the UK) they have a business presence, they prefer to concentrate on the developing markets where their African roots and experience can be fully utilised. In 2006 one Australia-Chinese individual who worked for their Australia subsidiary mentioned the idea to the SA headquarters about a business opportunity in China where the potential customer market is big. It was not long before the company directors took the idea of entering Chinese markets seriously,

[62] Proposition 1: South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up).

[63] Proposition 4: the lack of formal institutional support from South Africa for their entry into the Chinese market has engendered self-reliance and flexibility in their approach in China.

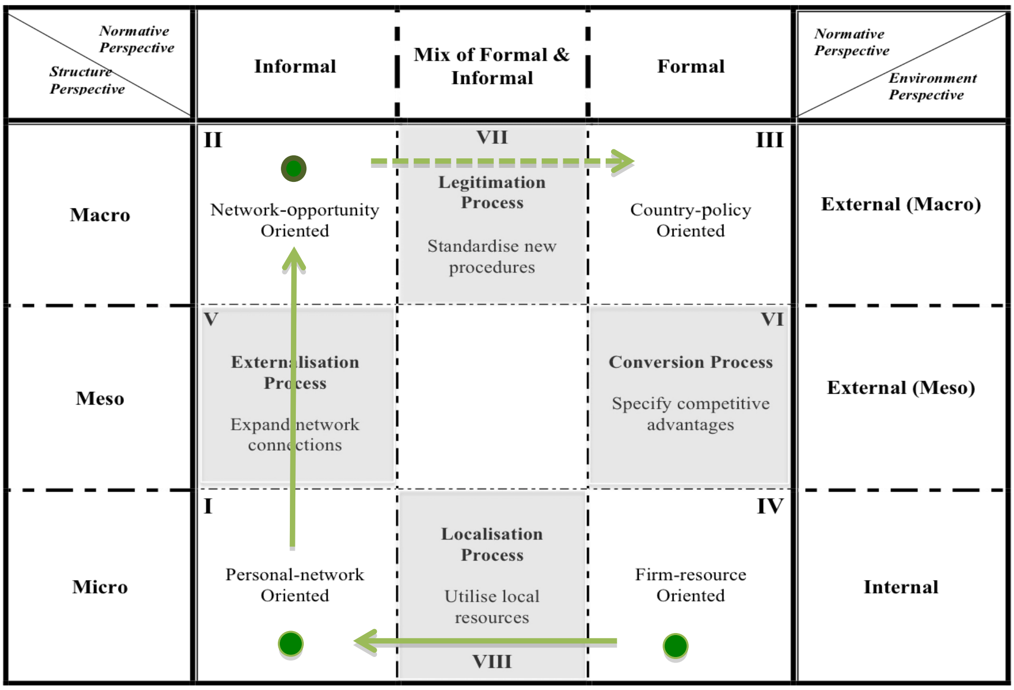
[64] According to China's regulation on foreign financial institutions entering into China, these companies must operate as a non-profit Representative Office for five years upon entry before they are allowed to change into other for-profit ventures: http://www.circ.gov.cn/web/site0/tab68/i20019.htm (Accessed on 30 November 2012)

because by then they had opened an office in India which, like China, was not an easy country for a foreign business to penetrate. After a careful selection process, one South African market development manager was sent to China in late 2006 to set up the business. Six months after the manager's arrival in Beijing, Company D set up their first Representative Office and in May 2010 they also teamed up with a local retail chain to start a joint-ventured business to introduce new retail insurance products to the Chinese markets.

It should be pointed out here that having a Rep Office in China means the foreign company cannot make any profit from the business, but it was the only option for Company D to allow them to be able to establish a wholly-owned insurance business after functioning for five years with a Rep Office. Over the five years, they implanted their usual business strategies in the Chinese market to search for and cooperate with potential business partners. Company D possesses a full insurance license in South Africa, but they don't want simply to apply for another insurance license in China and to sell insurance in the markets, so their Chinese approach was different. "We are not there to compete with the mainland Chinese insurance companies, for us it is all about bringing some innovative products and innovative distribution ideas into the Chinese market with the local insurance company," concluded one director of the company's international division. And this unique business perspective has been reflected in their way of selecting business partners. Two years after their arrival in China the partner they chose to cooperate with was a comparatively small local retailer, and then three years later, in 2012, they secured a contract with a large national insurance company to promote new products. The long-term vision had told them that markets like China required patience and time to nurture the relationship and to let the local customers become used to their products. Compared to those listed companies, the private ownership of Company D became an advantage for investing in developing countries because the private shareholders could understand and accept a normal long-term return. Therefore for Company D, over the last five years out of their non-profit Rep Office in Beijing they've achieved and attained certain long-term benefits for the company.

Analysis of Company D's Chinese Business Strategies under the 3D Institutional Model

Figure 5.4: Company D's Business Strategies Within the 3D Institutional Model



Companies in the same industry do not necessarily take exactly the same business approach to penetrate or operate in the Chinese markets. Each individual firm has its own internal firm-level institutional arrangements to respond to the foreign market's (the FDI host country's) institutional environments and arrangements, and to a certain extent the very first business initiative often defines the business direction for each individual firm. Compared with Company C, Company D was somehow constrained by the size of the firm, which left them less competitive in the Chinese market. However, Company D was lucky to enter China via an individual's recommendation (Cell I), and very quickly picked up the niche market where they could develop their business scope as well as their business contacts (Cell V). The continuous long-vision business development strategy in China allowed them to keep an eye out for any possible higher-level business cooperation opportunities both inside and outside China (Cell II), even though the later legitimation process might prove to be quite difficult.

1. Business Scenario (1): Firm-Resource Oriented

As a home-grown privately-owned financial company, Company D has always maintained its focus on developing markets, where they have accumulated rich business experience, and can thus take full advantage of their firm-resources and employ the specific skills of products and distribution innovation they are good at in these markets. Obviously, entering China was a decision made by the South African HQ after giving serious consideration to the costs, the risks and the potential profits from the huge Chinese customer markets. When the company selected the first market development manager, they did not receive many volunteers but one manager - who had just returned to South Africa from India where he set up an Indian branch office - offered his services. It came as no surprise to the company directors that this manager would like to take the China initiative because he had always been an open-minded person with many years' experience of developing and managing business overseas for the company. Before the manager headed to China they also facilitated their "China team" with more preparation on both human and material resources from their own company. First they persuaded their Chinese-Australian manager (who then worked for the Australian office and initiated the China idea) to join the team at least for some time to start with and to help cope with the language barrier in the country. And secondly they also conducted research on certain laws and rules that regulate foreign financial enterprises investing in China so as to familiarise themselves with the general documentary procedures and estimate their time schedule.

2. Business Transforming Process: (1): Localisation

Previous overseas business experience had taught Company D and the new manager to China that in developing countries to set up new business they must follow several vital principles, the first and most important of which is to "go local". Before they arrived in China they tried to persuade their Australian manager with Chinese origin to join the initial operation, because they knew they would need such a person to help them with language and culture differences. At the same time they also employed the services of the Beijing Foreign Enterprise Human Resources Service Co. (FESCO)[65]

[65] The first company established in China in 1979 to provide professional human resources services to foreign enterprises' representative offices, foreign financial institutions and economic organizations in China: http://www.fesco.com.cn/388/index.htm (Accessed, 16 November 2012)

to assist them with the establishment of their first Rep Office. Company D also had a long-term plan for a China operation manager: when the South African manager was setting up the business in Beijing, they were also trying to search for a local Chinese candidate to take over the management role later on.

3. Business Scenario (2): Personal-Network Oriented

In the mid-2007's, Company D received approval of their application for a Rep Office license in Beijing from the Chinese authorities, but this was just the start of their next business stage in China. According to China's regulations, a Rep Office license such as the one Company D held does not allow them to make any business profits. But this didn't stop Company D from exploring other possible business channels through personal networks. The market development manager on the one hand was looking for a local business partner to source other business options, and on the other hand he was also trying to get into higher business networks via various contacts. In early 2010 Company D also found a new manager, who was of Chinese origin and who lived and studied in South Africa, to replace the South African manager to operate their China business. At the same time Company D joined forces with a local retail company to establish a joint venture and distribute new retail insurance products. It might be questioned how they thought they would be able to sell insurance products without processing an actual insurance license, but, having full understanding of local knowledge it is not hard to explain. Their JV was under a consultancy business license and the retail insurance products are labelled as consultation services and thus they are entitled to do so.

4. Business Transforming Process (2): Externalisation

Company D has always been fully aware of the importance of building up good relationships with all levels of stakeholders since their arrival in China. Over the last five years (by 2012), Company D has had three key managers directly responsible to the Chinese market, and each has a specific focus on different levels of business connections. The first South African manager had to explore any possible contacts for assisting the new business, including staff from the South African embassy and local Chinese resources. The second Chinese manager who took over from the South African manager could take advantage of her own origin and local knowledge to extend local connections which would further enhance business cooperation, in order to cultivate and expand wider business networks. The international division manager based in the South African HQ has a more general strategic trajectory to build up relations with higher-level institutions from the international sphere. They have been very actively involved with projects and agendas related to BRICS, and in return they have uncovered more opportunities for their Chinese business. In early 2012, Company D finally secured a contract with one large Chinese state-owned investment company, which is a project that they had been working on over the last five years whilst they have been operating their Rep Office in China, which had led them to reach the next business stage - *Business Scenario (3) - Network-Opportunity Oriented*

5. *Business Transforming Process (3): Legitimisation*

Company D must bear in mind that once the new business initiative becomes more realistic to achieve, they will have to confront some of the challenges that perhaps they did not expect. The legitimisation process sometimes requires new procedures and standards to be built and implemented at the same time, which can be quite time-consuming, thus the first ‘water tester’ must be prepared to undertake such processes with patience and understanding.

Regarding the propositions: in comparison with Company C, the size of Company D may have constrained it from launching into larger projects in China. Nonetheless, the smaller size and more streamlined corporate structure enabled Company D and their managers to apply much more flexible business strategies to their operations in the Chinese markets. Also because most of the overseas markets that Company D had previously entered were developing or less developed markets where the formal institutional mechanism could be a burden and inefficient in facilitating business activities, Company D and their managers were the prepared to confront a similar situation in China. Company D had always been aware of sound ‘government relations’ being an important factor in operating their business in the home market, as well as in other African country markets, therefore it was natural for them to configure their own mind-set when it came to the moment they had to explore the Chinese market, where formal institutional systems were not yet robust enough to enable all varieties of business to compete equally in a ‘free’ market. Therefore they were very clear that they should nurture good ‘government relations’, as they did in

South Africa, in a rather interpersonal and flexible manner, to build a good foundation for their business development, even though it might take them a while. And of course, a firm of the size of Company D would not get much direct financial or political support from the South African government, so what the company could do more efficiently to solidify their own footprint in the Chinese market was to rely on their firm's own resources and to a certain extent to get 'assistance' from their own local Chinese partner. Company D had to adjust their own initial business intentions in China based on the regulations imposed on this market, and also to modify and multiply their business strategies in different niche markets in order to feed their need to develop their business operation in China. These have fully ticked all the boxes of *Propositions 1, 2 & 4*, and also partially for *Proposition 6*.[66] Similar to Company C, Company D did not worry too much about losing their IP although they were aware of the risks associated with operating in a market where IP protection was relatively weak. And possibly constrained by the size of Company D in the home market, they might have encountered stronger competition from large indigenous Chinese firms as well as other larger foreign firms in the same niche markets. So *Proposition 5 & 7*[67] are partially denial by the experience of Company D. *Proposition 3* is not applicable.

<u>Banks</u>

In comparison with South African insurance companies' business cooperation with Chinese partners, South African banks involve larger-volume capital transactions and thus they have conducted more conservative yet still profit-oriented business strategies to enter China.

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[66] *Proposition 1:* South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up); *Proposition 2:* previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter; *Proposition 4:* the lack of formal institutional support from South Africa for their entry into the Chinese market has engendered self-reliance and flexibility in their approach in China; *Proposition 6:* state intervention in the 'free' market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour.

[67] *Proposition 5:* prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP protection) and institutionalized trust in China; *Proposition 7:* South Africa's relatively late arrival into the Chinese market (in part due to its historical isolation) has resulted in a steep learning curve and a competitive disadvantage relative to longer-established firms and nations.

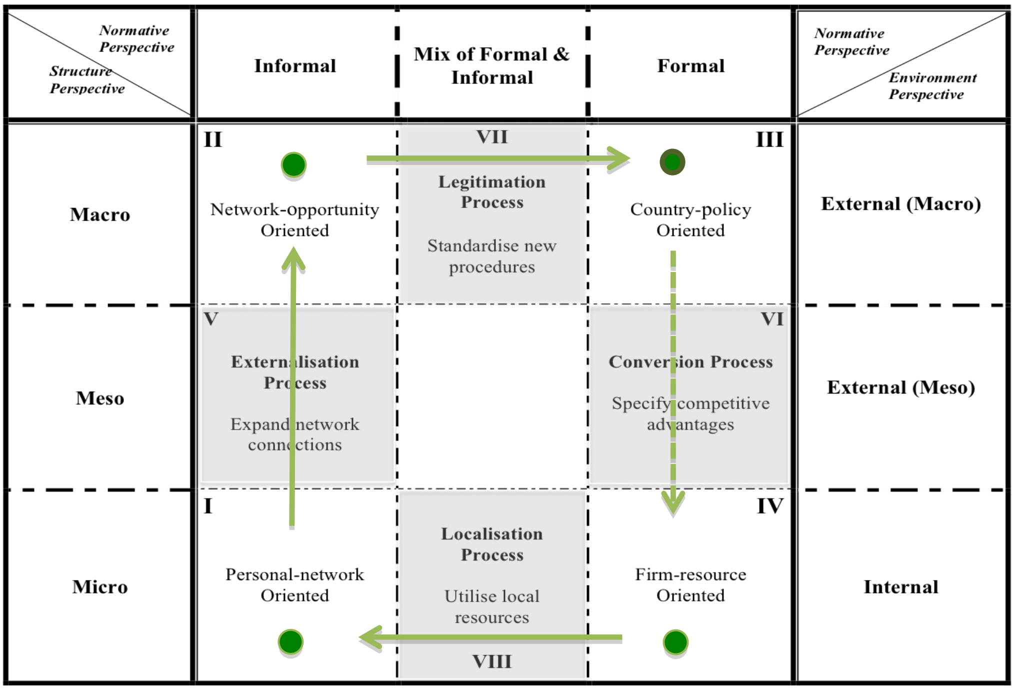
Company E is the largest bank by assets in Africa, and has 150 years banking business history in South Africa. Since the early 1990s they started expanding into the rest of Africa, and some emerging markets in other continents. By 2011 they employed 52,000 people operating in more than 30 countries, of which most were emerging country markets. In 2007 Company E announced a move to form a business strategic partnership with the largest Chinese commercial bank － Chinese bank γ - behind which was a multi-billion dollar business deal which was the catalyst for their unprecedented business cooperation. Over the last five years, Company E has established, besides their own Rep Office for the banking business, another two WOFE ventures for consultation businesses, of which one is to focus on supporting South African corporate customers in their international investment business and trade activities， whilst the other one is mainly to serve the Chinese state-owned company clients to help them facilitate their international investments outside China.

The two companies’ executives initiated business cooperation between Company E and the Chinese bank γ when they first met in Beijing in 2005. In the following two years the two companies kept consistent communications and expressed the intention to cooperate with each other, and the formal business negotiations between the two companies started in Autumn 2007. In just under 45 days both sides reached agreement on the basis for cooperation, and such a speedy business agreement surprised many people who had less knowledge about the transaction, including many local South African mass media. Considering the general global financial environment during the time both companies agreed to establish a “strategic alliance” cooperative partnership, where the Chinese bank γ would purchase a 20% stake in Company E, and on the other hand Company E would assist Chinese bank γ to facilitate business deals in overseas markets, particularly in emerging markets. The transaction was finalised within five months, and it was the biggest financial acquisition deal in South Africa up to this time. Five years later it appears that the strategic business partnership relations between the two companies has presented a win-win situation for both sides: through the deal Company E has received a large capital injection, especially in hard currency, to sustain its asset growth and physical expansion; whilst the Chinese bank γ has, with the assistance of Company E, been able to stretch their arms onto other emerging markets such as Africa and Latin America to expand their foreign business investment scope.

Analysis of Company E's Chinese Business Strategies Under the 3D Institutional Model

Company E had aspired towards and set foot in the Chinese market long before they tied the knot with Chinese bank γ. In fact it took Company E almost ten years to consolidate their footprint in the Chinese market until they sealed the deal with Chinese bank γ. During this period of time Company E had entered the Chinese market relying on their own business strength, but still maintained a rather narrow business scope (Cell I). With the awareness of language and culture difference being a burden for their business development in China, Company E started to employ local Chinese as well as South Africans with language skills and local knowledge (Cell V). The business services and products offered by Company E kept the company associated with high profile institutions, of which most are large Chinese SOEs (Cell II), and hence Company E had already built a rather solid platform for higher-profile business development. The multi-billion dollars deal was a high-level institutional arrangement (Cell II), which had drawn dramatic attention from all over the world, and it was not surprising that the deal was sealed within an almost startlingly short period of time, since the legitimation process was much accelerated because of the superior efficiency of both sides (Cell VII). To have a Chinese SOE as a large shareholder inside Company E, they had been clearly aware that some of the state policies would be associated with the Chinese shareholder and somehow Company E would not find it easy to avoid this (Cell III). However, Company E took a rather moderate approach to the Chinese markets, but more proactive strategies towards the markets outside China that both Companies (South African and Chinese) are mutually interested in. In this way Company E can gradually shift some of the 'China state policy' that has been imposed on their business to their own firm's advantage (Cell VI).

Figure 5.5: Company E's Business Strategies Within the 3D Institutional Model



1. *Business Scenario (1): Firm-Resource Oriented*

According to *The Banker's Top 1000 World Banks 2012 rankings* (2012), compared with Chinese bank γ which is listed in the top five banks by asset size, Company E is ranked below 100, and this distance was even bigger before the acquisition deal five years ago. Therefore, the magnitude of its capital resource is certainly not the firm's advantage that Company E relied on to enter the Chinese market. However, as the oldest commodity bank in Africa, Company E has rich business experience and advanced technical and information support systems to deal with mining and other resource companies, which the Chinese banks lack. Company E set up their first business representative office (RO) in Hong Kong in the early 1990s and then a Shanghai RO at the end of the 1990s to concentrate on business clients with Asia/African initiatives. And later in early 2000 the company established a resource business, a WOFE advisory venture, to assist and facilitate its business with commodity trading and cross-border mergers and acquisitions (M&A). However, these business activities were still maintained within a rather narrow scope, mainly focusing on their South African/African business clients, because they found it hard to compete with the large domestic Chinese banks or those foreign ones from the US and Europe unless they could find a channel to enter these markets.

2. *Business Transforming Process (1): Localisation; and Business Scenario (2): Personal-Network Oriented*

Although maintaining a comparatively narrow business operation in mainland Chinese markets before the 2007/8 deal with Chinese bank γ, Company E managed to retain their business presence in the Chinese banking industry. The resource advisory company they established in early 2000 had enlarged their business networks with local Chinese resource and commodity companies. Company E had been well aware that language and cultural differences would matter in their Chinese business, and they employed local Chinese as well as a South African who could speak mandarin Chinese. Objectively speaking, Company E's business transforming process on localisation was not as obvious as some other companies, however they were able to lay out a fine fundamental basis, in terms of human resources, business capacity and networks, for preparing for future business expansion and development in China.

3. *Business Transforming Process (2): Externalisation*

The Rep Office and wholly-owned resource business had enabled Company E to focus on different business initiatives and activities, and meanwhile to search for appropriate business projects in China. Company E had a high-positioned business director based in China and maintained higher-profile connections with business associates and customers, particular those indigenous Chinese state-owned companies. In 2005, one international financial conference held in Beijing brought the two companies' executives together to communicate and understand each other's business. This was the prelude of the two companies' further cooperation.

4. *Business Scenario (3): Opportunity Oriented*

Superficially, their multi-billion dollar deal was perhaps just a large acquisition transaction of a Chinese company buying a 20% stake in Company E, but from Company E's viewpoint, this business event was a break-through opportunity to obtain a large capital injection and at the same time to access one of the biggest consumer markets in the world. For both companies this business opportunity seemed to arrive at the right time. Two years before the two companies' formal negotiations, the two companies' executives first met at an international conference and they expressed the intention to cooperate with each other if there would be an opportunity. During the following two years they kept consistent contact Company E had hoped and prepared for their up-coming cooperation. But the global financial recession had heavily hit the global banking industry and this doubtlessly affected Company E, and thus hindered its business progress. As a result Company E was in need of capital injection rather than extraction. In between, each company also had other cooperative options, and hence the marriage between Company E and Chinese bank γ was halted. However, neither of the companies could achieve agreement with their first-choice partners with regards of shareholders and shareholdings.[68] Then came the offer from Chinese bank γ, and the conditions and arrangements for forming a 'strategic alliance partnership' satisfied both companies, especially both sides' shareholders. And this paved the path for the speedy execution of this large financial transaction for both companies and countries.

5. *Business Transforming Process (3): Legitimation*

The transaction involved a huge capital transfer, which neither Company E nor Chinese bank γ had ever conducted before, but it was accomplished within a very short period of time. Without doubt the consistent and close communication between the two companies was vital to facilitate the whole transaction, because "the top 'people' (the top decision-makers) were talking to each other all the time…" Another main factor contributing to the deal's success was the accurate stake proportion (20%) Chinese bank γ would take from Company E, which was enough to maintain a position on the board but without threatening other shareholders' benefits, and thus such a stake arrangement had won support and consent from the vast majority of shareholders in Company E. On the Chinese side, the company formed an intensive study group consisting of 30 members from 10 departments to coordinate with each

[68] Company E had negotiations with one British bank at the time, but the latter required more shareholdings than Company E could accept. Chinese bank γ was in contact with another South African 'four pillar' bank (smaller than Company E by assets though), but the latter's shareholders rejected the deal offered by Chinese bank γ. Source from: http://www.hexun.com (Accessed on 22 November 2012).

other and conduct a pre-feasibility study on the deal. Their thorough investigation also provided sufficient supporting materials to later apply for government approvals. In addition, banking and other related regulators in both South Africa and China had attached great importance to this transaction because of its associated economic and political significance for both countries (Mboweni, 2004). Therefore, it was not surprising that they finalised the whole transaction by obtaining approvals from the South African Reserve Bank and later the China Banking Regulatory Commission and other regulators in just under a mere five months.

6. *Business Scenario (4): Country Policy-Oriented; and Business Transforming Process (4): Conversion Process*

Compared to Chinese bank γ 's fast business movement into Africa after the acquisition, Company E took a rather more moderate approach towards the Chinese market. To have a Chinese SOE shareholder, Company E was cautious about the fact that certain Chinese policies associated with their shareholders would affect parts of their business operations. And how would Company E take advantage of these country policies related to their shareholders in order to turn them to their own firm's advantage? Company E took a different approach to its penetration of the Chinese market compared with that of Chinese bank γ, but at the same time this functioned as an effective trade-off which benefited both parties. Company E's business strategies reflected more a 'localization process', with Chinese bank γ facilitating its penetration of the Chinese market. Thus, Company E's 'conversion process' is indicated in their involvement with their Chinese shareholder in its operation in this new market. Like many other Chinese firms, in contrast, Chinese bank γ had been encouraged by the country's 'go global' policy to invest outside China and purchase quality assets, especially in emerging markets. In this respect, Company E already has a lot of experience operating in these markets with advanced technical and information support, and thus was eminently capable of assisting Chinese bank γ to facilitate these transactions through their established institutional networks and customer resources. In return, Company E would receive an injection of more capital from each successful deal into its own organisation which would facilitate its organic growth and expansions into other markets, including China.

Cooperation with Chinese bank γ not only injected fresh capital into Company E, but also most importantly gave Company E access to wider consumer markets[69] in China. Although Chinese bank γ's existing customers would not be converted directly into Company E's customer base, the enormous customer foundation provided a platform for Company E to practice new business initiatives. Both companies exchanged employees to enhance understanding and learning from each other. Just after the establishment of the strategic partnership with Chinese bank γ, Company E set up another WOFE business venture in Beijing in 2009 in order to strengthen its presence in the Chinese markets, and at the same time shorten both the physical and psychological distances from their major Chinese SOE client and various levels of government for the purpose of maintaining and expanding their business networks. One manager from Company E who used to be based in China said, "[doing business in China], it's all about *guanxi* (networks and connections), and it is policy oriented. But if there are policy-related issues [happening during our business], we'll go to our partner to let them solve the problem."

Regarding the propositions: as one of the oldest commodity banks in South Africa, Company E had long business history of working together with international and domestic mining companies, from which they accumulated experience in dealing with industrial relations through both formal and informal channels with both the state and the labour unions. Therefore Company E was neither unaware nor unprepared to deploy informal institutional mechanisms to open up their business horizons in the Chinese markets, in fact, quite the opposite: Company E and their managers highly appreciated the value of the close relationship with Chinese SOEs they had built up over the years in China, which had become an asset to the firm because they could use it at higher-level institutional channels to create business opportunities. The later billion-dollar transaction was one such example for Company E. Although China might hold some specific characteristics (as indicated in Chapter 4), especially concerning its stance on the financial market when compared with the financial institutional system in their home country market, Company E and their managers did not feel it was particularly difficult to sustain their presence in this market. Indeed, they made efforts to adjust themselves in order to overcome the language and cultural

[69] It was estimated that Chinese bank γ has more than 290 million retail and 3 million business customers worldwide (source: anonymous interviewed company website).

barriers that in other markets they had been equally aware of. State bureaucracy could hinder the efficiency of some business activities, but again their relationship built with large SOEs were able to lend a helping hand. Thus we can see that Company E strongly supports *Propositions 1 & 2,* and weakly supports *Proposition 3*.[70] Perhaps also in contrast to some of the other South African firms, *Propositions 5 & 6*[71] are strongly denied by the case of Company E. Strong Chinese state intrusion in this case did not burden business efficiency but actually accelerated the implementation of the new business initiative for the billion-dollar deal. And Company E did not feel they were short of preparation for engaging a market like China where the formal financial institutional environment was less mature than in South Africa. Instead, Company E chose to enhance institutionalised trust through their high-level contacts (as described above) and thereby create business opportunities that would be mutually beneficial. There is no strong support for *Proposition 7*[72] in this case. *Proposition 4* does not apply.

Company F is one of the top three largest banks by market capitalisation listed on the Johannesburg Stock Exchange (JSE), whose earliest retail banking history dated back to the mid-19th century. Three entrepreneurs started investment banking business for the company in the late 1970s, and soon the company became an integrated financial group listed on the JSE in 1998. Through major subsidiary financial divisions, Company F provides services to 9 million customers worldwide and has expanded its business to the rest of the African continent, as well as to Europe, the Middle East and Asia, with a total employed global workforce of 36,000 people. In 2007 Company E

70 *Proposition 1:* South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up); *Proposition 2:* previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter; *Proposition 3:* previous exposure to state bureaucratic intrusion into business decisions and operations in South Africa will have prepared managers for the situation they will face in China, where similar conditions prevail.

71 *Proposition 5:* prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP protection) and institutionalized trust in China; *Proposition 6:* state intervention in the 'free' market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour.

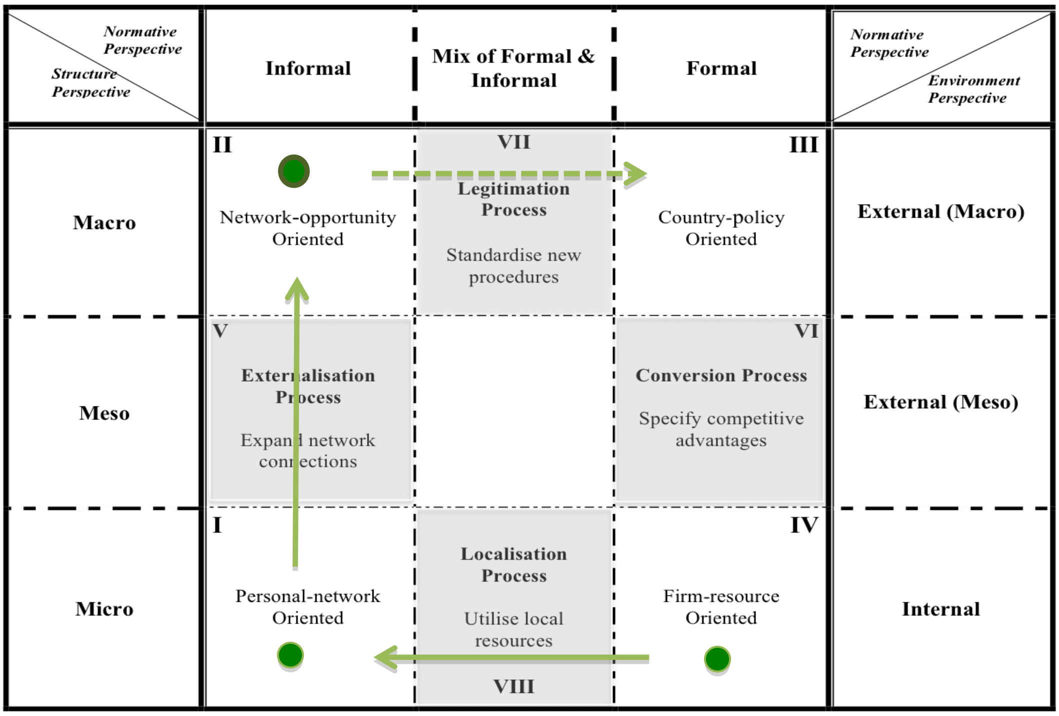
72 *Proposition 7:* South Africa's relatively late arrival into the Chinese market (in part due to its historical isolation) has resulted in a steep learning curve and a competitive disadvantage relative to longer-established firms and nations.

established their China Rep Office in Shanghai and two years later signed a "strategic co-operation" agreement with Chinese bank ð to cooperate with each other on Sino-African projects. Compared with Company E (case described above), Company F has retained quite a conservative attitude towards China and the Chinese market, which is attributed to the company's general global strategy.

As one of the largest financial groups in South Africa, Company F has a strong entrepreneurial culture and holds to a business vision to build long-term franchise value and generate sustainable returns to its shareholders, so their focus has hitherto been maintained within Africa. However, they have also become convinced that the emerging economies would become major trading and business investment partners for Africa in the coming years, therefore they cannot overlook the influence countries like China would bring to South Africa and their business. As a matter of fact, in 2007 Company F was one of the potential cooperative partners Chinese bank γ chose before they finally decided to work with Company E. The reason for this was mainly because Company F's shareholders rejected the deal offered by Chinese bank γ. But two years later, Company F made a decision to establish a 'strategic co-operation' agreement with Chinese bank ð in order to cooperate on projects. The motivation behind such cooperation was, firstly, because with increasing numbers of Chinese companies expanding into South Africa and Africa as a whole, many large projects (such as in infrastructure, the mining sector) were being conducted by these Chinese companies and Company F indeed sensed the potential profits to be obtained from these projects. Meanwhile, Company F also had an ambition to expand and solidify its physical footprint in other African countries. It seemed that Company F took a belated 'catch up' business move to match what their peer rival bank had done two years previously, but Company F actually adopted a rather different approach towards its 'China cooperation' compared to Company E, maintaining it at a lower level and mainly based on a memorandum of understanding (MoU).

Analysis of Company F's Chinese Business Strategies under the 3D Institutional Model

Figure 5.6: Company F's Business Strategies Within the 3D Institutional Model



Quite different from the Company E, Company F entered China with a strong intention to serve their own clients in the overseas markets, which was a successful business model that Company F had used in other markets before China (Cell IV). Company F was less ambitious in terms of the Chinese market, and wanted to test the water before going too far. They were nonetheless conscious that to have a local partner would make things easier. And it was fortunate that inside Company F they had a South African manager with Chinese background who had helped liaise with another large state-owned Chinese bank to facilitate the cooperation (Cell VIII to Cell I). Although Company E had maintained lower-level cooperation on the basis of a MoU with the Chinese partner, they had been proactive to facilitate connections with higher-level institutional networks, via their own clients in the Chinese market, via their Chinese partner, as well as via participating international institutional initiatives such as BRICS (Cell V). And later still, Company F had already been chosen, by a Chinese state-funded organisation, to act as regional partner to generate and enhance new business opportunities for both countries (Cell II). If this arrangement were to become more feasible, the legislation process would be the next step Company F would have to face (Cell VII).

1. *Business Scenario (1): Firm-Resource Oriented*

Company F's China entry attempt came after they established a Middle East Rep Office, and formulated a business model which aimed to facilitate trade and investment projects, which was first successfully implemented in other emerging markets. As one of the largest South African financial groups, Company F has had clients and company customers whose business operations have been expanding worldwide, and increasingly into the Chinese markets, so Company F saw the necessity to follow their clients in order to maintain their existing business relations as well as to provide their clients with convenient financial services overseas. One manager from Company F described their business strategy regarding entering emerging markets as "to follow the customers worldwide, because we trust our brand relationships… We support South African firms in China: their projects in China might not be convincible to the Chinese banks [to get loans] but we know them and trust their HQ in South Africa, so we can help these firms…" As a result, Company F's China journey was 'pushed' by their own customers' resources.

2. *Business Transforming Process (1): Localisation*

Company F had also practically foreseen their position in the Chinese markets before they took the move, and they considered themselves to be not competitive enough to compete with the indigenous Chinese banks or other large foreign banks because their brands were not yet well known in China, so they must "go to China with a local partner". The Chinese bank ð, which Company F later chose to be the partner, was among the 'big four' Chinese banks, and was one of the earliest Chinese banks to have a presence in South Africa, and most importantly shared similarities with Company F regarding business investment. Company F appointed their employees with Chinese origin background to initiate and implement the business cooperation, which proved to be an efficient way to establish new business relations.

3. *Business Scenario (2): Personal-Network Oriented*

Company F did not seem to have the urge to accelerate their business development in the Chinese markets. Using their manager's metaphor to explain the cooperation with the Chinese bank, the purpose of the "banks' marriage" was just to "wait and see" the potential business opportunities that might arise in the markets. Through the footprints of their existing business clients in the Chinese markets, they could further promote their own brand in the new markets, and at the same time use Chinese bank ð's brand name to attract new customers and business deals from China. Although the five-year Rep Office did not earn physical profits for Company F, they indeed managed to make a great advertisement for their own brands and build up the foundations for their later development.

4. *Business Transforming Process (2): Externalisation*

Although Company F has maintained its business cooperation with Chinese bank ð, albeit still on a low-level basis and mainly based on a MoU, they have shown enough interest in developing wider business connections and becoming involved with higher-level institutional initiatives. Company F was recently chosen as a cooperation partner by one Chinese government-funded financial organisation collectively to promote Sino-African business trade and investment projects. And in the last two years, Company F has also been rather active with the BRICS' new financial plan to form a regional development bank, which will create unprecedented business opportunities for Company F to expand their business range and presence in the most dynamic emerging markets, including China. By then what Company F should have more concerns about would be the legitimation of new business initiatives and procedures within this new institutional arena.

Since Company F had a much less sophisticated business model in China compared with Company E, it seems that none of the propositions are given strong support or denial from Company F, although it does show weak support for *Propositions 2, 3 & 4,*[73] and a weak denial of *Propositions 6 & 7*.[74] Company F had a successful business

[73] *Proposition 2:* previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter; *Proposition 3:* previous exposure to state bureaucratic intrusion into business decisions and operations in South Africa will have prepared managers for the situation they will face in China, where similar conditions prevail; *Proposition 4:* the lack of formal institutional support from South Africa for their entry into the Chinese market has engendered self-reliance and flexibility in their approach in China.

[74] *Proposition 6:* state intervention in the 'free' market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour; *Proposition 7:* South Africa's relatively late arrival into the Chinese market (in part due to its historical isolation) has resulted in a

model which it had implemented in other foreign developing markets prior to its entry into the Chinese market, and they had confidence that a similar model would be feasible in China. Over the years under the ANC's rule in South Africa, the government had changed and intervened with banking policies and regulations for both political and economic reasons, and thus banks like Company F had learned to adjust themselves and adapt to the new regime. These had prepared the managers at Company F to be more flexible and self-reliant in channelling their own ways of sustaining their business presence in the Chinese market. Because of the cautious attitude that Company F had towards the Chinese market, even though they had chosen a Chinese bank to partner with, they only wanted to maintain low-profile cooperation based on a Memorandum of Understanding. Therefore the depth of most business dealings were not profound enough to support these three propositions strongly. Equally, even though the case of Company F has shown some minor denial of *Proposition 6* (the efficiency of Company F's Representative Office in China would not be necessarily have been affected strongly by state intervention) and *Proposition 7* (there is not much competition for Company F's current business intentions in the Chinese markets), the two propositions are much weaker when tested against the case of Company F. *Propositions 1 & 5*[75] are somewhat neutral to this case.

Case III: Business Sometimes Comes Second – Relationship with the Government is the Key

In China for certain types of business investment, either domestic or foreign venture, it is unavoidable to have government stakeholders involved in the business. If a business company wants to invest under high government-policy control such as in the finance and energy sectors, the most important and first step for the potential investors is to have an appropriate and healthy relationship with the government, particularly with the local ones. The following two cases will show what differences local government stakeholders can make for two foreign companies' China business

steep learning curve and a competitive disadvantage relative to longer-established firms and nations.

75 *Proposition 1:* South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up); *Proposition 5:* prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP protection) and institutionalized trust in China.

journey.

Company G is a large global energy and chemical company based in South Africa. The company holds the world's leading coal-to-liquid (CTL) and gas-to-liquid (GTL) technology, which has enabled them to supply more than a quarter of the fuel needed to meet South Africa's annual requirements. Company G was established in 1950 and maintained as a state owned enterprise (SOE) until 1979 when it became privatised. As one of the largest petrochemical groups in the world, Company G operates in more than 30 countries and employs 34,000 people internationally. In 2002, the then Chinese prime minister proposed to invite Company G to come to China with their advanced technology, because oil demands in China had become one of the major issues fuelling China's fast economic development. However, after a 10 year tepid relationship with their un-contracted Chinese partner, Company G had to withdraw their business focus from China, because they were not able to secure approval from the Chinese government on the business co-operation contract they had been expecting and working on for the last 10 years.

Having one of the world-leading technologies however is not the only stake that made Company G the leader in the global petrochemical industry. What makes them more competitive is their long experience of commercialising technology and their complete management mechanisms of business operations as well as their ability to respond effectively to any crisis. Over the last six decades their business operations have been mainly in developing countries where the infrastructure systems are underdeveloped. Company G has accumulated experience of selecting and developing new business opportunities, but they had kept their distance from China, which is a country with a similar natural resource structure to South Africa.[76] It was only following a research visit to Company G in early 2000 by five senior Chinese scientists and officials from the Chinese energy sector that the Chinese prime minister invited Company G to look at the opportunities in China.

Lack of local knowledge made Company G hesitant about going to China because

[76] Both China and South Africa have more coal reserves than oil. Based on EIA's statistics, by end of 2011 China's proved coal reserve was 114.5 billion short tons, and South Africa was 30.2 billion short tons. And in terms of proved reservs of crude oil, China was 20.35 billion barrels whist South Africa was 0.015 billion barrels (1 barrel = 6.28981 cubi meters). http://www.eia.gov (Accessed on 28 June, 2013).

they were literally inexperienced towards China and Chinese markets. From the Chinese side, it was great news for Chinese companies to have a potentially big project with a top-class foreign company that was supported by the Chinese government. Numerous directors from different Chinese companies had already made trips to South Africa even before Company G had a clear idea about the deal in China. One of Company G's country (China) presidents recalls, "We were almost inundated with (Chinese companies) visits to our head office in Johannesburg…eventually we knew the Chinese government is telling us who we must deal with because we cannot make this decision." The signing of an intention to cooperate went fairly smoothly but the following business negotiations in terms of cooperation mode and other issues were not as good as they had expected. This long procrastinating process had been going on for 10 years, which was substantial and vital period of time for any business development.

Over the ten years, many things had happened, both politically and financially, to both countries and companies, which prevented them from committing to the project according to the schedule. In China, after the central government officials returned from South Africa, it took them 15 months to select two Chinese state-owned companies (Company α and Company β) that were believed to match Company G's requirements as business partners. Two projects in two provinces were subsequently assigned to Company G who then started the first round of feasibility studies. However, just four years later, in 2008, when Company G was conducting the second round of feasibility studies, a government policy issued by NDRC[77] terminated the project between Company G and Company α. Within a short space of time Company α took over Company β, by which time Company G had only one project left in China even though they were still working with Company α. The complicated and unpredictable political and business environments had confused Company G and halted business development, thereby adding extra cost for Company G which was difficult to explain to their shareholders back in South Africa.

In order to secure the only project in North China, Company G sent to China another country president who had been working with Company G for 25 years and had a vast amount of experience of dealing with foreign joint ventures. Moreover, and perhaps

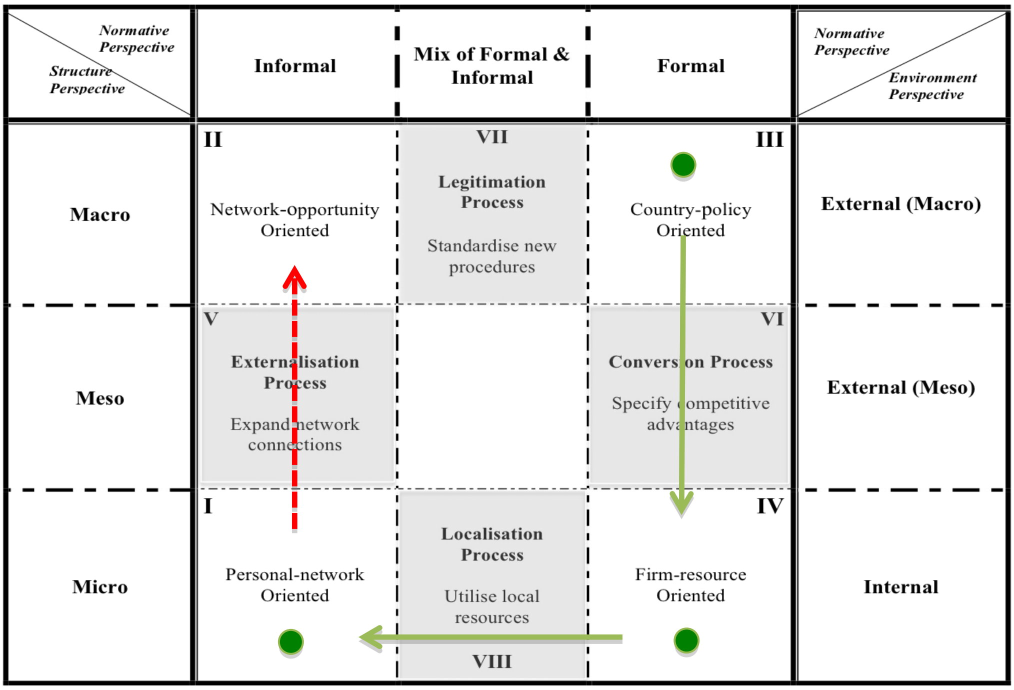
77 National Development and Reform Commission, People's Republic of China.

most importantly, the new country president had a more flexible business and communication style, which later proved to be extremely useful when it came to speeding up certain parts of the business development process. At the same time Company G decided to set up an office in the province where the projects were located with the intention of strengthening relationships with local government officials and partners to obtain government approval for the project. By early 2011 Company G had received one approval from the environmental ministry. However, just three months later Chinese Company α (Company G's business partner-to-be), submitted their own CTL proposal report, in which Company α proposed to employ China's own technologies, and they obtained government approval within a very short period of time. Although Company G had known China and the Chinese partner had never stopped developing their own CTL technology, they believed their project experience was still valuable for the Chinese projects. But by this stage, the South Africans realised that they were effectively out of the game.

Analysis of Company G's Chinese Business Strategies under the 3D Institutional Model

Company G's business intention for China was largely driven by the Chinese government, or at least by the sincerity that a high-profile state governor had conveyed to the company, because the products and technology that Company G has was what China terribly needed. So the company was given preferential 'treatment' at the beginning of their business path to China (Cell III). Managers of Company G had concerns in terms of their own business capacity under the 'sound governmental environment'. They evaluated exactly what products and service they could offer and what business strategies they would use in the Chinese market in order to fully utilise their own firm-resource (Cell VI). On the ground, with confidence in their own technology and experience, Company G entered China (Cell IV) but with a business partner assigned by the Chinese government – a Chinese SOE with local government shareholders. The company had made efforts to familiarise themselves with the market through the local 'advisory tanks' (Cell VIII), but they were unable to work out better cooperative relations with the local partner who actually was the key factor in helping to channel to higher-level networks, and to lubricate the process of approaching the key players for the proposed billion-dollar project (Cell V). In the end, Company G was unsuccessful to seal the contract and faded away from the project after almost a decade's business ambition in China.

Figure 5.7: Company G's Business Strategies Within the 3D Institutional Model



1. Business Scenario (1): Country-Policy Oriented

It is undeniable that Company G's business interest in China was effectively motivated by a Chinese government initiative. As a large home-grown state-owned enterprise, Company G's growth depended mainly on the South African government's support, although it has to be said that after 1980 Company G started relying on private financial resources with the South African government providing political support, such as tariff protection and subsidy systems. These arrangements ensured that the company would have normal operations in their domestic business projects. Company G was, or should have been, well aware of how crucial government policy support can be for business projects. "We had a look at the regions in the world [for new projects] where [the country] has coal and water access and has a government who wants to do this," words by the company president, "there was also a strategic rationale – they [the Chinese western regions] have also got big coal reserves. The intention to develop the western regions of China was quite strong… [the provincial] government wanted development…" From Company G's point of view, of the three criteria Company G chose to enter a new country, China seemed to fit into their general strategic business development plan. However, top Chinese government officials from the central government visited them in South Africa and this might have given them a false sense of security of obtaining the approval for the projects.

2. Business Transforming Process (1): Conversion

As mentioned earlier, Company G was unsure about what business opportunities existed in China, because of the lack of local knowledge. They believed that with the support of the Central Chinese government their entry into the Chinese market would run very smoothly – even though this meant compromising on at least one step into China, and that was allowing the Chinese government to select their business partner for them even before Company G knew what this partner would bring to the table. From a business perspective this is never an easy option for any foreign investment. In some ways Company G chose to compromise its own firm-specific advantage (FSA) in order to obtain a more country-specific advantage (CSA). According to Dunning's OLI business framework, any company entering a foreign country market must have ownership (O), location (L) and internalisation (I) advantages. In the case of Company G entering China, they had lost L and I advantages by being assigned a business partner and projects by the government, and all that was left for Company G was their specific ownership advantage coming from their technology and experience. The actual conversion process was when Company G accepted the Chinese government's assignment (business partner and project location) by giving up their own business advantages (L and I). In return for doing this, Company G thought they might have a better opportunity to be granted preferential policies from the central government, so as to make further utilisation of their ownership advantage. It was not an unsuccessful business strategy to start with, even though Company G was in a rather passive position when things went out of control. But at least, after 2 long years, Company G finally reached the next step where they could rely on their own firm's resources.

3. Business Scenario (2): Firm-Resource Oriented

Shortly after signing the intention to cooperate with the two Chinese partners (Company α and β), Company G sent two members of its South African staff to set up their Beijing Office, and at the same time started the first round project feasibility studies in South Africa. At this stage, Company G started being more pro-active and stretched their control capability over the firm's human and financial resources to accelerate the business progress, because all parties involved in the projects agreed that Company G held a world-class technology and had experience. In the entire process of first round feasibility studies, Company G took full advantage of its own resources and previous project experience. They conducted a thorough and detailed investigation of the different aspects of the future project, from the project site physical conditions to the future business ownership structure proposal. This mirrored Company G's usual cautious and meticulous business style which had been formed over decades of dealing with vast internal shareholders as well as external stakeholders of the company. However, Company G's business style was not necessary suited to the Chinese business environments, and this had created a dilemma for Company G in so much that they were not able to accomplish the subsequent transforming processes.

4. Business Transforming Process (2): Localisation

Although the first feasibility study had delivered encouraging results for the potential projects, opinions differed between the partners on many issues, which had hindered Company G from relying more on Chinese local resources. Both partners identified that the lack of communication was the key to their problems. From Company G's perspective, the first and most important issue for them was the protection of its IP, which must be guaranteed by securing at least a 50% share of the proposed joint venture. But negotiations over the JV's ownership structure were indecisive, and it was realistically not possible for the Chinese to accept a 50/50 arrangement. Secondly, Company G had a completely different business orientation and decision-making strategy from their Chinese partner(s). As a listed company, Company G had a responsibility to its shareholders who were concerned about their future return, which meant that the company must conduct a thorough business analysis on investing in projects, value the cost and profit. The decisions by the board members were made purely from a business and profit perspective. The Chinese companies on the other hand were attached to the central and regional governments whose main objective was to seek another way of reaching oil resources and also to develop the region's economy through the project. The latter objective was important from both an economic as well as a political perspective. In addition, many government officials were involved with the managing group of these Chinese state-owned companies, and thus decision-making had no specific time-scale due to the bureaucratic and hierarchical systems that exist in China.

Company G tried to speed things up by replacing the first company president with someone else who was considered to have a more flexible business style and experience of engaging with foreign joint ventures. His mission was to take the responsibility for the delivery of the second feasibility study and securing approval for the project together with the Chinese partners from the Chinese government. Company G also recruited more local staff including a local senior manager who had previous experience in the energy industry. The Chinese senior manager built up an advisory team which consisted of consultants from international energy companies, and retired directors from Chinese SOEs as well as academics from related institutions etc., in an attempt to ease the communication problems for Company G. This advisory team made a difference to a certain extent, because Company G became more flexible, after heeding the advice given to them by the advisory team, when making decisions on certain parts in the feasibility study. Concessions were made in the hope that they would have a better chance of obtaining government approval without affecting business profits. However, the reality proved that they were merely 'treating the symptoms', because Company G still lost the game in the end, but what had gone wrong?

5. Business Transforming Process (3): Unsuccessful Externalisation

According to the 3D institutional framework, after the 'localisation process' Company G was supposed to take the next step which is the 'externalisation process', in order to expand its business communication networks to reach higher level connections through their existing local personal relations. In Company G's case, they conducted a reversed approach during their 'externalisation process'. They should have looked at how they could shorten the communication distance between them and their Chinese partner company directors – the regional government officials. They had made such efforts in the 'localisation process', such as forming a 'local advisory group' which could have been a quality resource to extend and build up new local networks for business concerns. However, they were unsuccessful in further developing such resources to explore higher levels of institutional connections, but to use it in a reverse direction: to have the company president explaining to the Head Office why things happened differently in China, or to invite the advisory group back to South Africa so that they could explain to the South Africans how the Chinese mind worked on such projects. In fact, Company G's country president had clearly seen the difficulties of building up proper networks with the Chinese business partner who had the Chinese government as shareholders. He admitted that: "you need senior Chinese staff on your team to help to guide you through but even the senior Chinese guys here don't know all…probably the best route for you to go is through your own government (South Africa) so that they can interact a little bit with the Chinese government, to be able to position the project appropriately…"

6. Business Transforming Process (4): Legitimation Process Never Happened

Because of failing to succeed in the 'externalisation process', Company G were not able to create a channel into the upper level institutions (mainly the regional government) that had access to resources on up-dated policies from central government. It was because of this that they were unaware of how they managed to lose one project almost overnight just because of one new government regulation, which resulted in the two cooperating partners merging into one. The more distant the relationship between Company G and the Chinese partner grew, the more difficult it was for them to receive opportunities that the Chinese central government might give them. Without the middle-man, which the Chinese partner was supposed to be, some specific business initiatives or business policies were difficult to deliver. "There is a much stronger role played by the Chinese government in business in China…In a Western government [country], the government sets the rules and then anybody can play, as long as they follow the rules. In China they set the players as well…" Unfortunately, Company G did not play well with their assigned player. Although they followed the rules, they finally faded out from the game.

Regarding the propositions: not many South African companies would get the chance to be 'invited' by the Chinese government to enter the Chinese market, but Company

G was one such. Company G has always been the pride of the South African nation in business terms because of their world-leading technologies in the petrochemical industry. Established as a SOE during the Apartheid era, and thus receiving government support and protection, Company G still managed to maintain a quite high profile in South Africa even after it had become privatised. The ANC party offered sound policies that allowed the company to develop and operate within the domestic market. The key parameter for Company G's business development was its ability to engineer technology to match natural resource extraction requirements. The government thus offered suitable policies for resource exploitation, and Company G matched this with the requisite technology. Company G also had rich experience of operating in difficult country markets (mostly in developing and less-developed markets), but the parameters they applied were almost always the same. Therefore, deploying informal channels to facilitate business operations was not Company G's usual approach; it was not generally necessary. Despite their rich experience in difficult foreign markets, Company G did not endeavour of its own accord to step into China, because they lacked knowledge of this market, and it held too many uncertainties to make it attractive. Therefore, regarding *Propositions 1, 2 & 3*,[78] Company G's experience tends to refute these. The China business opportunity for Company G was 'given' by the Chinese central government, and a local Chinese business partner (a Chinese SOE) was assigned to Company G also by the Chinese government. Normally, a business arrangement in China would require the foreign firm to build a close relationship and nurture mutual trust with the local SOE in order to compensate for their lack of local knowledge and institutional connections by virtue of being foreign. However, Company G was neither experienced enough nor prepared to tackle these 'relationship' issues, but instead invested most their focus on the 'project' itself. Only at a later stage did Company G realise that there were gaps in the communication of important information related to the project's progress, and it was in response to this that the company then appointed a new country manager with

[78] *Proposition 1:* South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up); *Proposition 2:* previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter; *Proposition 3:* previous exposure to state bureaucratic intrusion into business decisions and operations in South Africa will have prepared managers for the situation they will face in China, where similar conditions prevail.

more Asian business experience to take some ‘remedial action’ in order to save the situation in China. Company G came to realize that whilst the sound policy context provided by the high profile governors might have helped with the initiation of this new business opportunity, it would be up to the people on the ground at local government level to implement and materialise the project plan. Unfortunately it took Company G almost a decade to learn the lessons of the Chinese markets. Over these ten years, the Chinese partner also had the chance to learn and improve their own technology capability, eventually becoming robust enough to ‘abandon’ their foreign partner. By then Company G’s business ambitions in China had cooled significantly. Accordingly, *Propositions 5 & 6*[79] receive strong support here, and *Proposition 4*[80] gains weak support. *Proposition 7* is not applicable to this case as Company G was not a late arrival to the Chinese market, and at the time they first arrived in China there were hardly any strong competitors in the same industry.

In contrast to Company G, **Company H** had a completely different experience in China when dealing with government relationships, experiencing less frustration and showing more understanding and diplomacy, which has meant that for more than 20 years China has been their largest consumer market. Company H is one of the largest suppliers of seaborne iron ore in the world, producing more than 80% of the South Africa’s iron ore, of which more than 85% is exported to international clients. As a home-grown company in South Africa, Company H employs more than 11,500 people, comprising 60% full-time employees and 40% contractors, plus an additional 4,000 fixed-term project contractors on capital expenditure projects during the year. Although Company H has experienced several changes over the last 30 years in its ownership structure, their business strategies with the Chinese clients have always remained the same, which is to maintain and continue promoting their friendly relationships. Company H’s first attempt to enter the Chinese markets could be dated back to the late-1980s during the time when South Africa was experiencing a crucial

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[79] *Proposition 5:* prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP protection) and institutionalized trust in China; *Proposition 6:* state intervention in the ‘free’ market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour.

[80] *Proposition 4:* the lack of formal institutional support from South Africa for their entry into the Chinese market has engendered self-reliance and flexibility in their approach in China.

period of transformation in domestic social and economic systems, whilst China at that time was merely in the early stages of its opening-up policy. Either geographically or ideologically it might have seemed implausible to develop business relations between the two, but the relationships that Company H has fostered with their Chinese clients in the past two decades have become their major source of business revenue,[81] and they are convinced that their friendly business relations with their Chinese client will remain as solid as ever in the future.

Relationships are indeed important for conducting successful business in China, but the fundamental factor which first attracted their Chinese clients' attention was the product which Company H produces - their quality iron ore - which was and still is one of the major resources that China does not have and is hungry for. Company H was one of the first South African companies to set up business in China. They sent out their first sales team in 1988 and within one year they had managed to quadruple their sales volume and within 18 months the figure reached 25,000 tons. The turning point where Company H was able to increase its business into much larger volumes in Chinese markets was in 1994 when the company agreed a special arrangement with a Chinese local port authority. The local Chinese authority was keen to develop their then small seaport and transform it into a modern ore transfer port. The marketing team leader, who was excited at the prospect of increasing the company's business, then convinced Company H to take this investment opportunity to further their Chinese investment which resulted in them negotiating with the Chinese local port authority to cooperate jointly on the new port development project. To date, Company H exports more than 65% of its annual production to China, and if they have any regret regarding the Chinese markets it is the fact that they cannot produce enough to quench the Chinese hunger for their product.

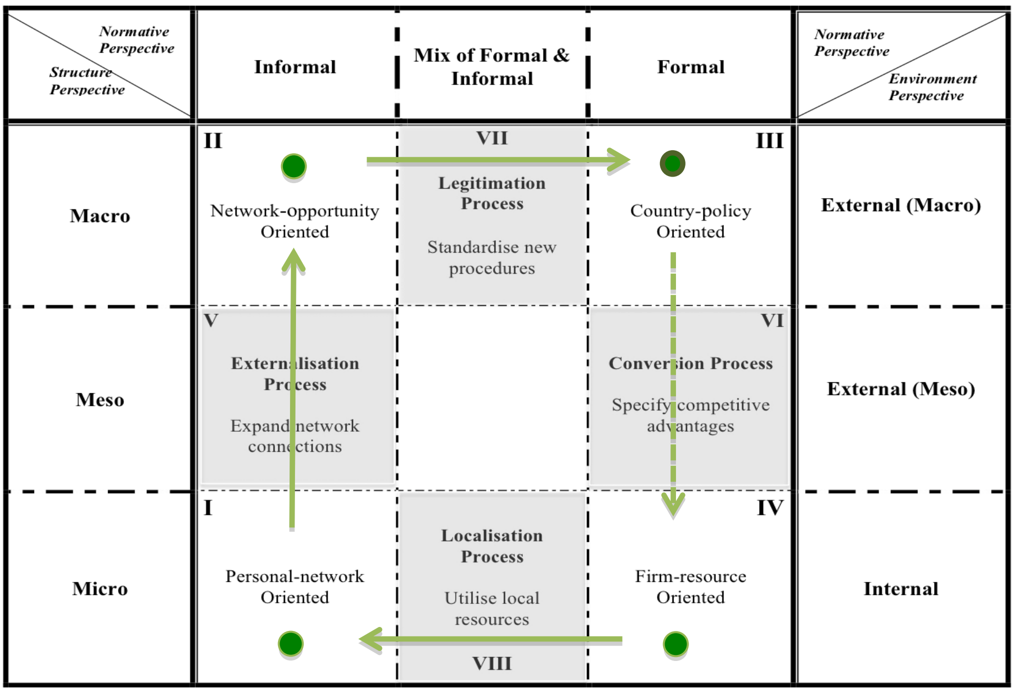
Analysis of Company H's Chinese Business Strategies under the 3D Institutional Model

Perhaps among one of the earliest South African firms to do business in China, Company H had been involved in the country for more than three decades. Experiencing and operating business within different institutional environments in the last century had nurtured Company H with a resilient and adaptive business nature,

[81] Interview No. 5 with the head of the market research, Pretoria May 2011.

and with their premium quality products they went to China on their own (Cell IV). With the initial personal-based contact to maintain the most fundamental business type, but with a solid relationship with the key mainland Chinese SOE clients that generally were headed by local/regional government officials, this enabled them to pave a path towards the higher-level institutional players. Company H soon was approached by a city local government with a fairly large project, which lifted Company H's business profile and horizon up to a higher level. During three decades of dealing with the Chinese clients, Company H has taken great care of the 'client relationship', and this has become one of Company H's Chinese business principles that their management team has maintained and carried on. Company H does also have awareness that in the past they were able to seal business deals with their flexible and adaptive business policies through less formal channels, but now they also clearly see the necessity to formalise the approach and obey the rules and regulations from both the internal and external institutional environments of their business.

Figure 5.8: Company H's Business Strategies Within the 3D Institutional Model



1. Business Scenario (1): Firm Resource-Oriented

Iron ore is a kind of common mineral resource that exists under the ground, but only very small amounts of specific types of iron ore can be used for steel production. This makes this kind of a commodity extremely valuable and in great demand by countries like China who lack such resources and are obliged to import massive amounts of it to supply the nation's demands. It is fortunate for Company H that they are located on land that generates large amounts of iron ore with such a unique quality. The quality of their iron ore gives the company an enormous advantage over their competitors and makes them one of the world leaders in this competitive market. From a business development point of view, Company H has accumulative experience of operating under different types of business ownership structures. The company was first established as part of the first South African state-owned steel company and was given full support from the state government in order to fulfil South Africa's increasing demands as a result of its industrial development. At the turn of the 21st century, however, with international mineral resource exports becoming their primary growth factor, Company H was privatised and shortly afterwards was taken over by one large mining group due to domestic political concerns. It was finally unbundled for a second time and eventually listed on the JSE for strategic business development. A series of ownership and structural changes has strengthened the firm's ability to adapt to new environments (Bowman and Singh 2007), which has been proved through their overseas market explorations.

2. Business Transforming Process (1): Localisation

The end of the 1980s was the end of the Apartheid regime in South Africa, during which international sanctions had restrained South African companies' international footprints. Only very few of the developing countries left the door ajar for South African businesses and China was one of them. Through their Hong Kong sales office, where they employed Chinese staff to compensate for their inadequate local knowledge resource, Company H found the path to enter the country, but different social-ideologies between the two countries still hindered their journey, which resulted in Company H's first steps into China being full of drama:

> "It was during the dark Apartheid days in South Africa, and South Africa still had diplomatic relationship with Taiwan. China was the 'dangerous Red

> Country' that we should not get involved with. Our people went to China during those days before cell phones or any advanced electronic communications were freely available, and they disappeared for two weeks into the country. We did not know what happened in those weeks, maybe some were kidnapped, maybe in jail, but it was during those days when we established our relationships with China [our Chinese customers]. They [our people] came back, and they had had a lot of banquets, and fostered good relationships around banquet tables, and those relations still hold strong today - 30 years later…"

With their experience of sending their first company staff to China, as described above by Company H's research manager, together with their confidence in their own products, as well as their strong adaptive ability in a foreign environment, they received initial success in China.

3. Business Transforming Process (2): Externalisation, and
4. Business Scenario (3): Network Opportunity-Oriented

Company H had always been well aware of the importance of networking, and their relationships in the Chinese business community resulted in them conducting multiple marketing approaches in terms of the Chinese markets. Apart from exporting iron ore to China, they also had different joint ventures operating in Hong Kong to look after the steel sales business, and in addition they were actively involved in searching for new opportunities to cooperate with local Chinese firms. Of their Chinese clients, most were large state-owned steel manufacturers, headed by government officials. Through these channels Company H was able to establish their business networks with various shareholders and stakeholders, which enabled them to approach higher-levels of institutional connections. To foster and maintain their relationships with Chinese clients, Company H keep some of their engineers on-site in their Chinese cooperative projects all year round so that they were there to solve any technical problems which occurred during production. Working teams from both sides even visited each other on an annual basis to enhance communication and understanding with each other.

It was not long after their entry into China that Company H had an opportunity to work jointly on a large seaport project in an east coast city. "They [the Chinese local authority] came to us with this dream – that one day they wanted this city to become a big iron-importing port! They also said they did not want the ‘big three’,[82] because those companies were very aggressive, and they did not have friendly relationships with them, so they came to us…” The manager recalled the situations when they initially made contact with the local city port authority. Due to their involvement with local government in this project, the local Port Authority offered Company H very special arrangements and good facilities. This generous gesture confirmed again just how important relationships are to the Chinese in China. To a certain extent Company H was very fortunate to set up these relations at such an early stage and, it was still even wiser of them to nurture and put lots of emphasis on their solid and good relationships with their Chinese customers. As a vital resource in the steel production industry, the supply of iron ore can never keep up with demand, but Company H has controlled their price within their business scenarios, which has enabled them to maintain and foster their relationships with clients.

5. *Business Transforming Process (3): Legitimisation*

As the first South African firm entering China, Company H had some experience and knowledge about regulatory and legal procedures from their early Chinese business deals. However, they also understood institutional changes over the last 30 years have improved many of the inadequacies in the legal and regulatory systems in China, and thus business that previously could be sealed with informal approaches must now abide by formal rules and regulations. In addition, Company H now has a more complicated ownership structure associated with more shareholders’ interests, which means that its business operation and performance is under continuous scrutiny. Managers at Company H believe that they will have more collaborative projects in China, but they are very much aware of the principles from their internal and external institutional environments.

Regarding the propositions: Company H was one of the very few South African firms to arrive in China during the Apartheid era. Relying on their own resilient and risk-taking nature, Company H explored the Chinese markets 30 years ago. Having experienced quite drastic institutional changes during the last century, Company H had learned to manoeuvre informal institutional channels to survive and sustain the

[82] The world’s top three iron ore suppliers are from Brazil (1) followed by Australia (2).

business in challenging institutional environments. The moment they (the first group of managers of Company H) arrived in the Chinese market, they sensed similarities between South Africa and China when dealing with informal institutional connections, and therefore they were quite well prepared to adjust to the Chinese market. *Propositions 1 & 4,*[83] therefore, receive strong support from Company H. The Company's international business experience in other foreign countries did not make the company and their managers especially strong for the Chinese markets, but such prior experience was nonetheless a necessary factor as the managers explored this new foreign market. Therefore, *Proposition 2*[84] gets weak support based on this stance. During the time when Company H made its first foray into Chinese market, it was during a dark political era in South Africa, so the company did not get much formal political support from the government. At the same time, China was at the beginning of the economic reform process, and new institutional mechanisms were being built to serve the new market system. Company H did not have much substantive knowledge about China, and therefore they did not have high expectations in terms of the environment it provided for foreign investment. Perhaps fortunately, they were adopted by a city government and benefited from official policy intervention in a project to up-grade and develop this Chinese city's infrastructure, and this helped Company H to improve their own business profile in the Chinese markets. This experience therefore refutes *Propositions 5 & 6*[85] in Company H's case. *Proposition 3 & 7* are not applicable to this Company.

[83] *Proposition 1:* South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up); *Proposition 4:* the lack of formal institutional support from South Africa for their entry into the Chinese market has engendered self-reliance and flexibility in their approach in China.

[84] *Proposition 2:* previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter.

[85] *Proposition 5:* prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP protection) and institutionalized trust in China; *Proposition 6:* state intervention in the 'free' market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour.

Case IV: Business Partners Control the Fate of the Business

Companies J and K, two machinery companies, expanded their business in China under different scenarios.

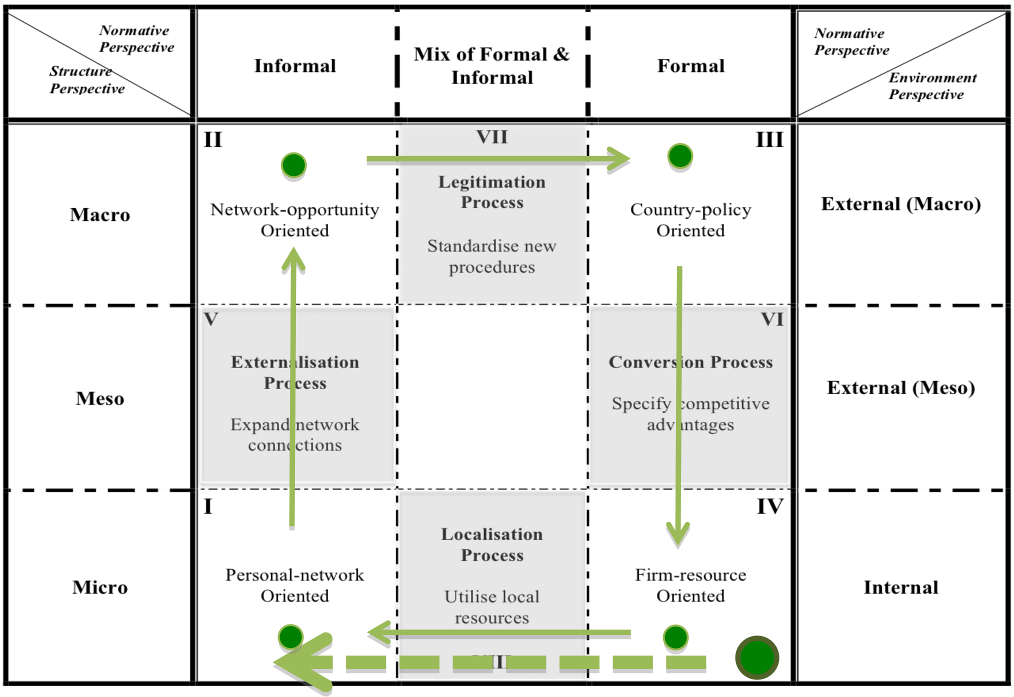
Compared with other industries, the machinery industry is a sector where companies could play to their full advantage in the Chinese markets because of their advanced machinery technologies and management skills. However, companies in this industry are also confronted with fierce tests from weak or lack of protection from Chinese institutions, most particularly intellectual property protection. The following two company case studies will demonstrate what differences eventuate for South African companies depending on whether or not they are equipped with strong institutional cautiousness in the Chinese markets with regard to these issues.

Company J is a machinery distribution group for many large international brands in heavy industry, having more than 100 years history with a wide range of business divisions. They currently operate in 27 countries worldwide and employ more than 19,000 people, of whom 35% are located outside South Africa. In 2008 Company J started to give serious consideration to entering China with broader business scope involvement, because of the increasing number of Chinese contracting companies coming to Africa to purchase their products, which made Company J realise the necessity to have a physical presence in China. By 2011 the company had established WOFE ventures in both mainland China and Hong Kong to provide different business customers from the Chinese markets with diversified products and services.

In fact, China was not an unfamiliar market to Company J. Prior to 2008 Company J already had business involvement with the Chinese markets, but with a comparatively small scope and scale. Company J had noticed the important influences of the rising emergent economies such as China and India, which would drive business growth due to these countries' higher demands for industrial machines and equipment for infrastructure construction. The decision made by Company J to explore further the Chinese markets was a combination of a sense of the potential business profits linked to China, as well as finding an appropriate candidate manager for developing the new market. The latter factor was of more essential importance. The newly-appointed Chinese market development manager was from ethnic Chinese background although born outside mainland China, and he had migrated to South Africa at a young age in the early 1990s. It later proved to be the case that his dual cultural background actually became one of the business's competitive advantages which was not often found in South African managers at a similar position.

Analysis of Company J's Chinese Business Strategies under the 3D Institutional Model

Figure 5.9: Company J's Business Strategies Within the 3D Institutional Model



As one of the few South African firms to establish a wholly-owned foreign enterprise in the machinery and construction industry in China, Company J's business strategy was quite distinctive in comparison with the joint-venture cases. The company's strategy in relation to the 3D institutional model can be demonstrated thus: the company decided to enter and have a presence in the Chinese market because their contracting Chinese client pool was rapidly expanding, so they needed a Chinese base for their operations (Cell IV). Company J had accumulated rich business experience through operating in the developing markets, but in order to keep their Chinese business path smooth the crucial factor at the point of entry was to get the 'right' business development manager (who in this case had a mixed South African and ethnic Chinese background) on board to walk them through the 'internalisation' process (VIII). This helped lead the company towards the local Chinese business contacts where Company J started to build their own local network framework in the hope of easing them into the higher-level institutional environment to gain access to wider and bigger business opportunities (Cell 1). Fortunately enough, Company J managed to reach the 'VIP' contacts within the upper-level institutions (Cell II) via their existing Chinese SOE contacts who helped bridge Company J to this stage, although at a cost of certain compromises and flexibility in the business practices undertaken by Company J (Cell V). In this case, the business development manager had been well informed and 'trained' with regard the policies and procedures for establishing a business entity in China, as well as the 'ways' to navigate these policies in order to expose the company to lower levels of risk (Cell III). Whilst Company J was going through the time- and finance-consuming process of setting up a WOFE, they also took advantage of the time delay to solidify their business relationship with the clients in an informal manner, whilst also strengthening their business relations in a more formal and law-abiding manner. In the meantime, Company J also started to consider further business opportunities when new Chinese preferential policies were introduced for Sino-Africa business cooperation. Within the 3D institutional model, a new 'business cycle' would then commence, indicating the continuity and evolution of Company J's business operations in the Chinese markets.

1. Business Scenario (1): Firm-Resource Oriented

Up to 2008, Company J had always been attached to Chinese customers, but within smaller business ranges. Based on Company J's last 10 years annual reports, they had been well aware of the potential business drive from emerging economies such as China and India. With increasing demand for advanced large machinery equipment from Chinese contracting companies in Africa becoming acutely high, it was a 'wake-up' call for the company to recognise the importance and necessity of having a business presence in China to capitalise on both the existing and potential customers building up and connected to the Chinese market. Company J had a sound track record as well as accumulated business experience as a leading distributor for international machinery equipment in developing countries, and these resources and experience had laid the foundation for Company J to make the move to China.

2. *Business Transforming Process (1): Localisation*

One crucial factor that made Company J's China journey smoother was that they found the right human resources to accelerate their business localisation process. The new business development manager appointed by Company J was from an Asian family background, but he was an immigrant to and had been educated in South Africa since a young age. He nonetheless was a fluent speaker of both Mandarin Chinese and English. Prior to joining Company J, he was involved with family business that was frequently connected to Chinese customers. In his mid-20s he joined Company J, just months before he was given the opportunity to go to China. Although there were doubts within the company about his competency and ability to take on this role, the company directors believed that his personal cultural background and business experience had equipped him with unique advantages with regard to the Chinese markets. Many South African firms have to find a local partner when entering China simply because they need the local knowledge skills and resources of such a partner. But Company J somehow had secured part of, in not all, the requisite local human resource in the form of their Chinese market development manager, which also not only helped to keep costs lower during the localisation process but also resulted in the deployment of an individual who was perhaps more loyal to the company than someone recruited locally.

3. *Business Scenario (2): Personal-Network Oriented*

As expected, it was not long before the new market development manager began to realise that just by being able to speak the same language and share a similar culture as the locals, these attributes alone might not be the essential ingredients needed to create business opportunities in China. What he also needed to do was to establish his own personal networks with different groups of people and organisations. This manager later recalled his first visit to China in 2008, "In some ways it did surprise me. I had previously only talked to Chinese customers on the phone before and I thought that Chinese people would be very traditional and conservative, but when I came here I realised I was more traditional than they were…" With regards to 'guanxi' or personal connections affecting business, he commented: "there are very much fewer principles [in the way of doing things]! It feels like in China you probably can't do anything here [because of all the constraints], but on the other hand you can do everything if you are capable enough - you can always get on the VIP channel. So, you have to build up relationships for the business!"

4. *Business Transforming Process (2): Externalisation; and Business Scenario (3): Network-Opportunity Oriented*

Through their existing Chinese customers, some of whom were large state-owned enterprises, certain business networks were able to be built up over the years with various business transactions. However, in order to explore more business opportunities the business network coverage had to be expanded within the industry where the business was situated, as well as with stakeholders related to their business. But it is also a real fact of life that sometimes new and large business opportunities also bring some dilemmas and challenges to the company in terms of their own business principles. In order to maintain 'membership' within a network, as well as connections with higher-level networks, the company sometimes had to compromise and be flexible with regards to certain business activities. For example, the Chinese SOEs wanted to buy heavy construction equipment that would be worth a large amount of money, and clearly these SOEs would deliver the message with obvious hints that they would ask for 'commission' (practically known as a kickback!). If Company J would strictly apply their own company policy they would not get involved in any such inappropriate business dealings. But from a business perspective, to give up a million US dollar transaction would not be a wise business decision either. So a middle-way, neither to give up the deal nor to compromise their own company's governance principles would be ideal, and this middle-way was to use a third-party company to mediate the deal. This third-party company had been a reliable member of the network that both Company J and the SOEs had been connected and associated with. Company J would sell the machinery to the third-party company at the price after deducting the commission (which thus should be lower than the normal standard price), and the SOEs would buy the same products from the third-party company by paying the standard price, but at the same time they would receive a separate commission pay-back as a 'discount' (that is, the difference to Company J between the market price and the actual price paid), and of course the third-party company would gain a small percentage of profit margin out of this mediating business deal. The whole transaction would thus be completed to all parties' satisfaction. Company J secured the deal and maintained a valuable client and the client's immediate connections and networks, whilst the client received the products at a good price as well as the attached benefits, plus the middleman company earned good money through the deal, together with contacts with two big clients. Morally business should not be transacted in this way, but realistically business cannot avoid using such normal practice to execute business deals in China. Without completing the transaction in this way, Company J would not only lose the deal, but also lose a big influential client and most immediate contacts connected with this client. But to be able successfully to implement the deal, both Company J and the Chinese client had first to establish a certain degree of trust towards each other, and together they needed to cooperate with other parties to complete such a ‘complex deal’ in the contextually appropriate way. Network-building and network-maintenance requires firms operating here in China to be alert and adaptive to the local network environments, and sometimes firms have to compromise some of the ‘principle guidance’ that may (or sometimes may not) be used in the home country market. The key ‘guidance’ in the Chinese business context is shaped by the networks within which the company operates, like it or not.

5. Business Transforming Process (3): Legitimation

Obviously, Company J’s market development manager knew well the ‘specific rules of the game’ in China to register and legalise a business entity, however the story of business licence registration was slightly complex. Company J proposed to set up a WOFE in China to cover the business scope of import, export and machinery distribution projects, as well as a logistics consultancy. The WOFE itself would include eight different dealer partners, with Company J being the major shareholder. In theory, most foreign investors would come up with a big ‘question mark’ about whether this kind of business entity could be successfully applied. Meanwhile, to most Chinese domestic investors, this would seem to be a very complicated and time-consuming procedure to apply for such a business licenses. However, with his Chinese background and business experience, the business development manager knew somehow that there were ‘preferential policies’ which the company could take advantage of, and he suggested an alternative proposal to register the company with two business entities in both mainland China and in Hong Kong SAR. The reasons behind this proposal were, on the one hand the taxation system and foreign capital control in Hong Kong is much more favourable to foreign investors compared with mainland China. And at the same time, the South African HQ could use the Hong Kong business account as the main firewall to protect their major business: "If there is something wrong here [in China or Hong Kong], we have a firewall to cushion us, because Hong Kong is a place with only limited liabilities. So 'limited liability' would not affect our UK or South African business operations. At the end of the day we are listed on the JSE and LSE, and these are our core businesses and main body, so we have to protect them." On the other hand, Company J could then use the Hong Kong entity to re-invest in the mainland Chinese markets to set up branch offices, and the business scope would be much wider and less restricted by the formal business registration rules and regulations. And it did not take Company J too long or too much difficulty to acquire the business licenses before they formally commenced operations in China.

6. *Business Scenario (4): Country-Policy Oriented and Business Transforming Process; (4): Conversion Process*

The complicated business establishment process in China never interfered with the continuity of business progress for Company J; on the contrary, in fact, the business development manager managed to keep the business set-up and business expansion as two separate and parallel agendas. Whilst the former was time- and cost-consuming, the latter also required time to nurture business contacts and relationships. By the time the business was formally in operation with a full license, many of the business clients and contact relationships fostered over the longer period time had become mature and solid enough to allow both parties to sit on both sides of the negotiating table to discuss the terms of the larger business arrangement in a more law-abiding and formal manner. Knowing the Chinese state policies would give more preferential treatment to deals involving investment from China to Africa, Company J had clearly seen the new business opportunities that perhaps they could again take advantage of to divert their Chinese business standing in a new direction. Now that Company J had a formal business presence in China as well as a track record of dealing with the influential Chinese SOE clients who had also nurtured a good relationship with Company J, the company had retained a competitive advantage to bid for projects that involved large Chinese SOE partners to cooperate on projects in Africa. And true to form, not long after their establishment in Shanghai, Company J successfully won a multi-million

US dollar project in one Southern African country. Company J would supply all the machinery equipment for the mining projects in which the major investor was a large Chinese SOE from South China.

Regarding the propositions: one of the key factors that sustained Company J's relatively smooth business journey in the Chinese market was a key employee – the business development manager – who they retained for the development of their Chinese business. Having previously successfully operated in other developing country markets, Company J had accumulated sufficient business experience to prepare themselves for the challenging market in China. But to be able to tackle such a market and to make their entrance into the Chinese market more efficient and effective, they relied heavily on the 'personal techniques' the company manager used to expand the business network in this new foreign market. Therefore, Company J gives support to *Proposition 2* as well as the second half of *Proposition 1*, but denies the first half of the same proposition.[86] The mixed background of the business development manager meant that he had witnessed the effects that state intrusion had on business (even though it was his own family's business) in both South Africa and Mainland China, thus he was acutely aware of state policy being a strong influencing factor on the fate of business in China. Therefore, on his first arrival in the Chinese market, his first priority was to facilitate and foster business connections and relationships with 'useful' and 'influential' contacts within upper-level institutions. Fortunately, even without much formal institutional induction, many large Chinese SOEs who were Company J's main corporate clients became an effective bridge in helping Company J and the business development manager to establish these essential connections. Here *Propositions 3 & 4*[87] gain strong support from Company J.

[86] *Proposition 2:* previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter; *Proposition 1:* South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up).

[87] *Proposition 3:* previous exposure to state bureaucratic intrusion into business decisions and operations in South Africa will have prepared managers for the situation they will face in China, where similar conditions prevail; *Proposition 4:* the lack of formal institutional support from South Africa for their entry into the Chinese market has engendered self-reliance and flexibility in their approach in China.

Naturally, Company J show a strong denial of *Propositions 5, 6 & 7*.[88] Again because of his insightful knowledge as well as the unique characteristics of the Chinese markets, the business development manager of Company J managed to take advantage of the 'loopholes' existing in the current Chinese institutional system, which was a shortcoming of the formal institutional landscape. The manager was also equipped with the necessary techniques to by-pass some of the political constraints through informal channels, and this in turn kept the business development path much easier. Company J and their managers knew China would be an increasingly important market in their future. They knew they could enter the market by bringing quality products, but they also knew that in order to manage and expand within this Chinese market the company had to rely on the most appropriate human resources with the right local mindset and managerial skills.

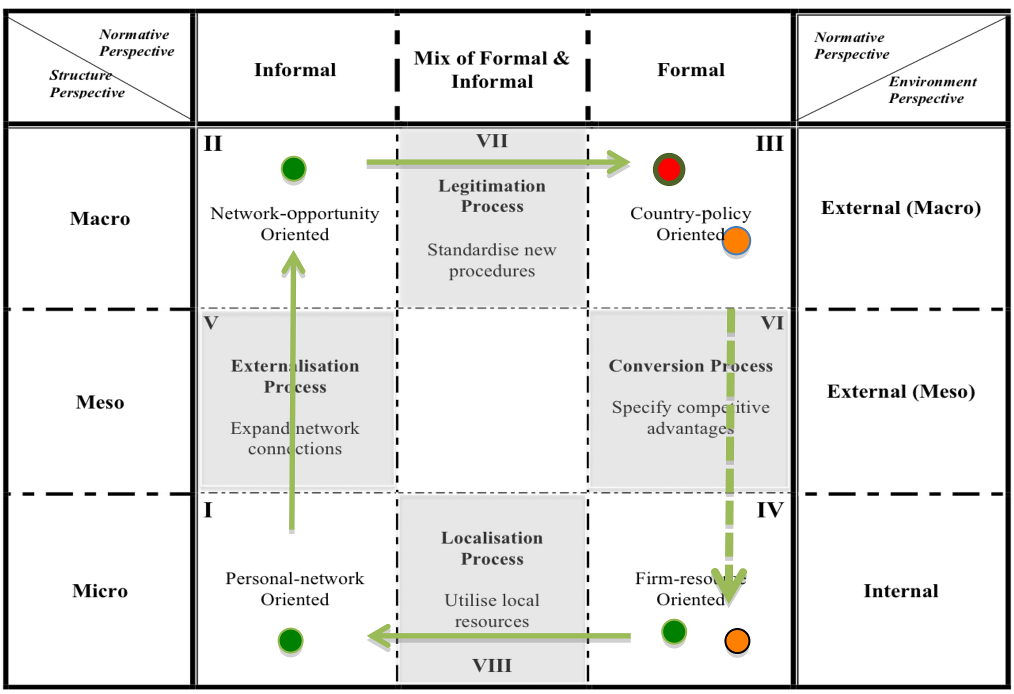
Different from Company J whose business activities were focused on the distribution of high-tech machinery equipment to large Chinese companies for construction projects in and outside China, **Company K** had been heavily involved with large infrastructure projects inside China since the mid-1990s, when China was being rapidly driven by economic reforms and associated infrastructure developments. Company K is a high-tech oriented equipment company with a prime focus on the development and application of proprietary technology within the ground improvement and preparation industry. Company K had received a number of international patents for their advanced impact compaction technology. Although being a comparatively small private company within the industry, Company K's business operations have been immensely technology driven, and thus they have consistently devoted a large amount of time and capital to their technology development and refinement. Company K had successfully expanded its business footprint through the rest of the African continent, in Europe, America and Australia, and later to Hong Kong and mainland China.

[88] *Proposition 5:* prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP protection) and institutionalized trust in China; *Proposition 6:* state intervention in the 'free' market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour; *Proposition 7:* South Africa's relatively late arrival into the Chinese market (in part due to its historical isolation) has resulted in a steep learning curve and a competitive disadvantage relative to longer-established firms and nations.

Company K started their adventurous business journey in China in 1995 when they were contracted to conduct a large airport project in Hong Kong. The success of the Hong Kong project as well as the appealing market opportunities emerging from the mainland Chinese markets convinced Company K that with their advanced technology and their international business experience, China would be the ideal target market for new business generation. Through a local Chinese contact and business partner, who was from north China but later had lived in South Africa for many years, Company K stepped into 25 Chinese provinces with more than 200 projects. Operating as a WOFE enterprise in China for almost ten years, the seeming business success was however accompanied and overshadowed by bitter struggles with court cases over infringement of intellectual property rights (IPR) between Company K and many local Chinese companies. Although Company K in the end won a victory, the time-consuming judicial process as well as the 'non-rational' nature of the Chinese institutional environment had torn the business apart, and thereafter they decided to withdraw their operation from this large but complicated market.

Analysis of Company K's Chinese Business Strategies under the 3D Institutional Model

Figure 5.10: Company K's Business Strategies Within the 3D Institutional Model



Similar to many other foreign firms who found the sheer size of China's market to be irresistibly attractive, Company K decided to enter the mainland Chinese market after they had successfully undertaken a large project in Hong Kong. In order to protect their own IP, which had always been the key competitive advantage of Company K, they chose to set up a WOFE and to rely on their own human resources to manger the firm (Cell IV). Company K did not reject, but were in fact rather proactive towards the option of cooperating on a contractual basis with local partners, facilitated through local contacts, in order to compensate for their weakness of being 'new' to the markets, although they strictly adhered to their company policies which they have applied all over the world (Cell VIII). However, as their business grew, Company K experienced, almost inevitably, serious trouble with their Chinese partners over IP infringements. What Company K found particularly difficult was that many of their clients were large state-owned enterprises which were usually situated within higher-level institutional positions and with high-level connections, but these enterprises and people rarely had any fundamental knowledge about IP protection. Compared with many other foreign firms who made efforts to network with higher-level institutions where they could seek and access new business opportunities, Company K channelled all their efforts into protecting their own IP at all institutional levels (Cell V, Cell II). In the end, after a decade of painful court hearings, Company K finally won a victory over the IP infringements that their Chinese partners had committed (Cell VII), but by this time Company K was completely drained by the frustration of confronting the institutional environment over a period of 10 years and they decided to withdraw their operation from China (Cell III).

1. Business Scenario (1): Firm-Resource Oriented

Company K is heavily driven by technology and equally has paid major focus and efforts on technology development in order to satisfy market demand, the advantage for such a company involving cross-boundary investment is their reliance on their own firm-privileged ownership resources. In developed markets where ownership and property rights are well regulated and protected, such a company can normally be competitive at business generation, providing the company's ownership advantage - advanced technology and products – could be maintained at a specifically unique and competitive level within the markets. However, in markets where IPR is less efficiently protected by state legal and judiciary systems, tech-driven business such as Company K had undertaken in China faces severe challenges in order to protect and justify the ownership of their own property. Company K was not absolutely naive about the Chinese institutional environments for foreign business investment, as they could not take the risk of losing their own major business assets – their technology - and hence they did not adopt the option to establish a joint venture with a local (Chinese) partner like most foreign companies had done around this time (1995). Although setting up a WOFE was a time-consuming process, Company K believed that their proprietary machinery equipment and skills would promise some business potential in the Chinese markets given the huge demand for infrastructure development at that time.

2. *Business Transforming Process (1): Localisation; and Business Scenario (2): Personal-Network Oriented*

Whilst maintaining their status as a WOFE venture for the purpose of protecting their IPR, Company K did not isolate themselves inside their own box, rather most of their business deals were undertaken in cooperation with various local partners. However, Company K strictly maintained one principal company policy that they would not sell machinery but only contract projects by providing their own machinery and technologies. This business policy was adopted by Company K not only in the Chinese markets, but also in other markets worldwide where they were not confident about IPR protection. However, with the hope that the great potential of the Chinese markets would bring more business opportunities for Company K, the company then took the initiative of entering mainland China (from Hong Kong), which was suggested by the local Chinese staff member who was originally from north China but later lived in South Africa.

Company K maintaining the above-mentioned business policy in China and always cooperated with local project partners on a contract basis. However, delays and rejection of payments had been constant issues through their years of business experience. The most severe and unacceptable problem which later led to court cases in China was IPR protection. Many small Chinese business partners had continuously tried to imitate and copy Company K's machinery and technologies, but Company K felt that these impropriate forms of business behaviour were still largely under control. But later when large Chinese domestic companies started to steal their technology and machinery models in a shameless manner, things became complicated and unsettled. The previous country manager of Company K who was from South Africa and had been in China for more than a decade recalled, “there was one engineering professor from a famous university in South China, one day he came to my office and he was a sort of friendly contact to our company. When he showed me his imitated product model of our machines, I was so angry and shocked that a professor could be so flagrant and ignorant. He did not realise what he had done had infringed our IPR, and he did not feel guilty or shameful, in fact he was actually quite proud of what he had managed to achieve. I was totally speechless…”

What then awaited Company K was almost ten years of court case hearings with constant frustration and challenges from Chinese authorities at all levels, which finally had the effect of draining up all their business interests in the Chinese markets. Company K learned their Chinese lessons of building networks and connecting to higher-level contacts not only from their business expansion experience, but most importantly from their long journey towards safeguarding their own IPR legal rights in China.

3. *Business Transforming Process (2): Externalisation; and Business Scenario (3): Network-Opportunity Oriented*

China, as Company K’s country manager referred, is “one country but within it a big world”, and the diversified and differentiated business environment of each individual market made it difficult for Company K to form a unified business strategy to conduct and operate through the whole country. Even though the company had learned to pay extra attention to network-building, the complicated, diverse and wide-ranging *guanxi* networks just brought more confusion to the business. “Very often you would find things like this, I told my contractor that I could complete the project within 6 months and with a maximum cost of US$ 600,000. I thought I offered the best price to finish a project in the shortest period of time. But surprisingly my contractor said he wanted the project to be finished within 10 months, and the cost should be doubled! You wondered why? It was because they wanted the project to be prolonged so some extra ‘work’ could be conducted by the contractor’s relatives or even university friends. At the end of the day the large project would be paid for by the government, so the contractor would not mind to lose time or cost more money, as long as he and his contacts could get some benefits out of it.” To foreign investors like Company K, the entangled benefit relationships among various contacts were too ambiguous to understand fully, but they knew that only through these kinds of ‘unreasonable’ or sometimes even ‘ridiculous’ deals could they built relationships with their clients.

Over the years that Company K had to go through different levels of court hearings, they also learned very clearly the need to use *guanxi* to build networks with higher level officials. “China is ruled by man, not by law. During court hearings, even the judicial people could not understand the ‘law’, and much decision-making was up to the ‘*guanxi*’”. The local man of Company K had helped to channel the case through networks and to make new contacts with higher and influential officials to provide ‘help and advice’ on their court cases. However, higher level officials are not necessary – or willing - to sort out problems for small companies. “They might talk and put issues on their agenda, but there was no guarantee they would solve problems. Some of the officials might offer some valuable advice, but they too tended to move to different places once they had been promoted, so there was not much they could do to help really”.

4. Business Transforming Process (3): Legislation

The whole legislation process had seen Company K embark on a long, struggling journey in China to safeguard their own IP by following the Chinese judicial and legal process. Soon, when Company K entered the mainland Chinese markets, they started to sue the Chinese partners who had imitated their products and technologies, and to have legal confrontations with these Chinese defendants in the courts. Over the ten years, Company K had attended all levels of court hearings across half of the nation in different geographical regions and at various administrative levels. Of all the patent infringement cases Company K had to fight against with the Chinese infringers, one case with three Chinese SOEs at the same time was the most frustrating and time-consuming. On the one hand the Superior Court in Province A made a judgement that Company K had won the case and that the Chinese defendants should be responsible for compensation to Company K and also court costs. However, on the other hand one of the SOEs had also counterclaimed, to a different institution (the Patent

Reexamination Board of SIPO, Board for short) and the Intermediate Court in the capital city, that the patents Company K had held were invalid. Because Company K was unable to provide sufficient proof supporting their own arguments (some of the proof was misrepresented because of inaccurate translations) to the Board and the Court, the Board accepted the Chinese SOE's claim and invalidated Company K's patents, and even worse the Intermediate Court also supported the Board's decision. As always, Company K learned their lessons from their own failed experience. They quickly gathered the proof that they had failed to supply in the court, and channeled the case to an appropriate legal adviser. And one more time Company K wanted to challenge the decision that the two formal Chinese institutions had made, so they sent the Board to the Superior Court. Perhaps the Court had also learned enough knowledge through examining the whole case, and perhaps the proof that Company K had provided was this time indeed detailed and sufficient, and perhaps after several years China had finally reformed and improved the regulatory and supervision systems relating to IPR. Whatever, for all the right reasons Company K won an eventual victory at the Superior Court to protect their own IP and justify their ownership of the IP by defeating the Board's judgment. "It was a painful process, and from the business point of view we did not win at all. We had to waste so much time and energy on these [the IPR disputes]…" the country manager recalled, and he could not help to make quite negative comments about their own Chinese business experience, "the Chinese business environment has been unfriendly to foreigners. Strong nationalism easily builds up a hostile attitude towards foreign investors."

However, to look back over the whole IPR safeguarding journey Company K went through in China, it is an objective fact that the Chinese institutional systems have not been well developed in terms of legislation and a judicial system to protect IPR. It might not unfair to say it was the 'foreign investor' who had woken up many Chinese companies to be aware that it is crucially important to protect themselves against IP infringements. But this learning curve also came along with expensive lessons for many Chinese companies only when they realised that their own brand names and patents had been registered by another foreign company, and they had either to give up or spend large amounts of money to purchase their IP assets back. And the Chinese legislative and judicial institutions also had to experience a 'catch-up' phase to improve their own capacity to handle and settle IPR disputes. For cases like Company

K was involved in, in some provinces and cities it was the first time an IPR case had involved a foreign entity, and it was not surprising to find that the local legislative and judicial officials were not able to process the cases more 'efficiently'. Just as the country manager of Company K had concluded, in the UK or South Africa it was expensive to set up systematically and legally-binding institutional environments, but still players could play the game by following the established rules, and the outcomes ultimately are more efficient and less costly. In contrast, in China business is easy to set up with simple procedures but things are less legally binding. Whenever there are disputes or disagreements, which have to be resolved through public institutions, it is a time- and finance-consuming process, especially for foreign investors, because of the inefficiency and embryonic nature of the institutional systems.

5. *New Business Scenario and Transforming Process:*

Soon after the 'victory' in China, Company K decided to withdraw their South African capital from China and thus leave the markets. The country manager reflected on their success/failure in the Chinese markets, and said that if they were given a second chance they would employ SAB's (South African Brewery) model – to have a large local partner who already had stable retailing networks reaching through the whole country. They would also need to register their entity in Hong Kong for capital flow, tax convenience, and so forth. However, the country manager also admitted that, even though they had employed a different (e.g. SAB's) business strategy, it still might not necessarily work for them either, because in essence different industries and companies must learn their own lessons, and shape their own business strategies in a manner that works for them.

Finally, returning to the propositions for the last time: among all my case study firms, Company K was the only one to choose to solve a major business dispute through the courts. Given that most companies in China (both domestic and foreign) prefer to settle commercial disputes through arbitration, Company K's choice was definitely in line with principle rather than pragmatism, but in the process they got themselves into 'deep water' as they had to confront, as opposed to use in their favour, the challenges that the Chinese institutional authorities are capable of creating for them. Company K's failure came about not because they lacked international business experience. On the contrary, they had a sound track record of operating in other foreign markets with the same basic corporate principle – to manage their own business and protect their own intellectual property. But this did not seem to work for the Chinese market, where informal business practices tend to be the most effective mechanism for walking foreign firms along bumpy Chinese institutional roads. However, Company K and their managers did not seem to comprehend this. Therefore, *Propositions 1 & 2*[89] are certainly strongly denied by the case of Company K. Perhaps through their earlier successful experience in Hong Kong, Company K might have overestimated their own capability to penetrate and operate in the mainland Chinese markets, especially during the 1990s when China had just started to build up the necessary institutional mechanisms to match its 'opening-up' economic reform policies. But many of the requisite policies had still not been formulated or put in place by the time Company K operated in the Chinese markets, most particularly IP protection. Many Chinese companies, especially the large SOEs, would not take IP as a serious issue, and therefore they would envisage 'imitation' to be seen as a crime. Almost inevitably, Company K became a victim of IP infringement, but unfortunately they could not get the legal protection that - by international standards - they deserved, because China lacked clear legislation or robust institutional enforcement support. Stubbornly, Company K decided to challenge and fight against this weak institutional system, but in the process came up against strong institutional barriers, and it was ultimately no surprise that their business operation was unable to make progress in this market. Based on this, *Proposition 4* gets weak support, and *Proposition 5* & *6* are strongly supported by the case of Company K.[90] *Proposition 3 & 7* are not applicable to this case.

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[89] *Proposition 1:* South African business managers' experience of nurturing and deploying informal institutional channels to sustain their enterprises in the domestic market will have prepared them for the prevalence and importance of informal mechanisms within the Chinese markets (especially where there are weaknesses in the formal institutional set-up); *Proposition 2:* previous experience of operating in international markets will have prepared South African firms for the challenges of entering and sustaining their presence in the Chinese markets, notwithstanding the unique characteristics of the latter.

[90] *Proposition 4:* the lack of formal institutional support from South Africa for their entry into the Chinese market has engendered self-reliance and flexibility in their approach in China; *Proposition 5:* prior experience of a sound formal institutional environment in South Africa will mean that firms are unprepared for the shortcomings that are evident in the Chinese formal institutional landscape, and the widespread lack of consistent rules (e.g. pertaining to IP protection) and institutionalized trust in China; *Proposition 6:* state intervention in the 'free' market in China will impede the efficiency and stability that South African firms need and expect when operating in a foreign market, which in turn may affect business decisions and the sustainability of the endeavour.

Table 5.1: How Each of the Case Studies Connects to the 7 Propositions Formulated in Chapter 4

Case Study	Proposition 1	Proposition 2	Proposition 3	Proposition 4	Proposition 5	Proposition 6	Proposition 7
A	SS	WS	*N/A*	SS	SD	NEU	WS
B	SD	SD	*N/A*	*N/A*	WS	SS	WS
C	*N/A*	SD	WD	WS	WD	SS	SD
D	SS	SS	*N/A*	SS	WD	WS	WD
E	SS	SS	WS	WD	SD	SD	*N/A*
F	NEU	WS	WS	WS	NEU	WD	WD
G	SD	SD	SD	WD	SS	SS	*N/A*
H	SS	WS	*N/A*	SS	SD	SD	*N/A*
J	S&D	SS	SS	SS	SD	SD	SD
K	SD	SD	*N/A*	WS	SS	SS	*N/A*

SS: Strongly Supported; WS: Weakly Supported; NEU: Neutral; WD: Weakly Denied; SD: Strongly Denied; S&D: Supported & Denied; N/A: Not Applicable.

5.2.1 The Propositions Revisited

At the end of Chapter 4 we formulated a number of propositions that were intended to provide a bridge between the theoretical, contextual and empirical components of this thesis. These propositions, which were based on important elements of the background discussion - especially transition and reform, political economy, business systems, management decisions and operational context - consisted of broad statements concerning the extent to which the prevailing economic, political and institutional landscapes, which have changed across time and vary across space, have affected South African firms' business experiences and success in the Chinese markets. The degree of match between the seven propositions and each firm's actual experience has been ascertained for each of the case studies, the results of which are summarised in Table 5.1.

The principal - and I think quite important - conclusion to be drawn from this summary table, as the mosaic of shading clearly shows, is that it is quite dangerous to generalise the way in which the prevailing political economy (of both host and home country) affects business processes and outcomes. The background discussion in Chapter 4 is of necessity somewhat generalised, although it is sufficiently nuanced to convey the sense that not all South African firms are the same – they vary by size, sector, history, geographical location and institutional connectivity – nor is the economic landscape that faces them in China uniform. Nonetheless, the propositions identify a number of factors that would appear to affect South African business firms entering the Chinese markets in a similar if not identical manner. These include prior experience of using informal institutional channels, prior international business experience, experience of negotiating state bureaucracy and policy interference in the 'free' market (and associated social agendas), the degree of enforced self-reliance, unfamiliarity with weaknesses in the formal institutional system, and the way that political realities have affected the timing of market entry in China. Table 5.1 shows that South African firms are extremely variable in terms of their home country profile and experience, the nature and degree of their previous exposure to international markets, the level and extent to which they engage with both formal institutional structures and engage in informal institutional practices, and both their degree of understanding of the complexities of the Chinese markets and their preparedness (and in some cases willingness) to adapt their business models accordingly. But I think one of the key differences between these firms can be attributed to what I would call the 'personality of the firm'. Businesses, ultimately, consist of people, and people go about their business in quite different ways. Some of the business managers were very flexible and open-minded about doing business in China, others were quite stubborn and even dogmatic. The firms which recognised that there is no single model for international business, and that China required a particular mind-set and methodology, and which inserted into their operations business managers who understood China (and Chinese language and culture), or which took the time to nurture good relations with their Chinese counterparts – these were the firms that appeared to enjoy more success, or at least a less bumpy ride, than others who did less to invest in the personal software of international business.

5.3 Conclusion

Figure 5.11 attempts to draw together schematically the various elements that have emerged from the case studies that have been presented in this chapter. The diagram seeks also to contribute to the intention, stated in Figure 1.1 ('Organisation of the Research Questions'), to pull out the 'key elements' and 'arrange these analytically'. The core story in this thesis relates to the interaction, interfacing and interplay of private sector firms and public sector institutions, which occurs on a range of levels from the state down to the city and locality, and at the macro- down to the micro-scale. These interactions take place across time (with bridgeheaders establishing an experiential platform for latecomers to benefit from, or gaining a competitive advantage over late arrivals), involve negotiating a shifting institutional landscape, and may be based on different permutations of formal and informal institutional contact. We have mainly been concerned with the internal factors that are specific to both the firms in question and the institutions with which they interact, but it has also emerged from the discussion that there are processes and arrangements external to this that also have some bearing on the dynamics and outcomes of these firm-institution interactions.

Figure 5.11: Mapping out the 'Key Elements' of the Case Studies

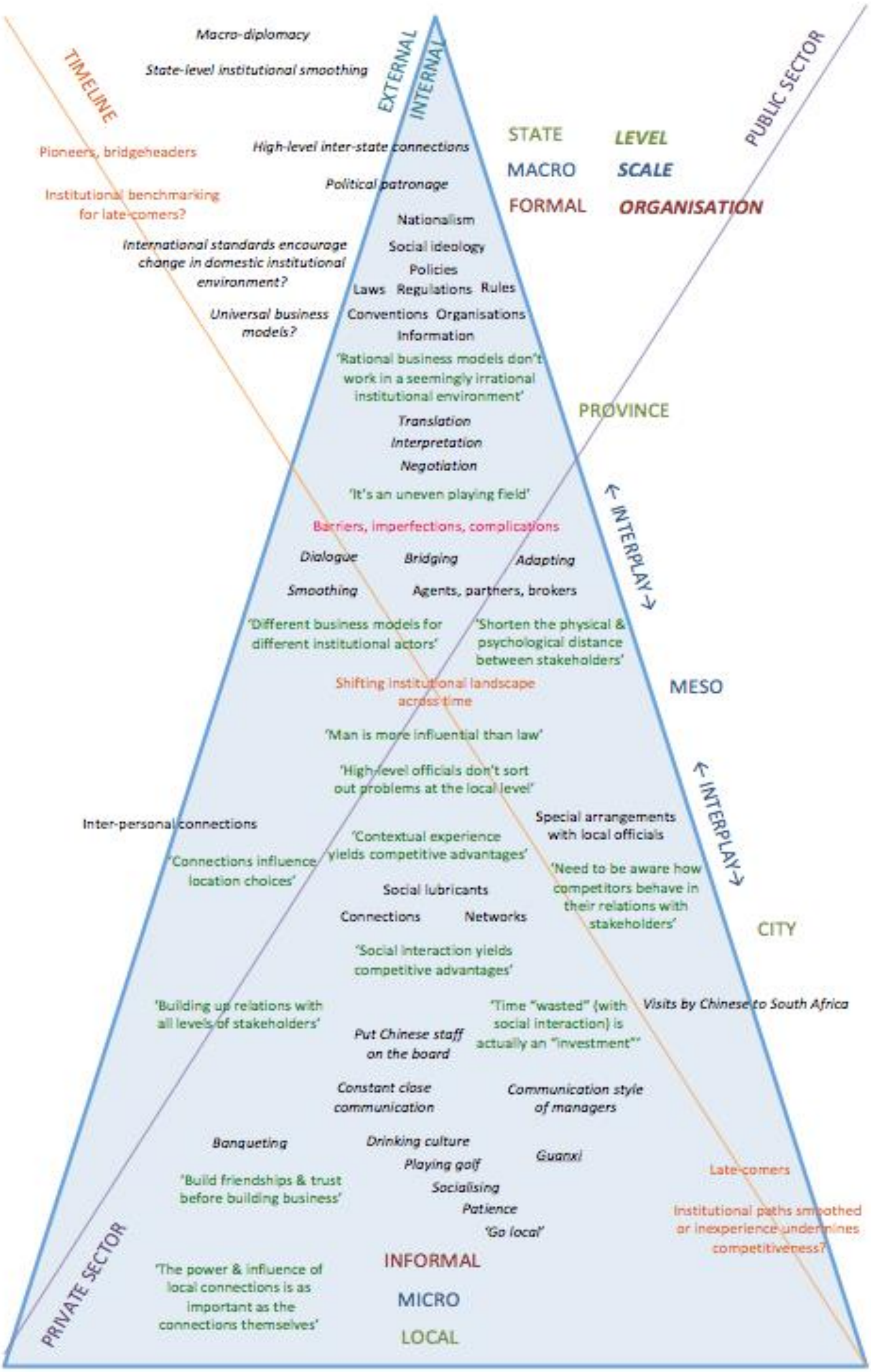

Table 5.2 Case Study Arrangements

Case Study	Industry		Case Study Companies	
I	Retailing		A	B
II	Finance	*Insurance*	C	D
		Banks	E	F
III	Natural Resources		G	H
IV	Machinery		J	K

At the apex of the pyramid we can find (in purple) some of the elements which, loosely, map out the political parameters of political economy, and provide the wider contextual setting within which this story is placed. The diagram mainly relates to the Chinese environment into which South African firms are venturing, although we could in principle add further dimensions that also draw upon these firms' political, historical, cultural and economic backgrounds in South Africa (but see part of the concluding discussion in Chapter 6). From a nationalistic agenda which is shaded by political ideology emerge particular arrays of policies, laws, rules and regulations which are the main institutional structures and hurdles that foreign-investing firms must negotiate, perhaps with the assistance of agents or partners who bridge or smooth the path. We have seen that, however rigid these 'rules of the game' may appear on paper, there is room for translation, interpretation and even negotiation within the 'realeconomy'. Informal business and institutional practices, underwritten or lubricated by *guanxi*, socializing, connections, contacts, networks and relationships, and perhaps translated cross-culturally by local staff, are often the space where such 'wriggle room' is found or created.

This chapter has presented case studies of ten South African firms, which were arranged by industries and the sectors where they operated in the Chinese markets. Table 5.2 is a simple indication that the case study firms were arranged in five pairs of study cases across a variety of sectors. East study case represented the business strategies that two firms within the same sector employed as they penetrated and operated in China. Although the strategies adopted by each of the paired firms were not judged against an objective ‘right’ or ‘wrong’ in terms of their approach and effectiveness, the case studies clearly revealed different (and sometimes quite contrasting) business results.

Each of the case studies has been mapped according to the 3D institutional model, which was built and tested on the basis of a retrospective evaluation of the case studies firms’ business development in the Chinese markets. The application of the model to all ten case studies shows that no two similar firms necessarily follow the same path through the model. On the one hand, this reinforces the strength of the model: it is flexible enough to be able to accommodate the diverse paths and strategies that firms follow and adopt. Although there is no definitive path from any one point, the model does inform firms as to the general path they should follow, which on the model is in a clockwise direction. On the other hand, however, at this stage we stop short of claiming some predictive power for the model: it needs more empirical material (beyond the scope of the present study) to be able to judge whether certain trends and patterns can be identifiable.

How can South African firms develop corporate strategies for a country as complex and multifaceted as China, which has experienced thoroughgoing transformations in recent decades, especially when these firms have themselves originated from a country which since 1994 has redefined and restructured its own business system following the socio-economic transition from the Apartheid-era business environment? In my opinion, both the timing and political context are important factors here. The following section will summarise some of the more distinctive characteristics that reflect South African firms’ business strategies as seen through their international outward investments. Further analysis reflects on the distinctively South African flavour to the management issues faced by the companies which feature in the empirical component of the study, whilst also drawing links with the process of economic transition, in order to show the extent to which the home and host countries’ economic transformations and their respective business systems have affected South African managers’ business strategies in the Chinese markets.

One of the challenges that this thesis faced was the lack of the primary research resources from large established South African firms (e.g. AAC, SAB, Sappi, etc.) who had invested in the Chinese markets before 1994. However, a limited amount of quality research had been conducted (e.g. Klein and Wöcke, 2007; Feinstein, 2005; Feinstein, 2007; Horwitz, Ferguson and Rivett, 2005; Correia and Chung, 2007) and this work together with various corporates' and groups' reports provided valuable secondary resources on which I have been able to base my argument and conclusions. So, what were the distinctive characteristics that these established South African firms held that enabled them to go abroad and to China long before most other South African firms, especially under the dark shadow of the Apartheid regime?

First of all, the foreign *market location* was not necessarily a critical concern to these pioneering firms at the time when they invested overseas (Klein & Wöcke, 2007), so China was not necessarily the market they specifically targeted for business expansion purposes only, but also to serve their need for organic growth and to 'park' their capital in overseas markets. As was mentioned in Chapter 4, high concentration and fragmentation were distinctive features of the established South African firms, because during the Apartheid period most domestic firms were not able to export or invest overseas due to the economic sanctions. The only and most efficient way to serve their need for organic growth was to acquire other domestic firms inside South Africa, hence it was not unusual, for instance, to see a large beer company having a subsidiary in the apparel market (e.g. South African Brewery). The saturated home market in South African nonetheless also pushed these large firms to explore possibilities in foreign markets in order to grow and develop. Some firms managed to acquire overseas assets before the sanctions, which gave these firms handy foreign capital to re-invest outside the home market, rather than repatriate the capital back home where the instable home market was characterized by unpredictability. Whilst China was still at an early and progressive stage of economic transformation (between 1980 and the early 1990s), in principle foreign inward investment was welcome and encouraged by the CCP, even though the Party meanwhile imposed rigid restrictions in terms of the scope for civil society to emerge, the rule of law, political participation as well as bureaucratic process in order to ensure that the transition to a socialist market economy remained firmly under the control of the CCP dictatorship (Story, 2004: 131). Thus the general environment for foreign investors was not easy, especially for South African investors who originated from their own problematic home markets, as I described earlier, lacking the institutional support needed to negotiate this political-economic quagmire.

Secondly, the non-location-oriented nature of the investment drove the South African firms to be more dependent on their own *firms' specific advantages* (FSA) in order to compete and survive in the foreign markets. Sometimes 'no turning back' was the only and best motivation for these firms to contend and survive by developing their own competitiveness in the foreign markets, especially a market such as China which held plenty of unpredictability and uncertainty. Some of the FSAs were inherited from their own home country markets, which had enabled them to sustain themselves and strive within the domestic markets, but nonetheless these FSAs needed further to be strengthened and new FSAs developed in order to serve the specific needs and character of these foreign markets. In the Chinese markets they also needed to learn and make efforts to protect their own intellectual property in case it might be infringed by local competitors or partners, thereby eroding their own FSA, because China then had (and still has) rather weak and immature institutional mechanisms to protect intellectual property.

Thirdly, the South African managers in general seemed to possess the capability of being able to envision long-term business targets and implement accurate business strategies based on their *business visionary*. Many South African managers were rather inexperienced in terms of involvement in foreign international market environments by the late 1980s due to their isolation because of economic sanctions. However, their ability to perceive risks and their willingness to confront and deal with risks by adapting themselves and adopting flexible business strategies gave them the competitiveness to contest foreign markets. And there is no doubt that these business leaders had accumulated confidence and experience from their dominant position in and experience of operating within a difficult domestic market in their home country. Many large companies preferred to maintain their own South African expatriates in the foreign markets to manage and operate their subsidiaries, including in the Chinese markets where language, culture and communications were (and still are) significant "stumbling blocks" for foreigners (Story, 2010: 102), whilst levels of English proficiency and exposure to 'western culture' had not by then been widely covered in the education system nor broadly accepted in Chinese society during the early days of the economic transformation. Therefore, the hindrances and challenges that South African managers' business strategies faced at that time in the Chinese markets were multifaceted: they had to survive in a seemingly contradictory foreign market where socialist policies coloured the 'market economy', ostensibly because they had little choice but to expand and grow beyond their home markets; the managers had to be able to foresee market risks even though it was hard to see clearly what exactly the risks were, and at what point these risks might manifest as a real crisis for the business, at which point loss-minimisation also became crucial; and the managers had to learn to find a way to communicate with the local market in the local 'language'.

Last but not least, *local market dominance* remains critical for South African firms even after they become global leaders in their own sectors. Companies such as SAB Miller, which have become leading international enterprises based in part upon their own internationalized South African label (with a blurred distinction between the domestic and the international), nonetheless rely for their dominant position upon their strong domestic market which still contributes a large portion of their overall profits, while Research and Development (R&D) facilities which are retained in the home country continue to provide the firm with the know-how needed to maintain their competitive advantage in the foreign markets.

We may now conclude by asking what, if anything, is distinctively South African about the case study firms' business strategies, in comparison with what we have concluded above about the large established South African firms and their successful early Chinese investment experience? Are there any similarities or differences, given of course that the home country (South Africa) had subsequently gone through dramatic socio-economic transformation in the last two decades, whilst China has by now has become a more 'mature' destination for foreign investment compared with 20 years ago?

Presuming that large numbers of South African firms had been able to enter the Chinese markets at the beginning of the Chinese 'open door' policy introduced in the late 1970s, and presuming also that at the same time South Africa had not been under the dark shadow of the Apartheid era, how different might the South African firms' business strategies have been compared to those described in the case studies? The answer is that they would possibly not have been much different from those of firms from the US or Western Europe. This is because the advanced macro-level institutional systems and arrangements in South Africa were quite similar to those familiar to Western firms, and thus they would have entered the Chinese market with broadly similar tools and experience gleaned from operating historically in foreign markets. Such a view is supported by the fact that the OFDI of South African firms ranked amongst the highest in international comparison by the late 1960s and early 1970s (Feinstein, 2005). However, for reasons found principally in the realm of international relations, most of the South African firms presented in my research case studies entered China at a point in time after both countries, China and South Africa, had already experienced thoroughgoing processes of transition and reform. This obliged the South African firms to adjust their own business strategies not only in the host country markets, but also first in their home country market.

As mentioned earlier in Chapter 4, South Africa over time formed a somewhat solid and robust macro-level institutional system which directed and guided the country's economic development for at least half a century. But since the ANC gained power and leadership responsibilities, they have steered the country in a quite different direction, prioritizing economic restructuring, the elimination of poverty and inequality, and the generation of employment. This has required the building of a somewhat different institutional system at the micro, meso and macro levels – a process that is still far from complete and, debatably, continues to provide hurdles to the reform process as well as economic development (Mangcu, 2012). What have been the implications of this for South African business, and the way that South African firms operate in the Chinese markets?

Unlike those large established South African firms who were the pioneers to explore the international markets, most South African domestic firms first began to adjust their products and services to the 'local' African markets, in the process learning to deal with the risks found in markets where the (especially micro) institutional system was weak or even chaotic, such as by gaining skills and experience of building business-related social networks with upper-level institutional players in order to offset the inefficiencies and challenges that the unpredictable institutional environment presented to them.

Whilst it is difficult to prove empirically, it is reasonable to suggest that this unique (in the sense of its political drivers) domestic experience serendipitously prepared those South African firms which later ventured into the Chinese market to cope with a similarly predictable and flexible institutional environment. Whilst the underlying story of China's remarkable economic growth is by now very well known, and the political platform upon which it has been built has been quite solid, the inner workings of the system – at both the macro and micro levels – can hardly be described as cast in stone. Foreign business in particular requires a certain nimbleness, astuteness and contextual awareness to be able to retain a stable stance on fluid and flexible foundations (Story, 2010), and the case studies (in the main, but not universally) suggest that South African firms' experience of operating in a similar political-economic environment has given them a distinctive, and I contend a distinctively South African flavour to their operations in the Chinese markets. 'Location' may still not seem to be the necessary key factor to every case study South African firm, but the firms offering retail and financial products would definitely look into the right markets locations in China where the consumers would have the capacity to accept and purchase their products.

There has additionally been an extra layer of challenge that South African firms have had to contend with, as most of them entered the Chinese markets at a relatively late stage compared with most Western firms (except for the big South African investors and conglomerates which entered China at the end of the Apartheid era, mostly associated with 'capital flight' from the Republic). The disadvantage of being a latecomer to the Chinese markets required the firms to offer products, services and/or skills that were in high demand or were especially needed in China. The investigation of South African firms in my case studies has shown that the ones that have been able to survive and operate effectively in the Chinese markets to date have offered products/service that are either/both innovative or distinctive and thus desirable and acceptable to the Chinese. In other words, the strong FSAs are still a source of competitiveness for South African firms which can depend on the home country to help them contest the host county market. IP protection can still be an issue that some South African firms (e.g. case study Company K) find difficulty with in the Chinese markets, even though China has seen some improvement since WTO entry (as indicated in the GCI scores presented in Chapter 4) in terms of institutional regulations and legitimation. Some companies had less concern (e.g. case study Company C, D) about IP, but this was not because they were not fearful of losing their IP, rather it was mainly because the products/service they offered to the Chinese markets would have effectiveness for only a given period of time in these markets, and before the current products/services could be 'stolen' new ones would come into the markets to replace the old ones due to their continuous innovation derived from their home country markets.

Finally, we have also seen that these South African firms have a generally higher awareness of the unpredictability of the Chinese markets, and thus they have been willing to adopt somewhat flexible business strategies, in much the same way as they do in their home and African markets, in order to mange their business operations in such markets. By setting up business partnerships with local firms in order to use their local social and business networks, and in particular their willingness to make an effort to build relationships with upper-level institutional contacts as well as using networks to function effectively at the micro-level in China, they have helped to enhance efficiency and effectiveness of their respective businesses. Whilst it is not intended to infer that firms from other countries have not also functioned in a similar manner at the macro and micro levels, both the timing and the political contexts within which they have operated have created a distinctive set of environmental and circumstantial factors surrounding South African firms' entry into and consolidation within the Chinese markets.

CHAPTER 6

CONSOLIDATION, DISCUSSION AND CONCLUSION

The aims of this research were to specify the key institutional factors that have contributed to the effectiveness or otherwise of South African firms entering and operating within the Chinese market, and to investigate the characteristics and processes that have effectively shaped South African firms' business strategies to negotiate the current Chinese institutional environment. In order to operationalise these objectives, one Principal Research Question and fifteen Secondary Research Questions were formulated in Chapter 1, and here they will be reviewed and re-assessed in light, particularly, of the analysis in Chapter 5, which also incorporates the analytical model developed in Chapter 2 (Figure 2.2: 3D Institutional Model). The discussion will broadly follow the structure laid out in Figure 1.1 (Organisation of the Research Questions), touching on historical arrangements, the character of firms and institutions, and processes of market penetration/consolidation and negotiation of the institutional landscape. However, those elements that relate to business strategies will be consolidated in an additional section because of their significance to the overall discussion. After reviewing the empirical findings, the discussion will return to some of the theoretical debates which formed the point of entry for this research, and will consider how the institutional model in particular might be considered to constitute a valuable and original contribution to the existing body of knowledge in this regard. The chapter will conclude with a brief consideration of some of the wider implications that emerge from my research findings, some of the limitations associated with the present project, not least the constraints imposed by the PhD format, and will proffer some suggestions for future research work in a less constrained academic context.

6.1 Main Research Findings

6.1.1 Historical Arrangements

It is important to state at the outset that the main focus of the research investigation was on how South African firms negotiated the institutional environment *in China* as a means of facilitating market entry and consolidation. The historical background on political, economic and institutional change in South Africa provided an essential backdrop to this study, but the influence of the domestic institutional environment in South Africa on the firms' strategic behaviour in China was not a formally operationalised component of the research project. Accordingly, conclusions with regard to how institutional structures and institutional change in South Africa influenced both the character of the firms that entered the Chinese markets and the way they negotiated economic and political structures therewithin remain largely conjectural in this thesis. Nonetheless, I think a certain array of plausible observations can be made in this regard.

The first two research questions (SRQ1a and SRQ1b)[91] asked how the South African business environment (within which the case study firms were placed) had changed over time, and how both this environment and its historical evolution had influenced the contemporary business context, particularly in relation to international operations. Certainly, both the political and economic contexts have changed quite dramatically since c. 1994 – indeed, superficially, it would appear that the pendulum has swung almost from one extreme to the other in terms of the social groups who hold power and the political agenda they have advanced. But beneath the surface I think it is reasonable to suggest – however politically inappropriate this sentiment may appear to be – that the legacy of the past is still quite clearly evident in the present situation, and to a significant extent it is 'business as usual' as far as intercontinental business dealings are concerned, particularly in respect of China. Certainly (if one can be forgiven for using racial adjectives), there is a growing corpus of 'black entrepreneurs' both in South Africa and operating internationally across sub-Saharan Africa (McDade and Spring, 2005), but further afield the affirmative action of the ANC has not yet translated into 'black capital' penetrating distant markets such as China. As such, the present study is very much focused on 'white enterprise', which is largely built upon the economic and institutional (and to some extent also the political) foundations of South Africa's pre-1994 era.

There was little evidence gleaned from my interviews with respondent South African businesspeople to suggest that the present institutional environment is any more

[91] SRQ1a: 'How has the changing institutional environment across time influenced the present business environment in South Africa?' SRQ1b: 'How does the present business environment influence how South African firms operate internationally?'

conducive to the ‘going-out’ of South African firms than it had been in the past. To a large extent these firms, following a long tradition of pioneering resilience, have always had to ‘make their own way’, sometimes *despite* rather than because of the prevailing institutional setting. In the past, restrictions on capital outflows – targeting the large conglomerates and corporations, but also affecting medium-sized enterprises – created a hurdle for outward investment; today, some of the requirements of the BEE, such as a stipulated minimum 25% black shareholding, whilst having laudable social objectives, might interfere with and impede the competitiveness of firms operating in a fierce international capitalist environment. An interesting supplementary research question, which was neither tested nor testable in the present context, asks whether the growing need to negotiate a (constantly changing) domestic institutional environment (in South Africa) which inserts social, cultural and political agendas into the economic landscape may in some ways prepare outward-looking firms to cope with and understand an (equally changeable) institutional setting (in China) which, for quite different reasons and superimposed upon a quite different political-economic history, nonetheless inserts political and social agendas into its economic policies and decision-making processes, and where socio-cultural factors also add a particular flavour to the prevailing institutional landscape? We might also ask whether the cultural dimension to business in both mono-ethnic and multi-ethnic South Africa, particularly concerning informal institutional practices, in some ways helps prepare businesses to operate within China’s informal institutional environment? Also, has their historical experience of operating under monopolistic conditions prepared them to operate within an environment where the (Chinese) state frequently bestows upon itself monopolistic powers?

6.1.2 Characteristics of Firms

SRQ2a asks how the institutional environment in China (we have already discussed the South African situation) influences how South African businesses operate in that country.[92] China has a rather complicated macro-level institutional structure. The major institutional actors at this level were listed in Chapter 4, and theoretically each of these had the power to hold foreign investors on a string, prolonging, delaying or

[92] SRQ2a: ‘What are the macro-level institutional factors in both South Africa and China which influence how South African businesses operate in China, and what is their influence?’

even denying new business entry or initiatives. Some of the constraints faced in the formal institutional setting were common for most of the South African investors that I interviewed, such as vague or ambiguous official instructions, duplicated and repetitive procedures, long waiting times to receive official responses from the Chinese authorities, and so on. Returning to the GCI data which we looked at in Chapter 4, China ranks 134th internationally in terms of the 'number of procedures to start a business', and indeed the situation deteriorated (if procedural complication can be interpreted as an impediment) over the reference period 2007-2012, from a global standing of 101st.[93] Most interviewees mentioned the similar issues during the 40-odd fieldwork interviews, which included (in addition to the case study firms) some South African business investors or business consultancies, and some government officials and lawyers. There were however some exceptions, like the case study of Company E: if a new business initiative was favoured and supported by higher-level institutional actors, they could easily turn on the 'green lights' and take the investors all the way to the destination. Sometimes the delays were not only caused by the complicated procedures, but also because Chinese macro-level institutions did not have sufficient experience of dealing with specific cases, as we found with the situations Company C (the opening of the insurance/finance market was at a very early stage) and Company K (intellectual property protection was also a relatively new concept in China) had to face.

Addressing the same question at the meso-level (SRQ2b),[94] most such institutions functioned as intermediate devices to bridge and connect the macro- and micro-level institutions. Most South African firms entered the Chinese markets and started their institutional engagements at the lower level institutional layer, and accordingly they needed to stretch their own network coverage in order to reach the higher institutional levels, which they typically accomplished via meso-level institutional agents in order to seek more opportunities for business development. This process was identified as the 'externalization process' within the 3D institutional model.

[93] In comparison, South Africa ranked 29th in 2012 (52nd in 2007), Brazil 130th (121st), India 121st (85th) and the Russian Federation 97th (down from 27th). In terms of the 'number of days taken to start a business', China ranked 116th globally in 2012 (according to the perceptions of business respondents), and South Africa 80th (Global Competitiveness Index, various years).

[94] SRQ2b: 'What are the meso-level institutional factors in both South Africa and China which influence how South African businesses operate in China, and what is their influence?'

In terms of the motivations that drown South African firms to enter the Chinese markets (SRQ2c),[95] these appear to be multi-layered. Classic IB theory, for instance the OLI paradigm (Dunning, various years), has concluded that the four major motivations for foreign enterprises seeking markets outside their home nation are defined as resource-seeking, market-seeking, strategic asset-seeking and efficiency-seeking. Like most foreign enterprises from the West, the sheer size and potential of the Chinese market has seduced many South African firms. Market-seeking was thus the most common motivation for every case study firm to enter China. This was not only acknowledged by the business firms themselves, but also reinforced by other South African professionals who I interviewed both in and outside South Africa.[96] The former South African diplomats, who had been based in Hong Kong and Taiwan respectively during the Apartheid era, had been highly encouraging towards their business communities to take an interest in the Chinese market opportunities. Nonetheless, business opportunities were also triggered by other factors, such as the personal reasons seen in the case study of Company A (high-level political connections and patronage helping a wine-export business), or by the macro-level institutional political platform that assisted case study Company G (the Chinese premier opened the door to a South African parastatal enterprise).

In terms of the knowledge and information needed to facilitate market penetration in China (SRQ2d),[97] almost all of the case study companies mentioned the importance of attaining local market knowledge from ‘local talents’ (local knowledge-holders – which also often meant people who could communicate in local languages), and they all had tried, in different ways and to a different extent, to engage with the local knowledge pool by employing local employees, connecting with local networks (sometimes associated with their local staff or agents), approaching local higher-institutional contacts, and so on. Some of the companies were fortunate enough to have such ‘local talent’ on board within their own teams (or were able to recruit/redeploy such people from within the wider corporation – which brought the added advantage of company loyalty), whilst some had to acquire such resources by

[95] SRQ2c: ‘What are the principal motivations behind entry into and operation within the Chinese market by selected South African firms?’

[96] Interview with two South African diplomats (interviews No. 26 & 27, Pretoria May 2011) and a government official in the National Department of Tourism (interview No. 30, Beijing April 2011) .

[97] What were the principal sources of knowledge, information and intelligence that South African firms obtained in order to facilitate their penetration of the Chinese market?

relying on their business partners (i.e. their JV partner – meaning they sometimes needed to be a little more cautious about which party's interests this person prioritised). Those who were unable (or unwilling) to acquire the right people were more likely to fail in the Chinese market, such as was the case with Company B (restaurant in Beijing).

The last two research questions in this segment (SRQ2e and SRQ2f) asked about the characteristics, location decisions and timescales of the case study firms, and how these influenced the effectiveness of their business operations in China.[98] Many South Africa firms were fully aware of the importance of having a local business partner to assist their process of business entry and operation, therefore most of the case study firms engaged with local Chinese firms to form joint ventures as their entry-point business structure. However, differences in terms of the size, structure and corporate governance of the firms (both the South African firms and the JV Chinese firms) meant that their 'business marriage' delivered different outputs and outcomes. We can thus state that there is far from being a single, homogeneous or generic set of characteristics that foreign-investing firms manifest, and this is responsible for a highly diverse set of experiences and outcomes. We should therefore be wary about overgeneralising and overtheorising business characteristics and experiences in this regard. In this connection, I believe that my three-dimensional institutional model allows (indeed, is built upon) the contextual and circumstantial diversity that characterises the 'realeconomy' of international business and the institutional settings within which it operates.

Table 4.2 ('South African Foreign Investment Actually Utilized in China') described the trend of outbound capital flow from South African to China, showing a dramatic increase between 2002 and 2005, which was largely attributable to the strong encouragement that the South African business community was given by both countries' government officials' frequent dialogues on cooperation. The first plenary session of the Bi-National Commission was held in 2001, and in 2002 Chinese Premier Zhu Rongji paid a two-week long working visit to South Africa at the end of

[98] SRQ2e: 'What are the principal characteristics (ownership structure/mode of entry, size, sector, relationship to head office, governance, etc.) of the case study firms that are operating in China, and how did these influence the effectiveness or otherwise of their business operations in that country?' SRQ2f: 'Why did the case study firms opt for particular locations and timescales for their business activities in China?'

August, during which time Premier Zhu met many South African business people from various industries and sectors, and strongly encouraged them to invest in China. Clearly, the bilateral political climate influenced the subsequent actions of South African business investors. As far as locations are concerned, there was no evident pattern whereby South African firms cluster in any one or several specific physical spaces. Since most South African firms were paired with Chinese local companies, these South African firms' destinations were more or less determined by the local partners' physical setting. However, in particular sectors, such as financial products and retailing, which are more consumer market-oriented, firms in these sectors tended to locate close to the main concentrations of customers, as in the case studies of Company B (restaurant) and Company D (insurance company).

6.1.3 Processes of Market Penetration

In addressing SRQ3a,[99] several common and typical processes were identified in most of the case study South African firms when they first entered the Chinese markets and then further developed their business operations. First of all, the firm must have at least one 'local person' who was called a 'local talent' by one of my interviewees. In most cases the 'local talent' would be a person of Chinese origin with overseas as well as South African experience. To have a 'local talent' inside the firm would help to ease the language barrier. Although the Chinese business communities have become more used to negotiating business with foreign language speakers, foreign investors are mostly expected to understand, or at least have a means to communicate in, Mandarin Chinese. Almost every interviewee in my research emphasised language as being one of the biggest barriers to operating a business in China. On the surface, the 'local talent' may help to translate between the two languages, but the translation process also involves reading/understanding and bridging both the culture and the business speciality through language. Many such Chinese 'local talents' also have strong personal connections (*guanxi*), which helped to generate new business initiatives and opportunities for the firms, as in the cases of Companies D, F and J, and even Company K. If the South African firms did not have such a human 'talent' resource inside their own firms, they would have to source these talents locally when

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[99] SRQ3a: ‚What activities specific to the firm, or individuals within the firm, at the interface with the business environment in China (micro-level and informal institutional arrangements and cultural processes) have firms followed in order to facilitate their business entry into and operation within the Chinese market?‚

they entered the Chinese market (such as in the cases of Companies A and E, but also mentioned in the cases of Companies B and G), which is explained in the 'localisation process' in my 3D institutional model (Cell VIII).

The second process that most case study firms demonstrated was their willingness to be flexible and adopt an informal institutional approach to nurture and foster business relations with potential and existing business partners: for example, Company A was willing to 'invest' one year (essentially doing nothing other than socialising) to nurture a relationship with one key business contact; and Company H have become well used to having informal dialogue and interactions with their Chinese contacts to keep their relationship warm. Among the 10 case study firms, eight have local Chinese business partners or have special cooperative arrangements with the Chinese. So to deal with Chinese business partners required the South African firms to have an open mind over differences between the two companies which typically resulted from their different cultural backgrounds, and to adapt their own conventional way of doing business in South African to suit the needs of operating in other countries. The Chinese have a business culture based on informality, but for many firms, particularly those from the West, being informal could be quite challenging, because they have programmed themselves to match the rigid formally institutionalised environments in which they operate. Nonetheless, many South African firms have a historical tradition of pioneering and being resilient in exploring new 'territories', and it may be posited that along this path they have learnt from experience that they have no choice but to be adaptive and flexible, thus they may quite readily have adapted to the Chinese way of doing business. Also, many of the firms have had years of international experience before they entered China, so operating in 'less institutionalised' and 'difficult' market environments, particularly in the African continent, had educated and prepared them to operate in the Chinese markets.

SRQ3b[100] suggests that what I have called 'the personality of the firm' may have had some bearing not only on the process of market penetration and consolidation, but also on the diversity of outcomes that have been highlighted by this research. Each firm has its own 'personality', which is mostly likely to be first delivered and

[100] SRQ3b: 'Each South African firm might be considered to have its own individual 'personality' (corporate governance, firm-level institutions and culture). How has the 'personality of the firm' influenced the process of market penetration in China and the effectiveness of the firm's business operations there?'

represented by the firm's business development manager in the new foreign market. During the entire field-work phase of my research (in China, South Africa, Singapore and the UK), it was clear to my social receptors that each individual I communicated with had his/her own personal traits and personality. Nonetheless, there were also several common characteristics which were evident in most managers, which was also endorsed by other interviewees who had been involved in Chinese business. The managers who have the potential capacity to be sent to China to develop new business opportunities first and foremost must have previous overseas business experience and a broad international business knowledge, ideally in China or at least in Asia. Secondly, these business development managers must be open-minded and be willing to accept new ideas. Thirdly, they have to be approachable (in a Chinese sense this also conveys an appearance of being humble), or at least convey that impression, and sociable in order to make new contacts and build networks. Last but not least, they have to be principled but not stubborn. Company B provides an illustration of where this quality was absent: the manager was very rigid with his own business principles and was reluctant (despite advice he was given) to be flexible in adopting alternative (maybe informal but ultimately more efficient and effective) ways of doing business. In contrast, Company J's business manager was more proactive in seeking a range of (seemingly unconventional) solutions to various problems. Company C's interviewee was more forthright about the 'personality' issue: she said that sometimes the conflicts between the two JV partners were not only caused by cultural differences, but were more about the 'personalities' of the different individuals involved. Some managers' personality was strongly influenced by the company's 'tradition', like in the case of Company H. The company has had more than 20 years business involvement in the Chinese markets, and the tradition of 'fostering relationships with the Chinese clients' has been passed on to the new mangers from the previous generation, so it was quite natural and easy to find such 'friendly' personalities among the company's managers.

Of course, their personal background also affected managers' personalities. Three 'Chinese' managers were interviewed during my fieldwork. Company D's current country manager is from mainland China, but she studied and worked in South Africa then was sent back to China to be the GM. For her, things in China were nothing unfamiliar, and it was not difficult for her to adapt back to the Chinese way of doing business. Company F's business development manager was born and grew up as a third-generation Chinese in South Africa (he speaks English with an Afrikaner accent), and, although his Chinese origin gave him advantages in approaching the Chinese business partner, he was in fact more like any other South African (foreign) investor in taking a cautious approach to entering the Chinese markets. Finally, Company J's business development manager was born in Taiwan and brought up in South Africa, but he was still largely attached to Taiwan by family, and he has the most proactive, skilful and adventurous business style, which has brought him some achievements and success in the Chinese markets.

SRQ3c[101] engaged cultural awareness and understanding and its importance in the effective operation of business in China. South Africa is a multi-cultural and multi-ethnic country, so at least in theory business actors from the Republic who venture into other ethnic and cultural landscapes should be receptive to, respectful and accepting of new cultures and cultural differences, and able to adapt themselves accordingly. To majority of South Africans before 1994, China was a 'great unknown' apart from its being a 'red communist' country. South Africa's recognition of Taiwan was also a complicating political factor. But eventually, during the post-Apartheid era and its associated 'fresh start', the two nations have recovered and built a normal diplomatic relationship, and within a short period of time business communications and connections between the countries (in both directions) started to grow. Some interviewees (e.g. the interviewee from Company H) even commented that between the South Africans and Chinese there are many similarities in terms, for instance, of culturally using informal networks to expand and solidify business opportunities. However, a rather different observation from several of my South African interviewees was that they found the Chinese could be more intolerant towards 'outsiders', particularly if the 'foreign investors' could not offer the products or services or intangible resources that the Chinese markets need, or simply because of the perception that too many 'foreigners' in 'their' market was threatening.

[101] SRQ3c: 'How (if) do South African firms apply their cultural understanding (cultural interface) of operating in an international context to their business operations in China, and how effective has this process been?'

SRQ3e[102] asked about the competitiveness of South African firms in the Chinese markets. First, it is necessary to point out that not all the case study companies had managed to remain competitive. Sometimes, as we have seen above, an individual's personality had a strong influence on the firm's lifespan in the Chinese market. And whilst it can hardly be considered to be a scientific explanation, serendipity somehow has also to be taken into consideration by business studies academics: quite realistically, 'good luck' could easily make a difference to a business' destination in China, and indeed serendipity also determined why some firms were able to chance upon local contacts who opened many doors for them, while for others the doors remained jammed, even after lubrication.

Among the factors which may have influenced the competitive position of my case study firms might be listed the following: (1) strong, marketable and desirable products or resources constituted the first key competitive advantage of South African firms. Such resources not only included the primary products (such as agricultural produce and raw materials) but also quality consumer products (e.g. beverages, machinery), innovative service products (e.g. banking and insurance products) as well as advanced technology that can be utilised to generate new products. Generally speaking, the South African firms that were successful in the Chinese markets all had something that these markets, and their institutional regulators, needed and wanted; (2) world-leading management personnel, and experience of international business worldwide; and (3) a willingness to adopt a flexible approach and methods in dealing with an emerging economy's institutional environment and arrangements, adjusting and adapting their own business strategies accordingly.

Finally, SRQ3f[103] asked about any differences (and similarities) that might have existed between the strategies and processes the firms adopted in China vis-à-vis their activities in other countries. Many South African interviewees admitted that, compared with the Western markets, China is not an easy market to enter, penetrate and remain competitive within, in large measure because of the complicated, embedded and sometimes quite unpredictable or changeable institutional environments. However, compared with other BRICS countries, according to some of

[102] SRQ3e: 'How have South African firms managed to be and remain competitive in the Chinese market in relation to local Chinese firms, foreign companies and other South African businesses?'

[103] SRQ3f: 'What similarities and differences in business strategies have South African firms operating in China adopted in comparison with the strategies they adopt in other international (and domestic) contexts?'

my interviewees, China holds more attractive features and prospects for the investors. The potential market size, the relatively stable (and improving) institutional environment (as we saw in Chapter 4), as well as the foreign investment incentives that China continues to offer continue to provide encouragement to South African businesses and investors.

6.1.4 Structural Elements

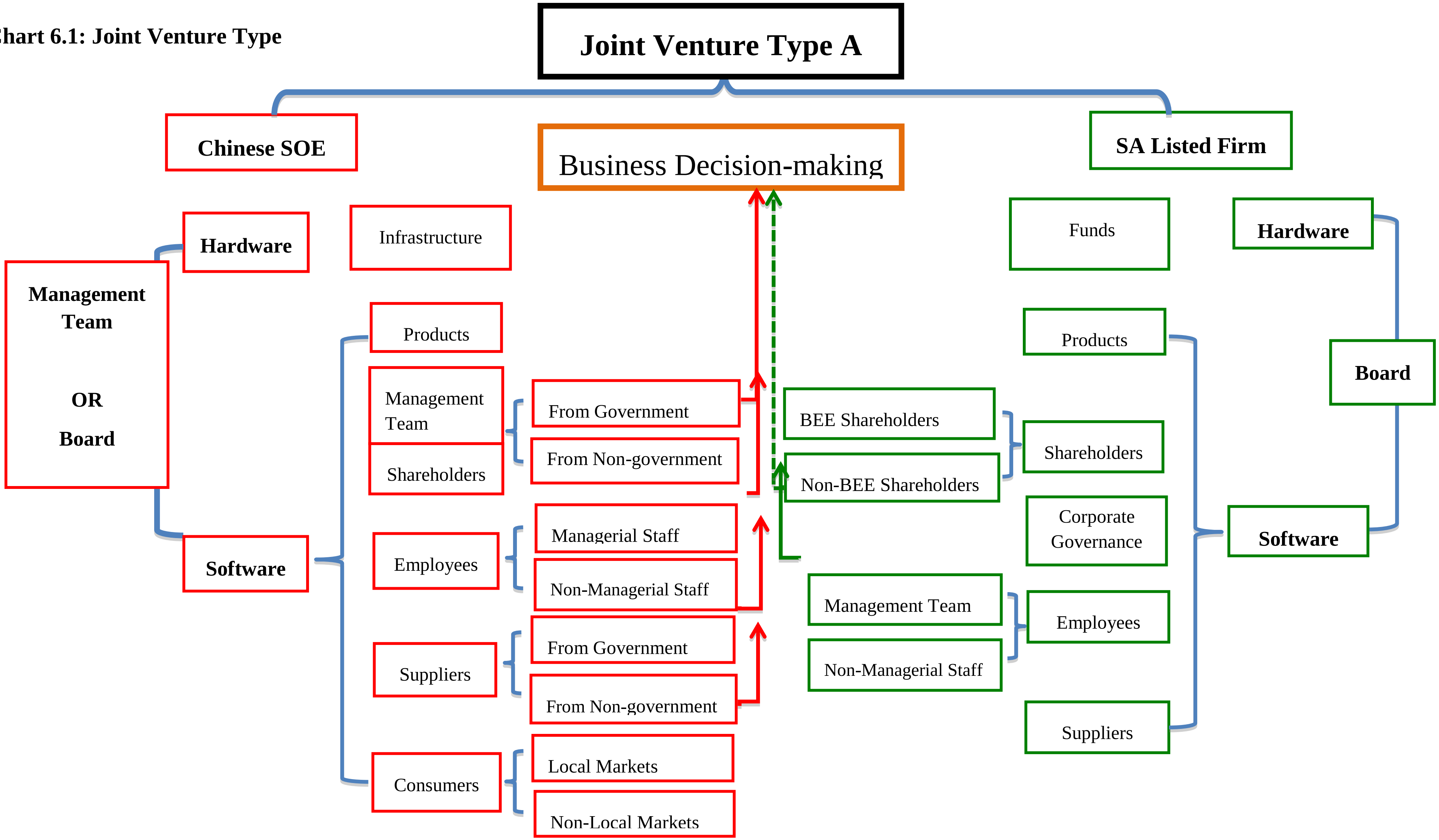
SRQ2g asks about the character, efficiency and effectiveness of the strategies that South African firms adopt for entry into the Chinese markets.[104] As mentioned above (SRQ2f), most South African firms tended to pair up with local Chinese firms, which therefore has been the main business strategy adopted by these firms to enter and operate in the Chinese markets. However, different types of South African and Chinese partner firms generate different issues that both parties have to deal with, and sometimes the dominant party would have most influence over outputs and outcomes. Three types of JV partnerships between South African and Chinese firms emerged from my case studies. These will be discussed in turn below.

Type A: South African Listed Firm in a JV with a Chinese SOE

This type of joint venture (such as in the case studies for Companies E, F and G) is the most complicated arrangement among the three. Both South African and Chinese firms have stronger 'hardware' and more sophisticated 'software' as the baseline for supporting the prospective JV. As indicated in Chart 6.1, the 'hardware' of the firms refers to their solid/reliable funding sources and/or the robust infrastructural foundations, which equip the firms with the capacity to grow and expand when potential business opportunities come along. In an ideal capitalist economy, the two firms should have no obstacles to constrain their business cooperation. However, the reality for the foreign firms in joint ventures with a Chinese firm is rarely so smooth

[104] SRQ2g: 'What specific business strategies do South African firms adopt when entering and operating within the Chinese market, and why, and how have these strategies affected the efficiency or otherwise of the company?'

Chart 6.1: Joint Venture Type



or uncomplicated, because they are embedded within complex and sometimes unpredictable institutional environments, and learning how to deal with their Chinese partner(s) and how to construct appropriate business strategies for the Chinese market in such a situation are an inevitable part of the adaptation process they must go through.

From an institutional perspective, Chinese SOEs constituted meso-level institutional actors that connect with both higher-level institutions (in relation to the governmental shareholders) and lower-level institutions (through individual contacts). South African firms enter the Chinese markets most typically by starting within lower-level institutional environments where they have to tunnel through the already-embedded networks to reach the key contacts for access to business opportunities that normally remain restricted to the direct contacts of the higher-level institutions. During this process, SOEs can therefore perform as intermediaries to assist (if they find it sufficiently attractive) South African firms to gain market entry. Among the case study firms, the Chinese SOEs were most approachable by South African listed firms, but this doesn't mean that simply to pair up with a Chinese SOE guarantees progress without hindrance. And not all of the South African firms were treated identically in the Chinese markets. Chart 6.1 presented a summary arrangement of the organizational structure which pertains for a JV between a Chinese SOE and a listed South African firm. On the Chinese side, the major institutional actors that have an influence on business decision-making are the ones with direct connections with the government, whilst on the South African side the key decision-makers have less to do with the government, or are not related to the government at all. Under such a JV arrangement, the crucial entry point for South African firms is to negotiate the 'weight of management control' in decision-making. Many previous studies of joint ventures, some specifically relating to Chinese JVs (Killing, 1983; Beamish, 1985, 1988 and 1993; Lee and Beamish, 1995; Gray and Yan, 1992, 1997; Yan and Gray, 1994; Ding, 1997; Calantone and Zhao, 2001), suggest the foreign partners to be the *dominant* parties, or at least to have some potential to become dominant in JV relations, because the foreign partners offer or would be willing to contribute inputs of capital as well as advanced management and technology skills to the JV cooperating firm, whilst the Chinese local partners mostly lack these 'scarce' resources. However, these research findings were largely based on empirical case studies of firms from developed countries (e.g. the US, Japan) or industrialised economies (such as South Korea), which helps to explain their rather different results compared to the firms studied in my research, which concerns firms from one developing country (South Africa) investing in another developing market (China).

In my research context, the Chinese SOEs have played more dominant roles in the JVs relations relative to their South African partners. This is because, firstly, the SOEs still operate in quasi-controlled and often restricted Chinese markets. Following a thoroughgoing process of SOE reform from the 1980s, most of the more inefficient and strategically less important SOEs were either allowed to privatize or to fold under free market pressures. The ones that remain under central Chinese government control tend to lie in the more strategic or security-sensitive sectors (Bai et al., 2000). Secondly, the strong connections between the governments (local as well as central) and the SOEs not only give SOEs access to sources of capital and infrastructural support from the government, but also provide a channel for the government to impose substantial political influence over the SOEs. In many senses, business decisions are not taken solely to reflect the SOEs' commercial concerns, but also to support the agendas and respond to the messages sent by the government. Thirdly, Chinese SOEs now adopt a more selective approach to choosing their JV partners. Chinese FDI policies tend now to encourage foreign capital to flow into the sectors and locations that are in line with Chinese overall strategic development plans, such as to spread development further from the coastal provinces, whereas in the past China simply seemed content to welcome large inflows of FDI more or less regardless of its destination. Therefore, Chinese SOEs today, compared with ten or twenty years ago, have a more proactive strategic role to play, on behalf of the government which has narrowed the paths available for foreign investment. Despite these greater restrictions, the sheer size of the market in China continues constantly to allure foreign investors, including the South African firms: the potential rewards to be gained from market entry by and large compensate for the more restrictive institutional environment within which they must operate. So, if firms want to enter and penetrate the Chinese markets, they must hold the kinds of resources that China continues desperately to need, and they must also learn to negotiate with their Chinese partners – who may act simultaneously as brokers and conduits for government institutional policy - to win some influence over decision-making, otherwise they will lose out under the shadow of their Chinese SEO partners. Learning how to navigate both the formal and informal institutional landscapes thus becomes a crucial part of the market entry and consolidation processes.

Examples found in the case studies which fit this business strategy framework include South African firms (Company E and Company G) which differ in size, are found in different sectors and have formed joint ventures or cooperative alliance with Chinese SEOs in different arrangements. In the case of Company E, the Chinese government as well as the Chinese SOE really needed to have such foreign partner (Company E) to gain access to other overseas markets, and thus the future business horizons for the Chinese SOE would be much wider once the transaction (the financial arrangement between the two companies) was finalised. Because China/the SOE quite urgently needed something from Company E, the institutional path towards the finalization of the deal was significantly smoothened and accelerated. Company E negotiated the multi-million dollar deal with the Chinese SOE partner with top-level institutional actors, and all the business decision-makers were connected to the Chinese high-level institutions (mostly national government officials and organisations). In this case study, the entire business proceedings were driven by the Chinese partner, and once the final decision had been taken the formalities continued to proceed at this high institutional level, and thus the efficiency of completing the transaction was remarkably high, being done and dusted in just under 45 days.

In comparison with Company E, Company G also engaged the Chinese markets through high-level institutional introductions, because of the advanced technologies that it offered and that China urgently needed. However, after Company G entered the market, the South African government shareholders contributed little, and left Company G to negotiate its own position vis-à-vis the local Chinese partner. Nor was Company G able to foster a relationship with the local SOE partner which would see the latter use its government connections to influence the business development (and, as it turned out later, to protect the firm's intellectual property). In addition, during the 10 years 'loose relationship' between the two parties, the local partner gradually felt that they did not particularly need to rely on Company G's technology, so during the 10 years Company G's position had steadily become increasingly passive and weak.

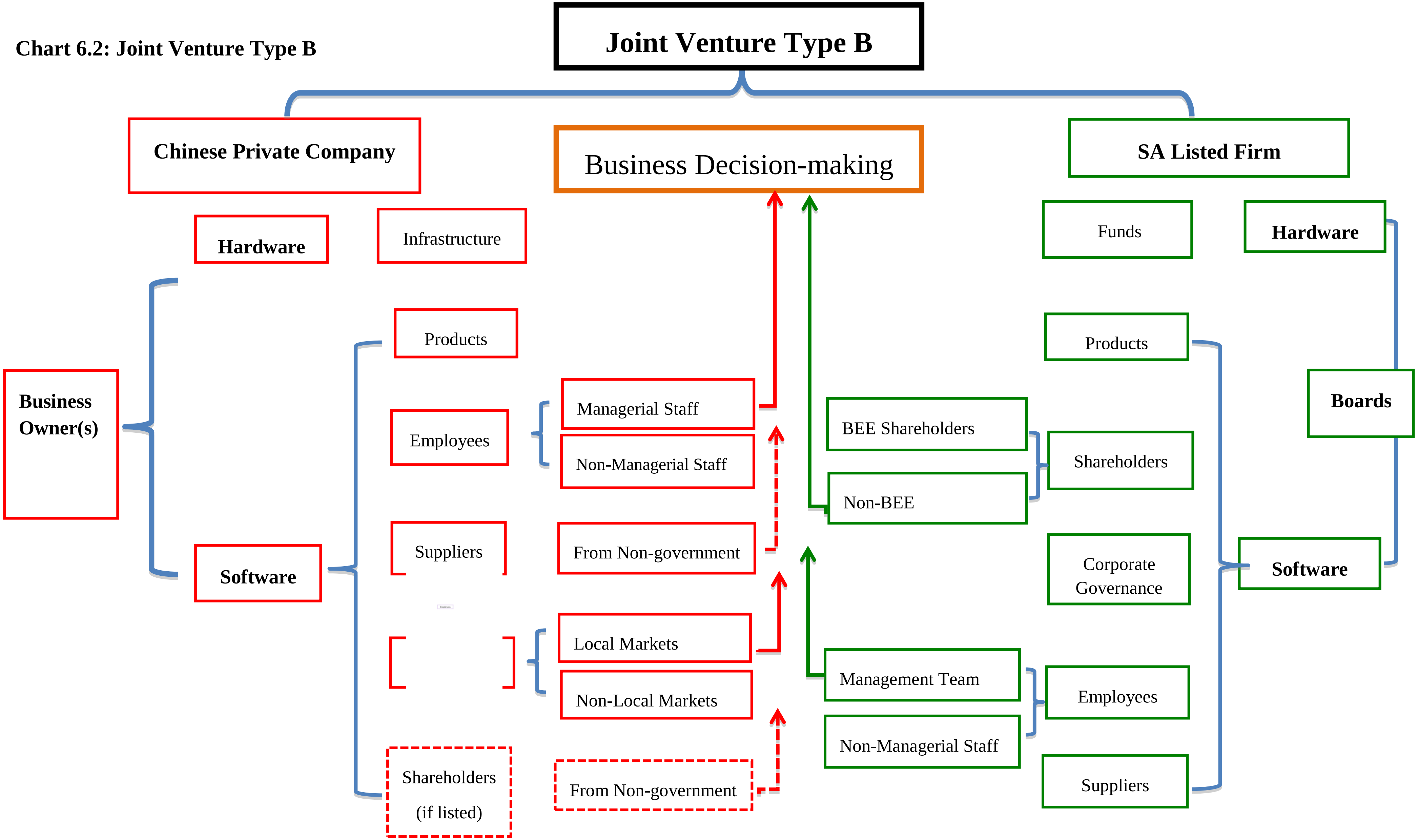
Finally, wrapped by frustration, Company G lost confidence in the Chinese market and the Chinese institutional environment, and withdrew its investment plan.

At the time of the interviews, Company F was lacking in confidence about forming a formal JV with their designated Chinese SOE, but was nonetheless still happy with the cool 'relationship' they had built and maintained. This was because the company had concerns about losing control and getting locked into an unbalanced partnership once the formal 'company marriage' had been consummated.

<u>Type B: South African Listed Firm in a JV with a Chinese Private Firm</u>

This type of JV arrangement (as indicated in the case study of Company C) is less complicated than Type A, because both companies (especially the Chinese side) would experience less government influence on decision making, but they still have rather strong 'hardware' and the decision-making would most likely rest on commercial business concerns. In this type of business cooperation, mutual business interests (e.g. seeking access to a large market) will tend to be the first entry point to form the relationship, which establishes a relatively fair foundation for the South African firm to negotiate its own 'controlling' power over the JV arrangement (without being so encumbered by formal institutional intrusion, as with Type A). Inside this relationship, the South African firm can offer what the Chinese partner needs, such as in our cases the technology or management skills that the Chinese private firm lacks. Meanwhile, the Chinese partner can offer more local knowledge to the South African firm and help to facilitate their business entry, therefore there is less one-sided 'domination' in this relationship, but instead more cooperation and mutually beneficial negotiation.

Chart 6.2: Joint Venture Type B



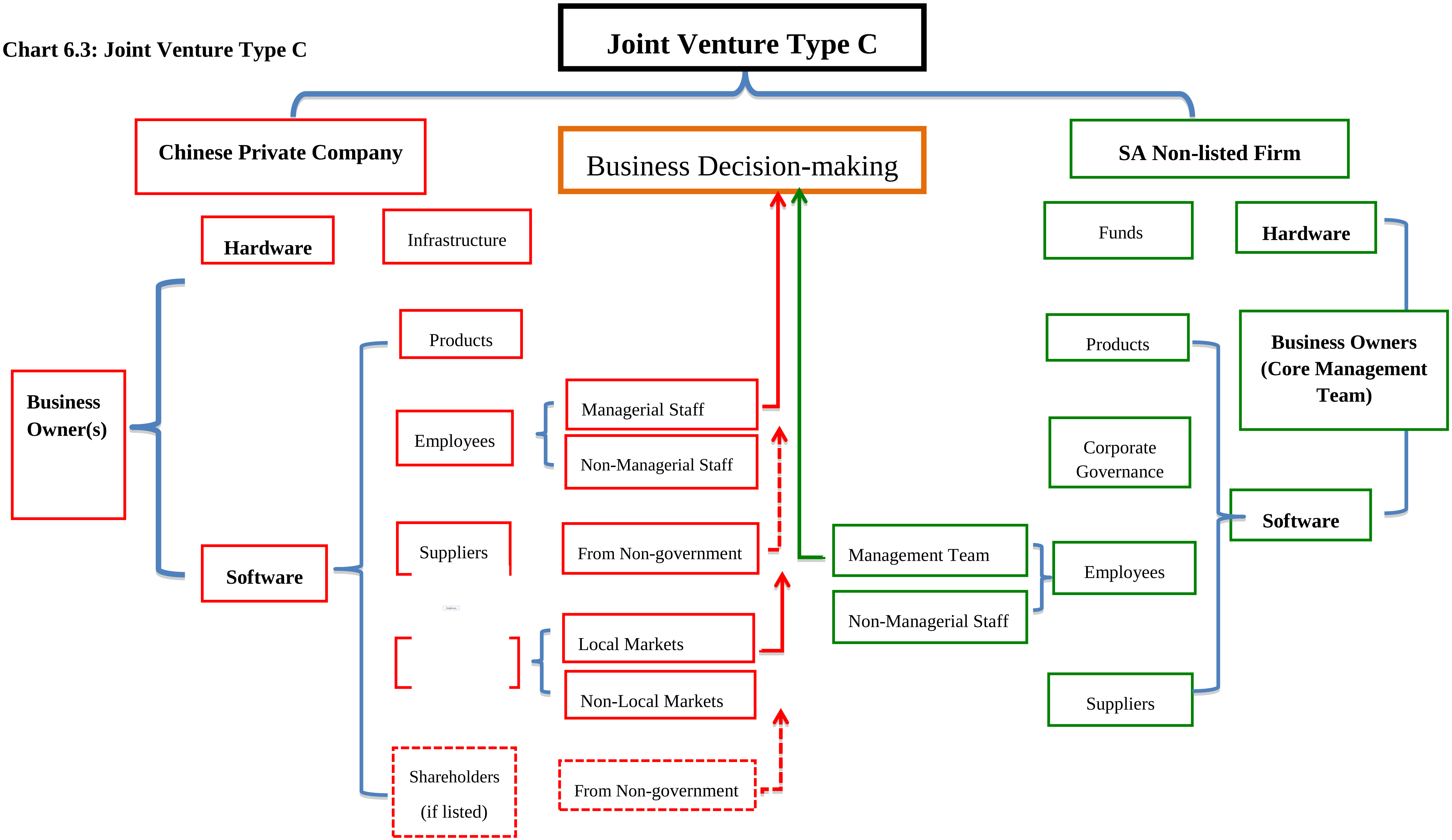
However, within the Chinese market environment it is nonetheless inevitable that institutional factors will influence business development. Although the Chinese partner is a private entity (listed on the domestic stock exchange markets in the case studies), the first principle for them to abide with inside the market is still Chinese government policy. In this sense, if the government would not allow them to do anything, neither of the JV partners could materialise the business initiative. We saw this with Company C: the percentage of the shares that the company could acquire from the Chinese company was formally defined and decided by the Chinese government, not by the JV partners based on their business needs.

Compared with the Type A JV arrangement, the South African firm would feel more relaxed with their Chinese JV partner because there is less tension or influence from the government, or at least not directly from the management team, but still the firm can maintain the 'key' government connections. This is because, when the business operations of the private Chinese firms (especially the listed ones) are in 'good shape' (i.e. consistent business development and healthy financial status, allowing them to make substantial tax contributions), the local government and even the central government will give the firms more attention to make sure everything is satisfactory. If there is a problem, the government contacts connected with the Chinese partner would be willing to help or give guidance.

Type C: South African Non-Listed Firm in a JV with a Chinese Private Firm

This is the most 'commercially-oriented' type of business cooperation between two firms, when compared with Type A and Type B. As long as the two firms are compatible with each other in terms of business scope, and they would like to work together, they both would already have established their baseline. The key factor in this type of business cooperation (as shown in the case study of Company C, and to a certain extent in Company A), both JV partners must have 'something' to offer to each other and meanwhile expect to get 'something' back from each other. There are fewer governmental or higher-level institutional actors involved, so long as all the

Chart 6.3: Joint Venture Type C



business deals are transacted in compliance with Chinese law and business regulations, although it would be ideal to the South African firms if their Chinese partners also had 'high-institutional' connections (as seen in the case of Company A); this would provide more 'positives' for future business development. However, the most crucial thing that the South African firms should be cautious about is to select the most suitable Chinese partner, and also to learn to nurture their relationships, at both a personal level and the corporate level, in order to enhance efficiency. This is in contrast to the situation that many listed South African firms may face, as their first priority will be to their shareholders who may often be more interested in the financial 'bottom line' than the complex inner workings of networking, relationship building and negotiating the complexities of the institutional landscape. Shareholders may also hinder new business initiatives by requiring somewhat conservative business approaches. In contrast, the private (non-listed) South African firm would have deal with less 'meddling' before it can make its final business decisions, and accordingly such firms might typically have a more adventurous attitude in taking new business initiatives. The managers from the case study Company D exemplify this.

Although the joint venture has been used by many South African firms as a business strategy to enter and penetrate the Chinese markets, still many firms chose to use other business arrangements for various purposes. Companies B, J and K wanted fully to control their business, either because of a reluctance to work together with the Chinese or because of concerns about losing business control and/or protecting their own IP. Accordingly, these firms chose to establish wholly owned foreign enterprises (WOFE) to manage their own business. But the disadvantage of adopting such a business model is that the South African firms need a much more thorough knowledge of China, Chinese people, the Chinese markets and doing business with the Chinese. Unless there is a 'local talent' resource, as in the case of Company J, the risks, consequences and lessons the South African investors might have to face could be painfully expensive.

Some South African firms also chose to use a mix of business strategies in the Chinese markets, as in the case of Company D and Company E. In the business fields where they wanted to retain full control to protect their own benefits, they chose to use the WOFE, but in the fields where they either felt they had something to gain or less to lose from partnerships with Chinese firms, they were willing to use the JV as an alternative option to help them stay in the Chinese markets.

6.2 Contribution to Knowledge

I present my conceptual and analytical model (the 3D Institutional Model) as my main contribution to existing knowledge in the field of International Business. The model is used to analyse and explain how firms use ‘institutions’ as navigation tools to enter, penetrate and operate in the Chinese market. Following the advice of Buckley and Casson (2009, 1575), who called for IB studies to have ‘a dynamic new agenda’ to investigate the development of MNEs in a more flexible form, the 3D Institutional model displays a dynamic motion of firms in each business stage, including the business strategies they have employed. I hope also that the model might be of some value in the real world, as firms consider the business strategies they might use to chart a path through the range of business and institutional hurdles and challenges they may encounter on entering and consolidating their position within foreign markets, whilst remaining mindful of the specificities of case and context.

The rationale for the 3D institutional model is drawn from a mix of existing classic international business studies theories, but it has been developed and refined based on empirical and contextual insight. Theoretically, the classic international business study theories and models, such as the OLI paradigm developed by Dunning, and the FSA/CSA Matrix created by Rugman and others, which I have reviewed in Chapter 2, have largely been developed from analyzing the business experiences of multinational enterprises from developed markets (e.g. the US, Europe and Japan), and are valuable in helping to understand the early phases of business investment in foreign markets. In contrast, firms from developing source markets have come to constitute a later phase in cross-border business investment, and it is not altogether certain that of the classic business models are powerful or flexible enough to explain fully and represent these firms’ transnational business activities. The present study rises to Rugman’s (2007) call for an evolution of traditional business frameworks. More recently, Rugman and others (2011) have suggested a shift in perspective when applying his classic business model (FSA/CSA Matrix), away from the original focus on the home country’s CSA, towards focusing more attention on CSAs generating from home country/region markets and their affective relations with FSA. These perspectives have been included in the 3D institutional model in the form of the environmental perspective: internal institutions.

In addition, this model has further advanced and emphasised the importance of ‘institutions’ in the investigation of business activities in emerging and developing markets - an increasingly fashionable business research perspective over the last decade – following on from the pioneering work in Mike Peng’s (various years) ‘Institutional Perspective Approach’ and Han Jansson’s ‘Institutional Network Approach’ (Jansson 2007), and endorsed by Dunning (various years) and Rugman (various years). The 3D institutional model has in particular been inspired by Jasson’s approach, from which the ‘basic institution model’ has been particularly useful in providing the initial foundation to build the elements within the ‘structural perspective’ of 3D institutional model, which divides the world of institutions into three layers, namely macro-, meso- and micro-level institutions. The ‘normative perspective’ of the 3D institutional model has, on the one hand, absorbed both Peng’s theoretical ideal of ‘formal and informal’ institutions and their influence on firms’ international business strategies, and on the other hand, the 3D institutional model has also taken in consideration other factors from political, economic and socio-cultural perspectives, which also affect the boundaries of ‘formal’ and ‘informal’ institutional practices, a perspective which is also touched on by IPE theoretical frameworks.

The second contribution of this thesis, which follows on from the first, concerns the analytical framework which is created by the three-dimensional perspectives of my institutional model, in which each set of dimensional elements interacts with and is affected by other elements. The ‘four-stage transforming process’ shows both the continuity and fluidly of firms’ business development progression and the business strategies they may take to extend their business path. ‘Institution’ is used as a navigation tool to guide and even guard them in choosing ‘appropriate’ business strategies (although not all of my case study firms in fact took the ‘right’ path). There is no doubt that this study model could be further advanced and refined through further and broader empirical research, but in its present form it does at least bring a dynamic dimension to our understanding of firms’ point of entry into transnational business.

My present study scratches beneath the surface of real business stories and situations, in a way that a generalised model would find it difficult to accomplish, and thus I hope that the rich and rare empirical insight provided by my case studies of South African firms entering the Chinese markets might be considered the third contribution made by my research work.

Lastly, this is one of very few, if not the first research study to focus on South African OFDI to China. It has managed to cover a good percentage (around 25%, based on the available firm data statistics) of South African firms operating in the Chinese market. This research has been one of the first (to my knowledge) to investigate and provide qualitative insight into South African firms' business strategies in the Chinese market. In addition, the 3D institutional model seems able to explain 'why' South African firms invest in the Chinese market, and most importantly 'how' and 'what' strategies these firms have employed in order to help them enter, operate and consolidate their position within the Chinese markets. The model also hopefully provides a tool for other researcher to use and test empirically in other developing markets.

6.3 Limitations and Suggestions for Further Research

6.3.1 Limitations of the Research

I have tried to be quite open about the limitations of this research project as the thesis has progressed; at the same time I hope its strengths have spoken for themselves. In retrospect, I think the connections between the domestic institutional setting in South Africa and both the identity of the interviewed firms and its influence on how they went about negotiating the institutional landscape in China might have been more consciously operationalised before the empirical investigation commenced. The background discussion of South Africa's modern history and contemporary situation paints a somewhat monochromatic image of past and present which, I feel, is simply superimposed upon my respondent firms. I did gain a sense of the 'personality' of these firms through the quite open and informal interview environment I was able to nurture with my research subjects, and I have no doubt that, even as a relative outsider in South African society, I was able to draw out a sense of 'South Africanness' from my conversations with these people. It steadily became clear to me through the evolutionary process of my research that any generic model of global capitalism is bound to founder on the rocks of contextuality and particularity, such is the nature of the 'realeconomy' and the complex socio-political world we have constructed. Feeding the personality of my respondent firms into the realistic picture I am building and communicating is an essential element of this, but I think the process might have been more complete if I had also probed more deeply into the firms' macro- and micro-historical heritage. It is quite possible, given the nature of the firms I connected with, that in fact they are all somewhat global in their outlook and identity, and thus I may not have found very much if I had explored the issue more systematically, but I am left with an unanswered question in the back of my mind.

Quite clearly, another significant shortcoming of a piece of research on South Africa, not least set in the post-Apartheid era, is the almost total absence of (again with the same adjectival caveat I used in Chapter 3) a 'black perspective' and a 'black voice'. I mentioned in my discussion of positionality that my initial interest in South Africa and my principal point of entry, as a researcher, into the South African community was stimulated by my personal circumstances, which happened to take me via the British *ex patriate* community into the heart of middle class white South Africa. I am not sure, given my ethnic identity and personal setting, how I could have transcended this localised situation, and objectively I do not in all honesty think that it would have made a great deal of difference to my research given the very limited amount of 'black capital' that has found its way to China, at least through private sector channels. I nonetheless regret not being able at least to open the parameters of the research investigation to have allowed a more diverse platform to have been built. I think, also, that a more flexible reading of 'domestic institutions' in South Africa might have allowed me to communicate, if only anecdotally, more sense of my respondent firms' prior experience of negotiating informal institutional environments 'back home' as a back-drop to their navigation of the same in China.

Personally, I think I managed quite well to gain access to a solid cross-section of respondent firms, which allowed me to build some reasonably insightful case studies which both contributed to the formulation of my 3D institutional model and helped to test its robustness, at least in the context of my limited sample. I am grateful to these firms for their generosity in sharing their experience with me, but of course all of my respondents were very busy people, and thus I could only impose on their time to a somewhat limited extent. They were also sometimes a little guarded about the depth and breadth of information they were willing to share with me, and so there is no doubt that there are more angles and facets to the stories that I have told based on the stories that they were willing to tell me. Then, of course there are the twenty or so South African firms operating/that have operated in China that I was not able to gain access to, including some of the larger family-run conglomerates, which surely would have added different facets and aspects to the sculpture I have attempted to mould. Whatever claims and contributions I make in this thesis are thus constrained by what I was unable to do and achieve, but I hope within the constraints of a PhD project that I have nonetheless found and said enough for my findings to be plausible and convincing.

6.3.2 Suggestions for Further Research

An obvious and perhaps unavoidable limitation of a PhD project is its restricted scope, which is attributable to financial, temporal and maybe even status constraints. One clear message to emerge from the empirical sections of this thesis is the importance of context, contingency, diversity, and even personality and serendipity, in influencing business processes and outcomes. Having in Chapter 4 attempted to look at the South Africa-China nexus against the broader backdrop of the dynamic emerging BRICS economies, it would be interesting and valuable to be able to take the same framework that was applied to this research and apply it more widely. This would also help me to test the robustness and wider applicability of the model I have developed in this thesis.

Intuitively, I have come to believe, through this research, that although the IB and IPE literature places quite heavy emphasis on formal institutional environments and processes, what really makes things happen and keeps things moving lies in those elements and practices that I have termed, perhaps a little too generically, 'informal'. A bearing without a lubricant sooner or later seizes up. With more time, it would have been nice to unpack the notion of 'informal' in order to reveal even more complexity and diversity than this thesis has been able to identify and uncover. As my 3D institutional model suggests, there is no clear binary between formal and informal; the connection between the two would best be seen as a continuum. Future research might attempt to theorise and operationalise this continuum, and also explore it inter-nationally across business settings.

Another objective of this research has been to attempt to weave several disciplinary perspectives into a field of study that historically has been claimed quite narrowly by IB and/or IPE. I lack the disciplinary training in, say, Anthropology or Sociology, or perhaps Cultural Studies, to leave my parent disciplines too far behind, but I have been convinced by this research that the complexity and diversity of the world in which we live is such that there can no longer be any effective place for disciplines that define themselves as 'silos' separate from other fields of knowledge. I know I have not invested interdisciplinary research in this project, and I recognise that many scholars have already been venturing into the territory that I have occupied for my PhD, but the fluidity and diversity of processes, situations and outcomes that my research has highlighted reinforces, in my own mind, the value of transdisciplinary research into international business processes and outcomes.

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Appendix 1: Details of Anonymised Research Interviews Conducted

ID	Organisation	Position	Place/Time
Companies			
1	Finance Company	International Executive Management	JHB 09/05/2011
2	Finance Company	General Manager - China (former)	JHB 17/05/2011
3	Finance Company	General Manager-China	BJ 11/04/2011
4	Finance Company	Chief International Development Officer	JHB 26/05/2011
5	Resources Company	Head of Market Research	PTA 11/05/2011
6	Finance Company	Business Development Director (China-Africa Investments)	JHB 16/05/2011
7	Chemical Company	Country president, SASOL China	BJ 20/04/2011
8	Retail Company	Director (Asia Pacific)	SIN 03/05/2011
9	Machinery Company	Business Development Manager	BJ 23/04/2011
10	Import & Export Company	Business owner	PTA 25/05/2011
11	Retail Company	Head of Real Estate, Retail Asia Pacific	SH 09/04/2011
12	Retail Company	Sales and marketing director	CT 13/03/2012
13	Finance Company	Specialist on Small & Medium Enterprises	CT 12/03/2012
14	Finance Company	China Project Team Representative	JHB 06/03/2012
15	Telecommunication Company	CEO	STEL 15/03/2012
16	QC Company	CEO	PTA 17/03/2012
17	Manufacture	CEO	PTA 28/03/2012
18	Telecommunication Company	Deputy CEO	JHB 05/04/2012
Business Consultancies			
19	Business Consultancy	CEO	JHB 07/06/2011
20	Business Consultancy	Founder & Group Management Director	BJ 22/04/2011

21	Business Consultancy	Chief Economist/Director	PTA 25/05/2011
22	International Professional Service Company	Chinese Services Group, Country Leader	JHB 06/05/2011
23	International Professional Service Company	Chinese Services Group	JHB 06/05/2011
24	Law Firm	Senior Lawyer	PTA 29/03/2012
Government and Diplomat			
25	Chinese Government Office	Second Secretary	PTA 06/05/2011
26	Former RSA Diplomat	Former SA Council General	PTA 05/05/2011
27	Former RSA Diplomat	Former SA Council General	PTA 24/05/2011
28	UK Government Office	Head of External China and Taiwan Team	LDN 14/06/2011
29	Brazilian Government Office	Second Secretary, Economic Affairs	BJ 26/04/2011
30	RSA Government Office	Regional Manager Asia Pacific	BJ 29/04/2011
Research Institution			
31	University Academic	Economic and Management Sciences	PTA 17/09/2010
32	University Academic	School of Economics	JHB 10/05/2011
33	University Academic	School of Economics	PTA 09/06/2011
34	University Academic	Graduate School of Business	CT 12/03/2012
Others			
35	Research Conference	Conference at University Business School	JHB 03/11/2010
36	Business Seminar/Function	Seminar at RSA Business Chamber	PTA 16/09/2010
37	Business Seminar/Function	Seminar at RSA Business Chamber	PTA 05/11/2010
38	Business/Research Seminar	Seminar at Johannesburg Stock Exchange	JHB 12/05/2011
39	Business/Research Seminar	Seminar at Johannesburg Stock Exchange	JHB 27/03/2012
JHB=Johannesburg, BJ=Beijing, SH=Shanghai, PTA=Pretoria, CT=Cape Town, STEL=Stellenbosch, SIN=Singapore, LDN=London			

Appendix 2: Introductory Letter

Subject: PhD research on South African firms' business operations in Chinese markets

Dear…

My name is Kelly Meng. I am a PhD research student at the University of Leeds, UK under the supervision of Professor Christopher Dent and Dr. Sierk Horn. My research subject is about 'South African firms' business operations in Chinese markets. I am currently in my second year of my three year course and I am planning my research fieldwork in South Africa and China. My fieldwork will consist mainly of conducting various interviews with managers and officials from businesses, government, civil society, foreign embassies and research institutes.

Based on my earlier research I discovered that your company/organization has had business involvement in Chinese market since (year…). Therefore, I would like to enquire whether you would be willing to participate in my research interview on this topic. This would consist of about a one hour face-to-face interview at a place and time of your choice to give me your views and insight-knowledge on the topic of South African firms' business operations in the Chinese markets. The interview outline will be sent to you in advance of our meeting. The general research themes related to your work and / or areas of expertise will include the following:

- Example A: What are the motivations and constraints for your company to invest and operate business in China?
- Example B: What are the competitive advantages of your firm in the Chinese market?
- Example C: How Chinese institutional environments have an influence on your business operations?

I would be extremely grateful if you could kindly participate in this research interview. Your participation would greatly assist me in my research and would also help me to compile an in-depth understanding on issues concerning South African business operations and strategies in the Chinese market. Different insights gathered during the interviews will be incorporated into my PhD thesis, which is expected to be completed by the end of 2012 and hopefully, thereafter, published as a book.

Please also be assured that your anonymity will be guaranteed and that all gathered data will be kept confidential and not used out of context in any way.

Finally, please let me thank you in advance for considering taking part in this research. I am happy to discuss further details with you. Please feel free to contact me with any questions and suggestions you may have about this matter.

Yours sincerely,

Kelly Y. Meng

Appendix 3: Research Interview Questions

<table>
<tr><th>Question No.</th><th>Questions</th><th>Rate/Data</th></tr>
<tr><td colspan="3">1. Business investment background</td></tr>
<tr><td>1.1</td><td>What are the major incentives/motives to invest in Chinese markets?</td><td>Please select from the list below to describe the motivations for your firm to invest in China (You may select more than one). Please also assign a significance rating on your selected item.
<table>
<tr><th colspan="2">Motivations of Investment</th><th colspan="5">Significance Rating (1 is the lest significant, 5 is the most significant)</th></tr>
<tr><td colspan="2">Resource seeking:</td><td colspan="5"></td></tr>
<tr><td>O</td><td>1) Raw material</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>O</td><td>2) Cheap unskilled/semi skilled labour</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>O</td><td>3) High tech/skilled human resources</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>O</td><td>4) Other resource seeking</td><td colspan="5">List & describe</td></tr>
<tr><td colspan="7"></td></tr>
<tr><td colspan="2">Market seeking:</td><td colspan="5"></td></tr>
<tr><td>O</td><td>1) Close to the suppliers and/or customers</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>O</td><td>2) Product adaptation to the local market taste</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
</table></td></tr>
</table>

		O	3) Transaction cost concern, any policy-related?	1	2	3	4	5
		O	4) Overall international production and marketing strategies	1	2	3	4	5
		O	5) Other market seeking	List & describe				
		Efficiency seeking:						
		O	1) Taking advantage of differences in the availability and relevant cost of traditional factor endowments in different countries.	1	2	3	4	5
		O	2) Taking advantage of economies of scale and scope among the countries with similar income level.	1	2	3	4	5
		O	3) Other efficiency seeking	List & describe				
		Strategic asset seeking, particularly through mergers and acquisitions:						
		O	1) Pursuing an integrated global/regional strategy	1	2	3	4	5
		O	2) First-time foreign direct investment seeking to access or to buy some competitive strength in an unfamiliar market.	1	2	3	4	5

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<table>
<tr><td>O</td><td>3) Other strategic asset seeking</td><td>List & describe</td></tr>
</table>
Other motives: List & describe
</td>
</tr>
<tr>
<td>1.2</td>
<td>What are the major constraints that may hinder your investment activities in China?</td>
<td>
Please select from the list below to describe the constraints which hinder your investment activities in China (You may select more than one). Please also assign a significance rating on your selected item.
<table>
<tr><th colspan="2">Constraints to operate business in China</th><th colspan="5">Significance Rating (1 is the lest significant, 5 is the most significant)</th></tr>
<tr><td colspan="2">Resource constraints:</td><td colspan="5"></td></tr>
<tr><td>O</td><td>1) Lack of raw material, basic equipment or facility</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>O</td><td>2) Lack of cheap unskilled/semi skilled labour</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>O</td><td>3) Lack of high tech/skilled Human Resources</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>O</td><td>4) Budgetary concerns (statistics used in preparing the estimates are unreliable or cannot be accurately estimated)</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td></td><td>5) Other resource constraint?</td><td colspan="5">List & describe</td></tr>
<tr><td colspan="7"></td></tr>
<tr><td colspan="2">Market constraint:</td><td colspan="5"></td></tr>
</table>
</td>
</tr>
</table>

O	1) Far away from the suppliers and/or customers	1	2	3	4	5
O	2) Difficult to adapt products to the local market taste.	1	2	3	4	5
O	3) Transaction cost concern, any policy-related?	1	2	3	4	5
O	4) Inconsistency with overall international production and marketing strategies.	1	2	3	4	5
O	5) Other market constraint	List & describe				
Efficiency constraint:						
O	1) The development or operating environment is new, not familiar with it.	1	2	3	4	5
O	2) Deliverables submitted for approval require long working days for review, and there is no limit to review and approval cycles.	1	2	3	4	5
O	3) Scope of business development and operation is unclear.	1	2	3	4	5
O	4) Business development and operation reliant upon other outside associated projects.	1	2	3	4	5
O	5) Other efficiency constraint	List & describe				

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<table>
<tr><td colspan="2">Policy constraints:</td><td colspan="5"></td></tr>
<tr><td>O</td><td>1) Internal policy (formal & informal policy inside the company)</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>O</td><td>2) External policy (formal & informal policy outside the company)</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>O</td><td>3) Other policy constraint</td><td colspan="5">List & describe</td></tr>
</table>
Other constraints: List & describe
</td>
</tr>
<tr><td colspan="3">2. Business entry mode</td></tr>
<tr>
<td>2.1</td>
<td>Is your company a wholly-owned foreign enterprise (WOFE)? What was the reason to set up a wholly-owned foreign enterprise?</td>
<td>Yes. Why?
No. Why?</td>
</tr>
<tr>
<td>2.2</td>
<td>Is your company a joint venture (JV) enterprise? How did you initially engage with current joint venture partner(s)?</td>
<td>No.
Yes. How did you engage with current joint venture partner(s)?
1) By governmental involvement (e.g. specific preferential policies offered by both nations)
Chinese government:
South African government:
2) By personal/individual connections (e.g. introduced/bridged by any</td>
</tr>
</table>

		individuals from both nations) Chinese personal/individual connections: South African personal/individual connections: 3) **By others** (e.g. associated customer/supplier, investment promotion agents, financial organisations, etc from both nations)
2.3	If your company is neither a wholly-owned foreign enterprise (WOFE) nor a joint venture (JV) enterprise, what is the ownership structure of your company? And what were your reasons for choosing such an ownership arrangement?	• List and describe
3. Business operations under institutional environment and arrangement		
3.1	To what extent do Chinese institutional environments (e.g. governmental policy & involvement, personal connections, etc) have influences on your business operations? Please in addition give specific examples	List and describe • Substantial influence • Some influence • Minor influence • No influence • Not relevant
3.2	Which level of institutions has the most influence on your business operations?	• Country level (e.g. law system, political structure, nation's religion, family core, business mores, education system, etc) • Local level (e.g. provincial and city government regulations) • Firm level (e.g. corporate system & structure, regulation & rule, corporate culture, etc) • Others

3.3	How do your firm's institutions respond to such a national institutional system? Please give an example.	• Describe
3.4	Compared to other markets, how difficult is it to deal with the institutional arrangements in China?	Describe • Very difficult • Some difficult • A little difficult • Not difficult
4. Business competitive advantages and strategies		
4.1	What are the top three competitive advantages of your company compared to others in the Chinese market?	List and describe
4.2	Are there any Chinese or Western companies in the same industry competing for a share of the Chinese market? Any competitor companies from other BRICS?	List and describe
4.3	Compared to your business operations in developed country markets (e.g. US, Europe), what is the most different/specific strategy you have had to introduce for Chinese markets?	List and describe

4.4	Compared to your business operations in other developing country markets (e.g. Brazil, East Europe), what is the most different/specific strategy you had to introduce for Chinese markets?	List and describe

Appendix 4: NVivo Coding Summary

Appendix 4.1: List of Coding of the Qualitative Data

Name	Sources	References	Created On	Created By	Modified On	Modified By
1.a) Motivation to invest in China	13	28	10/17/2011 5:14 PM	KY	11/13/2011 5:52 PM	KY
Efficiency seeking	1	1	10/17/2011 5:20 PM	KY	11/5/2011 6:54 PM	KY
Market seeking	11	16	10/17/2011 5:19 PM	KY	11/12/2011 6:37 PM	KY
Other	7	8	11/6/2011 6:12 AM	KY	11/13/2011 5:52 PM	KY
Resource seeking	2	4	10/17/2011 5:19 PM	KY	11/5/2011 6:54 PM	KY
Strategic asset seeking	6	8	10/17/2011 5:20 PM	KY	11/12/2011 6:37 PM	KY
1.b) Constraints and hindrance to operate business in China	14	76	10/17/2011 7:06 PM	KY	11/13/2011 6:12 PM	KY
Constraints from home (SA) country	8	17	11/9/2011 1:06 AM	KY	11/13/2011 6:11 PM	KY
Efficiency constraints	8	19	10/17/2011 7:08 PM	KY	11/10/2011 2:58 AM	KY
Market constraints	6	7	10/17/2011 7:08 PM	KY	11/13/2011 6:08 PM	KY
Policty constraints	8	20	10/17/2011 9:56 PM	KY	11/9/2011 11:04 PM	KY
Resourse constraints	12	22	10/17/2011 7:06 PM	KY	11/13/2011 6:12 PM	KY
Human Resource	11	18	10/19/2011 2:49 AM	KY	11/12/2011 6:20 PM	KY
2.) Ownership structure and arrangement	11	24	10/17/2011 10:03 PM	KY	11/12/2011 6:01 PM	KY
JV by individual introduction	6	9	10/17/2011 10:04 PM	KY	11/12/2011 6:01 PM	KY
JV through government arrangement	3	7	10/17/2011 10:04 PM	KY	11/10/2011 2:45 AM	KY
Other structure arrangement	7	9	10/19/2011 12:46 AM	KY	11/10/2011 2:17 PM	KY
3.) Influence of institutional enviornment and arrangement on business strategy	14	210	10/17/2011 11:38 PM	KY	11/13/2011 6:11 PM	KY
Dimention X	14	148	10/19/2011 12:44 AM	KY	11/13/2011 6:07 PM	KY
External institution	14	112	10/17/2011 11:40 PM	KY	11/12/2011 6:37 PM	KY
Outside-firm policies	11	56	11/2/2011 5:57 PM	KY	11/12/2011 5:53 PM	KY
relations with custormers, suppliers, cooperators, competitors, etc.	13	69	11/2/2011 5:47 PM	KY	11/12/2011 6:37 PM	KY
Internal institution	12	71	10/17/2011 11:40 PM	KY	11/13/2011 6:07 PM	KY
Iiside-firm policy	12	46	11/2/2011 10:22 PM	KY	11/13/2011 6:07 PM	KY
Manager's personal experience	10	27	10/17/2011 11:24 PM	KY	11/12/2011 6:17 PM	KY
Dimention Y	14	147	10/19/2011 12:45 AM	KY	11/13/2011 6:11 PM	KY
Formal instituion	12	65	10/19/2011 12:43 AM	KY	11/12/2011 6:22 PM	KY
Informal institution	14	103	10/19/2011 12:43 AM	KY	11/13/2011 6:11 PM	KY
Dimention Z	14	156	10/19/2011 12:45 AM	KY	11/13/2011 6:11 PM	KY
Macro level institutions (Country)	12	75	10/18/2011 5:22 AM	KY	11/13/2011 6:11 PM	KY
Meso level institutions	11	76	10/18/2011 5:32 AM	KY	11/12/2011 5:52 PM	KY
Micro level institutions (firm)	14	97	10/18/2011 5:33 AM	KY	11/13/2011 6:11 PM	KY
4.) Competition on Chinese markets	14	115	10/19/2011 12:40 AM	KY	11/13/2011 6:09 PM	KY
Comparing to other BRICS markets, strategies on Chinese markets	12	29	10/19/2011 12:42 AM	KY	11/13/2011 6:09 PM	KY
Comparing to other developed markets, strategies on Chinese markets	8	19	10/19/2011 12:41 AM	KY	11/13/2011 5:53 PM	KY
Competing with domestic Chinese firms	8	12	10/19/2011 12:40 AM	KY	11/10/2011 2:21 PM	KY
SA firms competitive advantage	14	85	10/19/2011 12:42 AM	KY	11/13/2011 6:06 PM	KY
Company strategies	13	58	11/1/2011 6:08 AM	KY	11/13/2011 6:06 PM	KY
Manager's capability	5	15	11/1/2011 6:09 AM	KY	11/12/2011 6:18 PM	KY

Appendix 4.2: Node Structure Report

Hierarchical Name	Nickname	Aggregate	User Assigned Color
Node			
Nodes			
Nodes\\1.a) Motivation to invest in China		No	Green
Nodes\\1.a) Motivation to invest in China\Efficiency seeking		No	Green
Nodes\\1.a) Motivation to invest in China\Market seeking		No	Green
Nodes\\1.a) Motivation to invest in China\Other		No	Green
Nodes\\1.a) Motivation to invest in China\Resource seeking		Yes	Green
Nodes\\1.a) Motivation to invest in China\Strategic asset seeking		No	Green
Nodes\\1.b) Constraints and hindrance to operate business in China		No	Yellow
Nodes\\1.b) Constraints and hindrance to operate business in China\Constraints from home (SA) country		No	Yellow
Nodes\\1.b) Constraints and hindrance to operate business in China\Efficiency constraints		No	Yellow
Nodes\\1.b) Constraints and hindrance to operate business in China\Market constraints		No	Yellow
Nodes\\1.b) Constraints and hindrance to operate business in China\Policty constraints		No	Yellow
Nodes\\1.b) Constraints and hindrance to operate business in China\Resourse constraints		No	Yellow
Nodes\\1.b) Constraints and hindrance to operate business in China\Resourse constraints\Human Resource		Yes	Yellow
Nodes\\2.) Ownership structure and arrangement		No	Orange
Nodes\\2.) Ownership structure and arrangement\JV by individual introduction		No	Orange
Nodes\\2.) Ownership structure and arrangement\JV through government arrangement		No	Orange
Nodes\\2.) Ownership structure and arrangement\Other structure arrangement		No	Orange
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\External institution		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\External institution\Outside-firm policies		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\External institution\relations with custormers, suppliers, cooperators, competitors, etc.		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\Internal institution		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\Internal institution\Iiside-firm policy		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\Internal institution\Manager's personal experience		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Y		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Y\Formal instituion		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Y\Informal institution		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Z		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Z\Macro level institutions (Country)		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Z\Meso level institutions		No	Red
Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Z\Micro level institutions (firm)		No	Red

Nodes\\4.) Competition on Chinese markets	No	Purple
Nodes\\4.) Competition on Chinese markets\Comparing to other BRICS markets, strategies on Chinese markets	No	Purple
Nodes\\4.) Competition on Chinese markets\Comparing to other developed markets, strategies on Chinese markets	No	Purple
Nodes\\4.) Competition on Chinese markets\Competing with domestic Chinese firms	No	Purple
Nodes\\4.) Competition on Chinese markets\SA firms competitive advantage	No	Purple
Nodes\\4.) Competition on Chinese markets\SA firms competitive advantage\Company strategies	No	Purple
Nodes\\4.) Competition on Chinese markets\SA firms competitive advantage\Manager's capability	No	Purple

Appendix 4.3: Node Summary Report

Source Type	Number of Sources	Number of Coding References	Number of Words Coded	Number of Paragraphs Coded	Duration Coded

Node

Nickname: Nodes\\1.a) Motivation to invest in China

Classification:

Aggregated: No

Document	13	28	2,459	51	

Nickname: Nodes\\1.a) Motivation to invest in China\Efficiency seeking

Classification:

Aggregated: No

Document	1	1	53	4	

Nickname: Nodes\\1.a) Motivation to invest in China\Market seeking

Classification:

Aggregated: No

Document	11	16	1,249	28	

Nickname: Nodes\\1.a) Motivation to invest in China\Other

Classification:

Aggregated: No

Document	7	8	786	16	

Nickname: Nodes\\1.a) Motivation to invest in China\Resource seeking

Classification:

Aggregated: Yes

Document	2	4	418	8	

Nickname: Nodes\\1.a) Motivation to invest in China\Strategic asset seeking

Classification:

Aggregated: No

Document	6	8	632	16	

Nickname:	**Nodes\\1.b) Constraints and hindrance to operate business in China**				
Classification:					
Aggregated:	**No**				
Document		14	76	6,082	174

Nickname:	**Nodes\\1.b) Constraints and hindrance to operate business in China\Constraints from home (SA) country**				
Classification:					
Aggregated:	**No**				
Document		8	17	1,006	27

Nickname:	**Nodes\\1.b) Constraints and hindrance to operate business in China\Efficiency constraints**				
Classification:					
Aggregated:	**No**				
Document		8	19	2,099	63

Nickname:	**Nodes\\1.b) Constraints and hindrance to operate business in China\Market constraints**				
Classification:					
Aggregated:	**No**				
Document		6	7	419	12

Nickname:	**Nodes\\1.b) Constraints and hindrance to operate business in China\Policty constraints**				
Classification:					
Aggregated:	**No**				
Document		8	20	1,987	61

Nickname:	**Nodes\\1.b) Constraints and hindrance to operate business in China\Resourse constraints**				
Classification:					
Aggregated:	**No**				
Document		12	22	1,894	53

Nickname:	**Nodes\\1.b) Constraints and hindrance to operate business in China\Resourse constraints\Human Resource**				
Classification:					
Aggregated:	**Yes**				
Document		11	18	1,418	41

Nickname:	**Nodes\\2.) Ownership structure and arrangement**				
Classification:					
Aggregated:	**No**				
Document		11	24	2,589	48

Nickname:	**Nodes\\2.) Ownership structure and arrangement\JV by individual introduction**				
Classification:					
Aggregated:	**No**				
Document		6	9	739	17

Nickname:	**Nodes\\2.) Ownership structure and arrangement\JV through government arrangement**				
Classification:					
Aggregated:	**No**				
Document		3	7	944	14

Nickname:	**Nodes\\2.) Ownership structure and arrangement\Other structure arrangement**				
Classification:					
Aggregated:	**No**				
Document		7	9	906	17

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy**				
Classification:					
Aggregated:	**No**				
Document		14	210	23,005	533

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X**				
Classification:					
Aggregated:	**No**				
Document		14	148	16,129	379

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\External institution**				
Classification:					
Aggregated:	**No**				
Document		14	112	12,211	300

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\External institution\Outside-firm policies**			
Classification:				
Aggregated:	**No**			
Document	11	56	5,649	155

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\External institution\relations with custormers, suppliers, cooperators, competitors, etc.**			
Classification:				
Aggregated:	**No**			
Document	13	69	7,377	159

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\Internal institution**			
Classification:				
Aggregated:	**No**			
Document	12	71	7,222	139

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\Internal institution\Iiside-firm policy**			
Classification:				
Aggregated:	**No**			
Document	12	46	4,939	84

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention X\Internal institution\Manager's personal experience**			
Classification:				
Aggregated:	**No**			
Document	10	27	2,421	59

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Y**			
Classification:				
Aggregated:	**No**			
Document	14	147	15,667	352

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Y\Formal instituion**				
Classification:					
Aggregated:	**No**				
Document		12	65	6,100	164

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Y\Informal institution**				
Classification:					
Aggregated:	**No**				
Document		14	103	11,015	227

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Z**				
Classification:					
Aggregated:	**No**				
Document		14	156	18,454	426

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Z\Macro level institutions (Country)**				
Classification:					
Aggregated:	**No**				
Document		12	75	7,143	181

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Z\Meso level institutions**				
Classification:					
Aggregated:	**No**				
Document		11	76	8,309	228

Nickname:	**Nodes\\3.) Influence of institutional enviornment and arrangement on business strategy\Dimention Z\Micro level institutions (firm)**				
Classification:					
Aggregated:	**No**				
Document		14	97	11,148	228

Nickname:	**Nodes\\4.) Competition on Chinese markets**				
Classification:					
Aggregated:	**No**				
Document		14	115	13,396	287

Nickname:	**Nodes\\4.) Competition on Chinese markets\Comparing to other BRICS markets, strategies on Chinese markets**				
Classification:					
Aggregated:	**No**				
Document		12	29	3,997	80

Nickname:	**Nodes\\4.) Competition on Chinese markets\Comparing to other developed markets, strategies on Chinese markets**				
Classification:					
Aggregated:	**No**				
Document		8	19	2,372	40

Nickname:	**Nodes\\4.) Competition on Chinese markets\Competing with domestic Chinese firms**				
Classification:					
Aggregated:	**No**				
Document		8	12	1,031	31

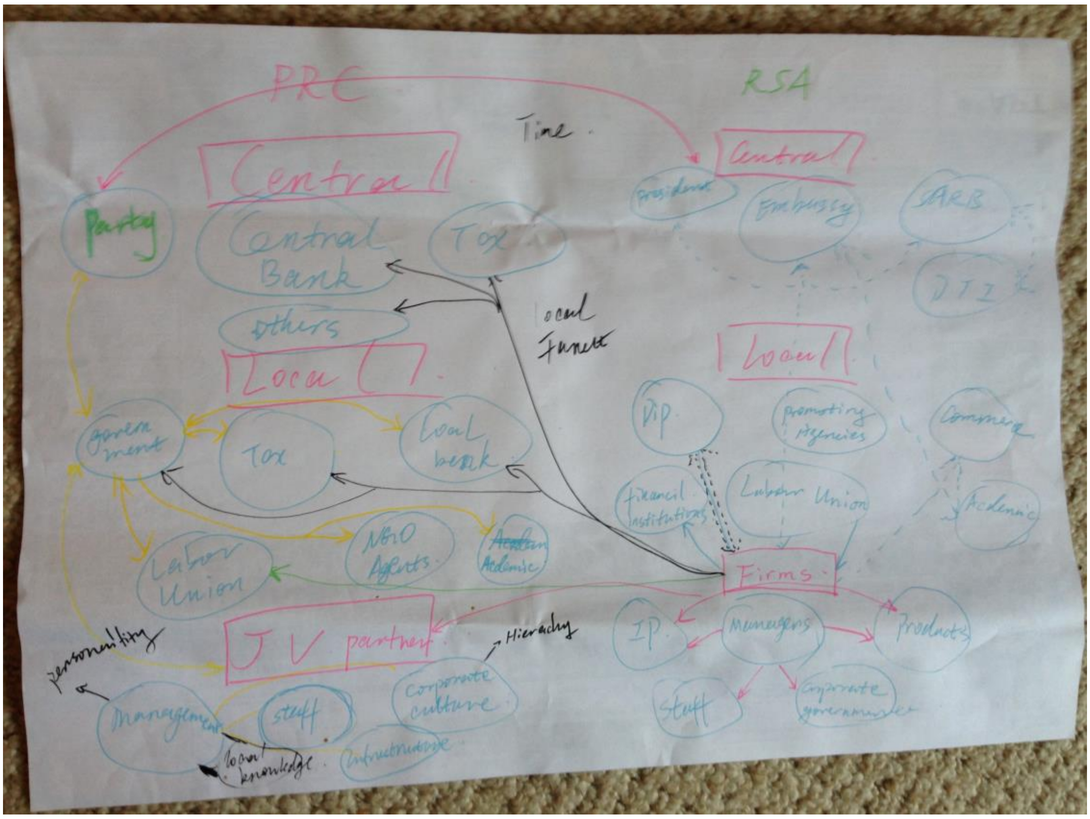
Nickname:	**Nodes\\4.) Competition on Chinese markets\SA firms competitive advantage**				
Classification:					
Aggregated:	**No**				
Document		14	85	8,110	170

Nickname:	**Nodes\\4.) Competition on Chinese markets\SA firms competitive advantage\Company strategies**				
Classification:					
Aggregated:	**No**				
Document		13	58	5,733	126

Nickname:	**Nodes\\4.) Competition on Chinese markets\SA firms competitive advantage\Manager's capability**				
Classification:					
Aggregated:	**No**				
Document		5	15	1,108	20

Appendix 5: Flowchart to Form the Initial Shape of the Analytical Model (Snapshot)

End of 2011 – January 2012



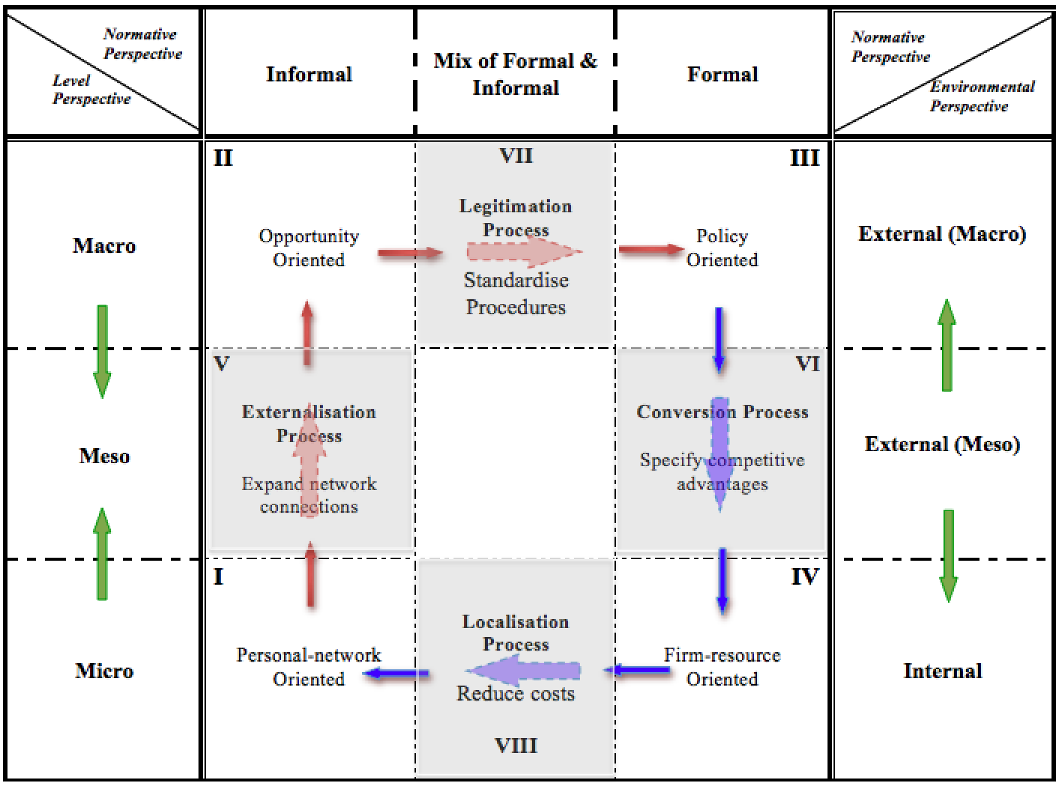
February 2012

	Informal	External	
Macro	Opportunity – Oriented	Policy – oriented	External
Meso	Externalisation process Maximise existing network connections	Internalisation process Familiarisation of foreign markets	
Micro	Personal network – oriented	Fund – Oriented	Internal

May 2012

Normative Perspective / *Level Perspective*	**Informal**	**Formal**	*Normative Perspective* / *Environmental Perspective*
Macro	**II** Opportunity – oriented	**III** Policy – oriented	**External (Macro)**
Meso	**V** **Externalisation Process** Maximise existing network connections	**VI** **Internalisation Process** Familiarisation of foreign markets	**External (Meso)**
Micro	Personal network – oriented **I**	Natural Resource – oriented **IV**	**Internal**

June - September 2012



Final Version